

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018  
Commission File Number 001-33289



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

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

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**

**Name of Each Exchange on Which Registered**

Ordinary shares, par value \$1.00 per share	The NASDAQ Stock Market LLC
Depository Shares, Each Representing a 1/1,000th Interest in a 7.00% Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Share, Series D, Par Value \$1.00 Per Share	The NASDAQ Stock Market LLC
Depository Shares, Each Representing a 1/1,000th Interest in a 7.00% Perpetual Non-Cumulative Preferred Share, Series E, Par Value \$1.00 Per Share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of June 30, 2018 was approximately \$2.22 billion based on the closing price of \$207.30 per ordinary share on the NASDAQ Stock Market on that date. Shares held by officers and directors of the registrant and their affiliated entities have been excluded from this computation. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 28, 2019, the registrant had outstanding 17,964,779 voting ordinary shares and 3,509,682 non-voting convertible ordinary shares, each par value \$1.00 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to its 2019 annual general meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

**Enstar Group Limited**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2018**

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- risks relating to our ability to obtain regulatory approvals, including the timing, terms and conditions of any such approvals, and to satisfy other closing conditions in connection with our acquisition agreements, which could affect our ability to complete acquisitions;
- our ability to implement our strategies relating to our active underwriting businesses;
- risks relating to our subsidiaries with liabilities arising from legacy manufacturing operations;
- tax, regulatory or legal restrictions or limitations applicable to us or the insurance and reinsurance business generally;
- changes in tax laws or regulations applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere;
- changes in Bermuda law or regulation or the political stability of Bermuda; and
- changes in accounting policies or practices.

The factors listed above should be not construed as exhaustive and should be read in conjunction with the Risk Factors that are included in Item 1A below. We undertake no obligation to publicly update or review any forward-looking statement, whether to reflect any change in our expectations with regard thereto, or as a result of new information, future developments or otherwise, except as required by law.

## PART I

### ITEM 1. BUSINESS

#### Company Overview

Enstar Group Limited ("Enstar") is a Bermuda-based holding company, formed in 2001. Enstar is a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through its network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Enstar is listed on the NASDAQ Global Select Market under the ticker symbol "ESGR". In this report, the terms "Enstar," "the Company," "us," and "we" are used interchangeably to describe Enstar and our subsidiary companies.

Our fundamental corporate objective is growing our net book value per share. We strive to achieve this primarily through growth in net earnings from both organic and accretive sources, including the completion of new acquisitions, the effective management of companies and portfolios of business acquired, and the execution of active underwriting strategies.

Enstar acquires and manages insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since formation, we have completed the acquisition of over 90 insurance and reinsurance companies and portfolios of business.

Enstar also manages specialty active underwriting businesses:

- Atrium Underwriting Group Limited and its subsidiaries ("Atrium"), which manage and underwrite specialist insurance and reinsurance business for Lloyd's Syndicate 609; and
- StarStone Insurance Bermuda Limited and its subsidiaries ("StarStone"), which is an A.M. Best A- rated global specialty insurance group with multiple underwriting platforms.

#### Business Strategy

Enstar aims to maximize growth in net book value per share by employing the following strategies:

*We Leverage Management's Experience and Industry Relationships to Solidify Enstar's Position in the Run-Off Market.* Enstar leverages the extensive experience and relationships of our senior management team to solidify our position as a leading run-off acquirer and generate future growth opportunities.

*We Engage in Highly Disciplined Acquisition Practices.* Enstar is highly selective and disciplined when assessing potential acquisition targets, carefully analyzing risk exposures, claims practices and reserve requirements as part of a detailed due diligence process. We believe this decreases risk and increases the probability that we can deliver positive operating results from the companies and portfolios acquired.

*We Aim to Profitably Underwrite Selected Specialty Lines to Enhance Future Growth Opportunities.* Through our Atrium and StarStone segments, Enstar selectively underwrites in chosen specialty lines, with a focus on balancing risk exposures. Through Atrium and StarStone, the group's underwriting activity grows organically; and when Enstar acquires run-off businesses, the group's active underwriting companies are well-positioned to capture profitable active business in specialty lines previously identified as attractive.

*We Manage Claims Professionally, Expeditiously, and Cost-Effectively.* Enstar aims to manage claims in a professional and disciplined manner, drawing on in-house expertise to dispose of claims efficiently. Enstar strives to pay valid claims on a timely basis, while relying on well-documented policy terms and exclusions where applicable, and litigation when necessary, to defend against paying invalid claims.

*We Seek to Commute Assumed Liabilities and Insurance and Reinsurance Assets at a Discount to the Ultimate Liability.* Using detailed claims analysis and actuarial projections, Enstar seeks to negotiate with policyholders with a goal of commuting existing insurance and reinsurance liabilities at a discount to the ultimate liability.

*We Prudently Manage Investments and Capital.* In managing investments and deploying group capital, Enstar strives to achieve superior risk-adjusted returns, while growing profitability and generating long-term growth in shareholder value.

## Strategic Growth

Enstar transactions typically take the form of either acquisitions or portfolio transfers. In an acquisition, we acquire an insurance or reinsurance company and manage the run-off or continued underwriting of risk in its business lines. In a portfolio transfer, a reinsurance contract transfers risk from the initial insurance or reinsurance company to a company in the Enstar group. Enstar also enters into reinsurance to close ("RITC") transactions with Lloyd's of London ("Lloyd's") insurance and reinsurance syndicates in run-off, whereby a portfolio of run-off liabilities is transferred from one Lloyd's syndicate to another.

The substantial majority of Enstar's acquisitions have been in the non-life run-off business, which generally includes property and casualty, workers' compensation, asbestos and environmental, construction defect, marine, aviation and transit, and other closed business. Enstar evolved from a stand-alone run-off consolidator to a more diversified insurance group with active underwriting capabilities following our acquisitions of Atrium and StarStone, in 2013 and 2014, respectively. We partnered with the Trident V funds ("Trident") (managed by Stone Point Capital LLC) in the acquisitions of the active underwriting businesses. Stone Point Capital is a financial services-focused private equity firm that has significant experience investing in insurance and reinsurance companies and other insurance-related businesses, which Enstar believes is valuable in our active underwriting joint ventures. In each of the Atrium and StarStone transactions, Enstar has a 59.0% equity interest, Trident has a 39.3% equity interest, and Dowling Capital Partners, L.P. ("Dowling") has a 1.7% equity interest.

### **Recent Acquisitions and Significant New Business**

#### *Maiden*

On March 1, 2019, we entered into a Master Agreement with Maiden Holdings, Ltd. ("Maiden Holdings") and Maiden Reinsurance Ltd. ("Maiden Re Bermuda"). Under the Master Agreement, Enstar and Maiden Re Bermuda agreed to enter into an Adverse Development Cover Reinsurance Agreement ("ADC Agreement") pursuant to which Maiden Re Bermuda will cede and Enstar will reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda's two existing quota share agreements with certain insurance companies owned directly or indirectly by AmTrust Financial Services, Inc. ("AmTrust") for losses incurred on or prior to December 31, 2018 in excess of a \$2.44 billion retention, as such figure may be adjusted based upon Maiden's final year end reserves for the underlying business, up to a \$675 million limit. The premium payable by Maiden Re Bermuda to Enstar under the ADC Agreement is \$500.0 million. Completion of the transaction is subject to, among other things, regulatory approvals and satisfaction of various closing conditions. The Master Agreement contains customary representations, warranties, covenants and other closing conditions. The transaction is expected to close in the first half of 2019.

Effective immediately upon the signing of the Master Agreement, the parties terminated and released each other from their respective obligations under the previously disclosed Master Agreement, entered into on November 9, 2018. The previous agreement provided for the parties to enter into a retrocession agreement pursuant to which Maiden Re Bermuda would cede and Enstar would reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda's two existing AmTrust quota share agreements for losses incurred on or prior to June 30, 2018, for a premium payable by Maiden Re Bermuda to Enstar of \$2.675 billion.

#### *Amerisure*

On February 15, 2019, we entered into a loss portfolio transfer reinsurance agreement with Amerisure Mutual Insurance Company ("Amerisure") and Allianz Risk Transfer (Bermuda) Limited ("ART Bermuda"). In the transaction, Amerisure has agreed to cede, and each of Enstar and ART Bermuda has agreed to severally assume, a 50% quota share of the construction defect losses incurred by Amerisure and certain of its subsidiaries on or before December 31, 2012. At closing, Amerisure would pay Enstar and ART Bermuda an aggregate premium of \$125.0 million, which would be adjusted for a broker commission and paid claims and recoveries from April 1, 2018. Enstar's subsidiary would assume \$60.0 million of net reserves in the transaction. Completion of the transaction, which is expected to occur in the first quarter of 2019, is subject to, among other things, regulatory approvals and satisfaction of various other customary closing conditions.

#### *AmTrust RITC Transactions*

On February 14, 2019, we entered into four RITC transactions with Syndicates 1206, 1861, 2526 and 5820, managed by AmTrust Syndicates Limited, under which we reinsured to close the 2016 and prior underwriting years for each syndicate. We assumed aggregate net reinsurance reserves of approximately £650.0 million (approximately \$830.0 million) for cash consideration approximately equal to the net amount of reserves assumed.

### *Allianz*

Effective December 31, 2018, we and Allianz SE amended the January 1, 2016 reinsurance agreement between our subsidiary and Allianz SE, which related to our reinsurance of certain U.S. workers' compensation, construction defect, and asbestos, pollution and toxic tort business originally held by Fireman's Fund Insurance Company. The amendment increased the original sub-limit related to asbestos & environmental ("A&E") liabilities in exchange for a premium of \$70.0 million. This additional business is also covered by the consulting agreement that we entered into with San Francisco Reinsurance Company, an affiliate of Allianz, in connection with our 2017 transaction with Allianz discussed below.

### *Maiden Re North America*

On December 27, 2018, we completed the acquisition of Maiden Reinsurance North America, Inc. ("Maiden Re North America") from a subsidiary of Maiden Holdings. Maiden Re North America is a diversified insurance company domiciled in Missouri that provides property and casualty treaty reinsurance, casualty facultative reinsurance and accident and health treaty reinsurance. The net consideration payable in the transactions was \$286.4 million, and we assumed \$1.0 billion of gross loss and loss adjustment expense reserves upon closing. The renewal rights were not included in the transaction.

On December 27, 2018, as part of the acquisition of Maiden Re North America, we also novated and assumed certain reinsurance agreements from Maiden Re Bermuda, including certain affiliate reinsurance agreements with Maiden Re North America. We assumed total gross unaffiliated reserves of \$72.1 million for total assets of \$70.4 million on a funds held basis and recorded a deferred charge asset of \$1.7 million, included in other assets.

### *Coca-Cola*

On August 1, 2018, we entered into a reinsurance transaction with The Coca-Cola Company and its subsidiaries ("Coca-Cola"), pursuant to which we reinsured certain of Coca-Cola's retention and deductible risks under its subsidiaries' U.S. workers' compensation, auto liability, general liability and product liability insurance coverage. We assumed total gross reserves of \$120.8 million for cash consideration of \$103.6 million and recorded a deferred charge asset of \$17.2 million, included in other assets. We transferred the cash consideration of \$103.6 million into a trust to support our obligations under the reinsurance agreement.

### *KaylaRe*

On May 14, 2018, we acquired all of the outstanding shares and warrants of KaylaRe. In consideration for the acquired shares and warrants of KaylaRe, we issued an aggregate of 2,007,017 of our ordinary shares to the shareholders of KaylaRe, comprising 1,501,778 voting ordinary shares and 505,239 Series E non-voting ordinary shares. As a result of this transaction, we recognized goodwill of \$41.7 million and net income of \$0.4 million due to the remeasurement of the previously held equity method investment to its fair value, partially offset by the settlement of preexisting relationships. For a detailed discussion of various transactions related to KaylaRe and its other shareholders, refer to Note 3 - "Acquisitions" and Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### *Zurich Australia*

On February 23, 2018, we entered into a reinsurance agreement with Zurich Australian Insurance Limited, a subsidiary of Zurich Insurance Group ("Zurich"), to reinsure its New South Wales Vehicle Compulsory Third Party ("CTP") insurance business. Under the agreement, which was effective January 1, 2018, we assumed gross loss reserves of AUD\$359.4 million (\$280.8 million) in exchange for consideration of AUD\$343.9 million (\$268.7 million). We elected the fair value option for this reinsurance contract and recorded an initial fair value adjustment of AUD\$15.5 million (\$12.1 million) on the assumed gross loss reserves.

Following the initial reinsurance transaction, which transferred the economics of the CTP insurance business, we and Zurich also completed a portfolio transfer of the CTP insurance business under Division 3A Part III of Australia's Insurance Act 1973 (Cth), effective December 31, 2018, which provided legal finality for Zurich's obligations.

### Neon RITC Transaction

On February 16, 2018, we completed a reinsurance-to-close ("RITC") transaction with Neon Underwriting Limited ("Neon"), under which we reinsured to close the 2015 and prior underwriting years of account (comprising underwriting years 2008 to 2015) of Neon's Syndicate 2468, with effect from January 1, 2018. We assumed gross loss reserves of £403.9 million (\$546.3 million) and net loss reserves of £342.1 million (\$462.6 million) relating to the portfolio in exchange for consideration of £329.1 million (\$445.1 million). We elected the fair value option for this reinsurance contract and recorded initial fair value adjustments of \$20.6 million and \$17.5 million on the gross and net loss reserves assumed, respectively.

### Novae RITC Transaction

On January 29, 2018, we entered into an RITC transaction with AXIS Managing Agency Limited, under which we will reinsure to close the 2015 and prior underwriting years of account of Novae Syndicate 2007 ("Novae"), with effect from January 1, 2018. We assumed gross loss reserves of £860.1 million (\$1,163.2 million) and net loss reserves of £630.7 million (\$853.0 million) relating to the portfolio in exchange for consideration of £594.1 million (\$803.5 million) and recorded initial fair value adjustments of \$67.5 million and \$49.5 million on the gross and net loss reserves assumed, respectively.

### Acquisitions and Significant New Business since January 1, 2018

The table below sets forth a summary of acquisitions and significant new business in excess of \$50.0 million in acquired assets that we have signed or completed since January 1, 2018, including those announced in 2019 prior to issuing this Annual Report on Form 10-K. For a more detailed explanation of these transactions, as well as transactions completed in 2017 and 2016, refer to Note 3 - "Acquisitions" and Note 4 - "Significant New Business" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

Significant New Business (January 1, 2018 - Present)					
Transaction	Purchase Price	Assets Acquired/Assumed	Total Liabilities Acquired/Assumed	Segment	Primary Nature of Business
Amerisure	N/A	\$63 million	\$60 million	Non-life Run-off	U.S. construction defect
AmTrust RITCs	N/A	\$830 million	\$830 million	Non-life Run-off	Property, professional, marine, non-marine, affinity annual, extended warranty and political
Allianz SE	N/A	\$70 million	\$70 million	Non-life Run-off	Asbestos and environmental
Maiden Re North America	\$297 million	\$1,466 million	\$1,170 million	Non-life Run-off	Diversified property and casualty
Maiden Re Bermuda	N/A	\$70 million	\$72 million	Non-life Run-off	U.S. workers' compensation and motor
Coca-Cola	N/A	\$104 million	\$121 million	Non-life Run-off	U.S. workers' compensation, auto liability, general and product liability
KaylaRe	\$788 million	\$770 million	\$24 million	Non-life Run-off	Diversified property and casualty
Zurich Australia	N/A	\$269 million	\$269 million	Non-life Run-off	Australian motor
Neon Underwriting Limited RITC	N/A	\$526 million	\$526 million	Non-life Run-off	Medical malpractice, general liability, professional indemnity and marine
AXIS Managing Agency Limited (Novae Syndicate 2007) RITC	N/A	\$1,096 million	\$1,096 million	Non-life Run-off	Financial, casualty, marine and energy, professional indemnity, aviation, motor and property

### Inception to Date Acquisition Loss Development

The table below sets forth a summary of acquired and assumed net reserves and the resulting development for the 10 most recent acquisition years for our Non-life Run-off segment:

Total Net Incurred Losses and LAE													
Acquisition Year	Acquired and Assumed Net Reserves	Net Paid Losses	Net Loss Development	Net Losses recognized on Acquired Unearned Premium	Amortization of Deferred Charge Assets	Change in provisions for bad debt	Change in provisions for ULAE	Amortization of Fair Value Adjustments	Change in Fair Value - FVO	Total Net Incurred losses and LAE	Retro-cession of reserves	Effect of Exchange Rate Movement	Closing Net Reserves
(in thousands of U.S. dollars)													
2009	\$ 171,225	\$ (51,279)	\$ (78,337)	\$ —	\$ —	\$ (3,237)	\$ (9,892)	\$ 8,259	\$ —	\$ (83,207)	\$ —	\$ (6,608)	\$ 30,131
2010	1,245,093	(657,671)	(305,679)	—	—	(29,003)	(47,834)	20,774	—	(361,742)	(8,274)	(29,092)	188,314
2011	712,867	(49,086)	(296,498)	—	—	(31,096)	(49,091)	(25,455)	—	(402,140)	(90,104)	(3,644)	167,893
2012	422,476	(223,672)	(75,820)	—	—	(242)	(6,900)	(9,132)	—	(92,094)	—	(26,169)	80,541
2013	657,982	(504,779)	(100,267)	110,285	—	(127)	(5,218)	(30,474)	—	(25,801)	(28,391)	(5,101)	93,910
2014	465,395	(350,090)	(14,150)	62,404	—	1,752	6,485	(42,745)	—	13,746	—	(2,733)	126,318
2015	1,491,256	(681,605)	(451,713)	53,465	207,534	56	(69,281)	14,400	—	(245,539)	(50,466)	(12,605)	501,041
2016	1,350,463	(344,925)	13,700	—	3,157	(542)	(6,274)	—	—	10,041	—	8,618	1,024,197
2017	1,504,561	(251,036)	(173,404)	—	—	125	(27,899)	89	19,125	(181,964)	—	23,380	1,094,941
2018	2,873,675	(353,094)	(36,326)	—	1,541	—	(25,222)	(3,261)	17,795	(45,473)	—	(49,124)	2,425,984
	<b>\$10,894,993</b>	<b>\$(3,467,237)</b>	<b>\$(1,518,494)</b>	<b>\$ 226,154</b>	<b>\$ 212,232</b>	<b>\$ (62,314)</b>	<b>\$(241,126)</b>	<b>\$ (67,545)</b>	<b>\$36,920</b>	<b>\$(1,414,173)</b>	<b>\$(177,235)</b>	<b>\$(103,078)</b>	<b>\$5,733,270</b>
2008 and prior													354,684
													<b>\$6,087,954</b>

The above table presents the assumed and acquired net reserves in the year they were assumed or acquired in our Non-life Run-off segment, including the impact of any fair value adjustments due to business combinations or electing the fair value option, deferred charge assets and unallocated LAE. The table also presents the cumulative roll forward of those acquired and assumed net reserves from the year of acquisition to December 31, 2018. As such, each acquisition year includes a different number of years and therefore impacts the comparability between acquisition years. We generally do not experience significant favourable or adverse development on acquired or assumed net reserves in the year of acquisition. After the first year, and following detailed reviews of all open claims, we primarily earn our total return from disciplined claims management and/or commuting the liabilities and maximizing reinsurance recoveries, in addition to maximizing investment returns on the investment portfolio.

## **Other Transactions**

### *Enhanced Re*

Enhanced Reinsurance Ltd. ("Enhanced Re") is a joint venture between Enstar, Allianz SE and Hillhouse Capital Management, Ltd. ("Hillhouse Capital") that was entered into in December 2018. Enhanced Re is a Bermuda-based Class 4 and Class E reinsurer and will reinsure life, non-life run-off, and property and casualty insurance business. Enstar, Allianz and an affiliate of Hillhouse Capital have made equity investment commitments in the aggregate of \$470.0 million to Enhanced Re. Enstar owns 47.4% of the entity, with Allianz owning 24.9%, and an affiliate of Hillhouse owning 27.7%. As of December 31, 2018, Enstar had contributed \$94.8 million of its equity commitment to Enhanced Re, and its uncalled commitment was \$128.0 million.

Enstar acts as the (re)insurance manager for Enhanced Re, Hillhouse is the primary investment manager and an affiliate of Allianz SE also provides investment management services. Enhanced Re intends to write business sourced from Allianz SE and Enstar, and it will seek to underwrite other business to maximize diversification by risk and geography.

### *AmTrust*

In November 2018, we purchased equity in Evergreen Parent, L.P. ("Evergreen") in the aggregate amount of \$200.0 million. Evergreen is an entity formed by private equity funds managed by Stone Point and the Karfunkel-Zyskind family that acquired the approximately 45% of the issued and outstanding shares of common stock of AmTrust Financial Services, Inc. ("AmTrust") that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control. The equity interest was in the form of three separate classes of equity securities issued at the same price and in the same proportion as the equity interest purchased by Trident Pine Acquisition L.P. ("Trident Pine"). Following the closing of the transaction, Enstar owns approximately 7.5% of the equity interest in Evergreen and Trident Pine owns approximately 21.8%. Evergreen owns all of the equity interest in AmTrust.

### **Sale of Life and Annuities**

The following sections describe the sale of various life and annuities businesses and assets, certain of which are still underway. Each of these was an opportunistic sale, allowing us to release capital and liquidity. The proceeds will be used to repay our credit facilities and for Non-life Run-off transactions. We will still consider life and annuities business opportunities, either for our own balance sheet, or via one of our affiliates, Monument Re or Enhanced Re.

### *Alpha*

On October 10, 2018, we entered into a Business Transfer Agreement between our wholly-owned subsidiary Alpha Insurance SA ("Alpha") and a subsidiary of Monument Insurance Group Limited ("Monument"). This agreement will transfer our remaining life assurance policies to Monument, via a portfolio transfer, subject to regulatory approval. The transaction is expected to close during 2019. We have an equity method investment in Monument, as described further in Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. Our remaining life operations do not qualify for inclusion in our reportable segments and are therefore included within other activities. The related assets, as well as the results from these operations, were not significant to our consolidated operations and therefore they have not been classified as a discontinued operation. In addition, our proposed transfer of these life assurance policies to Monument was not classified as a held-for-sale business transaction since the underlying contracts do not meet the definition of a business.

### *Life Settlements*

During 2018, we sold our investments in life settlement contracts. Our life settlement investments do not qualify for inclusion in our reportable segments and therefore were included within other activities. The related assets, as well as the results from these operations, were not significant to our consolidated operations and therefore they were not been classified as a discontinued operation. In addition, our sale of these investments was not classified as a held-for-sale business transaction since the underlying contracts did not meet the definition of a business.

### *Pavonia*

On December 29, 2017, we completed the sale of Pavonia Holdings (US), Inc. ("Pavonia") to Southland National Holdings, Inc. ("Southland"), a Delaware corporation and a subsidiary of Global Bankers Insurance Group, LLC. The aggregate purchase price was \$120.0 million. We used the proceeds to make repayments under our revolving credit facility. A sale of one subsidiary, Pavonia Life Insurance Company of New York ("PLIC NY") has not yet completed. We classified the assets and liabilities of the business to be sold as held-for-sale.

## Operating Segments

We have three reportable segments of business that are each managed, operated and separately reported: (i) Non-life Run-off; (ii) Atrium; and (iii) StarStone. Our other activities, which do not qualify as a reportable segment, include our corporate expenses, debt servicing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items. For additional information and financial data relating to our segments, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations by Segment," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments" and Note 24 - "Segment Information" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

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

Our Non-life Run-off segment comprises the operations of our subsidiaries that are running off their property and casualty and other non-life lines of business.

In the primary (or direct) insurance business, the insurer assumes risk of loss from persons or organizations that are directly subject to the given risks. In the reinsurance business, the reinsurer agrees to indemnify an insurance or reinsurance company, referred to as the ceding company, against all or a portion of the insurance risks arising under the policies the ceding company has written or reinsured. When an insurer or reinsurer stops writing new insurance business, either entirely or with respect to a particular line of business, the insurer, reinsurer, or the line of discontinued business is in run-off.

Participants in the industry often have portfolios of business that become inconsistent with their core competency or provide excessive exposure to a particular risk or segment of the market (i.e., workers' compensation, property/casualty, asbestos, environmental, director and officer liability, etc.). These non-core and/or discontinued portfolios are often associated with potentially large exposures and lengthy time periods before resolution of the last remaining insured claims, resulting in significant uncertainty to the insurer or reinsurer covering those risks. These factors can distract management, drive up the cost of capital and surplus for the insurer or reinsurer and negatively impact the insurer's or reinsurer's rating, which makes the disposal of the unwanted company or portfolio an attractive option. The insurer or reinsurer may engage with a third party that specializes in run-off management, such as Enstar, to purchase the company or assume the portfolio in run-off.

In the sale of a company in run-off, a purchaser, such as Enstar, may pay a discount to the book value of the company based on the risks assumed and the relative value to the seller of no longer having to manage the company in run-off. Such a transaction can be beneficial to the seller because it receives an up-front payment for the company, eliminates the need for its management to devote any attention to the disposed company and removes the risk that the established reserves related to the run-off business may prove to be inadequate. The seller is also able to redeploy its management and financial resources to its core businesses.

In some situations, an insurer or reinsurer may wish to divest itself of a portfolio of non-core legacy business that may have been underwritten alongside other ongoing core business that the insurer or reinsurer does not want to dispose of. In such instances, we are able to provide economic finality for the insurer or reinsurer by providing a loss portfolio reinsurance contract to protect the insurer or reinsurer against deterioration of the non-core portfolio of loss reserves.

Overall, the focus of our Non-life Run-off segment is to acquire companies or portfolios in run-off and to effectively manage that business in ways that further our primary corporate objective of growing Enstar's net book value per share.

### ***Acquisition Process***

We evaluate each acquisition and loss portfolio transfer opportunity presented by carefully reviewing the portfolio's risk exposures, claim practices, reserve requirements and outstanding claims. Based on this initial analysis, we can determine if a company or portfolio of business would add value to our current portfolio of run-off businesses. If we decide to pursue the purchase of a company in run-off, we then proceed to price the acquisition in a manner we believe will result in positive operating results based on certain assumptions including, without limitation, our ability to favorably resolve claims, negotiate with direct insureds and reinsurers, and otherwise manage the nature of the risks posed by the business.

At the time we acquire a company in run-off, we estimate the fair value of assets and liabilities acquired based on actuarial advice and our views of the exposures assumed. We primarily earn our total return on an acquisition from disciplined claims management and/or commuting the liabilities that we have assumed, maximizing reinsurance recoveries on the assumed portfolio of business and investment returns from the acquired investment portfolios.

#### *Run-off Management*

Following the acquisition of a company or portfolio of business in run-off, we strive to conduct the run-off in a disciplined and professional manner to efficiently discharge the liabilities associated with the business while preserving and maximizing its assets. Our approach to managing our companies and portfolios of business in run-off includes, where possible, negotiating with third-party insureds and reinsureds to commute their insurance or reinsurance agreement (sometimes called policy buy-backs for direct insurance) for an agreed upon up-front payment by us and to more efficiently manage payment of insurance and reinsurance claims. We attempt to commute policies with direct insureds or reinsureds to eliminate uncertainty over the amount of future claims. Commutations and policy buy-backs provide an opportunity for the company to exit exposures to certain policies and insureds generally at a discount to the ultimate liability and provide the ability to eliminate exposure to further losses. Commutations can also reduce the duration, administrative burden and ultimately the future cost of the run-off.

In certain lines of business, such as direct workers' compensation insurance, commutations and policy buy-back opportunities are not typically available, and our strategy with respect to these businesses is to derive value through efficient and effective management of claims.

Integral to our success is our ability to analyze, administer, and settle claims while managing related expenses, such as loss adjustment expenses ("LAE"). We have implemented claims handling guidelines along with claims reporting and control procedures in all of our claims units. All claims matters are reviewed regularly, with all material claims matters being circulated to and authorized by management prior to any action being taken. Our claims management processes also include leveraging our extensive relationships and developed protocols to more efficiently manage outside counsel and other third parties to reduce expenses. With respect to certain lines of business, we have agreements with third-party administrators to manage and pay claims on our subsidiaries' behalf and advise with respect to case reserves. These agreements generally set forth the duties of the third-party administrators, limits of authority, indemnification language designed for our protection and various procedures relating to compliance with laws and regulations. These arrangements are also subject to review by our relevant claims departments, and we monitor these administrators on an ongoing basis.

We provide consultancy services to third parties in the insurance and reinsurance industry primarily through our subsidiaries, the Cranmore companies, Enstar Limited, Enstar (US), Inc., Paladin Managed Care Services, Inc. ("Paladin") and Kinsale Brokers Limited. In addition to third-party engagements, our consultancy companies also perform these services in-house for our Enstar companies, using their expertise to assist in managing our run-off portfolios and performing certain due diligence matters relating to acquired businesses. The services range from full-service incentive-based or fixed fee run-off management to bespoke solutions such as claims inspection, claims validation, reinsurance asset collection and IT consulting services. Paladin provides medical bill review, utilization review, physician case management and related services in the workers' compensation area.

Following the acquisition of a company or the assumption of a portfolio of business through a reinsurance transaction, we analyze the acquired exposures and reinsurance receivables on a policyholder-by-policyholder basis to identify those we wish to approach to discuss commutation. In addition, policyholders and reinsurers often approach us requesting commutation. We then carry out a full analysis of the underlying exposures in order to determine the attractiveness of a proposed commutation. From the initial analysis of the underlying exposures, it may take several months, or even years, before a commutation is completed. In certain cases, if we and the policyholder or reinsurer are unable to reach a commercially acceptable settlement, the commutation may not be achievable, in which case we will continue to settle valid claims from the policyholder, or collect reinsurance receivables from the reinsurer, as they arise or become due.

Certain insureds and reinsureds are often willing to commute with us, subject to receiving an acceptable settlement, as this provides certainty of recovery of what otherwise may be claims that are disputed in the future, and often provides a meaningful up-front cash receipt that, with the associated investment income, can provide funds to meet future claim payments or even commutation of their underlying exposure. Therefore, subject to negotiating an acceptable settlement, many of our insurance and reinsurance liabilities and reinsurance receivables can be either commuted or settled by way of policy buy-back over time. Properly priced commutations may reduce the expense of adjusting direct claims and pursuing collection of reinsurance, realize savings, remove the potential future volatility of claims and reduce required regulatory capital.

We manage cash flow with regard to reinsurance recoverables by working with reinsurers, brokers and professional advisors to achieve fair and prompt payment of reinsured claims, and we take appropriate legal action to secure receivables when necessary. We also attempt where appropriate to negotiate favorable commutations with our reinsurers by securing a lump sum settlement from reinsurers in complete satisfaction of the reinsurer's past, present and future liability in respect of such claims.

As a result of the number of transactions we have completed over the years, our organizational structure consists of licensed entities across many jurisdictions. In managing our group, we continue to look for opportunities to simplify our legal structure by way of company amalgamations and mergers, reinsurance, or other transactions to improve capital efficiency and decrease ongoing compliance and operational costs over time. In addition, we seek to pool risk in areas where we maintain the expertise to manage such risk to achieve operational efficiencies, which allows us to most efficiently manage our assets to achieve capital diversification benefits.

In early 2019, we have completed or signed agreements for six portfolios of non-life run-off business. We continue to see a strong pipeline of opportunities and we expect further significant transaction activity in the future.

### **Atrium**

Our Atrium segment is comprised of the active underwriting operations and financial results of Northshore Holdings Ltd. ("Northshore"), a holding company that owns Atrium and its subsidiaries and Arden. Enstar acquired Atrium on November 25, 2013.

Atrium's wholly-owned subsidiary, Atrium Underwriters Ltd, manages Syndicate 609, which underwrites specialist insurance and reinsurance business at Lloyd's. Atrium's wholly-owned subsidiary, Atrium 5 Ltd., provides 25% of the underwriting capacity and capital to Syndicate 609, with the balance provided by traditional Lloyd's Names. Atrium has offices in London, the United States, Canada and Singapore. Generally, Atrium continues to operate in accordance with the underwriting and other business strategies established pre-acquisition, although we and Trident continually review these strategies and business goals and continue to develop synergies with our existing business operations.

Arden is a Bermuda-based reinsurance company that provides reinsurance to Atrium (through a 65% quota share reinsurance arrangement with Atrium 5 Ltd., which is eliminated upon consolidation) and is currently in the process of running off certain other discontinued business. Results related to Arden's discontinued business are included within our Non-life Run-off segment.

### **Business Lines**

Syndicate 609 provides insurance and reinsurance on a worldwide basis including the United States, Europe, the Far East and Australasia. Atrium specializes in a wide range of industry classes, including marine, aviation and transit, property and casualty binding authorities, reinsurance, accident and health and non-marine direct and facultative. Lloyd's business is often underwritten on a subscription basis across the insurance market. Atrium is the lead underwriter in approximately 43% of the business it underwrites.

Lloyd's is a surplus lines insurer and an accredited reinsurer in all U.S. states and territories, and a licensed (or admitted) insurer in Illinois, Kentucky and the U.S. Virgin Islands.

A description of each of Atrium's lines of business follows:

**Marine, Aviation and Transit.** The marine line of business is a worldwide portfolio writing marine hull, marine war, cargo, fine art and specie, marine and energy liability and total loss only business. Atrium leads a number of the major marine war contracts in London. Business is written on a direct, reinsurance, proportional and excess of loss basis. The aviation portfolio includes all aspects of aviation insurance, with Atrium specializing in rotor wing and non-major airlines. The majority of the account is sourced through London brokers as direct or facultative reinsurance of a local reinsurer. Included within the marine, aviation and transit lines of business are the upstream energy and terrorism portfolios. The upstream energy portfolio is split into two main categories of assureds: operators (private and publicly quoted companies, national oil companies and Oil Insurance Limited members) and contractors (drilling, service and construction companies). The principal coverage is physical damage/business interruption, control of well and associated pollution, construction and Gulf of Mexico windstorm and other natural catastrophe perils. Nearly all of the upstream energy line of business is sourced through Lloyd's brokers, with the significant majority written on a facultative basis and a smaller amount written on a treaty basis. The terrorism portfolio includes political violence business, in which Atrium focuses on writing with security consultants engaged to provide risk or country surveys.

***Binding Authorities.*** The property and casualty binding authority portfolio includes a broad range of small and medium business entity insurance products offered across the United States and Canada. Typical property risks include commercial, vacant and hard-to-place residential dwellings. Typical casualty risks include owners, landlords and tenants, business owners, artisan, special events and various niche products. Business is written through both traditional binding authorities as well as online binding authorities through AUGold, Atrium's proprietary online system that is used by brokers. The liability line of business includes a professional liability North American portfolio of products covering a diverse range of classes including architects, consultants and lawyers and also a miscellaneous range encompassing many different professions. Included within this line of business is international liability, which is a book of primary coverholder business covering the security, leisure and hotel industries. The majority of business is produced through delegated binding authority contracts.

***Reinsurance.*** The reinsurance line is a worldwide portfolio and includes aviation reinsurance, casualty reinsurance, property reinsurance, and marine reinsurance. Business is mainly written on a risk excess of loss, catastrophe excess of loss or retrocessional basis. Aviation reinsurance is written through an underwriting consortium managed by Atrium.

***Accident and Health.*** The accident and health line is a global account that encompasses a wide range of classes, including group and individual disability, personal accident, travel insurance, medical expenses, aviation personal accident, war risks, kidnap and ransom insurance, and sports accident insurance. The line includes both insurance and reinsurance business, written as facultative placements and under delegated underwriting facilities and both proportional and non-proportional treaties.

***Non-Marine Direct and Facultative.*** The non-marine direct and facultative portfolio includes a diverse mix of property business offered in both the international and U.S. markets, comprised of physical loss or damage, business interruption, extra expense, construction, contingency and pecuniary loss risks in respect of onshore property and onshore engineered risks. The majority of this line of business is written through Lloyd's brokers and under delegated underwriting facilities.

#### *Distribution*

All of the business in the Atrium segment is placed through insurance and reinsurance brokers, and a key distribution channel for Syndicate 609 is the managing general agent binding authorities. Atrium seeks to develop relationships with insurance and reinsurance brokers, insurance and reinsurance companies, large global corporations and financial intermediaries to develop and underwrite business. Independent broker Marsh Inc. accounted for 11% of Atrium's gross premiums written in 2018. Other brokers (each individually less than 10%) accounted for the remaining 89% of gross premiums written.

Atrium's proprietary online platform, AUGold, provides end-to-end processing, quote and policy production for managing general agents across a range of classes of business. The platform provides agents with efficient and cost effective access to Lloyd's binding authorities and is designed to enable Atrium to compete more effectively with North American excess and surplus lines carriers.

#### *Managing Agency Services*

Atrium receives a managing agency fee of 0.7% of Syndicate 609 capacity and a 20% profit commission based on the net earnings of Syndicate 609, pursuant to its management contract. Atrium also receives management fees and profit commission from the management of underwriting consortiums. These fees and profit commission are included within fees and commission income in our consolidated statement of earnings.

#### *Claims Management*

Claims in respect of business written by Syndicate 609 are primarily notified by various central market bureaus. Where a syndicate is a "leading" syndicate on a Lloyd's policy, its underwriters and claims adjusters work directly with the broker or insured on behalf of itself and the following market for any particular claim. This may involve appointing attorneys or loss adjusters. The claims bureaus and the leading syndicate advise movement in loss reserves to all syndicates participating on the risk. If necessary, Atrium's claims department may adjust the case reserves it records from those advised by the bureaus.

#### *Reinsurance Ceded*

On an annual basis Atrium purchases a tailored outwards reinsurance program designed to manage its risk profile. The majority of Atrium's third-party reinsurance cover is with Lloyd's Syndicates or other highly rated reinsurers.

## **StarStone**

Our StarStone segment is comprised of the active underwriting operations and financial results of StarStone and StarStone Specialty Holdings Limited ("StarStone Group"), a holding company that owns StarStone and its subsidiaries. Our StarStone segment also includes the results of KaylaRe's reinsurance of StarStone Group from the date that Enstar completed the acquisition of KaylaRe and other intra-group cessions.

We acquired StarStone (formerly known as Torus) on April 1, 2014 in partnership with Trident (managed by Stone Point Capital). Dowling also has a minority investment. StarStone's strategy emphasizes underwriting discipline and focuses on profitable lines and improvement of operational effectiveness and efficiency.

StarStone is a global specialty insurer operating worldwide from key underwriting hubs in the Lloyd's and London markets, Bermuda, Continental Europe, and the United States. StarStone has five wholly-owned insurance platforms and licenses to serve a global client base. In December 2017, the London market and European business were merged into a single European entity based in Liechtenstein. This was executed in order to improve operational efficiencies and position the StarStone group for any potential post-Brexit issues. Through Syndicate 1301, StarStone offers a variety of specialty products at Lloyd's. Syndicate 1301 is managed by StarStone's wholly-owned Lloyd's managing agency.

### **Business Lines**

StarStone offers a broad range of property, casualty and specialty insurance products to both large multi-national and small and middle-market clients around the world. A description of StarStone's business lines is as follows:

**Casualty.** Casualty is StarStone's largest product group, including StarStone's U.S. excess casualty, global management and professional liability, global healthcare, and accident and health products. The U.S. excess casualty product includes umbrella, excess and retained limit products across a wide range of market segments focused on small to mid-market businesses. The global management and professional liability product specializes in directors and officers and professional liability protection for both traditional and emerging professions. Our healthcare product provides insurance for acute care centers, nursing homes, physician groups, senior living facilities, and others. The accident and health product provides protection for a broad range of groups and individuals such as air crew personal accident and loss of license, accidental death and permanent and temporary disability for individuals including athletes and high net worth individuals.

**Marine.** We provide a broad range of marine and specialty products including hull and machinery, marine and energy liabilities, cargo, war, transport, specie and fine art, and terrorism. These products are written through Lloyd's Syndicate 1301, our European branch network and by some of our U.S. based teams. We also provide high excess casualty coverage placed in the London wholesale market which is focused on high excess layers for Fortune 500 companies.

**Property.** This line includes all of our property insurance products. The construction portfolio focuses on large, complex, infrastructure and contractor cover across all risk areas. Property also includes our onshore, power, and upstream and offshore products written through our Lloyd's and London platforms. Most lines are written on a full value, primary, excess of loss or quota share basis.

**Aerospace.** We serve a diverse client base within the aerospace sector including airlines, aircraft manufacturers and airport service providers. Our products are split between short-tail and long-tail risks and by aircraft type into three areas: airlines, aviation products and liability, and general aviation.

**Workers' compensation.** This line provides workers' compensation solutions for a range of industries, including energy and maritime businesses to high-hazard operations. We also cover cross-state, multi-jurisdictional exposures in single policies. Business is written directly with clients and through partnerships with independent agents, managing general underwriters, and select wholesale brokers throughout the United States.

### **Distribution**

StarStone's distribution strategy is to focus on proximity to clients and brokers, using its Lloyd's platform, European branch distribution network, its U.S. wholesale distribution strategy, as well as its relationships with insurance and reinsurance brokers and risk carriers, corporations and financial intermediaries.

Syndicate 1301 can conduct business in over 200 countries and territories worldwide. In addition to underwriting business directly at Lloyd's in London, it provides local access to Lloyd's in Continental Europe and the United States.

In the United States, products are written locally through our admitted and excess and surplus lines carriers. Our U.S. strategy also utilizes our online e-commerce broker portal, ESCAPE, which offers immediate wholesale distribution to all 50 states.

Business in the StarStone segment is generally placed through insurance and reinsurance brokers and managing general agents. Independent brokers Marsh Inc., Willis Group Holdings Ltd. and Aon Benfield Group Ltd. accounted for 15%, 6% and 4%, respectively, of StarStone's gross premiums written for the year ended December 31, 2018 (25% collectively). Other brokers and managing general agents (each individually less than 4%) accounted for the remaining 75% of gross premiums written.

#### *Claims Management*

Claims in respect of business written by Syndicate 1301, as well as in respect of StarStone's other London market business, are primarily notified by various central market bureaus whereby the leading syndicate or company advise all participants of movement in loss reserves. StarStone's claims department adjusts bureau claims in respect of coverages where StarStone is the lead underwriter and may choose to adjust the case reserves it records from those advised by the bureaus.

Claims in respect of non-bureau business are handled by StarStone's experienced claims professionals. StarStone uses claims handling guidelines along with a global claims management system to review, report and administer claims. With respect to certain lines of business, StarStone may use third-party administrators to manage and pay claims on its behalf and advise with respect to case reserves. StarStone also utilizes Enstar's experience in claims management.

#### *Reinsurance Ceded*

StarStone purchases an annual tailored outwards reinsurance program designed to manage its risk profile. The majority of StarStone's third party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit. Several of the StarStone affiliates previously had entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which KaylaRe Ltd. reinsured 35% of all business written by these StarStone affiliates for risks attaching from January 1, 2016, net of the StarStone affiliates' reinsurance programs. The portion of this quota share agreement related to U.S. business was not renewed in 2018, and the remainder was not renewed in 2019. On May 14, 2018, we acquired all of the outstanding shares and warrants of KaylaRe, and the results of KaylaRe were included within our consolidated financial statements from that date. The impact of this acquisition and resultant consolidation has made comparability between periods challenging, as discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - StarStone Segment."

In addition, effective October 1, 2018, StarStone entered into a loss portfolio transfer with an affiliate of Enstar, whereby the Non-life Run-off subsidiary reinsured certain of StarStone's discontinued and discontinuing lines of business. Capital for the loss portfolio transfer was provided by Enstar, Trident and Dowling on a pro-rata basis.

#### **Other activities**

Our other activities, which do not qualify as a reportable segment, include our corporate expenses, debt servicing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items. Following the sale of our life settlements investments during 2018 and the transfer of our remaining life assurance policies from Alpha to Monument, which is expected to close during 2019, we will have de minimis residual life business in our consolidated operations.

#### **Liability for Losses and Loss Adjustment Expenses**

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and losses that have been incurred but not reported ("IBNR") for our Non-life Run-off, Atrium and StarStone segments. We recognize an asset for the portion of the liability that we expect to recover from reinsurers. LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for loss and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

We establish reserves for individual claims incurred and reported, as well as IBNR claims. We use considerable judgment in estimating losses for reported claims on an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. We also use considerable judgment to establish reserves for IBNR claims using a variety of generally accepted actuarial methodologies and procedures to estimate the ultimate cost of settling IBNR claims. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Losses and Loss Adjustment Expenses" for a description of our loss reserving process.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. Our actuarial methodologies include industry benchmarking which, under certain methodologies, compares the trend of our loss development to that of the industry. To the extent that the trend of our loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Unpaid claim liabilities for property and casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends and general inflation. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation, and it can be unclear whether past claim experience will be representative of future claim experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future. In addition, reserves are established to cover loss development related to both known and unasserted claims. Consequently, our subsequent estimates of ultimate losses and LAE, and our liability for losses and LAE, may differ materially from our initial estimates.

In our Non-life Run-off segment, policy buy-backs and commutations provide an opportunity for us to exit and settle exposures to policies with insureds and reinsureds, often at a discount to the previously estimated ultimate liability. Commutations are beneficial to us as they extinguish liabilities, reduce the potential for future adverse loss development, and reduce future claims handling costs. Our estimates of ultimate claim liabilities, including IBNR reserves, are based upon actuarial methodologies applied to the remaining non-commuted aggregate exposures and revised historical loss development information, after adjusting for the elimination of historical loss development relating to commuted and bought-back exposures. In addition, the routine settlement of claims, at either below or above the carried advised loss reserve, updates historical loss development information to which actuarial methodologies are applied often, resulting in revised estimates of ultimate liabilities. A large portion of our loss reserves are related to workers' compensation and casualty exposures, which include latent exposures primarily relating to asbestos and environmental damage. In establishing reserves, we consider facts currently known and the current state of the law and coverage litigation. Case reserves are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy.

Further information regarding the liability for net losses and LAE, including loss development tables and a reconciliation of activity, is included in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

Further information regarding net incurred losses and LAE is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations by Segment."

#### **Life Benefits and Claims Reserves**

We estimate our life benefit and claim reserves on a present value basis using standard actuarial techniques and cash flow models. We establish and maintain our life reserves at a level that we estimate will, when taken together with future premium payments and investment income expected to be earned on associated premiums, be sufficient to support future cash flow benefit obligations and third-party servicing obligations as they become payable. Our policy benefits for life contracts as at December 31, 2018 and 2017 were \$105.1 million and \$117.2 million, respectively. Following the transfer of our remaining life assurance policies from Alpha to Monument, which is expected to close during 2019, we will have de minimis residual life business in our consolidated operations.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Policy Benefits for Life Contracts" for a discussion of these reserves.

#### **Investments**

For information regarding our investment strategy, portfolio and results, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments."

## Ratings

In our active underwriting businesses, financial strength ratings are an important factor in establishing competitive position and in product marketing. Financial strength ratings by third-party organizations provide an opinion of an insurer's or reinsurer's financial strength and ability to meet ongoing obligations to its policyholders. These ratings reflect A.M. Best's, Standard and Poor's ("S&P"), and Fitch Ratings Ltd.'s ("Fitch") opinions of capitalization, performance and management, and are not a recommendation to buy, sell or hold securities. These ratings may be changed, suspended or withdrawn at the discretion of the agencies. Rating agencies charge fees for their services.

Our Lloyd's Syndicates 609 (Atrium) and 1301 (StarStone) are part of a group rating for the Lloyd's overall market. Lloyd's is rated "A" (Excellent) by A.M. Best, "A+" (Strong) by Standard and Poor's (or S&P) and "AA-" (Very Strong) by Fitch Ratings.

StarStone's operating insurance entities have been assigned a financial strength rating of "A-" (Excellent) by A.M. Best. The A.M. Best rating for StarStone of "A-" (Excellent) by A.M. Best is the fourth highest of 16 rating levels.

Refer to "Item 1A. Risk Factors - Downgrades of financial strength ratings at StarStone or Lloyd's could materially and negatively impact our active underwriting business and our company," for more information regarding the importance of financial strength ratings.

## Competition

Our Non-life Run-off segment competes in international markets with domestic and international reinsurance companies to acquire and manage insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off. The acquisition and management of companies and portfolios in run-off is highly competitive, and driven by a number of factors, including proposed acquisition price, reputation, and financial resources. Some of these competitors may have greater financial resources than we do, may have been operating for longer than we have and may have established long-term and continuing business relationships throughout the insurance and reinsurance industries, which can be a significant competitive advantage. As a result, we may not be able to compete successfully in the future for suitable acquisition candidates or run-off portfolio management engagements.

Our Atrium and StarStone active underwriting segments operate in the highly competitive insurance and reinsurance markets, where companies compete on the basis of premium rates, reputation and perceived financial strength, the terms and conditions of the products offered, ratings assigned by independent rating agencies, speed of claims payments and quality of administrative services, relationships with insurance and reinsurance companies and insurance intermediaries, capacity and coverage offered, experience in the particular risk to be underwritten, and various other factors.

Atrium and StarStone compete in the international insurance and reinsurance markets directly with numerous other parties, including established global insurance and reinsurance companies, start-up insurance and reinsurance entities, other Lloyd's syndicates, as well as capital markets and securitization structures aimed at managing risk. Many of these competitors have significant operating histories, underwriting expertise and capacity, extensive capital resources, and longstanding customer relationships. Any of these factors can be a significant competitive advantage and may make it difficult for us to write business effectively and profitably. Because few barriers exist to prevent insurers and reinsurers from entering the non-life active underwriting business, market conditions and capital capacity influence the degree of competition at any given time. For a detailed discussion of competition and the cyclical pattern of the insurance and reinsurance market, refer to "Item 1A. Risk Factors - Risks Relating to our Insurance Businesses." The cyclical market pattern can be more pronounced in the specialty insurance and reinsurance markets in which Atrium and StarStone compete.

## Employees

As of December 31, 2018, we had 1,366 employees, as compared to 1,341 as of December 31, 2017. Although our employee count was not significantly changed from last year, we generally do not expect it to be consistent from period to period due to our business strategies, which include anticipated ongoing acquisition and integration activities.

## Enterprise Risk Management

Effective risk oversight is an important priority for our management and our Boards of Directors (both at the Company level and at a subsidiary level), and we place strong emphasis on ensuring we have a robust risk management framework to identify, measure, manage, monitor and report on risks that affect the achievement of our strategic, operational and financial objectives.

An effective enterprise risk management ("ERM") framework contributes to the strength of our overall group (the "Group"). The value of having effective risk management can positively impact many areas of the business such as setting and achieving business strategy and objectives, capital management decision making, efficiency and effectiveness in operations and processes, financial performance and reliable financial reporting, regulatory compliance, good reputation with key stakeholders and business continuity planning.

### ***Risk Management Strategy***

Our risk management strategy is to:

- engage in highly disciplined acquisition, management and (re)insurance practices across a diverse portfolio of loss reserves;
- via active underwriting segments, take on underwriting risks across a balanced range of select specialty lines where the expected margins compensate for the risk and/or the costs of risk mitigation;
- seek investment risk where it is adequately rewarded;
- maintain reserving risk at low to moderate levels; and
- ensure capital, liquidity, credit, operational and regulatory risks remain low.

These strategies are pursued through the use of appropriate controls, governance structures and highly skilled teams effectively working together.

We embed our risk strategy in our organization by promoting a culture of high risk awareness. This is achieved in the demonstration of our day-to-day approach in how we manage our business and in how we manage and assess challenges and opportunities.

### ***Risk Appetite***

The primary objective of our risk appetite framework is to monitor and protect the Group from an unacceptable level of loss, compliance failures and adverse reputational impact. It considers material risks in the business relating to: strategy, capital adequacy, insurance, investment/market, reinsurance counterparty/credit, regulatory, tax and operational risk. Risk appetite and tolerance is set by our Board and reviewed annually. It represents the amount of risk that we are willing to accept as a Group compared to risk metrics based on our shareholders' equity, capital resources, potential financial loss, and other risk-specific measures.

Accountability for the implementation, monitoring and oversight of risk appetite is assigned to individual corporate executives and monitored and maintained by the Risk Management function. Risk tolerance levels are monitored and deviations from pre-established levels are reported in order to facilitate responsive action.

Our subsidiary companies' risk appetite frameworks are aligned with the risk appetite framework of the Group, while local company appetite and tolerances are set by the local boards. A review is undertaken annually to confirm the subsidiary risk appetite does not in the aggregate exceed Group risk appetite.

Risk metrics levels are set and monitored regularly by an appointed owner and reported to management committees and to our Board and Risk Committee on at least a quarterly basis. Stress and scenario tests are key tools within our risk appetite framework, used as risk indicators across risk categories and to support a forward looking assessment of risk. As part of monitoring and aggregating risk exposures across the Group, capital impact assessments are performed for risks that are deemed material.

### ***Risk Governance and Risk Management Organization***

Our ERM framework consists of numerous processes and controls that have been designed by management, with oversight by the Board of Directors and its committees, and implemented by employees across the organization. The purpose of our ERM framework is to appropriately assess and manage risk as we continue to take opportunities to meet our business objectives. Senior executives are ultimately accountable for key defined risks and are responsible for providing regular reporting to the Group Executive Team (our "executives"), Management Risk Committee ("MRC"), Board Risk Committee and Board; and to facilitate the same to subsidiary committees and boards to support decision making and strong risk governance. The collective boards, management and employees are responsible for the effective implementation and/or operation of processes and controls.

### **Board of Directors**

Our Board and its committees (and subsidiary boards of directors) receive management information from our executives, Board committees and management committees relating to performance against strategy and regularly review information regarding, among other things, acquisitions, active underwriting, loss reserves, credit, liquidity and investments, operations and information security and the risks associated with each.

Our Risk Committee has responsibility to assist the Board in overseeing the integrity and effectiveness of the Company's ERM framework, including by reviewing and evaluating the risks to which the Company is exposed, as well as monitoring and overseeing the guidelines and policies that govern the processes by which the Company identifies, assesses and manages its exposure to risk. Our Audit Committee, comprised entirely of independent directors, oversees our accounting and financial reporting-related risks and internal control environment, receiving regular reports via the annual internal and external audit process. Our Investment Committee is responsible for overseeing the Company's investment portfolio and investment-related risk, determining the Group's investment strategy and guidelines and approving investment transactions in accordance with these guidelines. Our Compensation Committee oversees compensation-related risks. On an annual basis, the Compensation Committee undertakes a risk assessment of our compensation programs to ensure they are properly aligned with Company performance and do not provide incentives for our employees to take inappropriate or excessive risks. Our Nominating and Governance Committee considers risk relating to management succession planning and other corporate governance matters.

### **Executive and Risk Management Organization**

In addition to the director oversight provided by our Risk Committee, our ERM governance structure is supported by our Management Risk Committee ("MRC") comprising executives and members of senior management who are responsible for the management of key risks and representatives from assurance functions. At the operating subsidiary level, risks relating to our individual insurance and reinsurance subsidiaries are also overseen by the subsidiary boards of directors, subsidiary risk committees and other committees, and management teams, consistent with applicable regulatory requirements and our ERM framework.

The MRC is chaired by the Chief Operating Officer and meets regularly. The MRC discusses, challenges and debates the risks in the business and those emerging and where required recommends changes to the course of activity in reacting to these risks. The MRC also provides oversight and governance of ERM matters for the Group, monitoring risk assumption and risk mitigation activities and their consistency with the Risk Appetite Framework while promoting and sponsoring risk culture and awareness throughout the Group.

### **Risk Ownership, Accountability and Assurance**

We have adopted the "three lines of defense" model. Our first line consists of our executives and members of senior management and their function as leaders and risk owners. They are responsible for executing the risk management strategy and appropriately managing the activities and conduct of the business functions, as well as promoting staff understanding of strategy, risk mitigating policies and procedures.

Our second line comprises our various risk, control and compliance oversight functions. Our Risk Management function reports to our executives, the MRC and our Risk Committee and focuses primarily on implementing and overseeing the administration of the MRC and Risk Committee directives and facilitating an efficient, effective and consistent approach to risk management across the Group. Our management assurance is further complemented by our compliance function which seeks to mitigate legal and regulatory compliance risks and ensures that appropriate, effective and responsive compliance services are available to the business units across the Group. Other second line functions include certain activities of our actuarial function and other Group functions contributing to our management assurance.

Our third line of defense comprises our internal audit function which independently reviews the effectiveness of our ERM framework. The results of audits are monitored by the Audit Committee. Independent assurance from external third parties (e.g., independent actuarial services, etc.) also sits within our third line of defense.

### **Entity Level Management**

At the operating subsidiary level, risks relating to our individual insurance and reinsurance subsidiaries are also overseen by the subsidiary boards of directors, subsidiary risk committees and other committees, and management teams, consistent with applicable regulatory requirements and our ERM framework.

Certain risks relating to the Group's underwriting segments (Atrium and StarStone) are distinct from the Non-life Run-off segment. These businesses include external stakeholders that also differ from our other businesses, including joint venture partners, rating agencies, and, with respect to Atrium, third party Lloyd's names who provide approximately 75% of the underwriting capacity to Atrium's Syndicate 609. Atrium and StarStone each maintain dedicated ERM frameworks to manage risk, return and capital in the individual businesses, which align with and form part of Group ERM. These include oversight at the Atrium and StarStone boards of directors, as well as executive risk committees and other committees that manage and monitor risks relevant to specified functional areas. Individualized risk policies and risk appetites are established and tailored to the specific needs of Atrium and StarStone, respectively. Enstar executives serve as members of the Atrium and StarStone boards of directors and certain committees.

The Group and each regulated insurance entity have a unique risk register documenting its risk landscape, with risk, key risk metric, and control owners assigned, which is maintained through a risk management software system. Specific functions, such as IT, maintain risk registers with more detailed and specific risks and controls. The risk and control assessment process is carried out on a quarterly basis using a risk management software system.

### ***Risk Categories***

We manage our ERM process based on the major categories of risk within our business discussed below. Our ERM is a dynamic process, with updates continually being made as a result of changes in our business, industry and the economic environment. This process and our controls cannot provide absolute assurance that our risk management objectives will be met or that all risks will be appropriately identified and managed, and accordingly, the possibility of material adverse effects on our company remains. See "Item 1A. Risk Factors" for important information on the risks we face.

***Strategic Risk.*** Strategic risk is the risk of unintended adverse impact on the business plan objectives arising from business decisions, improper implementation of those decisions, inability to adapt to changes in the external environment, or circumstances that are beyond our control. We manage strategic risk by utilizing a strategic business planning process involving our executives and Board. Our annual business plan is reviewed and overseen by our executives and Board, and actual performance, trends, and uncertainties are monitored in comparison to the plan throughout the year. We specifically evaluate acquisition opportunities pursuant to a detailed and proprietary process that takes into account, among other things, the risk of the transaction and potential returns, the portfolio's risk exposures, claims management practices, reserve requirements and outstanding claims, as well as risks specifically related to our ability to integrate the acquired business. Our governance process, led by our Board of Directors, reviews newly proposed transaction opportunities, capital-raising matters, and other significant business initiatives. In order to effectively participate in future opportunities and manage downside risks (due to external events) we review and monitor our liquidity and available financing. We rely on our processes to help us to anticipate potential adverse changes and, where possible, avoid or mitigate them.

***Capital Adequacy Risk.*** Capital adequacy risk is the risk that capital levels are or become insufficient to ensure our insurance obligations will be met and policyholders are protected. We have a low appetite for capital adequacy risk. As well as meeting our regulatory obligations, the ability to effectively participate in future opportunities is dependent upon the Group and its subsidiaries continually meeting (and/or exceeding) solvency requirements. We endeavor to manage our capital such that all of our regulated entities meet local regulatory capital requirements at all times and maintain adequate capital to enable our insurance obligations to be met while taking into account the risks faced. We aim to deploy capital efficiently and to establish adequate loss reserves that we believe will protect against future adverse developments. Capital adequacy and its ability on an ongoing basis to support the business under adverse circumstances is assessed via stress and scenario testing. Specific scenarios are mandated under the various regulatory regimes in which the Group and its subsidiaries operate. User-defined scenarios have also been developed and are regularly tested and reported on.

***Insurance Risk.*** Insurance risk spans many aspects of our insurance operations, including underwriting risk, risk assumed upon acquisitions/portfolio transfers and risk associated with our reserving assumptions.

Underwriting risk in our active underwriting businesses relates to the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities we assume through our underwriting process. We manage exposure levels across risk categories to maintain them within the approved risk appetite. Underwriting risk management strategies may differ depending on the line of business involved and the type of account being insured or reinsured.

We strive to mitigate underwriting risk through our controls and strategies, including our underwriting risk selection, diversification of our underwriting portfolios by class and geography, purchasing reinsurance, establishing a business plan and associated parameters, underwriting peer review, authority limits, underwriting guidelines that provide detailed underwriting criteria and a framework for pricing, along with the use of specialized underwriting teams supported by actuarial, catastrophe modeling, claims, risk management, legal, finance, and other technical personnel.

We utilize internally developed pricing models to evaluate individual underwriting decisions within the context of business plans and risk appetites. We also use internally developed capital models, which provide information on key risks and facilitate an understanding of the interaction among the risks and related exposures, as a comprehensive tool for business and capital planning.

In some business lines we are exposed to multiple insured losses arising out of a single peril, such as a natural catastrophe event (for example, a hurricane, windstorm, tornado, flood or earthquake) or a man-made event (for example, war, terrorism, airplane crashes and other transportation-related accidents, or building fires). We model and manage our individual and aggregate exposures to these events and other material correlated exposures in accordance with our risk appetite. Our modeling process utilizes major commercial vendor models to measure certain of these exposures. The incidence, timing and severity of catastrophes and other event types are inherently unpredictable, and it is difficult to estimate the amount of loss any given occurrence will generate. Accordingly, there is material uncertainty around our ability to measure exposures, which can cause actual exposures and losses to deviate from our estimates.

To monitor catastrophe risk, we review exceedance probability curves aggregated across Atrium and StarStone together with aggregated realistic disaster scenarios. We consider occurrence exceedance probability and aggregate exceedance probability, which reflect losses resulting from single or multiple events, from individual perils and in the aggregate. We manage our underwriting exposure through a combination of reporting zonal aggregations, realistic disaster scenarios and stochastic modeling. StarStone also manages its underwriting exposure through monitoring realistic disaster scenarios for man-made events and certain natural catastrophe risks, and applying absolute maximum limits by line of business.

**Acquisition Risk.** We manage acquisition risks through our acquisition evaluation process and our reserving practices discussed above in "Liability for Losses and Loss Adjustment Expenses." Acquisition pricing risk can arise from a potential loss in value following an acquisition due to an underestimation of liabilities, a failure to generate assumed future cash flows that supported the pricing analysis (due to an underperformance of investments and/or underestimation of expenses) or an unexpected increase in capital requirements necessary to support the transaction due to unanticipated regulatory changes. We rely on due diligence to strategically select risks, and assume only select portfolios when our due diligence supports our negotiated pricing. In aggregate, we have a high risk appetite to continue to execute transactions, with no express restrictions on the size, geography or lines of business that we will review and consider. However, we have a low aggregate risk appetite for transactions that could ultimately have a negative impact on book value per share.

**Reserving Risk.** Reserving risk is the risk that a Company's reserves are not sufficient to cover its unpaid loss and loss adjustment expense costs. The estimation of reserves is subject to uncertainty because the ultimate cost of settling claims is dependent upon future events and loss development trends that can vary with the impact of economic, social, and legal and regulatory matters. We manage reserving risk through our reserving practices discussed above in "Liability for Losses and Loss Adjustment Expenses - Loss Reserving," as well as through our commutation and policy buy-back strategy and claims management practices. We also have a Reserving Committee that is responsible for managing reserving risk and making recommendations to our Chief Financial Officer on the appropriate level of reserves to include in our consolidated financial statements. For additional information relating to our loss reserves by segment, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies."

**Investment/Market Risk.** Investment / Market risk is the risk of loss resulting from under-performing investment returns, dilution of investment capital, or adverse financial market movements (such as interest rates or exchange rates). Investment / Market risk can be broken down into the following sub-risks which may threaten our ability to effectively manage the investment portfolio: interest rate risk, credit spread risk, public equity risk, alternative investment risk and concentration risk. We manage Investment / Market risk in a number of ways, including use of investment guidelines; regular reviews of investment opportunities; market conditions; portfolio duration; oversight of the selection and performance of external asset managers; regular stress testing of the portfolio against known and hypothetical scenarios; established tolerance levels; and we manage foreign currency by asset/liability matching and use of derivatives. Investments are primarily managed by our Investment function, which is overseen by our Investment Committee.

**Liquidity Risk.** Liquidity risk is the risk that we are unable to realize investments and other assets in order to settle financial obligations when they fall due or that we would have to incur excessive cost to do so. We manage this risk generally by following an investment strategy designed to emphasize the preservation of our invested assets and provide sufficient liquidity for the prompt payment of claims and contract liabilities, as well as for settlement of commutation payments. Liquidity risk also includes the risk of our dependence of our future cash flows upon the availability of dividends or other statutorily permissible payments from our subsidiaries, which is limited by applicable laws and regulations. Due to our acquisitive strategy, liquidity risk at the Group level also includes immediate cash needs as a result of the purchase of (re)insurance portfolios and/or capital injections into a new or existing subsidiary to support associated solvency requirements as a direct result of merger and acquisition activity or other significant changes. We manage this risk through our capital management and planning processes, which include reviews of minimum capital resources requirements at our regulated subsidiaries and anticipated distributions, as well as anticipated capital needs.

**Credit / Counterparty Risk.** Credit risk relates to the uncertainty of a counterparty's ability to make timely payments in accordance with contractual terms of the instrument or contract. We are exposed to direct credit risk primarily within our portfolios of fixed maturity and short-term investments, and through customers, brokers and reinsurers in the form of premiums receivable and reinsurance recoverables. In addition, we are exposed to credit risk through our funds withheld arrangements if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. In our run-off businesses, we manage credit risk with respect to our reinsurance recoverables by ongoing monitoring of counterparty ratings and working to achieve prompt payment of reinsured claims, as well as through our commutation strategy. For funds withheld arrangements, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. In our active underwriting businesses, we firstly mitigate credit risk through our reinsurance purchasing process, where reinsurers are subject to financial security and rating requirements prior to approval and by limiting exposure to individual reinsurers. Thereafter we manage credit risk by the regular monitoring of reinsurance recoveries and premium due directly or via brokers and other intermediaries. In our fixed maturity and short-term investment portfolios, we attempt to mitigate credit risk through diversification and issuer exposure limitation.

**Operational Risk.** Operational risk is the risk of a loss arising from inadequate or failed internal processes, or from external events, personnel, systems or third parties. Due to our acquisitive strategy, operational risk also includes risks and challenges associated with integrating new companies into the Group. We seek to mitigate operational risks through the application of our policies and procedures and internal control and compliance processes throughout the Group and a focus on acquisition integration and assimilation of new companies into our internal control systems, including but not limited to operational incident management, business continuity planning, information security procedures, financial reporting controls and a review process for material third-party vendor usage.

**Regulatory Risk.** Regulatory risk is the risk of legal or regulatory sanctions resulting in a financial loss, or loss of reputation as a result of an insurer's failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct. We manage regulatory risk through a focus on compliance with laws and regulations, adherence to our policies and procedures (including our Code of Conduct) and our internal controls, an established corporate governance framework and practices, and communication and engagement with external stakeholders.

**Tax Risk.** Tax risk is the risk that tax requirements are not adhered to accurately or in a timely manner resulting in a financial loss. We proactively seek to identify, evaluate, manage, monitor and mitigate tax risks. We are committed to complying with all tax laws, rules and regulations applicable to the Group. In evaluating potential transactions we consider the overall commercial, financial and tax aspects. Where there is uncertainty or complexity in relation to a tax risk, we may seek external advice and, where appropriate, we may obtain tax clearances from relevant tax authorities.

## **Regulation**

### ***General***

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Our material operations are in Bermuda, the United Kingdom, the United States, Australia and several Continental European countries. We are subject to extensive regulation under the applicable statutes in these countries and any others in which we operate. In addition, the Bermuda Monetary Authority ("BMA") acts as group supervisor of our insurance and reinsurance companies (our "Group"). A summary of the material regulations governing us in these countries is set forth below.

We may become subject in the future to regulation in new jurisdictions or additional regulations in existing jurisdictions depending on the location and nature of any companies acquired and the volume and location of business being transacted by our existing companies.

## **Bermuda**

### *Group Supervision*

The BMA's group supervision objective is to provide a coordinated approach to the regulation of an insurance group and its supervisory and capital requirements. Bermuda has been recognized by the U.S. National Association of Insurance Commissioners ("NAIC") as a qualified jurisdiction, and the E.U. recognizes Bermuda's full equivalence under Solvency II effective from January 1, 2016.

We are group supervised by the BMA. As our Group supervisor, the BMA performs a number of functions including: (i) coordinating the gathering and dissemination of information for other regulatory authorities; (ii) carrying out a supervisory review and assessment of our Group; (iii) carrying out an assessment of our Group's compliance with the rules on solvency, risk concentration, intra-group transactions and good governance procedures; (iv) planning and coordinating, through regular meetings with other authorities, supervisory activities in respect of our Group; (v) coordinating any enforcement action that may need to be taken against our Group or any Group members; and (vi) coordinating meetings of colleges of supervisors in order to facilitate the carrying out of these functions. StarStone Insurance Bermuda Limited ("SIBL") has been named as our Group's Designated Insurer. As Designated Insurer, SIBL is required to facilitate compliance by our Group with the insurance solvency and supervision rules.

On an annual basis, the Group is required to file Group statutory financial statements, a Group statutory financial return, a Group capital and solvency return, audited Group financial statements, a Group Solvency Self-Assessment ("GSSA"), and a financial condition report with the BMA. The GSSA is designed to document our perspective on the capital resources necessary to achieve our business strategies and remain solvent, and to provide the BMA with insights on our risk management, governance procedures and documentation related to this process. In addition, the Group is required to file a quarterly financial return with the BMA.

We are required to maintain available Group statutory capital and surplus in an amount that is at least equal to the group enhanced capital requirement ("Group ECR"). The BMA has also established a group target capital level equal to 120% of the Group ECR.

The BMA also maintains supervision over the controllers of all Bermuda registered insurers, and accordingly, any person who, directly or indirectly, becomes a holder of at least 10%, 20%, 33% or 50% of our ordinary shares must notify the BMA in writing within 45 days of becoming such a holder (or ceasing to be such a holder). The BMA may object to such a person and require the holder to reduce its holding of ordinary shares and direct, among other things, that voting rights attaching to the ordinary shares shall not be exercisable.

### *Operating Subsidiaries*

The Insurance Act 1978 of Bermuda and related regulations, as amended (together, the "Insurance Act"), regulate the insurance and reinsurance business of our operating subsidiaries in Bermuda. The Insurance Act imposes certain solvency and liquidity standards and auditing and reporting requirements and grants the BMA powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

Significant requirements pertaining to our regulated Bermuda subsidiaries vary depending on the class in which our company is registered, but generally include the appointment of a principal representative in Bermuda, the appointment of an independent auditor, the appointment of an approved loss reserve specialist, the filing of annual statutory and GAAP financial statements, the filing of statutory financial returns, compliance with group solvency and supervision rules, and compliance with the Insurance Code of Conduct (relating to corporate governance, risk management and internal controls).

Our regulated Bermuda subsidiaries must also comply with a minimum liquidity ratio and minimum solvency margin. The minimum liquidity ratio requires that the value of relevant assets must not be less than 75% of the amount of relevant liabilities. The minimum solvency margin, which varies depending on the class of the insurer, is determined as a percentage of either net reserves for losses and LAE or premiums or pursuant to a risk-based capital measure. KaylaRe Ltd. and StarStone Insurance Bermuda Limited, both Class 4 insurers, Cavello Bay Reinsurance Limited, a Class 3B insurer and Fitzwilliam Insurance Limited, a Class 3A insurer, all domiciled in Bermuda, are subject to an enhanced capital requirement ("ECR") determined pursuant to a risk-based capital measure and are required to file a Commercial Insurer's Solvency Self-Assessment ("CISSA"), and a financial condition report with the BMA.

Each of our regulated Bermuda subsidiaries would be prohibited from declaring or paying any dividends if it were in breach of its minimum solvency margin or liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, each of our regulated Bermuda subsidiaries is prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital, or from reducing by 25% of more its total statutory capital and surplus, as set out in its previous year's statutory financial statements. Our Bermuda insurance companies that are in run-off are required to seek BMA approval for any dividends or distributions.

#### *Economic Substance Act*

The Economic Substance Act 2018 (the "ESA") was passed in Bermuda in December 2018 in response to the decision of the European Union Code of Conduct Group (Business taxation) (the "EU Code Group") to place Bermuda, as well as other offshore jurisdictions, on notice of being included in a list of non-cooperative jurisdictions for tax purposes. Under the provisions of the ESA, any Bermuda-registered entity engaged in a "relevant activity" (which includes insurance business and holding entity activities) must maintain a substantial economic presence in Bermuda. To the extent that the ESA applies to our entities registered in Bermuda, we will be required to demonstrate compliance with economic substance requirements by filing an annual economic substance declaration with the Registrar of Companies in Bermuda.

#### **United Kingdom and Lloyd's**

##### *United Kingdom*

Our U.K.-based insurance subsidiaries consist of wholly-owned run-off companies. These subsidiaries are authorized by the U.K. Prudential Regulation Authority (the "PRA"), and are also regulated by the Financial Conduct Authority (the "FCA", together with the PRA, the "U.K. Regulator"). Our U.K. run-off subsidiaries may not underwrite new business without the approval of the U.K. Regulator. E.U. directives also allow certain of our regulated U.K. subsidiaries to conduct business in E.U. states other than the U.K. within the scope of permission granted by the U.K. Regulator without the necessity of additional licensing or authorization in E.U. countries.

Our U.K.-based insurance subsidiaries are required to maintain adequate financial resources in accordance with the requirements of the U.K. Regulator. The calculation of the minimum capital resources requirements in any particular case depends on, among other things, the type and amount of insurance business written and claims paid by the insurance company.

The Solvency II framework directive, which took effect on January 1, 2016, sets out new E.U.-wide requirements on capital adequacy and risk management for insurers with the aim of further increasing policyholder protection, instilling greater risk awareness and improving the international competitiveness of E.U. insurers. Insurers must comply with a Solvency Capital Requirement ("SCR"), which is calculated using either the Solvency II standard formula or a bespoke internal model. Our non-Lloyd's U.K. companies use the standard formula.

The U.K. Regulator's rules require our U.K. insurance subsidiaries to obtain regulatory approval for any proposed or actual payment of a dividend. The U.K. Regulator uses the SCR, among other tests, when assessing requests to make distributions.

In an advisory referendum held on June 23, 2016, the U.K. voted to leave the E.U. (commonly referred to as "Brexit"). For a discussion of the potential impact of Brexit on our operations, refer to "Item 1A. Risk Factors - Risks Relating to Laws and Regulation."

Under the Financial Services and Markets Act of 2000 ("FSMA"), any company or individual (together with its or his concert parties) proposing to directly or indirectly acquire "control" over a U.K. authorized insurance company (which is generally defined as acquiring 10% or more of the shares or voting power in a U.K. authorized insurance company or its parent company) must seek prior approval of the U.K. Regulator of his intention to do so. A person who is already deemed to have "control" will require prior regulatory approval if the person increases the level of "control" beyond 20%, 30% and 50%.

##### *Lloyd's*

We participate in the Lloyd's market through our interests in: (i) Atrium's Syndicate 609, which is managed by Atrium Underwriters Limited, a Lloyd's managing agent; (ii) StarStone's Syndicate 1301, which is managed by StarStone Underwriting Limited ("SUL"), a Lloyd's managing agent; and (iii) Syndicate 2008, a wholly aligned syndicate that has permission to underwrite RITC business and other run-off or discontinued business type transactions with other Lloyd's syndicates. SUL serves as managing agent for Syndicate 2008. All of the Group's underwriting by these syndicates is supported by one or more internal corporate members.

Our Lloyd's operations are subject to authorization and regulation by the U.K. Regulator and compliance with the Lloyd's Act(s) and Byelaws and regulations, as well as the applicable provisions of the FSMA. The Council of Lloyd's has wide discretionary powers to regulate members' underwriting, and its exercise of these powers might affect the return on an investment of the corporate member in a given underwriting year. This discretion includes the ability to assess up to 3% of a member's underwriting capacity in any one year as a Central Fund contribution.

The underwriting capacity of a corporate member of Lloyd's must be supported by providing a deposit (referred to as "Funds at Lloyd's") in the form of cash, securities or letters of credit in satisfaction of its capital requirement. The amount of the Funds at Lloyd's is assessed annually and is determined by Lloyd's in accordance with applicable capital adequacy rules.

Business plans, including maximum underwriting capacity, for Lloyd's syndicates requires annual approval by the Lloyd's Franchise Board, which may require changes to any business plan or additional capital to support underwriting plans.

In order to achieve finality and to release their capital, Lloyd's members are usually required to have transferred their liabilities through an approved RITC, such as offered by Syndicate 2008. RITC is generally put in place after the third year of a syndicate year of account. On successful conclusion of RITC, any profit from the syndicate for that year of account can be fully remitted by the managing agent to the syndicate's members.

The Lloyd's market has applied the Solvency II internal model under Lloyd's supervision, and our Lloyd's operations are required to meet Solvency II standards. The Society of Lloyd's has received approval from the PRA to use its internal model under the Solvency II regime.

Lloyd's approval is required before any person can acquire control of a Lloyd's managing agent or Lloyd's corporate member.

### **United States**

Our insurance and reinsurance companies domiciled in the United States consist of property and casualty companies in run-off, as well as StarStone Specialty Insurance Company (a U.S. excess and surplus lines insurer) and StarStone National Insurance Company (a U.S. admitted insurer that is licensed in all 50 states and the District of Columbia). Our U.S. insurers are subject to extensive governmental regulation and supervision by the states in which they are domiciled, licensed and/or eligible to conduct business. The insurance laws and regulations of the state of domicile have the most significant impact on operations. We currently have U.S. insurers and reinsurers domiciled in Texas, New York, Delaware, Missouri, Oklahoma and Rhode Island, with one of these insurers also commercially domiciled in California.

Generally, regulatory authorities have broad regulatory powers over such matters as licenses, standards of solvency, premium rates and policy forms (except for excess and surplus lines insurers), marketing practices, claims practices, investments, security deposits, restrictions on size of risks that may be insured under a single policy, methods of accounting, form and content of financial statements, corporate governance, enterprise risk management, reserves and provisions for unearned premiums, unpaid losses and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations, annual and other report filings, and transactions among affiliates.

As to periodic examinations, regulators have begun to look well beyond financial solvency and market conduct. In 2017, for example, the New York Department of Financial Services ("NYDFS") increased its focus on cybersecurity, requiring financial institutions regulated by the NYDFS to establish a cybersecurity program. The NYDFS now also requires the completion of an extensive questionnaire regarding each New York domestic insurer's cybersecurity program in connection with such examinations. Additionally, most states require the completion of an extensive questionnaire, similar to that required by New York, in connection with such examinations. Other states are expected to enact similar laws based on the NAIC's Insurance Data Security Model Law, adopted in 2017.

U.S. insurers are also required to maintain minimum levels of solvency and liquidity as determined by law, and to comply with risk-based capital requirements and licensing rules. Insurers having less statutory surplus than required by the risk-based capital calculation will be subject to varying degrees of regulatory action. If any of our U.S. insurers were to have risk-based capital levels that are below required levels, they would be subject to increased regulatory scrutiny and control by their domestic and possibly other insurance regulators. As of December 31, 2018, all of our U.S. insurers exceeded their required levels of risk-based capital.

Applicable insurance laws also limit the amount of dividends or other distributions our U.S. insurers can pay to us. The insurance regulatory limitations are generally based on statutory net income and/or certain levels of statutory surplus as determined by the insurer's state or states of domicile. Generally, prior regulatory approval must be obtained before an insurer may pay a dividend or make a distribution above a specified level.

All states have enacted legislation regulating insurance holding company systems that requires each insurance company in the system to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. The NAIC has adopted amendments to the Insurance Holding Company System Regulatory Act and associated regulations, which all states in which our U.S. insurers are domiciled or commercially domiciled have adopted. The amendments provide the regulators with additional tools to evaluate risks to an insurance company within the insurance holding company system. They impose more extensive informational requirements on parents and other affiliates of licensed insurers with the purpose of protecting them from enterprise risk, including requiring an annual enterprise risk report by the ultimate controlling person of the insurers identifying the material risks within the insurance holding company system that could pose enterprise risk to the insurers and requiring a person divesting its controlling interest to make a confidential advance notice filing.

The NAIC has also adopted the Risk Management and Own Risk and Solvency Assessment Model Act, which requires insurers to maintain a risk management framework and establishes a legal requirement for insurers or their insurance group to conduct an Own Risk and Solvency Assessment ("ORSA") in accordance with the NAIC's ORSA Guidance Manual. The ORSA Model Act has been adopted in all of the states in which our U.S. insurers are domiciled, and our insurers in these states may be subject to ORSA requirements if certain premium thresholds are exceeded. Where applicable, we must regularly conduct an ORSA consistent with the ORSA Model Act, including undertaking an internal risk management review no less often than annually and preparing a summary report assessing the adequacy of risk management and capital in light of our insurers' current and future business plans.

In addition, the NAIC's Corporate Governance Annual Disclosure ("CGAD") Model Act and Regulation requires the annual filing of a disclosure describing the insurance group's corporate governance structure, policies, and practices. The Model Act and Regulation have been adopted in some, though not all, of the states in which we have insurers domiciled. There are no premium thresholds for CGAD.

The Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), represented a comprehensive overhaul of the financial services industry within the United States and, among other things, established the Financial Services Oversight Council and created within the United States Department of the Treasury a Federal Insurance Office ("FIO"). The FIO is authorized to study, monitor and report to Congress on the U.S. insurance industry and the significance of global reinsurance to the U.S. insurance market. The Dodd-Frank Act also authorizes the federal preemption of certain state insurance laws and streamlines the regulation of reinsurance and surplus lines/non-admitted insurance.

Before a person can acquire control of a domestic insurer (including a reinsurer) or any person controlling such insurer (including acquiring control of Enstar Group Limited), prior written approval must be obtained from the insurance commissioner of the state in which the domestic insurer is domiciled and, under certain circumstances, from insurance commissioners in other jurisdictions. Generally, state statutes and regulations provide that "control" over a domestic insurer or person controlling a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities or securities convertible into voting securities of the domestic insurer or of a person who controls the domestic insurer.

#### **Australia**

Our Australian regulated insurance entities (which include our insurance subsidiary and our non-operating holding company) are subject to prudential supervision by the Australian Prudential Regulation Authority ("APRA"). APRA is the primary regulatory body responsible for regulating compliance with the Insurance Act 1973. APRA has issued prudential standards that apply to general insurers in relation to capital adequacy, the holding of assets in Australia, risk management, business continuity management, reinsurance management, outsourcing, audit and actuarial reporting and valuation, the transfer and amalgamation of insurance businesses, governance, and the fit and proper assessment of the insurer's responsible persons.

APRA's prudential standards require that all insurers maintain and meet prescribed capital adequacy requirements to enable their insurance obligations to be met under a wide range of circumstances.

APRA also prescribes prudential standards on risk management and governance. These requirements include the need for regulated insurance entities to have a risk management framework that is consistent and integrated with its risk profile and capital strength, supported by a risk management function and subject to comprehensive review. APRA's risk management requirements also include the need for regulated insurance entities to have a board risk committee that provides the Board with objective non-executive oversight of the implementation and on-going operation of its risk management framework, and the requirement that regulated insurance entities designate a chief risk officer who is involved in, and provides effective challenge to, activities and decisions that may materially affect the regulated insurance entities' risk profile. Our Australian regulated insurance entities are compliant with these requirements.

An insurer must obtain APRA's written consent prior to making any capital releases, including any payment of dividends in excess of current year earnings. Our insurance subsidiary must provide APRA a valuation prepared by an appointed actuary that demonstrates that the tangible assets of the insurer, after the proposed capital reduction, are sufficient to cover its insurance liabilities to a 99.5% level of sufficiency of capital before APRA will consent to a capital release or dividend.

Under the Financial Sector (Shareholdings) Act 1998, the interest of an individual shareholder or a group of associated shareholders in an insurer is generally limited to a 15% "stake" of the insurer. A person's stake is the aggregate of the person's voting power and the voting power of the person's associates. A higher percentage limit may be approved by the Treasurer of the Commonwealth of Australia on national interest grounds. Any shareholder of Enstar Group Limited with a "stake" greater than 15% has received approval to hold that stake from the Treasurer of the Commonwealth of Australia.

### **Europe**

In addition to Bermuda, the United Kingdom, Australia and the United States, we have subsidiaries in Belgium, as well as StarStone Insurance SE, a Liechtenstein-based company that continues to underwrite new business through branches across Europe and is regulated by the Financial Markets Authority. StarStone Insurance Europe AG was merged into StarStone Insurance SE in Liechtenstein effective from October 1, 2017, following the relocation of StarStone Insurance SE's principal office from the U.K. to Liechtenstein on May 8, 2017. With effect from January 1, 2019, our Swiss insurance subsidiary redomesticated to Bermuda and is now regulated by the BMA. It continues to have a UK branch.

Our subsidiaries and branches in European jurisdictions such as Belgium and Liechtenstein are regulated in their respective home countries. Typically, such regulation is for the protection of policyholders and ceding insurance companies rather than shareholders. Regulatory authorities generally have broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, reporting requirements relating to capital structure, ownership, financial condition and general business operations, special reporting and prior approval requirements with respect to certain transactions among affiliates, reserves for unpaid losses and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations and annual and other report filings. The application of the Solvency II framework across such European jurisdictions from January 1, 2016 generally results in a more uniform approach to regulation.

### **Other**

We own a Non-life Run-off subsidiary in Hong Kong, and through StarStone participate in a joint venture there. These operations are not material, but our companies are subject to applicable regulations.

### **Available Information**

We maintain a website with the address <http://www.enstargroup.com>. The information contained on our website is not included as a part of, or incorporated by reference into, this filing. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports, as soon as reasonably practicable after the material is electronically filed with or otherwise furnished to the U.S. Securities and Exchange Commission, (the "SEC"). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are also available on the SEC's website at <http://www.sec.gov>. In addition, copies of our Code of Conduct and the governing charters for the Audit, Compensation, Nominating and Governance, Investment, and Risk Committees of our Board of Directors are available free of charge on our website.

## ITEM 1A. RISK FACTORS

*Any of the following risk factors could cause our actual results to differ materially from historical or anticipated results. These risks and uncertainties are not the only ones we face. There may be additional risks that we currently consider not to be material or of which we are not currently aware, and any of these risks could cause our actual results to differ materially from historical or anticipated results.*

*You should carefully consider these risks along with the other information included in this document, including the matters addressed above under "Cautionary Note Regarding Forward-Looking Statements" before investing in any of our securities. We may amend, supplement or add to the risk factors described below from time to time in future reports filed with the SEC.*

We have categorized our risk factors into the following areas:

- [Risks Relating to our Insurance Businesses](#)
- [Risks Relating to our Acquisitions](#)
- [Risks Relating to Liquidity and Capital Resources](#)
- [Risks Relating to our Investments](#)
- [Risks Relating to Laws and Regulations](#)
- [Risks Relating to our Operations](#)
- [Risks Relating to Taxation](#)
- [Risks Relating to Ownership of our Shares](#)

### Risks Relating to Our Insurance Businesses

***If we are unable to implement our business strategies successfully, our business, results of operations and financial condition may be materially and adversely affected.***

Our future results of operations will depend in significant part on the extent to which we can implement our business strategies successfully, including with respect to our active underwriting segments and investments. Our business strategies are described in "Item 1. Business - Business Strategy." We may not be able to implement these strategies or any future strategies fully or realize the anticipated results of our strategies as a result of significant business, economic, regulatory and competitive uncertainties, many of which are beyond our control. If we are unable to successfully implement our business strategies, we may not be able to achieve future growth in our earnings and our financial condition and ability to access capital may suffer and, as a result, holders of our securities may receive lower returns.

***Inadequate loss reserves could reduce our net earnings and capital surplus, which could have a materially adverse impact on our results of operations and financial condition.***

Our success is dependent upon our ability to assess accurately the risks associated with the business we have insured and reinsured. We are required to maintain reserves to cover the estimated ultimate liability for losses and LAE for both reported and unreported incurred claims. These reserves are only estimates of what we expect the settlement and administration of claims will cost based on facts and circumstances known to us, as well as actuarial methodologies, historical industry loss ratio experience, loss development patterns, estimates of future trends and developments and other variable factors such as inflation. We cannot be certain that ultimate losses will not exceed our estimates of losses and LAE because of the uncertainties that surround the estimation process (which are discussed above in "Item 1. Business - Liability for Losses and Loss Adjustment Expense"). As a result, actual losses and LAE paid will deviate, perhaps substantially, from the reserve estimates reflected in our financial statements. If our reserves are insufficient to cover our actual losses and LAE, we would have to augment our reserves and incur a charge to our earnings. These charges could be material and would reduce our net earnings and capital and surplus.

In our non-life run-off businesses, loss reserves include asbestos and environmental ("A&E") liabilities and liabilities associated with personal injury A&E claims from acquired companies with legacy manufacturing businesses. Ultimate values for A&E claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating losses for these claims. Factors contributing to the uncertainty include long waiting periods, reporting delays and difficulties identifying contamination sources and allocating damage liability. Developed case law and adequate claim history do not always exist for A&E claims, and changes in the legal and tort environment affect the development of such claims. To further understand this risk, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Losses and Loss Adjustment Expenses - Non-Life Run-off - Latent Claims".

In our active underwriting businesses, U.S. GAAP does not permit insurers and reinsurers to reserve for catastrophes until they occur, which means that claims from these events could cause substantial volatility in our financial results for any fiscal quarter or year and could have a material adverse effect on our financial condition and results of operations, as well as our financial strength ratings.

***Our active underwriting businesses present inherent risks and uncertainties which could have a material adverse effect on our business, financial condition and results of operations.***

Underwriting is inherently a matter of judgment, involving assumptions about matters that are unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. Our StarStone and Atrium active underwriting businesses expose us to significant risks that could result in under-performance of the active underwriting businesses compared to our expectations, which could have a material adverse effect on our business, financial condition and results of operations. Those risks include, but are not limited to:

- exposure to claims arising out of unpredictable natural and man-made catastrophic events (including hurricanes, windstorms, tsunamis, severe weather, earthquakes, floods, fires, droughts, explosions, environmental contamination, acts of terrorism, cyber events and war or political unrest);
- changing climate patterns and ocean temperature conditions that could increase the frequency and severity of catastrophe events and natural disasters to which we have loss exposure;
- failure of our risk management and loss limitation methods (described in "Item 1. Business - Enterprise Risk Management") to adequately manage our loss exposure or provide sufficient protection against losses;
- the intense competition for business in the insurance and reinsurance industries, including competition from major global insurance and reinsurance companies and underwriting syndicates that may have greater experience and resources than our companies or that may be more highly rated than our companies, or competition resulting from industry consolidation;
- dependence on a limited number of brokers, managing general agents and other third parties to support our business, both in terms of the volume of business we rely on them to place and the credit risk we assume from them; and
- susceptibility to the effects of inflation due to premiums being established before the ultimate amounts of losses and LAE are known.

***The cyclical nature of the insurance and reinsurance industries may make it more difficult for StarStone and Atrium to generate profits consistently, which could negatively impact our ability to execute our active underwriting strategies successfully.***

The insurance and reinsurance industry has historically been characterized by periods of intense price competition due to excess underwriting capacity, as well as periods of more favorable pricing due to limited underwriting capacity. Periods of favorable pricing tend to attract additional underwriting capacity (by new entrants, market instruments and structures, and additional commitments by existing insurers) that ultimately cause prices to decrease. Changes in the frequency and severity of losses suffered by insureds and insurers also impact industry cycles, and we may not be able to accurately predict whether market conditions will improve, remain constant or deteriorate. Any of these factors could lead to a significant reduction in premium rates, impair our ability to underwrite at appropriate rates, result in less favorable policy terms and drive fewer submissions for our active underwriting services, which could decrease our earnings or adversely affect our financial condition.

Cyclical market conditions also impact the availability and cost of reinsurance purchased by StarStone and Atrium as part of our risk management strategy. Market conditions may limit or prevent our active underwriting companies from obtaining adequate reinsurance protection for our business needs. If our active underwriting companies are unable to purchase reinsurance, or if reinsurance is available only on unfavorable terms or with less creditworthy reinsurers, we may retain a higher proportion of risks than we would otherwise prefer, incur additional expense, or purchase reinsurance from companies with higher credit risk, or we may underwrite fewer or smaller contracts. Any of these factors could negatively impact our financial performance.

***Downgrades of financial strength ratings at StarStone or Lloyd's could materially and negatively impact our ability to write new business or renew our existing business in our active underwriting segments.***

Financial strength ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. The StarStone operating insurance entities are currently assigned a financial strength rating of "A-" (Excellent) by A.M. Best with a stable outlook. A ratings downgrade, outlook change or withdrawal could negatively impact StarStone's competitive position in the industry, and severely limit or prevent StarStone from writing new insurance and reinsurance contracts if policyholders move their business to other more highly-rated companies. Such a change could also inhibit our ability to implement our business and growth strategies successfully. Additionally, many of StarStone's reinsurance contracts permit the ceding companies to cancel the contract if StarStone's financial strength rating is downgraded. Whether a ceding company would cancel a reinsurance contract after a ratings downgrade would depend on a number of factors (including the reason for and extent of the downgrade, and the pricing and availability of replacement reinsurance) and, accordingly, we cannot predict the extent to which these cancellation rights would be exercised or what effect any such cancellations would have on our financial condition or results of operations.

Lloyd's ratings apply to business written through Syndicate 609 (Atrium) and Syndicate 1301 (StarStone). Lloyd's is rated "A" (Excellent) by A.M. Best, "A+" (Strong) by S&P and "AA-" (Very Strong) by Fitch Ratings. Financial strength ratings downgrades at Lloyd's could adversely affect our Lloyd's syndicates' ability to trade in certain classes of business at current levels.

***Emerging claim and coverage issues could adversely affect our business.***

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the adequacy of our provision for losses and LAE by either extending coverage beyond the envisioned scope of insurance policies and reinsurance contracts, or by increasing the number or size of claims. Our exposure to these uncertainties could be exacerbated by an increase in insurance and reinsurance contract disputes, arbitration and litigation. The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. In some instances, these changes may not become apparent until long after we have acquired or issued the affected contracts. As a result, the full extent of liability under these insurance or reinsurance contracts may not be known for many years after a contract has been issued.

***Our investments in life insurance businesses, including certain of our equity method investments, are subject to the risk that actual mortality, morbidity, policy persistency, and investment yield may be different than our assumptions and could render the reserves established by these businesses inadequate, causing a decline in our financial returns from these investments.***

The performance of our investments in life businesses depends on the ability of these businesses to operate effectively and efficiently. Reserves for life policy benefits are based on certain assumptions, including mortality, morbidity, lapse rates, expenses, and discount rates based on expected yields at acquisition. The adequacy of the reserves established by the businesses in which we invest is contingent on actual experience related to these key assumptions. If actual experience differs from these assumptions, or the assumptions are changed based on new information or experience, it could materially and adversely impact our financial returns on these investments.

The life insurance businesses in which we have invested have exposure to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. In an economic downturn, these businesses may also experience an elevated incidence of lapses of life insurance policies due to increased risk that policyholders may choose to cease paying insurance premiums (resulting in a non-diversified pool of policyholders). Any of these events could adversely affect our financial returns on these investments.

## Risks Relating to Our Acquisitions

### ***We may not be able to continue to grow our business through acquisitions.***

We have pursued and, as part of our strategy, will continue to pursue growth through acquisitions of reinsurance companies and portfolios of insurance and reinsurance business, primarily in our run-off segment. However, the acquisition and management of companies and portfolios in run-off is highly competitive, and driven by a number of factors, including proposed acquisition price, reputation, and financial resources. Some of our competitors have greater financial resources than we do, have been operating for longer than we have and have established long-term and continuing business relationships throughout the insurance and reinsurance industries, which can be a significant competitive advantage. As a result, we may not be able to compete successfully in the future for suitable acquisition candidates, and if we do not continue to acquire companies or portfolios, we may not be able to achieve our strategic goals.

### ***There can be no assurance that our acquisitions will be financially beneficial to us or our shareholders.***

The evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business or portfolio, can be complex and costly and may require substantial management resources. Our acquisitions could involve numerous additional risks that we may not be able to identify during the due diligence process, such as potential losses from unanticipated litigation, levels of claims or other liabilities and exposures, an inability to generate sufficient revenue to offset acquisition costs and financial exposures in the event that the sellers of the entities we acquire are unable or unwilling to meet their indemnification, reinsurance and other obligations to us.

Our run-off business entails acquiring and managing insurance and reinsurance companies, portfolios of insurance and reinsurance, and companies with liabilities related to legacy manufacturing operations. Unlike traditional insurers and reinsurers, our companies and portfolios in run-off no longer underwrite new policies and are subject to the risk that their stated provisions for losses and LAE, may not be sufficient to cover future losses and the cost of run-off. Because our non-life companies and portfolios in run-off generally no longer collect underwriting premiums, our sources of capital to cover losses are limited to our stated reserves, reinsurance coverage and equity.

To achieve positive operating results from an acquisition, we must first price transactions on favorable terms relative to the risks posed by the acquired businesses and then successfully manage the acquired businesses by efficiently managing claims, collecting from insurers or reinsurers and controlling expenses. Failure to do these things successfully could result in us having to cover losses sustained with retained earnings, which would materially and adversely impact our ability to grow our business and may result in material losses.

### ***We may not be able to realize the anticipated benefits of acquisitions, which may result in underperformance relative to our expectations and a material adverse effect on our business, financial condition or results of operations.***

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

- the value of liabilities assumed being greater than expected;
- the value of assets or our anticipated return on assets being lower than expected or diminishing because of credit defaults, changes in interest rates, or delays in implementation of our intended investment strategies;
- funding cash flow shortages that may occur if anticipated revenues are not realized or are delayed, or if expenses are greater than anticipated;
- integrating financial and operational reporting systems and internal controls, including assurance of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and our reporting requirements under the Exchange Act;
- leveraging our existing capabilities and expertise into the business acquired and establishing synergies within our organization;
- funding increased capital needs and overhead expenses;
- integrating technology platforms and managing any increased cybersecurity risk;
- obtaining and retaining management personnel required for expanded operations;

- fluctuating foreign currency exchange rates relating to the assets and liabilities we may acquire;
- goodwill and intangible asset impairment charges; and
- complying with applicable laws and regulations.

If we are unable to address some or all of these challenges, our acquisitions may underperform relative to our expectations and our business may be materially and adversely affected.

***We may not complete future acquisitions within the time frame we anticipate or at all, which could have a negative effect on our business, financial condition or results of operations.***

Once we have signed a definitive agreement to acquire a business or portfolio, conditions to closing, such as obtaining regulatory approvals or shareholder approvals, must be met before the acquisition can be consummated. These and other closing conditions may not be satisfied at all, or may cause a material delay in the anticipated timing of closing. In addition, our ability to complete the acquisition on the originally anticipated terms, or at all, could be jeopardized if a seller receives competing proposals, if litigation is brought challenging the transaction or certain of its terms, or if regulators impose unexpected terms and conditions on the transaction. Failure to consummate an acquisition on the originally anticipated terms, or a significant delay in the closing, could result in significant expense, diversion of time and resources, reputational damage, litigation and a failure to realize the anticipated benefits of the acquisition, all of which could materially adversely impact our business, financial condition and results of operations.

#### **Risks Relating to Liquidity and Capital Resources**

***The amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet certain regulatory requirements can vary significantly from time to time and is sensitive to a number of factors.***

Statutory capital and reserve requirements for our insurance subsidiaries are prescribed by the applicable insurance regulators in the jurisdictions in which we operate, including Bermuda, the United States, the United Kingdom and the European Union. Insurance regulators have established risk-based capital adequacy measures, such as the BSCR in Bermuda and the Solvency II regime in the European Union and United Kingdom, which provide minimum solvency and liquidity requirements for insurance companies. The amount of capital that we and/or our insurance subsidiaries are required to hold may increase or decrease depending on a variety of factors including the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our non-life run-off and live underwriting insurance subsidiaries must hold to support future growth, changes in the value of investments, changes in interest rates and foreign currency exchange rates, as well as changes to the relevant regulatory capital adequacy measures. Many of these factors are outside of our control, and our overall liquidity and credit ratings are significantly influenced by our insurance subsidiaries' statutory capital amounts. If statutory capital requirements increase or if our insurance subsidiaries' solvency decreases, our subsidiaries would be required to hold more capital, and our ability to obtain distributions from these subsidiaries could be limited. If we fail to maintain adequate statutory capital, the regulators may restrict our activities and prohibit us and our subsidiaries from completing acquisitions without raising additional capital.

***We may require additional capital and credit in the future that may not be available or may only be available on unfavorable terms.***

Our future capital requirements depend on many factors, including acquisition activity, our ability to manage the run-off of our assumed policies, our ability to establish reserves at levels sufficient to cover losses, our underwriting plans, and our obligations to satisfy statutory capital requirements. We may need to raise additional funds through equity or debt financings in the future. Our ability to secure this financing may be affected by a number of factors, including volatility in the worldwide financial markets and the strength of our capital position and operating results. In addition, an unfavorable change or downgrade of our issuer credit ratings could increase the interest rate charged under our revolving credit facility and may make it more expensive for us to access capital markets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. In addition, we may not achieve the desired regulatory capital treatment for any potential issuance of debt or equity securities. In the case of equity financings, dilution to our existing shareholders could result, and any securities that are part of an equity financing may have rights, preferences and privileges that are senior to those of our already outstanding securities. If we cannot obtain adequate capital or credit, our business, results of operations and financial condition could be adversely affected by, among other things, our inability to finance future acquisitions.

***Uncertain conditions in the global economy generally may materially adversely affect our business, results of operations and financial condition.***

In the event of financial turmoil affecting the global banking system and global financial markets (including the sovereign debt markets), additional consolidation of the financial services industry, or significant financial service institution failures, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed maturity, credit, currency, and equity markets. This could have a number of effects on our business, including our ability to obtain financing for future acquisitions. Even if financing is available, it may only be available on terms that are not favorable to us, which would decrease our profitability.

Global and local economic conditions could also affect demand for and claims made under our products, our counter-party credit risk, and the ability of our customers and other counterparties to establish or maintain their relationships with us.

Net investment income and net realized and unrealized gains or losses also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in the fair value of financial and derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them.

***Reinsurers may not satisfy their obligations to our insurance and reinsurance subsidiaries, which could result in significant losses or liquidity issues for us.***

Our insurance and reinsurance subsidiaries are subject to credit risk with respect to their reinsurers because the transfer of risk to a reinsurer does not relieve our subsidiaries of their liability to the insured. Reinsurance companies may be negatively impacted or downgraded during difficult financial and economic conditions in the worldwide capital markets and economies. In addition, reinsurers may be unwilling to pay our subsidiaries even though they are able to do so, or disputes may arise regarding payment obligations. The failure of one or more of our subsidiaries' reinsurers to honor their obligations in a timely fashion may affect our cash flows, reduce our net earnings or cause us to incur a significant loss. Disputes with our reinsurers may also result in unforeseen expenses relating to litigation or arbitration proceedings. A reinsurer's inability or unwillingness to honor its obligations to StarStone and Atrium may negate the intended risk-reducing impact of our reinsurance purchasing programs.

Exposure to reinsurers who from time to time represent meaningful percentages of our total reinsurance balances recoverable on paid and unpaid losses may increase the risks described above. For information on reinsurance balances recoverable on paid and unpaid losses, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - reinsurance balances recoverable on paid and unpaid losses."

***We are a holding company, and we are dependent on the ability of our subsidiaries to distribute funds to us.***

We are a holding company and therefore we are dependent on distributions of funds from our operating subsidiaries to fund acquisitions, fulfill financial obligations in the normal course of our business, including payments on our outstanding Senior Notes, and pay dividends to our shareholders, including holders of our preferred shares and, in turn, the related depositary shares. The ability of our insurance and reinsurance subsidiaries to make distributions to us may be limited by various business considerations and applicable insurance laws and regulations in jurisdictions in which we operate (which are described in "Item 1. Business - Regulation"). The ability of our subsidiaries to make distributions to us may also be restricted by, among other things, other applicable laws and regulations and the terms of our debt obligations and our subsidiaries' debt obligations. If our subsidiaries are restricted from making distributions to us, we may be unable to maintain adequate liquidity to fund acquisitions or fulfill our financial obligations.

***Fluctuations in currency exchange rates may cause us to experience losses.***

We maintain a portion of our investments, insurance liabilities and insurance assets denominated in currencies other than U.S. dollars. Consequently, we and our subsidiaries may experience foreign exchange losses, which could adversely affect our results of operations. We publish our consolidated financial statements in U.S. dollars. Therefore, fluctuations in exchange rates used to convert other currencies, particularly Australian dollars, Canadian dollars, British pounds and Euros, into U.S. dollars will impact our reported financial condition, results of operations and cash flows from year to year.

***Our failure to comply with covenants contained in our credit facilities or in the indenture governing our 4.5% Senior Notes due 2022 ("Senior Notes") could trigger prepayment obligations, which could adversely affect our results of operations and financial condition.***

We and our subsidiaries currently have several outstanding credit facilities and outstanding Senior Notes. We depend on access to these funds in operating our business. The credit facilities and the indenture governing our Senior Notes contain various business and financial covenants that impose restrictions on us and certain of our subsidiaries with respect to, among other things, limitations on mergers and consolidations, acquisitions, amalgamations and sales of substantially all assets, indebtedness and guarantees, restrictions as to certain dispositions of stock and dividends and stock repurchases, investment constraints and limitations on liens on the capital stock of certain subsidiaries. We may also enter into future debt arrangements containing similar or different restrictive covenants. Our failure to comply with these covenants could result in an event of default under the credit facilities or the indenture governing our Senior Notes, which could result in us being required to repay the amounts outstanding under these facilities prior to maturity. These prepayment obligations could have an adverse effect on our results of operations and financial condition.

In addition, complying with these covenants could limit our financial and operational flexibility. Our credit facilities and Senior Notes are described in more detail in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt Obligations."

**Risks Relating to Our Investments**

***The value of our insurance and reinsurance subsidiaries' investment portfolios and the investment income that our insurance and reinsurance subsidiaries receive from these portfolios may decline materially as a result of market fluctuations and economic conditions, including those related to interest rates and credit spreads.***

We derive a significant portion of our income from our invested assets, which consist primarily of investments in fixed maturity securities. The net investment income that our subsidiaries obtain from investments in fixed maturity securities will generally increase or decrease with changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase net unrealized losses, which would decline over time as the security approaches maturity. Conversely, a decline in interest rates would increase net unrealized gains, which would decline over time as the security approaches maturity. The fair market value can also decrease as a result of a deterioration of the credit quality of those securities. Any perceived decrease in credit quality may cause credit spreads to widen and this would result in an increase in net unrealized losses. A deterioration of credit ratings on our fixed maturity security investments may result in a preference to liquidate these securities in the financial markets. If we liquidate these securities during a period of tightening credit, we may realize a significant loss.

The Financial Conduct Authority of the United Kingdom plans to phase out the London Interbank Offered Rate ("LIBOR") by the end of 2021. A significant portion of our investments in fixed maturities is in LIBOR-based instruments. There is currently no definitive replacement rate for LIBOR. Therefore, we are unable to determine the potential effect of the change on our investment results.

Some of our fixed maturity securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk, or the risk that principal will be returned more rapidly or slowly than expected, as a result of interest rate fluctuations. When interest rates decline, consumers will generally make prepayments on their mortgages, causing us to be repaid more quickly than we might have originally anticipated, meaning that our opportunities to reinvest these proceeds back into the investment markets may be at reduced interest rates (with the converse being true in a rising interest rate environment). Mortgage-backed and other asset-backed securities are also subject to default risk on the underlying securitized mortgages, which would decrease the value of our investments.

The changes in the market value of our securities that are classified as trading or available-for-sale are reflected in our financial statements. Other-than-temporary impairment losses in the value of our fixed maturity securities are also reflected in our financial statements. As a result, a decline in the value of the securities in our investment portfolios may materially reduce our net income and shareholders' equity, and may cause us to incur a significant loss. For more information on our investment portfolios, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investable Assets."

***Our investments in alternative investments and our investments in joint ventures and/or entities accounted for using the equity method may be illiquid and volatile in terms of value and returns, which could negatively affect our investment income and liquidity.***

In addition to fixed maturity securities, we have invested, and may from time to time continue to invest, in alternative investments such as hedge funds, fixed income funds, equity funds, private equity funds and co-investments, collateralized loan obligation ("CLO") equities, CLO equity funds and other alternative investments. These and other similar investments may be illiquid due to restrictions on sales, transfers and redemption terms, may have different, more significant risk characteristics than our investments in fixed maturity securities and may also have more volatile values and returns, all of which could negatively affect our investment income and overall portfolio liquidity.

We have also invested, and from time to time may continue to make investments in joint ventures and in other entities that we do not control. In these investments, many of which are accounted for using the equity method, we may lack complete management and operational control over the entities in which we are invested, which may limit our ability to take actions that could protect or increase the value of our investment. In addition, these investments may be illiquid due to contractual provisions, and our lack of operational control may prevent us from obtaining liquidity from these investments in a timely manner or on favorable terms.

Alternative or "other" investments may not meet regulatory admissibility requirements or may result in increased regulatory capital charges to our insurance subsidiaries that hold these investments, which could limit those subsidiaries' ability to make capital distributions to us and, consequently, negatively impact our liquidity. For more information on our alternative investments, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investable Assets."

***The valuation of our investments may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our financial condition or results of operations.***

Fixed maturity and alternative investments, such as private equity funds and co-investments, fixed income funds, fixed income hedge funds, equity funds, private credit funds and CLO equity funds, as well as direct investments in CLO equities, represent the majority of our total cash and invested assets. These investments are reported at fair value on our consolidated balance sheet. Fair value prices for all trading and available-for-sale securities in the fixed maturities portfolio are independently provided by our investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by our accounting service providers, managers or custodians, after we perform an internal validation process. Fair value for our alternative investments is estimated based primarily on the most recently reported net asset values reported by the fund manager, which we may adjust following our internal review.

These valuation procedures involve estimates and judgments, and during periods of market disruptions (such as periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity), it may be difficult to value certain of our securities if trading becomes less frequent or market data becomes less observable. In addition, there may be certain asset classes that are now in active markets with significant observable data that become illiquid due to changes in the financial environment. In these cases, the valuation of a greater number of securities in our investment portfolio may require more subjectivity and management judgment. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods that are more sophisticated or require greater estimation, which may result in valuations greater than the value at which the investments could ultimately be sold. Further, rapidly changing and unpredictable credit and equity market conditions could materially affect the valuation of securities carried at fair value as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our financial condition and results of operations.

***The nature of our business liquidity demands and the structure of our entities' investment portfolios may adversely affect the performance of our investment portfolio and financial results and our investing flexibility.***

We strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. Because of the unpredictable nature of losses that may arise under the insurance and reinsurance policies issued by certain of our subsidiaries and as a result of our opportunistic commutation strategy, our liquidity needs can be substantial and may arise at any time. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. If we are unsuccessful in managing our investment portfolio within the context of this strategy, we may be forced to liquidate our investments at times and at prices that are not optimal, and we may have difficulty liquidating some of our alternative investments due to restrictions on sales, transfers and redemption terms. This could have a material adverse effect on the performance of our investment portfolio.

We have many individual portfolios of cash and investments from our acquired companies and portfolios. Each investment portfolio has its own regulatory admissibility requirements, and each run-off entity is likely to have negative operating and financing cash flows due to commutation activity, claims settlements and capital distributions. These factors reduce our overall investing flexibility.

**Risks Relating to Laws and Regulations**

***Insurance laws and regulations restrict our ability to operate, and any failure to comply with these laws and regulations, or any investigations, inquiries or demands by government authorities, may have a material adverse effect on our business.***

We are subject to the insurance laws and regulations of a number of jurisdictions worldwide. Existing laws and regulations, among other things, limit the amount of dividends that can be paid to us by our insurance and reinsurance subsidiaries, prescribe solvency and capital adequacy standards, impose restrictions on the amount and type of investments that can be held to meet solvency and capital adequacy requirements, require the maintenance of reserve liabilities, and require pre-approval of acquisitions and certain affiliate transactions. Failure to comply with these laws and regulations or to maintain appropriate authorizations, licenses, and/or exemptions under applicable laws and regulations may cause governmental authorities to preclude or suspend our insurance or reinsurance subsidiaries from carrying on some or all of their activities, place one or more of them into rehabilitation or liquidation proceedings, impose monetary penalties or other sanctions on them or our affiliates, or commence insurance company delinquency proceedings against our insurance or reinsurance subsidiaries. The application of these laws and regulations by various governmental authorities may affect our liquidity and restrict our ability to expand our business operations through acquisitions or to pay dividends on our ordinary or preferred shares. Furthermore, compliance with legal and regulatory requirements may result in significant expenses, which could have a negative impact on our profitability. To further understand these regulatory requirements, see "Item 1. Business - Regulation."

In addition, the insurance and reinsurance industry has experienced substantial volatility as a result of investigations, litigation and regulatory activity by various insurance, governmental and enforcement authorities concerning certain practices within the insurance and reinsurance industry. Insurance and reinsurance companies that we have acquired, or may acquire in the future, may have been or may become involved in these or other investigations, litigation or regulatory activity and may have lawsuits filed or other regulatory actions taken against them. Our involvement in any such activity would cause us to incur legal costs and, if we or any of our insurance or reinsurance subsidiaries were found to have violated any laws or regulations, we could be required to pay fines and damages and incur other sanctions, perhaps in material amounts, which could have a material negative impact on our profitability.

***Political, regulatory and industry initiatives could materially adversely affect our business by increasing the amount of regulation we face or changing the nature of the regulations that apply to us in operating our insurance businesses or acquiring new insurance businesses.***

Increasingly, governmental authorities have taken interest in the potential systemic risks posed by the insurance and reinsurance industry as a whole. The insurance regulatory environment has become subject to increased scrutiny across a number of jurisdictions, and authorities regularly consider enhanced or new regulatory requirements and seek to exercise their supervisory authority in new and more extensive ways. Regulators are generally concerned with the protection of policyholders above other constituencies, including our shareholders. Additional laws and regulations have been and may continue to be enacted that may have adverse effects on our operations, financial condition, statutory capital adequacy, and liquidity. We cannot predict the exact nature, timing or scope of these initiatives; however, we believe it is likely there will continue to be increased regulatory intervention in our industry in the future, and these initiatives could adversely affect our business.

In many of the jurisdictions in which we operate, including Bermuda, there are increased regulations relating to group supervision though cooperation and coordination among insurance regulators regardless of an individual company's domiciliary jurisdiction. The BMA acts as our Group supervisor, as described in "Item 1. Business - Regulation" which has led to increased regulatory reporting and oversight.

The implementation of Solvency II, an E.U.-wide directive covering the capital adequacy, risk management and regulatory reporting for insurers, requires significant resources to ensure compliance by our E.U. companies. Additionally, if our non-E.U. subsidiaries engage in E.U. insurance or reinsurance business, additional capital requirements may be imposed for such companies to continue to insure or reinsure E.U.-domiciled risk or cedants if their regulatory regime is not deemed to have Solvency II equivalence. Bermuda has gained Solvency II equivalence, and our Bermuda reinsurers are subject to requirements in line with a Solvency II framework.

In the United States, the Dodd-Frank Act addresses the entire financial services industry and includes initiatives such as the creation of a Federal Insurance Office and other federal oversight agencies, the requiring of more transparency, accountability and focus in protecting investors and businesses, the input of shareholders regarding executive compensation, and the enhanced empowerment of regulators to punish fraud and unethical business practices. Continued compliance with these laws and regulations is likely to result in additional regulation and additional costs for us.

In addition, increased scrutiny by insurance regulators of investments in or acquisitions of insurers or insurance holding companies by private equity firms or hedge funds may result in imposition of additional regulatory requirements and restrictions. We have in the past partnered with private equity firms in making acquisitions and may do so in the future. This increased scrutiny may make it difficult to complete U.S. acquisitions with private equity or hedge funds should we seek to do so. In addition, private equity firms and hedge funds have invested in Enstar and may seek to do so in the future. This increased scrutiny may materially adversely impact our ability to raise capital through transactions with these types of investors.

***The United Kingdom's referendum vote to leave the European Union could adversely affect our business.***

In an advisory referendum held on June 23, 2016, the United Kingdom voted to leave the European Union (commonly referred to as "Brexit"). The United Kingdom is scheduled to leave the European Union on March 29, 2019, and negotiations to determine the terms of the United Kingdom's withdrawal from the European Union are ongoing. The form of the United Kingdom's future relationship with the European Union remains uncertain. We have significant operations and employees in the United Kingdom, including our Lloyd's businesses. Brexit's impact on our U.K. businesses will depend on the United Kingdom and Lloyd's abilities to retain access to the E.U. markets, and our U.K. businesses could be adversely affected if adequate access to these markets is not obtained. Brexit may also lead to legal uncertainty and differences in national laws and regulations as the United Kingdom determines which E.U. laws to replace or replicate, and these issues could impact our structure and operations. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, results of operations, and financial condition.

***Changes in accounting principles and financial reporting requirements could impact our reported financial results and our reported financial condition.***

Our financial statements are prepared in accordance with U.S. GAAP, which is periodically revised by the Financial Accounting Standards Board ("FASB"), and they are subject to the accounting-related rules and interpretations of the SEC. We are required to adopt new and revised accounting standards implemented by the FASB.

Unanticipated developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in accounting standards, particularly those that apply to insurance companies, cannot be predicted but may affect the calculation of net earnings, shareholders' equity and other relevant financial statement line items. In addition, such changes may cause additional volatility in reported earnings, decrease the understandability of our financial results and affect the comparability of our reported results with the results of others.

## Risks Relating to our Operations

***We are dependent on our executive officers, directors and other key personnel and the loss of any of these individuals could adversely affect our business.***

Our success depends on our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe that there are only a limited number of available qualified personnel in the businesses in which we compete, and the pool of highly skilled employees available to fill key positions at our companies may fluctuate based on market conditions. We rely substantially upon the services of our executive officers and our subsidiaries' executive officers and directors, as well as our local management teams, to implement our business strategies. The loss of the services of any of our management or other key personnel, or the loss of the services of or our relationships with any of our directors, could have a material adverse effect on our business. Higher demand for employees with appropriate skills could lead to increased compensation expectations for existing and prospective personnel across our organization, which could also make it difficult to maintain labor expenses at desired levels.

***Our directors and executive officers may have ownership interests or other involvement with entities that could compete against us, and conflicts of interest might prevent us from pursuing desirable acquisitions, investments and other business opportunities.***

Our directors and executive officers may have ownership interests or other involvement with entities that could compete against us or otherwise have interests that could, at times, be considered potentially adverse to us, either in the pursuit of acquisition targets, investments or in our business operations. We have also participated in transactions in which one or more of our directors or executive officers or their affiliates had an interest, and we may do so in the future. The interests of our directors and executive officers in such transactions or such entities may result in a conflict of interest for those directors and officers.

The Audit Committee of our Board of Directors, which is comprised entirely of independent directors, reviews any material transactions involving a conflict of interest and may take actions as it deems appropriate in the particular circumstances. We may not be able to pursue all advantageous transactions that we would otherwise pursue in the absence of a conflict, in particular if our Audit Committee is unable to determine that any such transaction is on terms as favorable as we could otherwise obtain in the absence of a conflict.

***Cybersecurity events or other difficulties with our information technology systems could disrupt our business, result in the loss of critical and confidential information, increased costs, and adversely impact our reputation and results of operations.***

We rely heavily on the successful, uninterrupted functioning of our information technology systems, as well as those of any third-party service providers we use. We rely on these systems to securely and accurately process, store, and transmit confidential and other data in connection with our critical operational functions such as paying claims, performing actuarial and other modeling, pricing, quoting and processing policies, cash and investment management, acquisition analysis, financial reporting and other necessary support functions. Our active underwriting companies rely on broker portals to bind certain business, and, therefore, a service interruption would negatively impact our ability to write business. Where we rely on third parties for outsourced functions and other services, our information may be exposed to the risk of a data breach or cyber-security incident through their systems. A failure of our information technology systems or those of our third-party service providers could materially impact our ability to perform the critical functions described above, affect the confidentiality, availability or integrity of our proprietary information and expose us to litigation and increase our administrative expenses.

Computer viruses, cyber-attacks, and other external hazards, as well as any internal process or employee failures, could expose our information technology systems to security breaches that may cause critical data to be corrupted or confidential or proprietary information to be exposed, or cause system disruptions or shut-downs. In addition to our own information, we receive and may be responsible for protecting confidential or personal information of clients, employees, and other third parties, which could also be compromised in the event of a security breach.

Although we utilize numerous controls, protections and risk management strategies to attempt to mitigate these risks, and management is not aware of a material cyber-security incident to date, the sophistication and volume of these security threats continues to increase. We may not have the technical expertise or resources to successfully prevent every data breach or cyber-security incident. The potential consequences of a data breach or cyber-security incident could include claims against us, significant reputational damage to our company, damage to our business as a result of disclosure of proprietary information, and regulatory action against us, which may include fines and penalties. Such an incident could cause us to lose business and commit resources, management time and money to remediate these breaches and notify aggrieved parties, any of which in turn could have an adverse impact on our business. We may also experience increasing costs associated with implementing and maintaining adequate safeguards against these types of incidents and attacks.

In addition, the information security and data privacy regulatory environment is increasingly demanding. We are subject to numerous laws and regulations in jurisdictions within and without the United States governing the protection of the personal and confidential information of our clients and/or employees, including in relation to medical records and financial information. These laws and regulations are rapidly expanding, increasing in complexity and sometimes conflict between jurisdictions. For example, the E.U. General Data Protection Regulation ("GDPR") creates rights for individuals to control their personal data and sets forth the requirements with which companies handling the personal data of E.U.-based data subjects have to comply (regardless of whether such data handling involves E.U.-based operations). We are also subject to the GDPR through our handling of the personal data of E.U.-based subjects in connection with our ordinary course operations. If any person, including any of our employees or those with whom we share such information, negligently disregards or intentionally breaches our established controls with respect to our client data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions, including as a result of a violation of the GDPR.

***If outsourced providers such as third-party administrators, managing general agents, investment managers or other service providers were to breach obligations owed to us, our business and results of operations could be adversely affected.***

We outsource certain business functions to third-party providers, and these providers may not perform as anticipated or may fail to adhere to their obligations to us. For example, certain of our subsidiaries rely on relationships with a number of third-party administrators under contracts pursuant to which these third-party administrators manage and pay claims on our subsidiaries' behalf and advise with respect to case reserves. In these relationships, we rely on controls incorporated in the provisions of the administration agreement, as well as on the administrator's internal controls, to manage the claims process within our prescribed parameters. Our StarStone and Atrium subsidiaries use managing general agents, general agents and other producers to write and administer business on their behalf within prescribed underwriting authorities. We also rely on external investment managers to provide services pursuant to the terms of our investment management agreements, including following established investment guidelines. Although we monitor these administrators, agents and producers, and managers on an ongoing basis, our monitoring efforts may not be adequate or our service providers could exceed their authorities or otherwise breach obligations owed to us, which, if material, could adversely affect our business and results of operations.

#### **Risks Relating to Taxation**

***Recently enacted U.S. tax reform legislation, various international tax transparency initiatives, and possible future tax reform legislation and regulations could materially affect us and our shareholders.***

On December 22, 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act is broad and contains many provisions that will have significant implications on us, and potentially on our shareholders, including re-measurement of deferred taxes and surplus due to the reduction in corporation income tax rate, and imposition of a new base-erosion anti-abuse tax ("BEAT") on affiliate transactions (including reinsurance arrangements between affiliated companies). In response to the introduction of BEAT, we non-renewed (as of January 1, 2018) certain of our active underwriting affiliate reinsurance transactions between our operating entities that are subject to U.S. taxation and our non-U.S. affiliates that are not. We continue to assess the future impact of BEAT on our transaction structuring.

The Tax Act also includes modifications of the taxation of non-U.S. companies owned by U.S. shareholders. Certain aspects of the Tax Act require clarification through future regulatory action and accordingly, we are unable to definitively determine the impact to our shareholders. The Tax Act may increase the likelihood that we or our non-U.S. subsidiaries or joint ventures managed by us will be deemed a "controlled foreign corporation" (CFC) within the meaning of the Internal Revenue Code of 1986, as amended (the "Code") for U.S. federal tax purposes. Specifically, the Tax Act expands the definition of "United States shareholder" for CFC purposes to include U.S. persons who own, directly or constructively, 10% or more of the value of a non-U.S. corporation's shares, rather than looking only to voting power held. Accordingly, the "voting cut-back" provisions included in our bye-laws that limit any U.S. shareholder from owning or controlling ordinary shares that constitute 9.5% or more of the voting power of all of our ordinary shares will be ineffective in avoiding "U.S. shareholder" status for U.S. persons who own 10% or more of the value of our shares. The Tax Act also expands certain attribution rules for share ownership in a way that would cause non-U.S. subsidiaries to now be treated as CFCs if owned in a group, such as Enstar, that has a non-U.S. parent company and also includes at least one U.S. subsidiary. In the event a corporation is characterized as a CFC, any "United States shareholder" of the CFC is required to include in taxable income each year the shareholder's proportionate share of certain insurance and related investment income for the taxable year, even if such income is not distributed.

The Tax Act also contains modifications to certain provisions relating to passive foreign investment company ("PFIC") status that if applicable to us could result in adverse tax consequences to U.S. persons who own our ordinary shares. While the Tax Act makes it more difficult to qualify for certain exceptions to PFIC status, we believe that we will not be a PFIC for U.S. federal income purposes for the foreseeable future under the enacted provisions of the Tax Act. In particular, we believe that the income of our non-U.S. subsidiaries that are insurance companies is derived in the "active conduct of an insurance business" by corporations that are predominately engaged in such business under the provision of the Tax Act, and that this is also the case for us when the operations of our subsidiaries are considered as a whole, under the look-through rules applicable to foreign holding companies. There are currently no final regulations regarding the application of the PFIC provisions of the Code to an insurance company, so the application of those provisions to insurance companies remains unclear in certain respects. The U.S. Internal Revenue Service (the "IRS") issued proposed regulations on this subject in April 2015, which, if finalized as proposed, might be construed to cause us to be treated as a PFIC. In response to the proposed regulations, comments have been submitted to the IRS on behalf of Bermuda-based insurance holding companies and others, requesting changes and clarifications to the proposed regulations so that a holding company with our structure will not be considered a PFIC. There can be no assurance that the regulations will be finalized in a manner that clearly accommodates our existing structure.

The U.S. and other countries and governing bodies have also enacted reform legislation aimed at increasing transparency on companies' global tax footprint and profile. The Organization for Economic Co-operation and Development (the "OECD") is an intergovernmental economic organization founded to stimulate economic progress and trade. It develops economic policy recommendations to encourage policy reform in member countries. Created by the OECD under the initiative known as the "Base Erosion and Profit Shifting Project" ("BEPS"), "Country-by-Country Reporting" (Action 13) aims to ensure that multinational businesses provide appropriate and accurate information to each respective member and non-member region based on various metrics. These metrics are directed at counteracting the effects of global preferential tax regimes and increasing tax transparency. Bermuda has adopted OECD compliant Country-by-Country Reporting regulations for Bermuda headquartered companies which requires the Company to file a report containing results of our global operations. It is uncertain how cooperating jurisdictions, including those in which we operate, will utilize the data collected in our Bermuda filing. These initiatives could increase the burden and costs of compliance.

In December 2017, the EU Code Group included Bermuda on a list of jurisdictions that it was putting on notice of being considered to be non-cooperative for tax purposes. To avoid such consideration, Bermuda passed The Economic Substance Act 2018 (the "ESA") in December 2018, which came into effect on January 1, 2019 and requires compliance by pre-existing entities on July 1, 2019. The legislation requires Bermuda companies engaging in a "relevant activity" (which includes insurance business and holding entity activities) to be locally managed and directed, to carry on core income generating activities in Bermuda, to maintain adequate physical presence in Bermuda, and to have an adequate level of local full time qualified employees and incur adequate operating expenditure in Bermuda. The guidance as to how Bermuda authorities will interpret and enforce the ESA is pending, and we therefore cannot predict their potential impact on our results of operations and financial condition. In the event that we are required to maintain additional staff or operations in Bermuda, we may incur increased operating expenditures that could negatively impact our results of operations.

***U.S. persons who own our ordinary shares might become subject to adverse U.S. tax consequences as a result of "related person insurance income," if any, of our non-U.S. insurance company subsidiaries.***

For any of our wholly-owned non-U.S. insurance company subsidiaries, if (1) U.S. persons are treated as owning 25% or more of our shares, (2) the related person insurance income ("RPII") of that subsidiary were to equal or exceed 20% of its gross insurance income in any taxable year, and (3) direct or indirect insureds of that subsidiary (and persons related to such insureds) own (or are treated as owning) 20% or more of the voting power or value of our shares, then a U.S. person who owns our shares directly, or indirectly through non-U.S. entities, on the last day of the taxable year would be required to include in income for U.S. federal income tax purposes that person's pro rata share of the RPII of such a non-U.S. insurance company for the entire taxable year, whether or not any such amounts are actually distributed. (In the case of any of our partially-owned non-U.S. insurance company subsidiaries, the RPII provisions apply similarly, except that the percentage share ownership thresholds described in the preceding sentence are measured in terms of indirect ownership of the subsidiary's shares rather than in terms of ownership of our shares.)

Moreover, if the RPII rules of the Code were to apply to any of our non-U.S. insurance company subsidiaries, any RPII that is includible in the income of a U.S. tax-exempt organization would generally be treated as unrelated business taxable income. Although we and our subsidiaries intend to operate generally in a manner so as to avoid exceeding the foregoing thresholds for application of the RPII rules, there can be no assurance that this will always be the case. Accordingly, there can be no assurance that U.S. persons who own our ordinary shares will not be required to recognize gross income inclusions attributable to RPII.

In addition, the RPII rules provide that if a shareholder who is a U.S. person disposes of shares in a foreign insurance company that has RPII and in which U.S. persons collectively own 25% or more of the total combined voting power of all classes of stock entitled to vote, or the total value of the stock, any gain from the disposition will generally be treated as dividend income to the extent of the shareholder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (whether or not those earnings and profits are attributable to RPII). Such a shareholder would also be required to comply with certain reporting requirements, regardless of the amount of shares owned by the shareholder. These rules should not apply to dispositions of our ordinary shares because we will not be directly engaged in the insurance business. The RPII rules have not been interpreted by the courts or the IRS and regulations interpreting the RPII rules exist only in proposed form. Accordingly, there is no assurance that our views as to the inapplicability of these rules to a disposition of our ordinary shares will be accepted by the IRS or a court.

***We might incur unexpected U.S., U.K., Australia, or other tax liabilities if companies in our group that are incorporated outside those jurisdictions are determined to be carrying on a trade or business in such jurisdictions.***

We and a number of our subsidiaries are companies formed under the laws of Bermuda or other jurisdictions that do not impose income taxes; it is our contemplation that these companies will not incur substantial income tax liabilities from their operations. Because the operations of these companies generally involve, or relate to, the insurance or reinsurance of risks that arise in higher tax jurisdictions, such as the United States, the United Kingdom and Australia, it is possible that the taxing authorities in those jurisdictions may assert that the activities of one or more of these companies creates a sufficient nexus in that jurisdiction to subject the company to income tax there. There are uncertainties in how the relevant rules apply to insurance businesses, and in our eligibility for favorable treatment under applicable tax treaties. Accordingly, it is possible that we could incur substantial unexpected tax liabilities.

#### **Risks Relating to Ownership of our Shares**

***The market price for our ordinary shares and the depositary shares representing our preferred shares may experience volatility, thereby causing a potential loss of value to our investors.***

The market price for our ordinary shares may fluctuate substantially and could cause investment losses due to, among other things, the following factors:

- announcements with respect to an acquisition or investment;
- changes in the value of our assets;
- our financial condition, performance and prospects, including our quarterly and annual operating results;
- sales, or the possibility or perception of future sales, by our existing shareholders;
- changes in general conditions in the economy and the insurance industry;

- economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally; and
- adverse press or news announcements.

The market price for our depositary shares representing our preferred shares may fluctuate substantially and could cause investments losses due to, among other things and in addition to the factors listed above, the following:

- whether dividends have been declared and are likely to be declared on the preferred shares from time to time;
- whether the ratings on the depositary shares representing our preferred shares provided by any ratings agency have changed;
- changes in our credit ratings or the ratings of our insurance subsidiaries' financial strength and claims paying ability published by major credit ratings agencies;
- the amount of total indebtedness we have outstanding;
- the level, direction and volatility of market interest rates generally;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally.

***A few significant shareholders may influence or control the direction of our business. If the ownership of our ordinary shares continues to be highly concentrated, it may limit the ability of other shareholders to influence significant corporate decisions.***

We have a number of shareholders with large interests, including several that may be affiliated with members of our Board of Directors. The interests of certain significant shareholders may not be fully aligned with those of other shareholders, and this may lead to a strategy that is not in other shareholders' best interest. As of December 31, 2018, CPPIB, funds managed by Hillhouse Capital its affiliates, Trident, Beck Mack & Oliver ("Beck Mack"), and two of Enstar's executive officer co-founders (collectively) beneficially owned approximately 12.5%, 9.7%, 9.1%, 3.9% and 3.8%, respectively, of our outstanding voting ordinary shares. CPPIB owns additional non-voting ordinary shares that, together with its voting shares, represented an economic interest of approximately 17.9% as of December 31, 2018. Hillhouse owns additional non-voting shares and warrants that, together with its voting shares, represented an economic interest of approximately 17.1% as of December 31, 2018.

Although they do not act as a group, the shareholders identified above may exercise significant influence over matters requiring shareholder approval, and their concentrated holdings may delay or deter possible changes in control of Enstar, which may reduce the market price of our ordinary shares.

***Some aspects of our corporate structure may discourage third-party takeovers and other transactions, limit voting rights of certain shareholders to 9.5% or prevent the removal of our board of directors and management.***

Some provisions of our bye-laws have the effect of making more difficult or discouraging unsolicited takeover bids from third parties or preventing the removal of our current board of directors and management. In particular, our bye-laws make it difficult for any U.S. shareholder or Direct Foreign Shareholder Group (a shareholder or group of commonly controlled shareholders of Enstar that are not U.S. persons) to own or control ordinary shares that constitute 9.5% or more of the voting power of all of our ordinary shares. The votes conferred by such shares will be reduced by whatever amount is necessary so that after any such reduction the votes conferred by such shares will constitute 9.5% of the total voting power of all ordinary shares entitled to vote generally. The primary purpose of this restriction was to reduce the likelihood that we or any of our non-U.S. subsidiaries will be deemed a "controlled foreign corporation" under prior U.S. federal tax law, which has subsequently changed (as described in "Risks Relating to Taxation"). However, this limit may also have the effect of deterring purchases of large blocks of our ordinary shares or proposals to acquire us, even if some or a majority of our shareholders might deem these purchases or acquisition proposals to be in their best interests. In addition, our bye-laws provide for a classified board, whose members may be removed by our shareholders only for cause by a majority vote, and contain restrictions on the ability of shareholders to nominate persons to serve as directors, submit resolutions to a shareholder vote and request special general meetings.

These bye-law provisions make it more difficult to acquire control of us by means of a tender offer, open market purchase, proxy contest or otherwise. These provisions may encourage persons seeking to acquire control of us to negotiate with our directors, which we believe would generally best serve the interests of our shareholders. However, these provisions may have the effect of discouraging a prospective acquirer from making a tender offer or otherwise attempting to obtain control of us. In addition, these bye-law provisions may prevent the removal of our current board of directors and management. To the extent these provisions discourage takeover attempts, they may deprive shareholders of opportunities to realize takeover premiums for their shares or may depress the market price of the shares.

***There are regulatory limitations on the ownership and transfer of our ordinary shares.***

Insurance laws and regulations in the jurisdictions in which our insurance and reinsurance subsidiaries operate require prior notices or regulatory approval of changes in control of an insurer or its holding company. Different jurisdictions define changes in control differently, and generally any purchaser of 10% or more of the vote or value of our ordinary shares could become subject to regulation and be required to file certain notices and reports with the applicable insurance authorities. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change in control of us, including transactions that some shareholders might consider to be desirable.

***The market value of our ordinary shares may decline if large numbers of shares are sold.***

Pursuant to our contractual obligations, on October 10, 2017, we filed a resale registration statement covering approximately 9.8 million ordinary shares (including voting ordinary shares issuable upon conversion of outstanding non-voting ordinary shares) primarily held by CPPIB, Hillhouse Capital and Trident. Upon effectiveness of the resale registration statement on December 13, 2018, a large number of ordinary shares became freely tradable without restrictions under the Securities Act. Our ordinary shares have in the past been, and may from time to time continue to be, thinly traded, and significant sales could adversely affect the market price for our ordinary shares and impair our ability to raise capital through offerings of our equity securities.

***Because we are incorporated in Bermuda, it may be difficult for shareholders to serve process or enforce judgments against us or our directors and officers.***

We are a Bermuda company. In addition, certain of our officers and directors reside in countries outside the United States. All or a substantial portion of our assets and the assets of these officers and directors are or may be located outside the United States. Investors may have difficulty effecting service of process within the United States on our directors and officers who reside outside the United States or recovering against us or these directors and officers on judgments of U.S. courts based on civil liabilities provisions of the U.S. federal securities laws even though we have appointed an agent in the United States to receive service of process. Further, no claim may be brought in Bermuda against us or our directors and officers for violation of U.S. federal securities laws, as such laws do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

We believe that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as our independent auditors, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or these persons predicated solely upon U.S. federal securities laws. Further, there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

***Shareholders who own our shares may have more difficulty in protecting their interests than shareholders of a U.S. corporation.***

The Bermuda Companies Act (the "Companies Act"), which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. As a result of these differences, shareholders who own our shares may have more difficulty protecting their interests than shareholders who own shares of a U.S. corporation. For example, class actions and derivative actions are generally not available to shareholders under Bermuda law. Under Bermuda law, only shareholders holding collectively 5% or more of our outstanding ordinary shares or groups of shareholders numbering 100 or more are entitled to propose a resolution at our general meeting.

***We do not intend to pay cash dividends on our ordinary shares.***

We do not intend to pay a cash dividend on our ordinary shares. Rather, we intend to use any retained earnings to fund the development and growth of our business. From time to time, our board of directors will review our alternatives with respect to our earnings and seek to maximize value for our ordinary shareholders. In the future, we may decide to commence a dividend program for the benefit of our ordinary shareholders. Any future determination to pay dividends on our ordinary shares will be at the discretion of our board of directors and will be limited by our position as a holding company that lacks direct operations, the results of operations of our subsidiaries, our financial condition, cash requirements and prospects and other factors that our board of directors deems relevant. In addition, there are significant regulatory and other constraints that could prevent us from paying dividends in any event. As a result, capital appreciation, if any, on our ordinary shares may be your sole source of gain for the foreseeable future.

***Dividends on our preferred shares are non-cumulative.***

Dividends on our preferred shares are non-cumulative and payable only out of available funds under Bermuda law. If our board of directors (or a duly authorized committee of the board) does not authorize and declare a dividend for any dividend period, holders of our preferred shares and, in turn, the depositary shares representing preferred shares, would not be entitled to receive any such dividend, and such unpaid dividend will not accrue and will not be payable. We will have no obligation to pay dividends for a dividend period on or after the dividend payment date for such period if our board of directors (or a duly authorized committee of the board) has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to any outstanding preferred shares and/or our ordinary shares.

***Our board of directors may decline to register a transfer of our ordinary shares under certain circumstances.***

Our board of directors may decline to register a transfer of ordinary shares under certain circumstances, including if it has reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer. Further, our bye-laws provide us with the option to repurchase, or to assign to a third party the right to purchase, the minimum number of shares necessary to eliminate any such non-de minimis adverse tax, regulatory or legal consequence. In addition, our board of directors may decline to approve or register a transfer of shares unless all applicable consents, authorizations, permissions or approvals of any governmental body or agency in Bermuda, the United States, the United Kingdom and other applicable jurisdictions required to be obtained prior to such transfer shall have been obtained. The proposed transferor of any shares will be deemed to own those shares for dividend, voting and reporting purposes until a transfer of such shares has been registered on our shareholder register.

It is our understanding that while the precise form of the restrictions on transfer contained in our bye-laws is untested, as a matter of general principle, restrictions on transfers are enforceable under Bermuda law and are not uncommon. These restrictions on transfer may also have the effect of delaying, deferring or preventing a change in control.

***Certain regulatory and other constraints may limit our ability to pay dividends on our securities.***

We are subject to Bermuda regulatory constraints that affect our ability to pay dividends and make other distributions on our ordinary and preferred shares. Under the Companies Act, we may declare or pay a dividend or distribution out of contributed surplus only if we have reasonable grounds to believe that we are, and would after the payment be, able to meet our liabilities as they become due or is the realizable value of our assets would thereby not be less than our liabilities.

***Our ordinary and preferred shares are subordinate to our existing and future indebtedness.***

Our preferred shares are equity interests and do not constitute indebtedness. As such, the preferred shares, in addition to our ordinary shares, will rank junior to all of our indebtedness and other non-equity claims with respect to assets available to satisfy our claims, including in our liquidation. The preferred shares are also contractually subordinated in right of payment to all obligations of our subsidiaries including all existing and future policyholder obligations of our subsidiaries. Additionally, neither our ordinary shares nor our preferred shares represent an interest in any of our subsidiaries, and accordingly, are structurally subordinated to all obligations of our subsidiaries.

***There is no limitation on our issuance of securities that rank equally with or senior to the preferred shares.***

We may issue, without limitation, (1) additional depositary shares representing additional preferred shares that would form part of one of the series of depositary shares representing our outstanding preferred shares, and (2) additional series of securities that rank equally with or senior to the outstanding preferred shares. The issuance of additional preferred shares on par with or senior to the outstanding preferred shares would dilute the interests of the holders of our preferred shares, and any issuance of preferred shares senior to our outstanding preferred shares or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on our preferred shares, or to make payments to holders of our ordinary shares from remaining assets of the Company, in the event of a liquidation, dissolution or winding-up of Enstar.

***Our ordinary shares rank junior to our outstanding preferred shares in the event of a liquidation, winding up or dissolution of the Company.***

In the event of a liquidation, winding up or dissolution of the Company, our ordinary shares rank junior to our outstanding preferred shares. In such an event, there may not be sufficient assets remaining after payments to holders of our outstanding preferred shares to ensure payments to holders of ordinary shares.

***Under certain limited circumstances, the terms of the preferred shares may change without the holders' consent or approval.***

Under the terms of our outstanding preferred shares, at any time following specified tax or capital disqualification events, we may, without the consent of any holders of the preferred shares, vary the terms of the preferred shares such that they remain securities, or exchange the preferred shares for new securities, which (i) in the case of a tax event, would eliminate the substantial probability that we or any successor company would be required to pay any additional amounts with respect to such preferred shares as a result of a change in tax law or (ii) in the case of a capital disqualification event, for purposes of determining the solvency margin, capital adequacy ratios or any other comparable ratios, regulatory capital resource or level of Enstar Group or any member thereof, where subdivided into tiers, qualify as Tier 2 capital securities under then-applicable capital adequacy regulations imposed upon us by the BMA (or any successor agency or then-applicable regulatory authority) which would include, without limitation, the ECR. However, our exercise of this right is subject to certain conditions, including that the terms considered in the aggregate cannot be less favorable to the holders of the applicable preferred shares than the terms of such securities prior to being varied or exchanged.

***The voting rights of holders of our preferred shares and, in turn, the depositary shares representing the preferred shares are limited, and there are provisions in our bye-laws that may further reduce such voting rights.***

Holders of our outstanding preferred shares and, in turn, the depositary shares representing the preferred shares have no voting rights with respect to matters that generally require the approval of voting shareholders. In addition, if dividends on any of our outstanding preferred shares have not been declared or paid for the equivalent of six dividend payments, whether or not for consecutive dividend periods, holders of the outstanding preferred shares and, in turn, the depositary shares, will, subject to the terms and conditions contained in the certificates of designation governing the preferred shares, be entitled to vote for the election of two additional directors to our board of directors. The holders shall be divested of the foregoing voting rights if and when dividends for at least four dividend periods, whether or not consecutive, following a nonpayment event have been paid in full (or declared and a sum sufficient for such payment shall have been set aside). Furthermore, pursuant to our bye-laws, the voting rights exercisable by holders of the preferred shares may be limited so that certain persons or groups are not deemed to hold 9.5% or more of the voting power conferred by our issued shares. Under these provisions, some shareholders may have their voting rights limited to less than one vote per share. In addition, our board of directors may limit a shareholder's exercise of voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences. We also have the authority under our bye-laws to reasonably request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be limited pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our reasonable discretion, eliminate the shareholder's voting rights. In addition, holders of the depositary shares must act through the depositary to exercise any voting rights in respect of the preferred shares. Although each depositary share is entitled to 1/1,000th of a vote, the depositary can vote only whole preferred shares. While the depositary will vote the maximum number of whole preferred shares in accordance with the instructions it receives, any remaining votes of holders of the depositary shares will not be voted.

***Our preferred shares ratings may be downgraded.***

Our preferred shares are rated. However, if any ratings assigned to our preferred shares are subsequently lowered or withdrawn, or if it we issue other rated securities and they are rated lower than market expectations, it could adversely affect the market for or the market value of the outstanding depositary shares representing our preferred shares. A rating is not a recommendation to purchase, sell or hold any particular security, including our preferred shares and, in turn, the depositary shares. Ratings do not reflect market prices or suitability of a security for a particular investor and any rating of our preferred shares may not reflect all risks related to us and our business, or the structure or market value of the preferred shares or the depositary shares. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of a rating could have an adverse effect on the market price of the depositary shares.

***Market interest rates may adversely affect the value of the depositary shares representing our preferred shares.***

One of the factors that will influence the price of the depositary shares representing our preferred shares will be the current dividend yield on the relevant series of preferred shares (as a percentage of the price of the depositary shares representing such preferred shares, as applicable) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our depositary shares representing the preferred shares to seek a higher dividend yield, which could cause the market price of our depositary shares representing the preferred shares to decrease. Higher interest rates would also likely increase our borrowing costs and potentially decrease funds available to pay dividends on the preferred shares, which may also cause the market price of our depositary shares representing the preferred shares to decrease.

In addition, during the floating rate period of our outstanding series D preferred shares, the interest rate on such preferred shares is determined with reference to three-month LIBOR. To the extent that the three-month LIBOR rate is discontinued or is no longer quoted, the applicable base rate used to calculate the dividend rate on such preferred shares beginning on September 1, 2028 (when the floating rate period begins) will be determined using the alternative methods described in the certificate of designations relating to such preferred shares. Any of these alternative methods may result in dividend rates that are lower than or that do not otherwise correlate over time with the dividend rates that would have been applicable if the three-month LIBOR rate was available in its current form. Such alternative methods may include determinations and adjustments made by the calculation agent in consultation with us. Our interests and the interests of any calculation agent appointed by us and making the foregoing determinations or adjustments may be adverse to your interests as a holder of depositary shares representing preferred shares, and any of the foregoing determinations, adjustments or actions by such calculation agent could result in adverse consequences to the applicable dividend rate on such preferred shares, which could have adverse effects on the returns on, value of and market for such preferred shares and the depositary shares representing such preferred shares. If the calculation agent determines that LIBOR has been discontinued, in certain circumstances, such preferred shares would bear a fixed dividend rate and could decline in value because the premium, if any, over market dividend rates will decline.

***We have no obligation to maintain any listing of the depositary shares representing our outstanding preferred shares.***

Although the depositary shares representing our outstanding preferred shares are listed on NASDAQ, such listings may not provide significant liquidity, and transaction costs in any secondary market could be high. The difference between bid and ask prices in any secondary market could be substantial. As a result, holders of depositary shares representing our preferred shares (which do not have a maturity date) may be required to bear the financial risks of an investment in the depositary shares representing preferred shares for an indefinite period of time. We do not expect that there will be any separate public trading market for the preferred shares except as represented by the depositary shares. In addition, we undertake no obligation, and expressly disclaim any obligation, to maintain the listing of the depositary shares representing our preferred shares on NASDAQ or any other stock exchange. If we elect to discontinue the listing at any time or the depositary shares representing the preferred shares otherwise are not listed on an applicable stock exchange, the dividends paid after the delisting would not constitute qualified dividend income for U.S. federal income tax purposes. This is because dividends paid by a Bermuda corporation are qualified dividend income only if the stock with respect to which the dividends are paid is readily tradeable on an established securities market in the United States.

***A classification of the depositary shares representing our preferred shares by the National Association of Insurance Commissioners may impact U.S. insurance companies that purchase our preferred shares.***

The National Association of Insurance Commissioners (the "NAIC") may from time to time, in its discretion, classify securities in U.S. insurers' portfolios as debt, preferred equity or common equity instruments. The NAIC's written guidelines for classifying securities as debt, preferred equity or common equity include subjective factors that require the relevant NAIC examiner to exercise substantial judgment in making a classification. There is therefore a risk that the depositary shares representing our preferred shares may be classified by the NAIC as common equity instead of preferred equity. The NAIC classification determines the amount of risk-based capital ("RBC") charges incurred by insurance companies in connection with an investment in a security. Securities classified as common equity by the NAIC carry RBC charges that can be significantly higher than the RBC requirement for debt or preferred equity. Therefore, any classification of the depositary shares representing our preferred shares as common equity may adversely affect U.S. insurance companies that hold depositary shares representing our preferred shares. In addition, a determination by the NAIC to classify the depositary shares representing our preferred shares as common equity may adversely impact the trading of the depositary shares representing our preferred shares in the secondary market.

***Our preferred shares are subject to our rights of redemption.***

Our preferred shares are redeemable pursuant to the terms set forth in the certificate of designations governing such series. Whenever we redeem preferred shares held by the depositary, the depositary will, as of the same redemption date, redeem the number of depositary shares representing preferred shares so redeemed. We have no obligation to redeem or repurchase the preferred shares under any circumstances. If the preferred shares are redeemed by us, you may not be able to reinvest the redemption proceeds in a comparable security at a similar return on your investment.

***The regulatory capital treatment of the preferred shares may not be what we anticipate.***

Our outstanding preferred shares are intended to constitute Tier 2 capital in accordance with the Insurance (Group Supervision) Rules 2011. In order for the preferred shares to continue to qualify as Tier 2 capital, the terms of the preferred shares should reflect the criteria contained in the Insurance (Group Supervision) Rules 2011 and any amendments thereto. No assurance can be made that the BMA will in the future deem that the preferred shares constitute Tier 2 capital under the Insurance (Group Supervision) Rules 2011.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

We lease office space in Hamilton, Bermuda, where our principal executive office is located. We also lease office space in a number of U.S. states, the United Kingdom, Australia, Ireland, Switzerland, Canada, Singapore and several Continental European countries.

We renew and enter into new leases in the ordinary course of our business. We believe that this office space is sufficient for us to conduct our current operations for the foreseeable future, although in connection with future acquisitions from time to time, we may expand to different locations or increase space to support any such growth.

In connection with the acquisition of DCo, LLC ("DCo") in December 2016, we acquired properties in the United States. The acquired properties have no present value and are not used to run our operations.

**ITEM 3. LEGAL PROCEEDINGS**

For a discussion of legal proceedings, see Note 23 - "Commitments and Contingencies" in the notes to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Number of Holders**

Our ordinary voting shares are listed on the NASDAQ Global Select Market under the symbol "ESGR." There is no established trading market for our non-voting ordinary shares. On February 28, 2019, there were 1,557 shareholders of record of our voting ordinary shares and four shareholders of record of our non-voting ordinary shares. This is not the number of beneficial owners of our voting ordinary shares as some shares are held in "street name" by brokers and others on behalf of individual owners.

**Dividend Information**

We have not historically declared a dividend on our ordinary shares. Our strategy is to retain earnings and invest distributions from our subsidiaries back into the company. We do not currently expect to pay any dividends on our ordinary shares. Any payment of dividends must be approved by our Board of Directors. Our ability to pay dividends is subject to certain restrictions, as described in Note 22 - "Dividend Restrictions and Statutory Financial Information" in the notes to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

**Issuer Purchases of Equity Securities**

The following table provides information about ordinary shares acquired by the Company during the three months ended December 31, 2018, which are related to shares withheld from employees in order to facilitate the payment of withholding taxes on restricted shares. The Company does not have a share repurchase program.

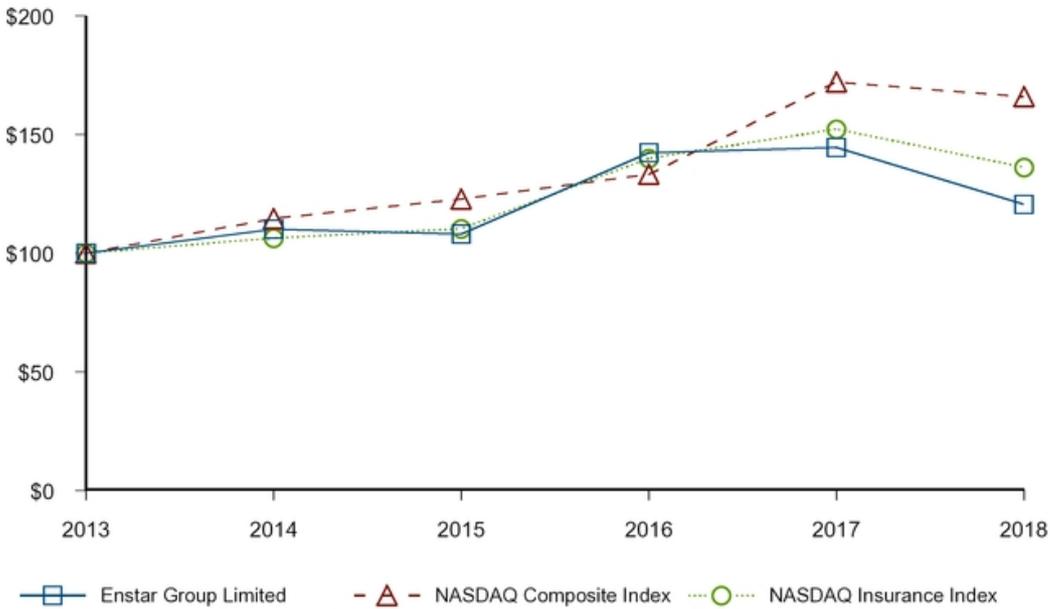
Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Program
October 1, 2018 - October 31, 2018	423	\$ 189.49	—	\$ —
November 1, 2018 - November 30, 2018	630	\$ 178.80	—	\$ —
December 1, 2018 - December 31, 2018	—	\$ —	—	\$ —
	<u>1,053</u>		<u>—</u>	<u>\$ —</u>

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

**Performance Graph**

The following performance graph compares the cumulative total return on our ordinary shares with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Insurance Index for the period that commenced December 31, 2013 and ended on December 31, 2018. The performance graph shows the value as of December 31 of each calendar year of \$100 invested on December 31, 2013 in our ordinary shares, the NASDAQ Composite Index, and the NASDAQ Insurance Index assuming the reinvestment of dividends. Returns have been weighted to reflect relative market capitalization. This information is not necessarily indicative of future returns.

**Comparison of 5 Year Cumulative Total Return**



Indexed Returns\* for Years Ended December 31,

	2013	2014	2015	2016	2017	2018
Enstar Group Limited	100.00	110.06	108.01	142.32	144.52	120.63
NASDAQ Composite Index	100.00	114.62	122.81	133.19	172.11	165.84
NASDAQ Insurance Index	100.00	106.26	110.19	139.95	152.28	136.05

\*\$100 invested on December 31, 2013 in stock or index, including reinvestment of dividends.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected historical financial information for each of the past five fiscal years has been derived from our audited historical financial statements. This information is only a summary and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K. The results of operations for historical accounting periods are not necessarily indicative of results to be expected for future accounting periods.

Since our inception, we have made numerous acquisitions of companies and portfolios of business that impact the comparability between periods of the information reflected below. In particular, our 2018 Maiden Re, Maiden Re North America, Coca-Cola, Kayla Re, Zurich Australia, Neon and Novae transactions, our 2017 QBE and RSA transactions, our 2016 acquisition of DCo, our 2015 acquisitions of Alpha, the life settlement companies of Wilton Re and Sussex Insurance Company ("Sussex"), and our 2014 acquisition of StarStone impact comparability to other periods, including with respect to net premiums earned. In addition, we classified our Pavonia and Laguna operations as held-for-sale, and Pavonia's results of operations were included in discontinued operations until the closing on December 29, 2017. Our acquisitions and significant new business are described in "Item 1. Business - Recent Acquisitions and Significant New Business" and Note 3 - "Acquisitions" and Note 4 - "Significant New Business" of our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars, except share and per share data)				
<b>Statements of Earnings Data:</b>					
Net premiums earned	\$ 895,575	\$ 613,121	\$ 823,514	\$ 753,744	\$ 542,991
Fees and commission income	35,088	66,103	39,364	39,347	34,919
Net investment income	270,671	208,789	185,463	122,564	66,024
Net realized and unrealized gains (losses)	(412,884)	190,334	77,818	(41,523)	51,991
Net incurred losses and LAE	(454,025)	(193,551)	(174,099)	(104,333)	(9,146)
Acquisition costs	(192,790)	(96,906)	(186,569)	(163,716)	(117,542)
Total other expenses, net	(396,054)	(472,988)	(467,641)	(393,711)	(347,540)
Earnings (losses) from equity method investments	42,147	5,904	(5,400)	—	—
Net earnings (loss) from continuing operations	(212,272)	320,806	292,450	212,372	221,697
Net earnings (loss) from discontinuing operations	—	10,993	11,963	(2,031)	5,539
Net earnings (loss)	(212,272)	331,799	304,413	210,341	227,236
Net earnings (loss) attributable to noncontrolling interest	62,051	(20,341)	(39,606)	9,950	(13,487)
Net earnings (loss) attributable to Enstar Group Limited	(150,221)	311,458	264,807	220,291	213,749
Dividends on preferred shares	(12,133)	—	—	—	—
Net earnings (loss) attributable to Enstar Group Limited Ordinary Shareholders	\$ (162,354)	\$ 311,458	\$ 264,807	\$ 220,291	\$ 213,749

**Per Ordinary Share Data:<sup>(1)</sup>**

Earnings per ordinary share attributable to Enstar Group Limited:

<b>Basic:</b>					
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.50	\$ 13.10	\$ 11.55	\$ 11.31
Net earnings (loss) from discontinuing operations	—	0.56	0.62	(0.11)	0.30
Net earnings (loss) per ordinary share	\$ (7.84)	\$ 16.06	\$ 13.72	\$ 11.44	\$ 11.61
<b>Diluted:</b>					
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.39	\$ 13.00	\$ 11.46	\$ 11.15
Net earnings (loss) from discontinuing operations	—	0.56	0.62	(0.11)	0.29
Net earnings (loss) per ordinary share	\$ (7.84)	\$ 15.95	\$ 13.62	\$ 11.35	\$ 11.44

Weighted average ordinary shares outstanding:

Basic	20,698,310	19,388,621	19,299,426	19,252,072	18,409,069
Diluted	20,904,176	19,527,591	19,447,241	19,407,756	18,678,130

<sup>(1)</sup> Earnings per share is a measure based on net earnings divided by weighted average ordinary shares outstanding. Basic earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of ordinary shares outstanding for the period, giving no effect to dilutive securities. Diluted earnings per share is defined as net earnings available to ordinary shareholders divided by the weighted average number of shares and share equivalents outstanding calculated using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted earnings per share.

	December 31,				
	2018	2017	2016	2015	2014
(in thousands of U.S. dollars, except share and per share data)					
<b>Balance Sheet Data:</b>					
Total investments	\$ 11,242,061	\$ 8,755,130	\$ 7,332,425	\$ 6,340,781	\$ 4,844,352
Total cash and cash equivalents (inclusive of restricted)	982,584	1,212,836	1,318,645	1,295,169	1,429,622
Reinsurance balances recoverable on paid and unpaid losses	2,029,663	2,021,030	1,460,743	1,451,921	1,305,515
Total assets	16,556,270	13,606,422	12,865,744	11,772,534	9,936,885
Losses and loss adjustment expense liabilities	9,409,504	7,398,088	5,987,867	5,720,149	4,509,421
Policy benefits for life and annuity contracts	105,080	117,207	112,095	126,321	8,940
Debt obligations	861,539	646,689	673,603	599,750	320,041
Total Enstar Group Limited shareholders' equity	3,901,933	3,136,684	2,802,312	2,516,872	2,304,850
<b>Book Value per Share:<sup>(1)</sup></b>					
Basic	\$ 158.06	\$ 161.63	\$ 144.66	\$ 130.65	\$ 120.04
Diluted	\$ 155.94	\$ 159.19	\$ 143.68	\$ 129.65	\$ 119.22
<b>Shares Outstanding:</b>					
Basic	21,459,997	19,406,722	19,372,178	19,263,742	19,201,017
Diluted	21,881,063	19,830,767	19,645,309	19,714,810	19,332,864

<sup>(1)</sup> Basic book value per share is calculated as total Enstar Group Limited shareholders' equity available to ordinary shareholders divided by the number of ordinary shares outstanding as at the end of the period, giving no effect to dilutive securities. Diluted book value per share is calculated as total Enstar Group Limited shareholders' equity available to ordinary shareholders plus the assumed proceeds from the exercise of outstanding warrants divided by the sum of the number of ordinary shares and ordinary share equivalents and warrants outstanding at the end of the period.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. Some of the information contained in this discussion and analysis or included elsewhere in this annual report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Cautionary Statement Regarding Forward-Looking Statements", "Item 1A. Risk Factors" and elsewhere in this annual report.

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## Business Overview

We are a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through our network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Our core focus is acquiring and managing insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since the formation of our Bermuda-based holding company in 2001, we have completed over 90 acquisitions or portfolio transfers.

The substantial majority of our acquisitions have been in the non-life run-off business, which generally includes property and casualty, workers' compensation, asbestos and environmental, construction defect, marine, aviation and transit, and other closed business.

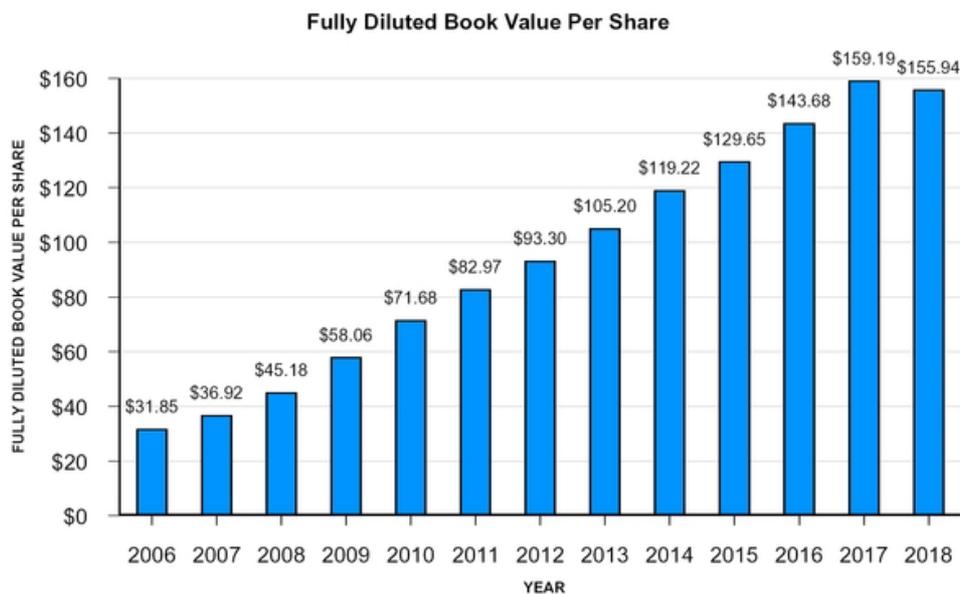
While our core focus remains acquiring and managing non-life run-off business, we expanded our business to include active underwriting through our acquisitions of Atrium and StarStone in 2013 and 2014, respectively. We partnered with Trident in the Atrium and StarStone acquisitions, with Enstar owning a 59.0% interest, Trident owning a 39.3% interest, and Dowling owning a 1.7% interest. We also expanded our portfolio of run-off businesses in 2013 to include closed life and annuities, primarily through our acquisition of Pavonia. However, we disposed of Pavonia, which made up the majority of our life and annuities business, in 2017.

Our businesses strategies are discussed in "Item 1. Business - Company Overview", "- Business Strategy", "-Strategic Growth" and "- Recent Acquisitions and Significant New Business."

### Key Performance Indicator

Our primary corporate objective is growing our fully diluted book value per share. This is driven primarily by growth in our net earnings, which is in turn driven in large part by successfully completing new acquisitions, effectively managing companies and portfolios of business that we have acquired, and executing on our active underwriting strategies. The drivers of our book value growth are discussed in "Item 1. Business - Business Strategy."

During 2018, our book value per share on a fully diluted basis decreased by 2.0% to \$155.94 per share. The decrease was primarily attributable to net losses of \$162.4 million, which were primarily driven by unrealized losses on investments and by adverse development in the reserves for our StarStone segment. See "Item 6. Selected Financial Data" herein for the computation of fully diluted book value per share. The growth of our fully diluted book value per share since becoming a public company is shown in the table below.



The table below summarizes the calculation of our fully diluted book value per ordinary share as of December 31, 2018 and 2017:

	2018	2017	Change
	(in thousands of U.S. Dollars)		
<b>Numerator:</b>			
Total Enstar Group Limited Shareholder's Equity	\$ 3,901,933	\$ 3,136,684	\$ 765,249
Less: Series D and E Preferred Shares	510,000	—	510,000
Total Enstar Group Limited Ordinary Shareholders' Equity (A)	3,391,933	3,136,684	255,249
Proceeds from assumed conversion of warrants <sup>(1)</sup>	20,229	20,229	—
Numerator for fully diluted book value per ordinary share calculations (B)	<u>\$ 3,412,162</u>	<u>\$ 3,156,913</u>	<u>\$ 255,249</u>
<b>Denominator:</b>			
Ordinary shares outstanding (C)	21,459,997	19,406,722	2,053,275
Effect of dilutive securities:			
Share-based compensation plans	245,165	248,144	(2,979)
Warrants <sup>(1)</sup>	175,901	175,901	—
Fully diluted ordinary shares outstanding (D)	<u>21,881,063</u>	<u>19,830,767</u>	<u>2,050,296</u>
<b>Book value per ordinary share</b>			
Basic book value per ordinary share = (A) / (C)	\$ 158.06	\$ 161.63	\$ (3.57)
Fully diluted book value per ordinary share = (B) / (D)	\$ 155.94	\$ 159.19	\$ (3.25)

<sup>(1)</sup> There are warrants outstanding to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of \$115.00 per share, subject to certain adjustments (the "Warrants"). The Warrants were issued in April 2011 and expire in April 2021. The Warrant holder may, at its election, satisfy the exercise price of the Warrants on a cashless basis by surrender of shares otherwise issuable upon exercise of the Warrants in accordance with a formula set forth in the Warrants.

## **Current Outlook**

### *Run-off*

Our business strategy includes generating growth through acquisitions and reinsurance transactions, particularly in our Non-life Run-off segment, and during 2018 we completed six significant reinsurance transactions with Zurich Insurance Group ("Zurich"), Neon Underwriting Limited ("Neon"), Novae Syndicate 2007 ("Novae"), The Coca-Cola Company ("Coca-Cola"), Allianz SE ("Allianz") and Maiden Reinsurance Ltd. ("Maiden Re") in which we assumed aggregate gross and net reserves, including fair value adjustments, of \$2,153.1 million and \$1,780.3 million, respectively. In 2018, we also completed the acquisition of Maiden Reinsurance North America, Inc. ("Maiden Re North America"), in which we assumed gross reserves of \$1,027.4 million.

As of December 31, 2018, our non-life run-off gross and net reserves were \$7.5 billion and \$6.1 billion, respectively, and we continue to evaluate opportunities for future growth.

On September 30, 2018, we completed the acquisition of Yosemite Insurance Company, which is now domiciled in Oklahoma. Although the acquired balances were not material, the transaction is notable for its strategic value. The State of Oklahoma has enacted Insurance Business Transfer legislation, which became effective November 1, 2018. The legislation will allow us to acquire U.S. loss reserves from insurers and reinsurers domiciled in any U.S. state via a court-approved statutory novation process.

We manage claims in a professional and disciplined manner, drawing on our global team of in-house claims management experts as we aim to proactively manage risks and claims efficiently. We employ an opportunistic commutation strategy in which we negotiate with policyholders and claimants with a goal of commuting or settling existing insurance and reinsurance liabilities at a discount to the ultimate liability and also to avoid unnecessary legal and other associated run-off fees and expense.

### *Underwriting*

Our underwriting results can be affected by changes in premium rates, significant losses, development of prior year loss reserves and current year underwriting margins. Underwriting margins, premium rates, and terms of conditions continue to be under pressure in certain business lines. We continue to see overcapacity in many markets, which can impact premium rates and/or terms and conditions. If general economic conditions worsen, a decrease in the level of economic activity may impact insurable risks and our ability to write premium that is acceptable to us. We may adjust our level of reinsurance to maintain an amount of net exposure that is aligned with our risk tolerance.

Our industry continues to experience challenging underwriting market conditions, and our strategy is to continue to focus on a disciplined underwriting approach and strong risk management practices. As previously disclosed, we have affirmed our continued ownership of our active underwriting businesses, Atrium and StarStone.

At StarStone, we recently appointed new executive leadership. We expect to position the underwriting portfolio in 2019 to reflect market opportunities and achieve a mix of business for improved underwriting profitability. We have taken steps to exit unprofitable business lines and locations and we expect to write less gross premiums in 2019 compared to 2018. We, in partnership with StarStone's other shareholders, completed a transaction to provide capital support to StarStone in the form of a contribution to its contributed surplus account and a loss portfolio transfer and adverse development cover, effective October 1, 2018, provided through one of our subsidiaries. To fund the transaction, the shareholders contributed an aggregate amount of \$135.0 million in proportion to their ownership interests. The quota share between StarStone and KaylaRe was not renewed effective January 1, 2019, however losses in the earlier calendar years will continue to fall due under the previous quota share agreement. We cannot be certain that we will not incur adverse development in the future, and we may also incur significant costs as we exit business lines, which may impact StarStone's return to profitability.

### *Investments*

Markets are inherently uncertain and investment performance may be impacted by changes in market volatility. We expect to maintain our investment strategy, which is to seek superior risk adjusted returns while preserving liquidity and capital and maintaining a prudent diversification of assets. We will continue allocating a portion of our portfolio to non-investment grade securities or alternative investments, in accordance with our investment guidelines, which provide diversification against our fixed income investments and an opportunity for improved risk-adjusted returns.

Our total investment results are a significant component of earnings and are comprised of:

- *Net investment income.* In a rising interest rate environment, our net investment income would improve as maturities are reinvested at higher rates. Conversely, in a declining interest rate environment, our net investment income would decline as maturities are reinvested at lower rates. All else being equal, we would also expect our net investment income to grow as total investable assets increases as we acquire more business, which would be partially offset by reductions in the investment portfolio for paid claims.
- *Net realized and unrealized gains or losses.* These arise from investments in fixed maturities, funds held, equity investments and other investments. Given the nature of our investments in fixed maturities and the average duration of our fixed maturity securities, the return of our fixed maturity investments will be impacted by changes in interest rates. In a rising rate environment, securities may experience unrealized losses prior to maturity. During 2018, we recognized net unrealized losses on our investments of \$385.3 million, of which \$211.4 million related to our investments in fixed maturities and funds withheld - directly managed, primarily due to rising sovereign yields and widening credit spreads and \$164.0 million related to other investments. We generally account for our fixed maturity securities as "trading", whereas other companies in our industry may utilize "available-for-sale" accounting. The difference is that unrealized changes on investments classified as trading are recorded through earnings, whereas unrealized changes on investments classified as available-for-sale are recorded directly to shareholders' equity. We may experience further unrealized losses on our fixed maturity investments, depending on investment conditions and general economic conditions. Unrealized amounts would only become realized in the event of a sale of the specific securities prior to maturity or a credit default. For further information on the sensitivity of our portfolio to changes in interest rates, refer to the Interest Rate Risk section within Item 7A. "Quantitative and Qualitative Disclosures About Market Risk", included within this Annual Report on Form 10-K. For further discussion of our investments, see "Investable Assets" below.

#### *U.S. Tax Reform*

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). In response to the introduction of the Tax Act, as of January 1, 2018 we non-renewed certain of our active underwriting affiliate reinsurance transactions ceded from our U.S. operating entities to our non-U.S. affiliates. We will continue to assess the impact of the Tax Act on our business as the regulations develop. Our subsidiaries' reinsurance strategies may be different than in the past, which may result in more risk being retained in our U.S. insurance companies, which would have the effect of requiring more capital in those companies and potentially increase our overall group effective tax rate over time.

#### *Brexit*

There has been volatility in the financial and foreign exchange markets following the Brexit referendum on June 23, 2016, and this is expected to continue. On March 29, 2017, Article 50 of the Lisbon Treaty was triggered, which allows two years for the United Kingdom and the 27 remaining European Union members to reach an agreement with regard to the terms on which the United Kingdom will leave the European Union, subject to an extension of the two year deadline beyond March 29, 2019 being agreed between the United Kingdom and the remaining European Union members. For companies based in the United Kingdom, including certain of our active underwriting and run-off companies, there continues to be heightened uncertainty regarding trading relationships with countries in the European Union after Brexit, pending the conclusion of the Brexit negotiations between the United Kingdom and the European Union. Both our StarStone and Atrium operations have well-diversified sources of premium, which may mitigate the potential impact of Brexit. The majority of business written in StarStone and Atrium is in U.S. dollars, so the impact of currency volatility on those segments has not been significant. In addition, StarStone already has established operations within the European Economic Area. On May 23, 2018, Lloyd's announced that it had received license approval from the Belgian insurance regulator for Lloyd's Insurance Company SA, which will be able to write non-life risks from the European Economic Area. In the near-term, access to markets is unaffected, and all contracts entered into up until Brexit are expected to remain valid into the post-Brexit period. With specific reference to our run-off business, we are expanding upon our existing run-off capabilities within the European Union for the purpose of receiving transfers of new run-off business. We have also investigated the post-Brexit additional requirements in each applicable state for the continued payment of policyholders' claims in respect of the existing run-off business of our United Kingdom Non-life Run-off companies.

## **Underwriting Ratios**

In presenting our results for the Atrium and StarStone segments, we discuss the loss ratio, acquisition cost ratio, operating expense ratio, and the combined ratio of our active underwriting operations within these segments. Management believes that these ratios provide the most meaningful measure for understanding our underwriting profitability. These measures are calculated using GAAP amounts presented on the statements of earnings for both Atrium and StarStone.

The loss ratio is calculated by dividing net incurred losses and LAE by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The operating expense ratio is calculated by dividing operating expenses by net premiums earned. The combined ratio is the sum of the loss ratio, the acquisition cost ratio and the operating expense ratio.

The Atrium segment also includes corporate expenses that are not directly attributable to the underwriting results in the segment. The corporate expenses include general and administrative expenses related to amortization of the definite-lived intangible assets in the holding company, and expenses relating to Atrium Underwriters Limited ("AUL") employee salaries, benefits, bonuses and current year share grant costs. The AUL general and administrative expenses are incurred in managing the syndicate. These are principally funded by the profit commission fees earned from Syndicate 609, which is a revenue item not included in the insurance ratios.

**Consolidated Results of Operations - For the Years Ended December 31, 2018, 2017 and 2016**

The following table sets forth our consolidated statements of earnings for the years ended December 31, 2018, 2017 and 2016. For a discussion of the critical accounting policies that affect the results of operations, see "Critical Accounting Policies" below.

	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars)				
<b>INCOME</b>					
Net premiums earned	\$ 895,575	\$ 613,121	\$ 282,454	\$ 823,514	\$ (210,393)
Fees and commission income	35,088	66,103	(31,015)	39,364	26,739
Net investment income	270,671	208,789	61,882	185,463	23,326
Net realized and unrealized gains (losses)	(412,884)	190,334	(603,218)	77,818	112,516
Other income	35,085	22,605	12,480	10,236	12,369
	<u>823,535</u>	<u>1,100,952</u>	<u>(277,417)</u>	<u>1,136,395</u>	<u>(35,443)</u>
<b>EXPENSES</b>					
Net incurred losses and LAE	454,025	193,551	260,474	174,099	19,452
Life and annuity policy benefits	1,003	4,015	(3,012)	(2,038)	6,053
Acquisition costs	192,790	96,906	95,884	186,569	(89,663)
General and administrative expenses	407,375	435,985	(28,610)	423,734	12,251
Interest expense	26,217	28,102	(1,885)	20,642	7,460
Net foreign exchange losses	2,668	17,537	(14,869)	665	16,872
Loss on sale of subsidiary	—	16,349	(16,349)	—	16,349
	<u>1,084,078</u>	<u>792,445</u>	<u>291,633</u>	<u>803,671</u>	<u>(11,226)</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	(260,543)	308,507	(569,050)	332,724	(24,217)
Income tax benefit (expense)	6,124	6,395	(271)	(34,874)	41,269
Earnings from equity method investments	42,147	5,904	36,243	(5,400)	11,304
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(212,272)	320,806	(533,078)	292,450	28,356
Net earnings from discontinued operations, net of income taxes	—	10,993	(10,993)	11,963	(970)
NET EARNINGS (LOSS)	(212,272)	331,799	(544,071)	304,413	27,386
Net loss (earnings) attributable to noncontrolling interest	62,051	(20,341)	82,392	(39,606)	19,265
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	(150,221)	311,458	(461,679)	264,807	46,651
Dividends on preferred shares	(12,133)	—	(12,133)	—	—
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	<u>\$ (162,354)</u>	<u>\$ 311,458</u>	<u>\$ (473,812)</u>	<u>\$ 264,807</u>	<u>\$ 46,651</u>

**Highlights**
*Consolidated Results of Operations for 2018*

- Consolidated net losses of \$162.4 million and basic and diluted losses per share of \$7.84
- Non-GAAP operating income<sup>1</sup> of \$61.6 million and diluted non-GAAP operating income per ordinary share<sup>1</sup> of \$2.95
- Net earnings from Non-life Run-off segment of \$25.2 million
- Net premiums earned of \$895.6 million, including \$146.3 million and \$715.0 million in our Atrium and StarStone segments, respectively

- Combined ratios of 94.5% and 135.1% for the active underwriting operations within our Atrium and StarStone segments, respectively
- Net investment income of \$270.7 million and net realized and unrealized losses of \$412.9 million

<sup>1</sup>Non-GAAP Financial Measure. For a reconciliation of non-GAAP operating income to net earnings (loss) calculated in accordance with GAAP and diluted non-GAAP operating income per ordinary share to diluted net earnings (loss) per ordinary share calculated in accordance with GAAP, see "Non-GAAP Financial Measures" below.

**Consolidated Financial Condition as at December 31, 2018**

- Total investments, cash and funds held of \$12,545.9 million
- Total reinsurance balances recoverable on paid and unpaid losses of \$2,029.7 million
- Total assets of \$16,556.3 million
- Total gross reserves for losses and LAE of \$9,409.5 million, with \$1,111.8 million and \$1,761.8 million of net reserves acquired and assumed, respectively, in our Non-life Run-off operations during 2018
- Total shareholders' equity, including preferred shares, of \$3,901.9 million and redeemable noncontrolling interest of \$458.5 million. Shareholders' equity includes \$510.0 million of preferred shares issued in 2018
- Diluted book value per ordinary share of \$155.94

**Consolidated Overview**

**2018 versus 2017:** We reported consolidated net losses attributable to Enstar Group Limited ordinary shareholders of \$162.4 million in 2018, a decrease of \$473.8 million from net earnings of \$311.5 million in 2017. The comparability of our results across different periods was impacted by the acquisitions and loss portfolio transfer reinsurance transactions we completed during 2018 with Maiden Re, Maiden Re North America, KaylaRe, Neon, Novae, Zurich, Coca-Cola and Allianz, and during 2017 with RSA and QBE. The most significant drivers of the change in our financial performance during 2018 as compared to 2017 included:

- **Non-life Run-off Segment** - Net reduction in the liability for net incurred losses and LAE within our Non-life Run-off segment continued to be one of the predominant drivers of our results in 2018, contributing \$306.1 million of income to our consolidated results. Although this was an increase of \$115.4 million from 2017, net earnings provided by the Non-life Run-off segment decreased by \$318.6 million in 2018 compared to 2017 primarily due to net realized and unrealized losses, lower fee and commission income and higher operating expenses partially offset by lower corporate expenses and higher net investment income;
- **Higher Net Investment Income** - Total net investment income increased by \$61.9 million in 2018, compared to 2017. The increase was primarily attributable to an increase in average invested assets and an increase in the book yield we obtained on our assets. The increase in average invested assets was primarily due to the KaylaRe, Neon, Novae and Zurich Australia transactions, which were completed in 2018. The increase in the book yield was primarily due to an increase in the yield curve;
- **Atrium** - Net earnings attributable to the Atrium segment were \$9.0 million in 2018, compared to \$5.4 million in 2017. The combined ratio in 2018 was 94.5%, compared to 99.9% in 2017, and the decrease was primarily driven by a lower loss ratio. The underwriting performance in 2017 was impacted by the large catastrophe losses, primarily hurricanes Harvey, Irma and Maria, compared to a relatively lower catastrophe year in 2018;
- **StarStone** - Net losses attributable to the StarStone segment were \$158.6 million in 2018, compared to net earnings of \$2.8 million in 2017. The decrease in earnings was primarily due to large current year loss activity, prior year adverse development and net realized and unrealized losses, partially offset by higher net investment income. The combined ratio was 135.1% in 2018 compared to 108.5% in 2017. The underwriting performance was impacted by large current year loss activity, prior year adverse development and the impact of intra-group cessions;
- **Other Activities** - Net losses attributable to our other activities were \$38.0 million in 2018, compared to \$40.6 million in 2017. This decrease was primarily driven by the loss on a sale of a subsidiary in 2017 which did not reoccur in 2018, partially offset by the dividends on the preferred shares that were issued in 2018 and the income from discontinued operations in 2017 which did not reoccur in 2018;

- **Net Realized and Unrealized Gains (Losses)** - In 2018, net realized and unrealized losses were \$412.9 million, compared to gains of \$190.3 million in 2017. The net realized and unrealized losses in 2018 were primarily attributable to an decrease in the valuation of our fixed maturity investments due to rising interest rates and losses on our other investments due to poor performance in the equity markets. Many insurance companies predominantly use available-for-sale accounting where unrealized amounts are recorded directly to shareholders' equity and therefore do not impact earnings. Unrealized amounts would only become realizable in the event of a sale of the specific securities prior to maturity or a credit default;
- **Noncontrolling Interest** - Net (earnings) losses attributable to noncontrolling interest is the share of results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. In 2018, the net loss attributable to noncontrolling interest was \$62.1 million, compared to net earnings attributable to noncontrolling interest of \$20.3 million in 2017. The reduction was primarily due to lower earnings in StarStone, as discussed above;
- **Income Taxes** - We recorded an income tax benefit of \$6.1 million in 2018, compared to an income tax benefit of \$6.4 million in 2017, a change of \$0.3 million. Our effective tax rate was 2.8% in 2018 compared with (2.0)% in 2017, primarily relating to the geographic distribution of our pre-tax net earnings (losses) between our taxable and non-taxable jurisdictions in 2018, compared to changes relating to U.S. Tax Reform, which resulted in a tax benefit of \$5.7 million in 2017; and
- Our non-GAAP operating income<sup>1</sup>, which excludes the impact of unrealized losses on fixed maturity securities and other items, was \$61.6 million for the year ended December 31, 2018, a decrease of \$221.7 million from non-GAAP operating income of \$283.3 million for the year ended December 31, 2017.

<sup>1</sup> Non-GAAP Financial Measure. For a reconciliation of non-GAAP operating income to net earnings (loss) calculated in accordance with GAAP, see "Non-GAAP Financial Measures" below.

**2017 versus 2016:** We reported consolidated net earnings attributable to Enstar Group Limited ordinary shareholders of \$311.5 million in 2017, compared to \$264.8 million in 2016, an increase of \$46.7 million. Our results were impacted by the loss portfolio transfer reinsurance transactions we completed during 2017 with RSA and QBE, and during 2016 with Allianz, Coca-Cola and Neon. The most significant drivers of the change in our financial performance during 2017 as compared to 2016 included:

- **Non-life Run-off Segment** - Net reduction in the liability for net incurred losses and LAE within our Non-life Run-off segment was one of the predominant drivers of our consolidated earnings in 2017, contributing \$190.7 million to consolidated net earnings. Although this was a decrease of \$95.2 million from 2016, net earnings provided by the Non-life Run-off segment increased by \$82.2 million in 2017 compared to 2016, primarily due to improved investment results, increased fee income and higher other income, partially offset by higher expenses and other items;
- **Higher Net Investment Income** - Total net investment income increased by \$23.3 million in 2017, compared to 2016. The increase was primarily attributable to an increase in average invested assets and an increase in the book yield we obtained on our assets. The increase in average invested assets was primarily due to the transactions that were completed in 2017. The increase in the book yield was primarily due to our asset allocation strategies and an increase in the duration of our fixed maturity portfolio;
- **Atrium** - Net earnings attributable to the Atrium segment were \$5.4 million in 2017, compared to \$6.4 million in 2016, a decrease of \$1.0 million. The combined ratio in 2017 was 99.9%, compared to 94.3% in 2016 and the increase was primarily driven by a higher loss ratio. The underwriting performance was impacted by the large losses in the third quarter of 2017, primarily hurricanes Harvey, Irma and Maria, partially offset by favorable prior year loss reserve development. Excluding the impact of hurricanes Harvey, Irma and Maria, the combined ratio was 86.7% for 2017;
- **StarStone** - Net earnings attributable to the StarStone segment were \$2.8 million in 2017, compared to \$25.2 million in 2016, a decrease of \$22.4 million. The decrease in earnings was primarily due to catastrophe loss events, partially offset by improved investment returns. The combined ratio was 108.5% in 2017 compared to 98.2% in 2016. The underwriting performance was impacted by the large losses in the third quarter of 2017, primarily hurricanes Harvey, Irma and Maria. Excluding the impact of hurricanes Harvey, Irma and Maria, the combined ratio was 96.7% for 2017;

- *Other activities* - Net losses attributable to our other activities were \$40.6 million in 2017, compared to \$28.5 million in 2016. The higher net losses in 2017 were primarily driven by higher corporate expenses and a loss on the sale of Laguna, our Irish life insurance company;
- *Net Realized and Unrealized Gains (Losses)* - In 2017, net realized and unrealized gains were \$190.3 million, compared to \$77.8 million in 2016. The net realized and unrealized gains in 2017 were primarily attributable to an increase in the valuation of our funds held - directly managed and unrealized gains on our other investments;
- *Noncontrolling Interest* - Net (earnings) losses attributable to noncontrolling interest is the share of results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. In 2017, the net earnings attributable to noncontrolling interest were \$20.3 million, compared to \$39.6 million in 2016. The reduction was primarily due to lower earnings in both Atrium and StarStone as a result of the large losses in the third quarter of 2017, as discussed above;
- *Income Taxes* - We recorded an income tax benefit of \$6.4 million in 2017, compared to income tax expense of \$34.9 million in 2016, a change of \$41.3 million. The effective tax rate was (2.0)% in 2017, compared to 10.7% in 2016, with the change primarily due to the significant decreases in the valuation allowance on our deferred tax assets in the U.S. in 2017 compared to 2016, including changes relating to the U.S. Tax Reform which results in a tax benefit of \$5.7 million, as well as the geographic distribution of our pre-tax net earnings between our taxable and non-taxable jurisdictions.
- Our non-GAAP operating income<sup>1</sup>, which excludes the impact of unrealized losses on fixed maturity securities and other items, was \$283.3 million for the year ended December 31, 2017, an increase of \$15.6 million from non-GAAP operating income of \$267.8 million for the year ended December 31, 2016.

<sup>1</sup> Non-GAAP Financial Measure. For a reconciliation of non-GAAP operating income to net earnings (loss) calculated in accordance with GAAP, see "Non-GAAP Financial Measures" below.

**Results of Operations by Segment - For the Years Ended December 31, 2018, 2017 and 2016**

We have three reportable segments of business that are each managed, operated and reported on separately: (i) Non-life Run-off; (ii) Atrium; and (iii) StarStone. In addition, our other activities include our corporate expenses, debt servicing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items. For a description of our segments, see "Item 1. Business - Operating Segments." The following is a discussion of our results of operations by segment.

The below table provides a split by operating segment of the net earnings attributable to Enstar Group Limited ordinary shareholders for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars)				
Segment split of net earnings (loss) attributable to Enstar Group Limited:					
Non-life Run-off	\$ 25,222	\$ 343,800	\$ (318,578)	\$ 261,644	\$ 82,156
Atrium	8,997	5,423	3,574	6,416	(993)
StarStone	(158,580)	2,826	(161,406)	25,217	(22,391)
Other	(37,993)	(40,591)	2,598	(28,470)	(12,121)
Net earnings (loss) attributable to Enstar Group Limited ordinary shareholders	<u>\$ (162,354)</u>	<u>\$ 311,458</u>	<u>\$ (473,812)</u>	<u>\$ 264,807</u>	<u>\$ 46,651</u>

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

### Non-life Run-off Segment

The following is a discussion and analysis of the results of operations for our Non-life Run-off segment for the years ended December 31, 2018, 2017 and 2016, which are summarized below:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Gross premiums written	\$ (8,910)	\$ 14,102	\$ (23,012)	\$ 17,316	\$ (3,214)
Net premiums written	\$ (9,217)	\$ 6,482	\$ (15,699)	\$ 9,202	\$ (2,720)
Net premiums earned	\$ 9,427	\$ 14,162	\$ (4,735)	\$ 16,755	\$ (2,593)
Net incurred losses and LAE	306,067	190,674	115,393	285,881	(95,207)
Acquisition costs	(4,006)	(328)	(3,678)	(4,198)	3,870
Operating expenses	(158,731)	(132,235)	(26,496)	(151,316)	19,081
Underwriting income	152,757	72,273	80,484	147,122	(74,849)
Net investment income	226,287	166,678	59,609	145,237	21,441
Net realized and unrealized gains (losses)	(381,712)	179,545	(561,257)	77,685	101,860
Fees and commission income	16,466	43,849	(27,383)	17,447	26,402
Other income	35,978	21,157	14,821	7,897	13,260
Corporate expenses	(39,093)	(101,592)	62,499	(61,583)	(40,009)
Interest expense	(30,616)	(28,970)	(1,646)	(22,268)	(6,702)
Net foreign exchange gains (losses)	2,534	(7,347)	9,881	1,684	(9,031)
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>(17,399)</b>	<b>345,593</b>	<b>(362,992)</b>	<b>313,221</b>	<b>32,372</b>
Income tax benefit (expense)	3,581	6,990	(3,409)	(28,577)	35,567
Earnings (losses) from equity method investments	42,147	5,904	36,243	(5,400)	11,304
NET EARNINGS FROM CONTINUING OPERATIONS	28,329	358,487	(330,158)	279,244	79,243
Net earnings attributable to noncontrolling interest	(3,107)	(14,687)	11,580	(17,600)	2,913
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	<b>\$ 25,222</b>	<b>\$ 343,800</b>	<b>\$ (318,578)</b>	<b>\$ 261,644</b>	<b>\$ 82,156</b>

### Overall Results

**2018 versus 2017:** Net earnings were \$25.2 million in 2018, compared to \$343.8 million in 2017, a decrease of \$318.6 million. This decrease was primarily attributable to a decrease of \$561.3 million in earnings from net realized and unrealized gains (losses), an increase of \$26.5 million in operating expenses and a decrease of \$27.4 million in fees and commission income, partially offset by a higher reduction in net incurred losses and LAE of \$115.4 million, a decrease in corporate expenses of \$62.5 million, an increase in net investment income of \$59.6 million and an increase in earnings from equity method investments of \$36.2 million.

**2017 versus 2016:** Net earnings were \$343.8 million in 2017, compared to \$261.6 million in 2016, an increase of \$82.2 million. The increase of \$82.2 million was primarily attributable to an increase of \$101.9 million in net realized and unrealized gains, an increase of \$26.4 million in fees and commission income, an increase of \$13.3 million in other income, an increase in net investment income of \$21.4 million, and a decrease in operating expenses of \$19.1 million. These items were partially offset by a lower reduction in net incurred losses and LAE of \$95.2 million, and an increase in corporate expenses of \$40.0 million. Income taxes were a benefit of \$7.0 million in 2017, compared to a tax expense of \$28.6 million in 2016.

Investment results are separately discussed below in "Investments."

*Net Premiums Earned:*

The following table shows the gross and net premiums written and earned for the Non-life Run-off segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Gross premiums written	\$ (8,910)	\$ 14,102	\$ (23,012)	\$ 17,316	\$ (3,214)
Ceded reinsurance premiums written	(307)	(7,620)	7,313	(8,114)	494
Net premiums written	(9,217)	6,482	(15,699)	9,202	(2,720)
Gross premiums earned	25,230	23,950	1,280	25,989	(2,039)
Ceded reinsurance premiums earned	(15,803)	(9,788)	(6,015)	(9,234)	(554)
Net premiums earned	\$ 9,427	\$ 14,162	\$ (4,735)	\$ 16,755	\$ (2,593)

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

**2018 versus 2017:** Net premiums written in 2018 of \$(9.2) million primarily related to reductions in net written premium on legacy business for which corresponding unearned premium was also released. Net premiums earned of \$9.4 million and \$14.2 million in 2018 and 2017, respectively, primarily related to the legacy run-off business assumed.

**2017 versus 2016:** Premiums written and earned in 2017 and 2016 primarily related to the legacy run-off business assumed.

*Net Incurred Losses and LAE:*

The following table shows the components of net incurred losses and LAE for the Non-life Run-off segment for the years ended December 31, 2018, 2017 and 2016:

	2018			2017			2016		
	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total
(in thousands of U.S. dollars)									
Net losses paid	\$ 838,812	\$ 5	\$ 838,817	\$ 578,888	\$ 2,835	\$ 581,723	\$ 529,937	\$ 3,869	\$ 533,806
Net change in case and LAE reserves <sup>(1)</sup>	(552,124)	4,704	(547,420)	(381,450)	397	(381,053)	(608,168)	(617)	(608,785)
Net change in IBNR reserves <sup>(2)</sup>	(573,127)	7,742	(565,385)	(393,100)	2,373	(390,727)	(349,726)	2,342	(347,384)
Increase (reduction) in estimates of net ultimate losses	(286,439)	12,451	(273,988)	(195,662)	5,605	(190,057)	(427,957)	5,594	(422,363)
Reduction in provisions for bad debt	—	—	—	(1,536)	—	(1,536)	(13,822)	—	(13,822)
Increase (reduction) in provisions for unallocated LAE	(65,401)	—	(65,401)	(54,071)	261	(53,810)	(44,190)	235	(43,955)
Amortization of deferred charge assets	13,781	—	13,781	14,359	—	14,359	168,827	—	168,827
Amortization of fair value adjustments	12,877	—	12,877	10,114	—	10,114	25,432	—	25,432
Changes in fair value - fair value option	6,664	—	6,664	30,256	—	30,256	—	—	—
Net incurred losses and LAE	\$ (318,518)	\$ 12,451	\$ (306,067)	\$ (196,540)	\$ 5,866	\$ (190,674)	\$ (291,710)	\$ 5,829	\$ (285,881)

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

<sup>(2)</sup> Net change in IBNR represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

**2018:** The reduction in net incurred losses and LAE for the year ended December 31, 2018 of \$306.1 million included net incurred losses and LAE of \$12.5 million related to current period net earned premium. Excluding current period net incurred losses and LAE of \$12.5 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$318.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$286.4 million, a reduction in provisions for unallocated LAE of \$65.4 million relating to 2018 run-off activity, partially offset by the amortization of deferred charge assets of \$13.8 million, amortization of fair value adjustments of \$12.9 million and an increase in the fair value of liabilities of \$6.7 million related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

The reduction in estimates of prior period net ultimate losses of \$286.4 million for the year ended December 31, 2018 included a net reduction in case and IBNR reserves of \$1,125.3 million, partially offset by net losses paid of \$838.8 million.

The significant drivers of the 2018 results are explained below.

#### *Workers' Compensation*

A \$154.6 million reduction in estimates of net ultimate losses in our workers' compensation line of business arose across multiple portfolios, where reported loss development was generally significantly less than expected. For certain of our portfolios, the lower than expected actual development was driven by significant pro-active settlement activity on individual claimants where we were able to close open claims earlier than was indicated by the original payout pattern, and, in other portfolios, based on the review of recent loss development activity we revised our actuarial development "tail factor" assumption, which led to a reduction in net ultimate losses. For example, in one portfolio we observed favorable incurred loss development, primarily relating to accident years 1995 through 2005 where we paid \$22.7 million in loss payments to release a corresponding \$37.0 million of associated case reserves for \$14.3 million in favorable incurred loss development.

When actual development is less than expected for a sustained period of time across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. Updates to actuarial analysis, factoring in the less-than-expected reported incurred loss development for the year, is the primary driver of the \$154.6 million reduction to workers' compensation net ultimate loss estimates.

For recently acquired portfolios of workers' compensation business, we have utilized our subsidiary, Paladin Managed Care Services ("Paladin"), to assist us in reviewing claims. Paladin generally produces savings related to medical expense liabilities over and above savings achieved by prior vendors of such services, and the savings lead to actual development that is less than expected, thereby driving reductions to the estimates of net ultimate losses. In one particular program, our claims personnel pursued a pro-active strategy of settling with numerous workers' compensation claimants whose injuries arose in recent accident years. For this portfolio, the claims team reduced the open inventory of claims by 78% during 2018. This reduction in exposure, when incorporated into an updated actuarial analysis, led to a reduction in our estimate of ultimate net losses of \$30.2 million, primarily relating to accident years 2010 through 2014.

We also continue to actively seek to commute policies when possible, and where the commutation of the policy is settled at a level below the carried value of the loss reserves, we record a reduction in our estimates of net ultimate losses. During the year ended December 31, 2018, we completed 11 commutations across several portfolios that contributed to the reduction in estimates of net ultimate losses.

#### *Asbestos*

A \$64.9 million reduction in estimates of net ultimate losses in our asbestos line of business arose primarily due to one asbestos portfolio where lower than expected volume of claims reported and a lower than expected severity on claims settled in the period, when projected to net ultimate losses through actuarial methodologies, resulted in a significant reduction in estimates of net ultimate losses. The volume of claims reported was 3% less than expected and the average cost per claim was 5% less than expected. Across our other asbestos portfolios we had a combination of commutations, detailed actuarial studies and lower than expected incurred loss development, which all resulted in reductions in estimates of net ultimate losses.

#### *Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, favorable actual versus expected loss development, pro-active claim management and commutations.

The reduction of \$65.4 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$13.8 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments.

The amortization of fair value adjustments of \$12.9 million was related to the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

The increase in the fair value of liabilities for which we have elected the fair value option of \$6.7 million was primarily due to changes in the discount rate and the application of the discount rate to the updated expected cash flow patterns.

**2017:** The reduction in net incurred losses and LAE for the year ended December 31, 2017 of \$190.7 million included net incurred losses and LAE of \$5.9 million related to current period net earned premium from previously acquired businesses that renewed certain policies while being run-off. Excluding current period net incurred losses and LAE of \$5.9 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$196.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$195.7 million, and a reduction in provisions for unallocated LAE of \$54.1 million, relating to 2017 run-off activity, partially offset by an increase in the fair value of liabilities of \$30.3 million related to our assumed retroactive reinsurance agreements for which we have elected the fair value option, the amortization of the deferred charge assets of \$14.4 million and the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$10.1 million.

The reduction in estimates of prior period net ultimate losses of \$195.7 million for the year ended December 31, 2017 included a net reduction in case and IBNR reserves of \$774.6 million, partially offset by net losses paid of \$578.9 million.

The significant drivers of the 2017 results are explained below.

#### *Workers' Compensation*

A \$155.0 million reduction in estimates of net ultimate losses in our workers' compensation line of business arose primarily in five separate portfolios. Across these five portfolios, the reported incurred loss development was generally significantly lower than expected. When actual development is less than expected for a sustained period of time, across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. In addition, we continue to pro-actively manage and settle claims where possible, commute policies if appropriate and, through Paladin, we are able to achieve significant savings on medical costs through active claims management strategies over the life of the reported claims. All of these items reduce the estimates of net ultimate losses.

#### *Construction Defect*

A \$33.0 million reduction in estimates of net ultimate losses in our construction defect line of business arose primarily due to lower than expected actual incurred development in one portfolio. The active claims management approach that our claims team adopted for the assumed exposures within this portfolio led to a significant reduction loss in the inventory of the assumed open claims of 73% during 2017. This reduction in exposure, when incorporated into our updated actuarial analysis, resulted in a reduction in estimates of net ultimate losses for this line of business.

#### *Asbestos*

A \$27.0 million increase in estimates of net ultimate losses in our asbestos line of business resulted from a ground-up study performed by a consulting actuarial firm on one of our portfolios. This study resulted in the recording of additional reserves of \$60.5 million due to a small number of accounts that experienced an increase in the notification of claims which are expected to attach to the excess policies that we reinsure. This increase was partially offset by favorable development of \$33.5 million in our other portfolios of asbestos exposures arising primarily from lower than expected claim notifications.

#### *Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, favorable actual versus expected loss development, pro-active claim management and commutations.

The reduction in provisions for bad debt of \$1.5 million was a result of the favorable recoveries from reinsurers, the reduction in bad debt provisions for insolvent reinsurers as a result of distributions received and the reduction of specific provisions held for certain reinsurers.

The reduction of \$54.1 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$14.4 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments.

The amortization of fair value adjustment of \$10.1 million was related to the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

The increase in the fair value of liabilities for which we have elected the fair value option of \$30.3 million was primarily due to changes in the discount rate and the application of the discount rate to the updated expected cash flow patterns.

**2016:** The reduction in net incurred losses and LAE for the year ended December 31, 2016 of \$285.9 million included net incurred losses and LAE of \$5.8 million related to current period net earned premium, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$5.8 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$291.7 million, which was attributable to a reduction in estimates of net ultimate losses of \$428.0 million, a reduction in provisions for unallocated LAE of \$44.2 million, relating to 2016 run-off activity, and a reduction in the provision for bad debt of \$13.8 million, partially offset by the amortization of the deferred charge assets of \$168.8 million and the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$25.4 million.

The reduction in estimates of prior period net ultimate losses of \$428.0 million for the year ended December 31, 2016 included a net reduction in case and IBNR reserves of \$957.9 million, partially offset by net losses paid of \$529.9 million.

The significant drivers of the 2016 results are explained below.

#### *Workers' Compensation*

A \$323.1 million reduction in estimates of net ultimate losses in our workers' compensation line of business arose primarily in three separate portfolios. Across these three portfolios, the reported incurred loss development was generally significantly lower than expected. When actual development is lower than expected for a sustained period of time across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. In one specific portfolio, having observed a general trend of lower than expected actual development over a sustained period of time, we revised the medical inflation assumption used to estimate case and LAE reserves for long term disability claimants. This change to an actuarial assumption, driven by observed actual development, resulted in a significant reduction in our estimates of net ultimate losses of \$234.5 million, primarily across accident years 1991 through 2001. This was partially offset by a significant reduction in the related deferred charge asset as described below.

#### *Asbestos*

A \$25.3 million reduction in estimates of net ultimate losses in our asbestos line of business arose primarily due to six commutations, which resulted in a \$13.1 million reduction in net ultimate losses. The remainder of the reduction arose due to lower than expected actual loss development.

*Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, generally favorable actual versus expected loss development, pro-active claim management and commutations.

The reduction in provisions for bad debt of \$13.8 million was a result of the favorable recoveries from reinsurers, and the reduction in bad debt provisions for insolvent reinsurers as a result of distributions received, partially offset by additional provisions for certain reinsurers.

The reduction of \$44.2 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$168.8 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments. In the year ended December 31, 2016, the amortization of the deferred charge asset included an impairment of \$38.6 million, which was offset in earnings by favorable loss reserve development.

The amortization of fair value adjustment of \$25.4 million was related to the the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

*Acquisition Costs:*

**2018 versus 2017:** Acquisition costs for the Non-life Run-off segment were \$4.0 million in 2018, compared to \$0.3 million in 2017, an increase of \$3.7 million primarily related to net premiums earned on legacy run-off business assumed.

**2017 versus 2016:** Acquisition costs for the Non-life Run-off segment were \$0.3 million in 2017, compared to \$4.2 million for 2016, a decrease of \$3.9 million. Acquisition costs in 2017 and 2016 primarily related to net premiums earned on legacy run-off business assumed.

*Fees and Commission Income:*

**2018 versus 2017:** Our management companies in the Non-life Run-off segment earned fees and commission income of \$16.5 million and \$43.8 million in 2018 and 2017, respectively, a decrease of \$27.4 million. This decrease primarily resulted from a decrease in the profit commission and fee income earned from KaylaRe as a result of the acquisition and subsequent consolidation and elimination of transactions with KaylaRe, as described in Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. While our consulting subsidiaries continue to provide management and consultancy services, claims inspection services and reinsurance collection services to third-party clients in limited circumstances, the core focus of these subsidiaries is providing in-house services to companies within the Enstar group. These internal fees are eliminated upon consolidation of our results of operations.

**2017 versus 2016:** Our management companies in the Non-life Run-off segment earned fees and commission income of \$43.8 million and \$17.4 million in 2017 and 2016, respectively, an increase of \$26.4 million. This increase primarily resulted from a \$13.6 million increase in profit commission and fee income earned from KaylaRe, as described in Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. We also earned an additional \$2.6 million of fee income in 2017 from a new third-party run-off management engagement. The remaining increase is derived from additional fees earned from existing third-party clients.

*Other Income:*

**2018 versus 2017:** Other income was \$36.0 million in 2018, compared to \$21.2 million in 2017, an increase of \$14.8 million. The increase of \$14.8 million is primarily due to a reduction in net liabilities relating to direct asbestos and environmental exposures carried by our subsidiary DCo LLC.

**2017 versus 2016:** Other income was \$21.2 million in 2017, compared to \$7.9 million in 2016. The increase of \$13.3 million is primarily attributable to an increase in recoveries of other assets.

*General and Administrative Expenses:*

General and administrative expenses consist of operating expenses and corporate expenses.

	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars)				
Operating expenses	\$ 158,731	\$ 132,235	\$ 26,496	\$ 151,316	\$ (19,081)
Corporate expenses	39,093	101,592	(62,499)	61,583	40,009
General and administrative expenses	\$ 197,824	\$ 233,827	\$ (36,003)	\$ 212,899	\$ 20,928

**2018 versus 2017:** General and administrative expenses for the Non-life Run-off segment decreased by \$36.0 million, from \$233.8 million in 2017 to \$197.8 million in 2018. The decrease in expenses in 2018 related primarily to a decrease in performance-based salary and benefits including stock compensation expense due to lower net earnings of the Non-life Run-off segment in 2018 compared to 2017.

**2017 versus 2016:** General and administrative expenses for the Non-life Run-off segment increased by \$20.9 million from \$212.9 million in 2016 to \$233.8 million in 2017. The increase in expenses in 2017 primarily related to an increase in performance-based salary and benefits due to higher net earnings of the Non-life Run-off segment in 2017 compared to 2016, an increase in bank charges relating to the early repayment of certain credit facilities, and an increase in professional fees relating to significant new business transactions and projects.

*Interest Expense:*

**2018 versus 2017:** Interest expense was \$30.6 million in 2018, which is broadly consistent with the interest expense of \$29.0 million in 2017.

**2017 versus 2016:** Interest expense was \$29.0 million in 2017, compared to \$22.3 million in 2016, an increase of \$6.7 million. The increase in interest expense was primarily due to the issuance of Senior Notes in the first quarter of 2017.

*Net Foreign Exchange Gains (Losses):*

**2018 versus 2017:** Net foreign exchange gains for the Non-life Run-off segment were \$2.5 million in 2018 compared to net foreign exchange losses of \$7.3 million in 2017. The change of \$9.9 million in net foreign exchange gains (losses) arose primarily as a result of changes in exchange rates in 2017 and the resulting impact on our foreign currency denominated investments and subsidiaries, which was partially offset by the change in currency translation adjustment in the consolidated statement of comprehensive income.

**2017 versus 2016:** Net foreign exchange losses for the Non-life Run-off segment were \$7.3 million in 2017, compared to net foreign exchange gains of \$1.7 million in 2016. The change of \$9.0 million in net foreign exchange gains (losses) in 2017 arose primarily as a result of changes in exchange rates and the resulting impact on our foreign currency denominated investments and subsidiaries, which was partially offset by the change in currency translation adjustment in the consolidated statement of comprehensive income.

*Income Tax (Expense) Benefit:*

**2018 versus 2017:** We recorded an income tax benefit of \$3.6 million for our Non-life Run-off segment in 2018, compared to an income tax benefit of \$7.0 million in 2017, a change of \$3.4 million. The effective tax rate was (14.5)% in 2018 compared with (2.0)% in 2017. Our tax rate was impacted by having proportionately lower net income in our tax paying subsidiaries in 2018 than in 2017. In addition, our tax rate was impacted by U.S. Tax Reform, resulting in a tax benefit of \$0.6 million in 2018 and a tax benefit of \$5.7 million in 2017. Income tax expense is primarily generated through our foreign operations outside of Bermuda, principally in the United States, the United Kingdom, Continental Europe and Australia. The effective tax rate, which is calculated as income tax expense or benefit divided by income before tax, is driven primarily by the geographic distribution of pre-tax net income between jurisdictions with comparatively higher tax rates and those with comparatively lower income tax rates and as a result may fluctuate significantly from period to period.

**2017 versus 2016:** We recorded an income tax benefit of \$7.0 million in 2017, compared to an income tax expense of \$28.6 million in 2016, a change of \$35.6 million. The effective tax rate was (2.0)% for 2017, compared to 9.3% in 2016. The deferred tax valuation allowance was decreased in relation to (i) the decrease of the deferred tax asset due to the reduction in the U.S. income tax rate from 35% to 21%, (ii) the current year utilization of deferred tax assets, partially offset by an increase relating to deferred tax assets, which we have deemed are not likely to be realized. In addition, our tax rate was impacted by U.S. Tax Reform resulting in a tax benefit of \$5.7 million, as well as having proportionately lower net income in our tax paying subsidiaries in 2017 than in 2016.

*Earnings from Equity Method Investments:*

**2018 versus 2017:** We recorded earnings from equity method investments of \$42.1 million for our Non-life Run-off segment in 2018, compared to earnings of \$5.9 million in 2017, a change of \$36.2 million. The income in 2018 was primarily due to (i) our investment in KaylaRe, which was an equity method investment until May 2018 when we purchased the remainder of the equity interests that we did not already own and (ii) earnings from our investment in Monument.

**2017 versus 2016:** We recorded earnings from equity method investments of \$5.9 million for our Non-life Run-off segment in 2017, compared to losses of \$5.4 million in 2016, a change of \$11.3 million. The earnings in 2017 were primarily due to our investment in KaylaRe.

*Noncontrolling Interest:*

**2018 versus 2017:** Net earnings attributable to noncontrolling interest in our Non-life Run-off segment were \$3.1 million in 2018, compared to \$14.7 million in 2017, a decrease of \$11.6 million. The decrease of \$11.6 million in 2018 was due primarily to the decrease in earnings for those companies where there is a noncontrolling interest. The number of subsidiaries in this segment with a noncontrolling interest remained unchanged at two as at December 31, 2018 and December 31, 2017.

**2017 versus 2016:** Net earnings attributable to noncontrolling interest in our Non-life Run-off segment was \$14.7 million in 2017, compared to \$17.6 million in 2016, a decrease of \$2.9 million. The decrease of \$2.9 million in 2017 was primarily due to the decrease in earnings for those companies where there is a noncontrolling interest. The number of subsidiaries in this segment with a noncontrolling interest remained unchanged at two as at December 31, 2017 and 2016.

### Atrium Segment

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

The following is a discussion and analysis of the results of operations for our Atrium segment for the years ended December 31, 2018, 2017 and 2016, which are summarized below.

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Gross premiums written	\$ 171,494	\$ 153,472	\$ 18,022	\$ 143,170	\$ 10,302
Net premiums written	\$ 153,488	\$ 134,214	\$ 19,274	\$ 140,437	\$ (6,223)
Net premiums earned	\$ 146,315	\$ 134,747	\$ 11,568	\$ 124,416	\$ 10,331
Net incurred losses and LAE	(69,810)	(69,419)	(391)	(58,387)	(11,032)
Acquisition costs	(50,646)	(47,688)	(2,958)	(44,670)	(3,018)
Operating expenses	(17,777)	(17,444)	(333)	(14,233)	(3,211)
Underwriting income	8,082	196	7,886	7,126	(6,930)
Net investment income	5,686	4,218	1,468	2,940	1,278
Net realized and unrealized gains (losses)	(3,251)	1,117	(4,368)	(601)	1,718
Fees and commission income	18,622	22,788	(4,166)	18,189	4,599
Other income	162	230	(68)	206	24
Corporate expenses	(6,921)	(12,142)	5,221	(10,899)	(1,243)
Interest expense	—	(559)	559	(198)	(361)
Net foreign exchange losses	(3,394)	(5,060)	1,666	(3,310)	(1,750)
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>18,986</b>	<b>10,788</b>	<b>8,198</b>	<b>13,453</b>	<b>(2,665)</b>
Income tax expense	(3,732)	(1,593)	(2,139)	(2,573)	980
<b>NET EARNINGS FROM CONTINUING OPERATIONS</b>	<b>15,254</b>	<b>9,195</b>	<b>6,059</b>	<b>10,880</b>	<b>(1,685)</b>
Net earnings attributable to noncontrolling interest	(6,257)	(3,772)	(2,485)	(4,464)	692
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ 8,997</b>	<b>\$ 5,423</b>	<b>\$ 3,574</b>	<b>\$ 6,416</b>	<b>\$ (993)</b>
<b>Underwriting ratios:</b>					
Loss ratio <sup>(1)</sup>	47.7%	51.5%	(3.8)%	46.9%	4.6 %
Acquisition cost ratio <sup>(1)</sup>	34.6%	35.4%	(0.8)%	35.9%	(0.5)%
Operating expense ratio <sup>(1)</sup>	12.2%	13.0%	(0.8)%	11.5%	1.5 %
Combined ratio <sup>(1)</sup>	94.5%	99.9%	(5.4)%	94.3%	5.6 %

<sup>(1)</sup>Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

### Overall Results

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

The lower combined ratio in 2018 is primarily due to a decrease in the net loss ratio. The decrease in the net loss ratio is primarily attributable to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria.

Investment results are separately discussed below in "Investments."

*Gross Premiums Written:*

The following table provides gross premiums written by line of business for the Atrium segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 40,227	\$ 35,105	\$ 5,122	\$ 38,920	\$ (3,815)
Binding Authorities	76,389	65,990	10,399	60,238	5,752
Reinsurance	17,763	19,730	(1,967)	14,223	5,507
Accident and Health	18,836	17,364	1,472	14,371	2,993
Non-Marine Direct and Facultative	18,279	15,283	2,996	15,418	(135)
Total	<u>\$ 171,494</u>	<u>\$ 153,472</u>	<u>\$ 18,022</u>	<u>\$ 143,170</u>	<u>\$ 10,302</u>

See below for a discussion of the drivers of the increase in net premiums earned for 2018 as compared with 2017, which also explain the increase in gross premiums written for the same periods.

*Net Premiums Earned:*

The following table provides net premiums earned by line of business for the Atrium segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 31,738	\$ 29,234	\$ 2,504	\$ 33,657	\$ (4,423)
Binding Authorities	67,423	60,293	7,130	54,048	6,245
Reinsurance	14,029	16,173	(2,144)	11,443	4,730
Accident and Health	17,689	15,777	1,912	12,196	3,581
Non-Marine Direct and Facultative	15,436	13,270	2,166	13,072	198
Total	<u>\$ 146,315</u>	<u>\$ 134,747</u>	<u>\$ 11,568</u>	<u>\$ 124,416</u>	<u>\$ 10,331</u>

**2018 versus 2017:** Net premiums earned for the Atrium segment were \$146.3 million in 2018, compared to \$134.7 million in 2017, an increase of \$11.6 million. The increase was seen across all lines of business in 2018, except reinsurance. The net premiums earned related to the binding authorities line of business increased due to the continued growth of the international professional liability business due to new underwriters hired in recent years, as well as the continued success of AU Gold, Atrium's proprietary online underwriting platform. Marine, aviation and transit net premiums earned increased due to opportunities arising following the exit of certain Lloyd's syndicates. Non-marine direct and facultative net premiums earned increased due to new opportunities following losses from the large catastrophe losses in 2017 and targeted premium growth. Offsetting these increases was a reduction in net premiums earned for the reinsurance line of business due to lower renewals in 2018 due to risk selection and maintaining pricing standards.

**2017 versus 2016:** Net premiums earned for the Atrium segment were \$134.7 million in 2017, compared to \$124.4 million in 2016, an increase of \$10.3 million. The increase was seen across all lines of business in 2017, except marine, aviation and transit. The premium increase for the binding authorities line reflects the continued growth of international professional liability business due to new underwriters hired in recent years, as well as the continued success of AU Gold, Atrium's proprietary online underwriting platform. New business has been written by property reinsurance underwriters who joined Atrium during 2016. Offsetting these increases was a reduction in premium for the marine, aviation and transit class, where continued pressure on premium rates and terms and conditions led to the non-renewal of certain business in order to maintain underwriting discipline.

### Net Incurred Losses and LAE:

The following table shows the components of net incurred losses and LAE for the Atrium segment for the years ended December 31, 2018, 2017 and 2016:

	2018			2017			2016		
	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total
(in thousands of U.S. dollars)									
Net losses paid	\$ 28,969	\$ 35,537	\$ 64,506	\$ 31,107	\$ 24,571	\$ 55,678	\$ 24,416	\$ 23,582	\$ 47,998
Net change in case and LAE reserves <sup>(1)</sup>	(10,161)	16,492	6,331	(13,324)	21,662	8,338	(13,115)	12,967	(148)
Net change in IBNR reserves <sup>(2)</sup>	(27,507)	31,598	4,091	(35,650)	43,329	7,679	(20,543)	34,243	13,700
Increase (reduction) in estimates of net ultimate losses	(8,699)	83,627	74,928	(17,867)	89,562	71,695	(9,242)	70,792	61,550
Increase in provisions for bad debt	—	—	—	89	70	159	—	—	—
Increase (reduction) in provisions for unallocated LAE	—	—	—	(442)	727	285	(421)	566	145
Amortization of fair value adjustments	(5,118)	—	(5,118)	(2,720)	—	(2,720)	(3,308)	—	(3,308)
Net incurred losses and LAE	\$ (13,817)	\$ 83,627	\$ 69,810	\$ (20,940)	\$ 90,359	\$ 69,419	\$ (12,971)	\$ 71,358	\$ 58,387

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

<sup>(2)</sup> Net change in IBNR reserves represents the gross change in our actuarial estimates of IBNR reserves, less amounts recoverable.

**2018 versus 2017:** Net incurred losses and LAE were \$69.8 million in 2018, compared to \$69.4 million in 2017, an increase of \$0.4 million. Net favorable prior period loss development in 2018 and 2017 was \$13.8 million and \$20.9 million, respectively, and was experienced across most lines of business. Excluding prior year loss development, net incurred losses and LAE in 2018 and 2017 were \$83.6 million and \$90.4 million, respectively. There was a lower level of catastrophe losses in 2018 when compared with 2017. The losses in 2018 included \$6.7 million in respect of the California wildfires and Hurricane Matthew, compared to \$18.5 million incurred in 2017 in respect of the large catastrophe events that occurred in the third quarter of 2017, primarily hurricanes Harvey, Irma and Maria. Excluding these large catastrophe events, the current year losses were \$76.9 million in 2018, compared to \$71.9 million in 2017. The catastrophe events in 2018 predominantly impacted the binding authorities line of business.

**2017 versus 2016:** Net incurred losses and LAE were \$69.4 million in 2017, compared to \$58.4 million in 2016, an increase of \$11.0 million. Net favorable prior period loss development in 2017 and 2016 was \$20.9 million and \$13.0 million, respectively, and was experienced across most lines of business. Excluding prior year loss development, net incurred losses and LAE in 2017 and 2016 were \$90.4 million and \$71.4 million, respectively. The losses in 2017 included \$18.5 million in respect of the large catastrophe events that occurred in the third quarter of 2017, primarily hurricanes Harvey, Irma and Maria. Excluding these large catastrophe events, the current year losses were \$71.9 million in 2017, broadly consistent with 2016. The large catastrophe events impacted the binding authorities, non-marine direct and facultative and reinsurance lines of business.

### Acquisition Costs:

**2018 versus 2017:** Acquisition costs were \$50.6 million in 2018, compared to \$47.7 million in 2017, an increase of \$3.0 million. The Atrium acquisition cost ratios for 2018 and 2017 were 34.6% and 35.4%, respectively, a decrease of 0.8%. The decrease in the ratio was primarily due to changes in the business mix.

**2017 versus 2016:** Acquisition costs were \$47.7 million in 2017, compared to \$44.7 million in 2016, an increase of \$3.0 million. The acquisition cost ratios in 2017 and 2016 were 35.4% and 35.9%, respectively, a decrease of 0.5%. The decrease in the ratio was primarily due to changes in the business mix.

### Operating Expenses:

**2018 versus 2017:** Operating expenses for the Atrium segment were \$17.8 million in 2018, which was broadly consistent with \$17.4 million in 2017.

**2017 versus 2016:** Operating expenses for the Atrium segment were \$17.4 million in 2017, compared to \$14.2 million in 2016, an increase of \$3.2 million. The increase of \$3.2 million in 2017 primarily relates to profit commission payable to AUL and bonus costs which are based on the Lloyd's year of account results. These results are being driven by the favorable prior year loss development, which was greater in 2017 compared to 2016.

*Fees and Commission Income:*

**2018 versus 2017:** Fees and commission income was \$18.6 million in 2018, compared to \$22.8 million in 2017, a decrease of \$4.2 million. The fees represent management and profit commission fees earned by us in relation to AUL's management of Syndicate 609 and other underwriting consortiums. The decrease of \$4.2 million in 2018 was primarily due to profit commission on lower syndicate profits arising on the prior year underwriting profits in 2018 as compared with 2017.

**2017 versus 2016:** Fees and commission income was \$22.8 million in 2017, compared to \$18.2 million in 2016, an increase of \$4.6 million. The increase of \$4.6 million in 2017 was primarily due to profit commission on higher syndicate profits arising on the prior year underwriting profits in 2017 as compared with 2016.

*Corporate Expenses:*

**2018 versus 2017:** Corporate expenses for the Atrium segment were \$6.9 million in 2018, compared to \$12.1 million in 2017, a decrease of \$5.2 million. This decrease was primarily related to lower variable expenses relating to the Atrium employee share incentive plan.

**2017 versus 2016:** Corporate expenses for the Atrium segment were \$12.1 million in 2017, compared to \$10.9 million in 2016, an increase of \$1.2 million.

*Net Foreign Exchange Losses*

**2018 versus 2017:** Net foreign exchange losses for the Atrium segment were \$3.4 million in 2018 compared to \$5.1 million in 2017. The net foreign exchange losses in 2018 resulted primarily from recognizing realized losses on the foreign currency available for sale investment portfolio, which were mostly reclassified from accumulated other comprehensive income.

**2017 versus 2016:** Net foreign exchange losses for the Atrium segment were \$5.1 million in 2017 compared to \$3.3 million in 2016. Net foreign exchange losses in 2017 resulted primarily from recognizing realized losses on the foreign currency available for sale investment portfolio, which were mostly reclassified from accumulated other comprehensive income.

*Income Tax Expense:*

**2018 versus 2017:** We recorded income tax expense of \$3.7 million in 2018, compared to \$1.6 million in 2017, an increase of \$2.1 million, primarily due to higher earnings in the Atrium segment. Income tax expense is associated with the operations of Atrium 5 and AUL in the United Kingdom. The effective tax rates for the Atrium segment in 2018 and 2017 were 19.7% and 14.8%, respectively.

**2017 versus 2016:** We recorded income tax expense of \$1.6 million in 2017, compared to \$2.6 million in 2016, a decrease of \$1.0 million, primarily due to lower earnings in the Atrium segment. The effective tax rates for the Atrium segment in 2017 and 2016 were 14.8% and 19.1%, respectively.

*Noncontrolling Interest:*

**2018 versus 2017:** Net earnings attributable to noncontrolling interest in our Atrium segment were \$6.3 million in 2018, compared to \$3.8 million in 2017, a change of \$2.5 million, which was primarily due to higher earnings in the Atrium segment. As of December 31, 2018, Trident and Dowling had a combined 41.0% noncontrolling interest in the Atrium segment.

**2017 versus 2016:** Net earnings attributable to noncontrolling interest in our Atrium segment were \$3.8 million in 2017, compared to \$4.5 million in 2016, a change of \$0.7 million, which was primarily due to lower earnings in the Atrium segment. As of December 31, 2017, Trident and Dowling had a combined 41.0% noncontrolling interest in the Atrium segment.

### StarStone Segment

The results of our StarStone segment include the results of StarStone and StarStone Specialty Holdings Limited ("StarStone Group"). Our StarStone segment also includes the results of KaylaRe's reinsurance of StarStone Group from the date that Enstar completed the acquisition of KaylaRe and other intra-group cessions.

The following is a discussion and analysis of the results of operations for the StarStone segment for the years ended December 31, 2018, 2017 and 2016, which are summarized below.

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Gross premiums written	\$ 1,121,135	\$ 895,160	\$ 225,975	\$ 854,699	\$ 40,461
Net premiums written	\$ 805,562	\$ 464,901	\$ 340,661	\$ 648,036	\$ (183,135)
Net premiums earned	\$ 714,959	\$ 459,403	\$ 255,556	\$ 676,608	\$ (217,205)
Net incurred losses and LAE	(673,383)	(314,806)	(358,577)	(401,593)	86,787
Acquisition costs	(135,452)	(48,012)	(87,440)	(138,822)	90,810
Operating expenses	(156,726)	(135,558)	(21,168)	(124,239)	(11,319)
Underwriting income (loss)	(250,602)	(38,973)	(211,629)	11,954	(50,927)
Net investment income	35,973	27,706	8,267	22,221	5,485
Net realized and unrealized gains (losses)	(17,672)	16,613	(34,285)	5,728	10,885
Fees and commission income	—	632	(632)	5,102	(4,470)
Other income (losses)	(541)	570	(1,111)	740	(170)
Interest expense	(624)	(1,902)	1,278	(47)	(1,855)
Net foreign exchange gains (losses)	(2,856)	(926)	(1,930)	754	(1,680)
EARNINGS (LOSS) BEFORE INCOME TAXES	(236,322)	3,720	(240,042)	46,452	(42,732)
Income tax benefit (expense)	6,327	988	5,339	(3,693)	4,681
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(229,995)	4,708	(234,703)	42,759	(38,051)
Net loss (earnings) attributable to noncontrolling interest	71,415	(1,882)	73,297	(17,542)	15,660
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	\$ (158,580)	\$ 2,826	\$ (161,406)	\$ 25,217	\$ (22,391)
Underwriting ratios:					
Loss ratio <sup>(1)</sup>	94.2%	68.5%	25.7 %	59.4%	9.1 %
Acquisition cost ratio <sup>(1)</sup>	18.9%	10.5%	8.4 %	20.5%	(10.0)%
Operating expense ratio <sup>(1)</sup>	22.0%	29.5%	(7.5)%	18.3%	11.2 %
Combined ratio <sup>(1)</sup>	135.1%	108.5%	26.6 %	98.2%	10.3 %

<sup>(1)</sup> Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

Effective May 14, 2018, Enstar completed the acquisition of KaylaRe. In addition, effective October 1, 2018 the StarStone Group transferred certain reserves relating to discontinued lines of business and entered via an intra-group reinsurance agreement with another Enstar group subsidiary. The transactions between StarStone Group and other group entities, including KaylaRe (the "StarStone Intra-Group Cessions") are eliminated upon consolidation. As a result, our StarStone segment results have changed significantly and the following table summarizes the impact of these StarStone Intra-Group Cessions which are included in the StarStone segment for the year ended December 31, 2018:

	2018		
	StarStone Group	StarStone Intra-Group Cessions	StarStone Segment
	(in thousands of U.S. dollars)		
Net premiums written	\$ 670,912	\$ 134,650	\$ 805,562
Net premiums earned	\$ 560,670	\$ 154,289	\$ 714,959
Net incurred losses and LAE	(472,564)	(200,819)	(673,383)
Acquisition costs	(75,952)	(59,500)	(135,452)
Operating expenses	(153,733)	(2,993)	(156,726)
Underwriting loss	(141,579)	(109,023)	(250,602)
Net investment income	35,973	—	35,973
Net realized and unrealized losses	(17,672)	—	(17,672)
Other expenses	(541)	—	(541)
Interest income (expenses)	(2,500)	1,876	(624)
Net foreign exchange gain	(1,208)	(1,648)	(2,856)
<b>LOSS BEFORE INCOME TAXES</b>	<b>(127,527)</b>	<b>(108,795)</b>	<b>(236,322)</b>
Income tax benefit	6,327	—	6,327
<b>NET LOSS</b>	<b>(121,200)</b>	<b>(108,795)</b>	<b>(229,995)</b>
Net loss attributable to noncontrolling interest	49,877	21,538	71,415
<b>NET LOSS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ (71,323)</b>	<b>\$ (87,257)</b>	<b>\$ (158,580)</b>
<b>Underwriting ratios:</b>			
Loss ratio <sup>(1)</sup>	84.3%	130.2%	94.2%
Acquisition cost ratio <sup>(1)</sup>	13.5%	38.6%	18.9%
Operating expense ratio <sup>(1)</sup>	27.5%	1.9%	22.0%
Combined ratio <sup>(1)</sup>	125.3%	170.7%	135.1%

<sup>(1)</sup> Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

### Overall Results

The StarStone segment recorded net losses of \$158.6 million in 2018, compared to net earnings of \$2.8 million in 2017, a decrease of \$161.4 million. The combined ratio increased to 135.1% in 2018, compared to 108.5% in 2017. The unfavorable results were primarily attributable to current year large loss activity in the international property, construction, marine cargo and marine hull and war lines of business, and prior year adverse development on our U.S. healthcare, excess casualty, marine, aviation and construction lines of business in 2018. The increase in net premiums written and earned was primarily due to growth in gross premiums written and the impact of consolidating KaylaRe after its acquisition, which eliminated the impact of the cession to KaylaRe on a total segment basis resulting in higher retained premium and higher net premiums earned. The increase of 8.4 points in the acquisition cost ratio is driven by the elimination of the ceding commission earned on the cession to KaylaRe as described below. The decrease of 7.5 percentage points in the operating expense ratio is a result of net premiums earned increasing by more than the increase in expenses.

During late 2018, we appointed new executive leadership at StarStone and undertook a strategic review, which has resulted in StarStone exiting certain business lines and greater focus on lines of business delivering underwriting profitability. As such, we expect gross premiums written in 2019 to be less than 2018 and we may incur additional expenses as we continue this strategic review.

Investment results are separately discussed below in "Investments."

*Gross Premiums Written:*

The following table provides gross premiums written by line of business for the StarStone segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Casualty	\$ 332,042	\$ 289,274	\$ 42,768	\$ 267,352	\$ 21,922
Marine	272,714	213,754	58,960	202,672	11,082
Property	304,939	217,680	87,259	203,336	14,344
Aerospace	73,534	65,804	7,730	68,104	(2,300)
Workers' Compensation	137,906	108,648	29,258	113,235	(4,587)
Total	\$ 1,121,135	\$ 895,160	\$ 225,975	\$ 854,699	\$ 40,461

**2018 versus 2017:** Gross premiums written increased by \$226.0 million during 2018 as a result of new business written in the U.S. and Europe for casualty, marine and property lines. Our largest line of business, casualty, experienced growth in U.S. excess casualty and new business opportunities through our European and Bermuda platforms. Marine includes diversified lines, with most of the growth in gross premiums written occurring due to the impact of new business underwritten by teams hired in 2017 and 2018. Our property line experienced the most growth due to new opportunities within our US platforms.

**2017 versus 2016:** Gross premiums written increased by \$40.5 million during 2017 as a result of new business written in the U.S. and Europe for casualty, marine and property lines. Our largest line of business, casualty, experienced growth in U.S. excess casualty, partially offset by a reduction in U.S. healthcare resulting from a change in underwriting strategy. Marine includes diversified lines, with most of the growth in gross premiums written occurring in the marine cargo line. Our property line experienced growth due to international property business. The aerospace and workers' compensation lines of business decreased, the latter due to the timing of contract renewals, and some opportunistic business written in 2016 that was not renewed in 2017.

*Net Premiums Earned:*

The following table provides net premiums earned by line of business for the StarStone segment for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Casualty	\$ 253,065	\$ 172,209	\$ 80,856	\$ 226,330	\$ (54,121)
Marine	188,556	117,864	70,692	162,333	(44,469)
Property	156,695	96,757	59,938	132,927	(36,170)
Aerospace	57,776	30,148	27,628	66,937	(36,789)
Workers' Compensation	58,867	42,425	16,442	88,081	(45,656)
Total	\$ 714,959	\$ 459,403	\$ 255,556	\$ 676,608	\$ (217,205)

**2018 versus 2017:** Net premiums earned for the StarStone segment were \$715.0 million in 2018, compared to \$459.4 million in 2017, an increase of \$255.6 million. This increase was primarily attributable to the impact of consolidating KaylaRe after its acquisition, which eliminated the impact of the cession to KaylaRe on a total segment basis and increased net premiums earned and gross premiums written. Net premiums earned for the StarStone Group were \$560.7 million in 2018, an increase of \$101.2 million from 2017. This increase was driven by the casualty, marine, and property lines of business due to increased premiums written, as discussed above.

**2017 versus 2016:** Net premiums earned for the StarStone segment were \$459.4 million in 2017, compared to \$676.6 million in 2016, a decrease of \$217.2 million. The decrease was primarily attributable to the 35% whole account quota share reinsurance cession to KaylaRe which covers all business written during underwriting years 2016 and 2017. The amount ceded to KaylaRe was \$233.9 million. Excluding the amount ceded to KaylaRe, net premiums earned increased by \$16.7 million. This increase was driven by casualty, marine and property, while aerospace and workers' compensation decreased in line with decreases in current and prior year decreases in gross premiums written.

*Net Incurred Losses and LAE:*

The following table shows the components of net incurred losses and LAE for the StarStone segment for the years ended December 31, 2018, 2017 and 2016:

	2018			2017			2016		
	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total
(in thousands of U.S. dollars)									
Net losses paid	\$ 326,352	\$ 150,778	\$ 477,130	\$ 252,926	\$ 54,867	\$ 307,793	199,125	52,128	251,253
Net change in case and LAE reserves <sup>(1)</sup>	(81,491)	157,378	75,887	(63,785)	95,470	31,685	(51,309)	124,358	73,049
Net change in IBNR reserves <sup>(2)</sup>	(144,212)	258,091	113,879	(208,244)	184,704	(23,540)	(156,546)	232,189	75,643
Increase (reduction) in estimates of net ultimate losses	100,649	566,247	666,896	(19,103)	335,041	315,938	(8,730)	408,675	399,945
Increase (reduction) in provisions for unallocated LAE	(5,892)	12,645	6,753	(6,774)	6,587	(187)	(3,611)	7,154	3,543
Amortization of fair value adjustments	(266)	—	(266)	(945)	—	(945)	(1,895)	—	(1,895)
Net incurred losses and LAE	<u>\$ 94,491</u>	<u>\$ 578,892</u>	<u>\$ 673,383</u>	<u>\$ (26,822)</u>	<u>\$ 341,628</u>	<u>\$ 314,806</u>	<u>(14,236)</u>	<u>415,829</u>	<u>401,593</u>

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

<sup>(2)</sup> Net change in IBNR reserves represents the gross change in our actuarial estimates of IBNR reserves, less amounts recoverable.

**2018 versus 2017:** Net incurred losses and LAE were \$673.4 million in 2018, compared to \$314.8 million in 2017, an increase of \$358.6 million. The loss ratio for 2018 was 94.2%, compared to a loss ratio of 68.5% in 2017. Excluding net prior year loss development, net incurred losses and LAE were \$578.9 million in 2018, compared to \$341.6 million in 2017.

Current year loss activity was \$578.9 million in 2018, driven by higher frequency and severity of large losses in the current year compared to prior year, which impacted our international property, construction, marine cargo and marine hull and war lines of business. Net adverse prior year loss development in 2018 was \$94.5 million, compared to favorable prior year loss development of \$26.8 million in 2017. Net adverse prior year loss development in 2018 was primarily related to U.S. healthcare, excess casualty, marine, aviation and construction lines of business. Net favorable prior year loss development in 2017 was primarily related to U.S. excess casualty and workers' compensation.

**2017 versus 2016:** Net incurred losses and LAE were \$314.8 million in 2017, compared to \$401.6 million in 2016, a decrease of \$86.8 million. The movement for 2017 includes \$53.4 million of net incurred losses in respect of the large catastrophe events that occurred in the third quarter of 2017, for hurricanes Harvey, Irma and Maria. Excluding these large catastrophe events, the movement was a decrease of \$139.8 million. The decrease is primarily due to business ceded to KaylaRe under the 35% quota share cession for underwriting years 2016 and 2017. The loss ratio for 2017 was 68.5% (or 56.8% excluding the impact of the catastrophe losses), compared to a loss ratio of 59.4% in 2016. Excluding net prior year loss development, net incurred losses and LAE in 2017 were \$341.6 million, compared to \$415.8 million in 2016.

Net favorable prior year loss development in 2017 was \$26.8 million, compared to \$14.2 million in 2016. Net favorable prior year loss development in 2017 was primarily related to U.S. excess casualty and workers' compensation. Net favorable prior year loss development in 2016 was primarily related to marine liability, offshore and terrorism.

*Acquisition Costs:*

**2018 versus 2017:** Acquisition costs of the StarStone segment were \$135.5 million in 2018, compared to \$48.0 million in 2017, an increase of \$87.4 million. The acquisition cost ratios for 2018 and 2017 were 18.9% and 10.5%, respectively, with the increase primarily attributable to the impact of consolidating KaylaRe into the segment after its acquisition, which eliminated the favorable impact of ceding acquisition costs to KaylaRe in 2018, compared to the \$99.5 million of acquisition costs ceded in 2017. Acquisition costs for the StarStone Group were \$76.0 million in 2018, compared to \$48.0 million in 2017, an increase of \$27.9 million. The acquisition cost ratios for the StarStone Group in 2018 and 2017 were 13.5% and 10.5%, respectively, an increase of 3.0 percentage points, primarily due to changing business mix.

**2017 versus 2016:** Acquisition costs of the StarStone segment were \$48.0 million in 2017, compared to \$138.8 million in 2016, a decrease of \$90.8 million. The decrease was primarily due to the impact of ceding \$99.5 million of acquisition costs in 2017 on the KaylaRe quota share reinsurance contract. The acquisition cost ratio was 10.5% in 2017, compared to 20.5% in 2016, a decrease of 10.0%. The decrease was primarily due to the KaylaRe cession. Excluding the impact of the KaylaRe cession, the acquisition cost ratio was 21.2%, which is a slight increase on the prior year ratio of 20.5%.

*Operating Expenses:*

**2018 versus 2017:** Operating expenses were \$156.7 million in 2018, compared to \$135.6 million in 2017, an increase of \$21.2 million. The increase was partly due to an increase in non-recurring compensation and other costs in respect of our strategic review of certain lines of business as described above, and IT project costs due to enhancements in underwriting and claims systems.

**2017 versus 2016:** Operating expenses were \$135.6 million in 2017, compared to \$124.2 million in 2016, an increase of \$11.3 million. The increase was primarily due to an increase in compensation costs in respect of additional headcount for our growth strategies in certain lines of business, and the prior year included the impact of favorable foreign exchange rates.

*Fees and Commission Income:*

**2018 versus 2017:** Fees and commission income was \$nil in 2018, compared to \$0.6 million in 2017, a decrease of \$0.6 million.

**2017 versus 2016:** Fees and commission income was \$0.6 million in 2017, compared to \$5.1 million in 2016, a decrease of \$4.5 million. Fees and commission income for 2017 and 2016 primarily represents income related to the KaylaRe cession, as described in Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

*Interest Expense:*

**2018 versus 2017:** Interest expense was \$0.6 million in 2018, compared to \$1.9 million in 2017, a decrease of \$1.3 million. The decrease was due to interest charged by KaylaRe in respect of the whole account quota share, which is on a funds-withheld basis and now eliminates on a total segment basis after the consolidation of KaylaRe.

**2017 versus 2016:** Interest expense was \$1.9 million in 2017, compared to \$nil in 2016, an increase of \$1.9 million. The increase was due to interest charged by KaylaRe in respect of the whole account quota share, which is on a funds-withheld basis.

*Net Foreign Exchange Gains (Losses):*

**2018 versus 2017:** Net foreign exchange losses of \$2.9 million in 2018, compared to net foreign exchange losses of \$0.9 million in 2017, a change of \$1.9 million. The net foreign exchange losses were primarily driven by movements in the British Pound and Euro exchange rates against the U.S. Dollar, net of currency matching and hedging activities.

**2017 versus 2016:** Net foreign exchange losses of \$0.9 million in 2017, compared to net foreign exchange gains of \$0.8 million in 2016, a change of \$1.7 million. The net foreign exchange losses in 2017 were primarily driven by movements in the British Pound and Euro exchange rates against the U.S. Dollar, net of currency matching and hedging activities.

*Income Tax (Expense) Benefit:*

**2018 versus 2017:** We recorded an income tax benefit of \$6.3 million in 2018, compared to an income tax benefit of \$1.0 million in 2017, a change of \$5.3 million. The income tax benefit in 2018 was primarily due to the net losses in the StarStone Group, as discussed above. The income tax benefit in 2017 was primarily due to the recognition of deferred tax assets in the U.S. resulting from changes to our U.S. reinsurance program following U.S. Tax Reform.

**2017 versus 2016:** We recorded an income tax benefit of \$1.0 million in 2017, compared to an income tax expense of \$3.7 million in 2016, a change of \$4.7 million. The income tax benefit in 2017 was primarily due to the recognition of deferred tax assets in the U.S. resulting from changes to our U.S. reinsurance program following U.S. Tax Reform. The income tax expense in 2016 was primarily related to corporation tax in our U.S. entities, offset by lower U.K. corporation tax due to group relief with the Atrium segment.

*Noncontrolling Interest:*

**2018 versus 2017:** Net losses attributable to noncontrolling interest were \$71.4 million in 2018, compared to net earnings attributable to noncontrolling interest of \$1.9 million in 2017, a change of \$73.3 million, primarily due to the net losses in the StarStone Group, as discussed above. As of December 31, 2018, Trident and Dowling had a combined 41.0% noncontrolling interest in the StarStone Group.

**2017 versus 2016:** Net earnings attributable to noncontrolling interest were \$1.9 million in 2017, compared to \$17.5 million in 2016, a change of \$15.7 million, primarily due to the large catastrophe events in the third quarter of 2017, hurricanes Harvey, Irma, and Maria, which resulted in lower net earnings in 2017, compared to 2016. As of December 31, 2017, Trident and Dowling had a combined 41.0% noncontrolling interest in the StarStone Group.

### Other

Our other activities, which do not qualify as a reportable segment, include our corporate expenses, financing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items. The presentation of the results of our other activities reflect the classification of Pavonia as discontinuing operations and held-for-sale. Following the sale of Pavonia and Laguna in 2017, the sale of our life settlements investments during 2018 and the transfer of our remaining life assurance policies from Alpha to Monument, which is expected to close during 2019, we will have de minimis residual life business in our consolidated operations.

The following is a discussion and analysis of our results of operations for our other activities for the years ended December 31, 2018, 2017 and 2016, which are summarized below.

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars)					
Net premiums earned	\$ 24,874	\$ 4,809	\$ 20,065	\$ 5,735	\$ (926)
Net incurred losses and LAE	(16,899)	—	(16,899)	—	—
Life and annuity policy benefits	(1,003)	(4,015)	3,012	2,038	(6,053)
Acquisition costs	(2,686)	(878)	(1,808)	1,121	(1,999)
Underwriting income (loss)	4,286	(84)	4,370	8,894	(8,978)
Net investment income	2,725	10,187	(7,462)	15,065	(4,878)
Net realized and unrealized losses	(10,249)	(6,941)	(3,308)	(4,994)	(1,947)
Fees and commission expense	—	(1,166)	1,166	(1,374)	208
Other income (losses)	(514)	648	(1,162)	1,393	(745)
Corporate expenses	(28,127)	(37,014)	8,887	(61,464)	24,450
Interest expense	5,023	3,329	1,694	1,871	1,458
Net foreign exchange gains (losses)	1,048	(4,204)	5,252	207	(4,411)
Loss on sale of subsidiary	—	(16,349)	16,349	—	(16,349)
LOSS BEFORE INCOME TAXES	(25,808)	(51,594)	25,786	(40,402)	(11,192)
Income tax benefit (expense)	(52)	10	(62)	(31)	41
NET LOSS FROM CONTINUING OPERATIONS	(25,860)	(51,584)	25,724	(40,433)	(11,151)
Net earnings from discontinued operations, net of income taxes	—	10,993	(10,993)	11,963	(970)
NET LOSS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	(25,860)	(40,591)	14,731	(28,470)	(12,121)
Dividends on preferred shares	(12,133)	—	(12,133)	—	—
NET LOSS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	\$ (37,993)	\$ (40,591)	\$ 2,598	\$ (28,470)	\$ (12,121)

#### Overall Results:

Net losses were \$38.0 million for 2018 and \$40.6 million for 2017, a decrease in net losses of \$2.6 million, which primarily resulted from a loss on sale of our Laguna subsidiary of \$16.3 million in 2017, a \$8.9 million decrease in corporate expenses, a \$5.3 million increase in foreign exchange gains and a \$4.4 million increase in underwriting income, partially offset by a \$12.1 million increase in dividends on preferred shares, an \$11.0 million decrease in income from discontinued operations and a \$7.5 million decrease in net investment income.

Net losses were \$40.6 million in 2017, compared to net losses of \$28.5 million in 2016, an increase in net losses of \$12.1 million, primarily due to a loss on sale of subsidiary of \$16.3 million in 2017, a \$9.0 million decrease in underwriting income from our remaining Life business and a \$4.9 million decrease in net investment income, partially offset by a \$15.8 million decrease in stock compensation expense which was higher in 2016 due to the valuation of stock appreciation right awards due to an increase in the share price.

For 2018, 2017 and 2016, the contribution to net earnings from our Pavonia life and annuities business, classified as discontinuing operations, was \$nil, \$11.0 million and \$12.0 million, respectively. For further information refer to Note 5 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

Investment results are separately discussed below in "Investments."

*Underwriting Income:*

**2018 versus 2017:** Underwriting income was \$4.3 million in 2018, compared to an underwriting loss of \$0.1 million in 2017, an increase of \$4.4 million. Our other activities includes our remaining life business and other active underwriting.

**2017 versus 2016:** Underwriting loss was \$0.1 million in 2017, compared to underwriting income of \$8.9 million in 2016, a decrease of \$9.0 million which primarily results from a \$7.2 million decrease in underwriting income in respect of our life businesses, Alpha and Laguna.

*Corporate Expenses:*

**2018 versus 2017:** Corporate expenses were \$28.1 million in 2018, compared to \$37.0 million in 2017, a decrease of \$8.9 million, primarily due to a decrease in performance-based salary and benefits including stock compensation expense.

**2017 versus 2016:** Corporate expenses were \$37.0 million in 2017, compared to \$61.5 million in 2016, a decrease of \$24.5 million. The decrease was primarily due to a \$15.8 million decrease in stock compensation expense which was higher in 2016 due to the valuation of stock appreciation right awards caused by an increase in the share price.

*Interest Expense:*

**2018 versus 2017:** Interest income was \$5.0 million in 2018, reflected on the interest expense line, compared to \$3.3 million in 2017, a decrease of \$1.7 million. This represents the elimination of interest expense between our reportable segments.

**2017 versus 2016:** Interest income was \$3.3 million in 2017, reflected on the interest expense line, compared to \$1.9 million in 2016, a decrease of \$1.5 million. This represents the elimination of interest expense between our reportable segments.

*Net Foreign Exchange Gains (Losses):*

**2018 versus 2017:** Net foreign exchange gains were \$1.0 million in 2018, compared to net losses of \$4.2 million in 2017, a change of \$5.3 million, which primarily resulted from foreign exchange losses in 2017 realized by certain of our Life subsidiaries whose functional currency is the Euro, and who were holding more U.S. dollar assets than U.S. dollar liabilities.

**2017 versus 2016:** Net foreign exchange losses were \$4.2 million in 2017, compared to net gains of \$0.2 million in 2016, a change of \$4.4 million which primarily resulted from foreign exchange losses in 2017 as described above.

*Loss of Sale on Subsidiary and Net Earnings (Losses) from Discontinued Operations, Net of Tax:*

During 2017, we sold our wholly-owned Irish life subsidiary Laguna and recorded a loss on sale of \$16.3 million. For 2018, 2017 and 2016, the contribution to net earnings from our Pavonia life and annuities business, classified as discontinued operations, was \$nil, \$11.0 million and \$12.0 million, respectively.

For further information refer to Note 5 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

*Dividends on Preferred shares*

In 2018, we issued \$400.0 million of Series D Preferred Shares and \$110.0 million of Series E Preferred Shares, which have a 7% dividend. In 2018, we paid \$12.1 million of dividends on our Series D Preferred Shares. No dividends were paid on our Series E Preferred Shares during 2018.

## Investable Assets

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

Investable assets were \$12.5 billion as at December 31, 2018 as compared to \$10.1 billion as at December 31, 2017, an increase of 23.5%. The increase was primarily due to the investments and funds held balance acquired in relation to the Maiden Re North America, Neon, Novae, Zurich Australia and Kayla Re transactions.

Schedules of maturities for our fixed maturity securities are included in Note 6 - "Investments" of our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### **Investment Strategies**

Our key investment objectives are as follows:

- To follow an investment strategy designed to emphasize the security and growth of our invested assets that also meet our credit quality and diversification objectives.
- To provide sufficient liquidity for the prompt payment of claims and contract liabilities.
- To seek superior risk-adjusted returns, by allocating a portion of our portfolio to non-investment grade securities in accordance with our investment guidelines.
- To consider the duration characteristics of our liabilities in determining the extent to which we correlate with assets of comparable duration depending on our other investment strategies and to the extent practicable.

In the Non-life Run-off, Atrium and StarStone segments, we generally seek to maintain investment portfolios that are shorter or of equivalent duration to the liabilities in order to provide liquidity for the settlement of losses and, where possible, to avoid having to liquidate longer-dated investments. In the Non-life Run-off segment, the commutations of liabilities also have the potential to accelerate the natural payout of losses, which requires liquidity.

Our fixed maturity securities include U.S. government and agency investments, highly rated sovereign and supranational investments, high-grade corporate investments, and mortgage-backed and asset-backed investments. We allocate a portion of our investment portfolio to other investments, including private equity funds, fixed income funds, hedge funds, equity funds, CLO equities, CLO equity funds, real estate debt fund and private credit funds.

We utilize and pay fees to various companies to provide investment advisory and/or management services. These fees, which are predominantly based upon the amount of assets under management, are included in net investment income.

Our investment performance is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, foreign exchange risk, liquidity risk and credit and default risk. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. An increase in interest rates could result in significant losses, realized or unrealized, in the value of our investment portfolio. A portion of our non-investment grade securities consists of alternative investments that subject us to restrictions on redemption, which may limit our ability to withdraw funds for some period of time after the initial investment. The values of, and returns on, such investments may also be more volatile. For more information on these risks, refer to "Item 1A. Risk Factors - Risks Relating to Our Investments" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

In 2018, we increased our allocation to other investments and equity method investments, which collectively constituted 17.2% of our investable assets as of December 31, 2018 (2017: 13.6%), and 55.2% of our total shareholders' equity as of December 31, 2018 (2017: 43.9%). We believe our other investments and equity method investments portfolio provides diversification against our fixed income investments and an opportunity for improved risk-adjusted return, however, the returns of these investments may be more volatile and we may experience significant unrealized gains or losses in a particular quarter or year.

### Composition of Investable Assets By Segment

Across all of our segments, we strive to structure our investments in a manner that recognizes our liquidity needs and in order to meet our obligation to pay losses. Our remaining life business did not qualify as a reportable segment and is reflected as Other below. We consider the duration characteristics of our liabilities in determining the extent to which we correlate with assets of comparable duration depending on our other investment strategies and to the extent practicable. If our liquidity needs or general liability profile change unexpectedly, we may adjust the structure of our investment portfolio to meet our revised expectations. The following tables summarize the composition of total investable assets by segment as of December 31, 2018 and 2017:

	2018				
	Non-life Run-off	Atrium	StarStone	Other	Total
	(in thousands of U.S. dollars)				
Short-term investments, trading, at fair value	\$ 106,375	\$ 541	\$ 7,200	\$ —	\$ 114,116
Fixed maturities, trading, at fair value	5,790,219	139,121	1,319,453	—	7,248,793
Fixed maturities, available-for-sale, at fair value	—	29,975	—	121,634	151,609
Funds held - directly managed	1,198,154	—	—	—	1,198,154
Equities, at fair value	335,632	3,193	28,300	—	367,125
Other investments, at fair value	1,825,307	7,166	113,024	12,260	1,957,757
Equity method investments	204,507	—	—	—	204,507
Total investments	9,460,194	179,996	1,467,977	133,894	11,242,061
Cash and cash equivalents (including restricted cash)	585,956	54,679	318,811	23,138	982,584
Funds held by reinsured companies	263,713	26,489	20,823	10,242	321,267
Total investable assets	\$ 10,309,863	\$ 261,164	\$ 1,807,611	\$ 167,274	\$ 12,545,912
Duration (in years) <sup>(1)</sup>	5.41	1.70	2.66	5.70	4.86
Average credit rating <sup>(2)</sup>	A+	AA-	A+	AA-	A+

	2017				
	Non-life Run-off	Atrium	StarStone	Other	Total
	(in thousands of U.S. dollars)				
Short-term investments, trading, at fair value	\$ 165,388	\$ 2,452	\$ 12,371	\$ —	\$ 180,211
Fixed maturities, trading, at fair value	4,407,094	107,083	1,181,896	—	5,696,073
Fixed maturities, available-for-sale, at fair value	44	79,246	—	130,995	210,285
Funds held - directly managed	1,179,940	—	—	—	1,179,940
Equities, at fair value	97,187	2,671	6,745	—	106,603
Other investments, at fair value	732,482	6,523	159,239	15,148	913,392
Other investments, at cost	—	—	—	125,621	125,621
Equity method investments	343,005	—	—	—	343,005
Total investments	6,925,140	197,975	1,360,251	271,764	8,755,130
Cash and cash equivalents (including restricted cash)	868,243	51,500	264,664	28,429	1,212,836
Funds held by reinsured companies	133,731	26,646	15,006	—	175,383
Total investable assets	\$ 7,927,114	\$ 276,121	\$ 1,639,921	\$ 300,193	\$ 10,143,349
Duration (in years) <sup>(1)</sup>	5.67	1.86	2.33	5.52	4.98
Average credit rating <sup>(2)</sup>	A+	AA-	A+	AA-	A+

<sup>(1)</sup> The duration calculation includes cash and cash equivalents, short-term investments, fixed maturities and the fixed maturities within our funds held - directly managed portfolios at December 31, 2018 and 2017.

<sup>(2)</sup> The average credit ratings calculation includes cash and cash equivalents, short-term investments, fixed maturities and the fixed maturities within our funds held - directly managed portfolios at December 31, 2018 and 2017.

As at both December 31, 2018 and 2017, our investment portfolio, including funds held - directly managed had an average credit quality rating of A+. As at December 31, 2018 and 2017, our fixed maturity investments (classified as trading and available-for-sale and our fixed maturity investments included within funds held - directly managed) that were non-investment grade (i.e. rated lower than BBB- and non-rated securities) comprised 3.8% and 5.6% of our total fixed maturity investment portfolio, respectively. A detailed schedule of average credit ratings by asset class as at December 31, 2018 is included in Note 6 - "Investments" of our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### Composition of Investment Portfolio by Asset Class

The following table summarizes the fair value and composition of our investment portfolio by asset class as at December 31, 2018 and 2017:

	2018							
	Fair Value							
	AAA Rated	AA Rated	A Rated	BBB Rated	Non-investment Grade	Not Rated	Total	%
(in thousands of U.S. dollars, except percentages)								
<b>Fixed maturity and short-term investments, trading and available-for-sale and funds held - directly managed</b>								
U.S. government & agency	\$ 502,819	\$ 7,426	\$ —	\$ —	\$ —	\$ —	\$ 510,245	4.5%
U.K. government	2,144	298,487	—	—	—	—	300,631	2.7%
Other government	322,606	213,639	69,601	154,800	32,592	572	793,810	7.1%
Corporate	129,059	470,571	2,306,532	1,731,398	197,822	4,458	4,839,840	43.1%
Municipal	7,934	69,270	41,666	11,395	—	—	130,265	1.2%
Residential mortgage-backed	644,418	51,729	8,658	10,495	54,727	3,530	773,557	6.9%
Commercial mortgage-backed	487,054	70,620	77,538	60,879	7,297	9,675	713,063	6.3%
Asset-backed	358,574	68,174	125,644	66,136	17,573	380	636,481	5.7%
<b>Total</b>	<b>2,454,608</b>	<b>1,249,916</b>	<b>2,629,639</b>	<b>2,035,103</b>	<b>310,011</b>	<b>18,615</b>	<b>8,697,892</b>	<b>77.5%</b>
Other assets included within funds held - directly managed							14,780	0.1%
<b>Equities</b>								
Publicly traded equities							138,415	1.2%
Privately held equities							228,710	2.0%
<b>Total</b>							<b>367,125</b>	<b>3.2%</b>
<b>Other investments</b>								
Hedge funds							852,584	7.6%
Equity funds							333,681	3.0%
Fixed income funds							403,858	3.6%
Private equity funds							248,628	2.2%
CLO equities							39,052	0.3%
CLO equity funds							37,260	0.3%
Private credit funds							33,381	0.3%
Other							9,313	0.1%
<b>Total</b>							<b>1,957,757</b>	<b>17.4%</b>
<b>Equity method investments</b>							204,507	1.8%
<b>Total investments</b>	<b>\$ 2,454,608</b>	<b>\$ 1,249,916</b>	<b>\$ 2,629,639</b>	<b>\$ 2,035,103</b>	<b>\$ 310,011</b>	<b>\$ 18,615</b>	<b>\$ 11,242,061</b>	<b>100.0%</b>

2017								
Fair Value								
AAA Rated	AA Rated	A Rated	BBB Rated	Non-investment Grade	Not Rated	Total	%	
(in thousands of U.S. dollars, except percentages)								
<b>Fixed maturity and short-term investments, trading and available-for-sale and funds held - directly managed</b>								
U.S. government & agency	\$ 626,709	\$ 1,364	\$ —	\$ —	\$ —	\$ —	\$ 628,073	7.2%
U.K. government	1,009	309,876	—	—	—	—	310,885	3.6%
Other government	133,610	99,439	81,956	62,964	6,641	—	384,610	4.4%
Corporate	130,813	400,670	2,169,888	1,279,171	188,237	4,892	4,173,671	47.6%
Municipal	26,313	83,526	43,313	11,135	—	—	164,287	1.9%
Residential mortgage-backed	195,825	7,425	14,204	678	98,997	1,054	318,183	3.6%
Commercial mortgage-backed	425,264	44,752	79,813	59,358	9,555	13,992	632,734	7.2%
Asset-backed	366,633	47,255	68,489	69,116	88,019	—	639,512	7.3%
<b>Total</b>	<b>1,906,176</b>	<b>994,307</b>	<b>2,457,663</b>	<b>1,482,422</b>	<b>391,449</b>	<b>19,938</b>	<b>7,251,955</b>	<b>82.8%</b>
Other assets included within funds held - directly managed							14,554	0.2%
<b>Equities</b>								
Publicly traded equities							106,603	1.2%
Privately held equities							—	—%
<b>Total</b>							<b>106,603</b>	<b>1.2%</b>
<b>Other investments</b>								
Private equity funds							289,556	3.3%
Equity funds							249,475	2.9%
Fixed income funds							229,999	2.6%
Hedge funds							63,773	0.7%
CLO equities							56,765	0.7%
CLO equity funds							12,840	0.1%
Private credit funds							10,156	0.1%
Other							828	—%
<b>Total</b>							<b>913,392</b>	<b>10.4%</b>
<b>Other investments</b>								
Life settlements							131,896	1.5%
<b>Equity method investments</b>								
							343,005	3.9%
<b>Total investments</b>	<b>\$ 1,906,176</b>	<b>\$ 994,307</b>	<b>\$ 2,457,663</b>	<b>\$ 1,482,422</b>	<b>\$ 391,449</b>	<b>\$ 19,938</b>	<b>\$ 8,761,405</b>	<b>100.0%</b>

A description of our investment valuation processes is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Investments" and Note 11 - "Fair Value Measurements" of our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

The following tables summarize the amortized cost, gross unrealized gains and losses and the fair value of our short-term investments and fixed maturity investments, classified as trading and available-for-sale, and the fixed maturity investments included within our funds held - directly managed as of December 31, 2018 and 2017:

	<b>2018</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses Non-OTTI</b>	<b>Fair Value</b>
U.S. government and agency	\$ 512,360	\$ 1,904	\$ (4,019)	\$ 510,245
U.K. government	301,749	6,526	(7,644)	300,631
Other government	814,614	5,261	(26,065)	793,810
Corporate	5,019,018	12,195	(191,373)	4,839,840
Municipal	132,928	494	(3,157)	130,265
Residential mortgage-backed	772,457	5,846	(4,746)	773,557
Commercial mortgage-backed	729,232	2,613	(18,782)	713,063
Asset-backed	642,618	1,032	(7,169)	636,481
	<u>\$ 8,924,976</u>	<u>\$ 35,871</u>	<u>\$ (262,955)</u>	<u>\$ 8,697,892</u>

	<b>2017</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses Non-OTTI</b>	<b>Fair Value</b>
U.S. government and agency	\$ 631,237	\$ 772	\$ (3,936)	\$ 628,073
U.K. government	288,949	22,073	(137)	310,885
Other government	379,084	7,831	(2,305)	384,610
Corporate	4,101,783	88,795	(16,907)	4,173,671
Municipal	159,821	4,967	(501)	164,287
Residential mortgage-backed	314,887	5,775	(2,479)	318,183
Commercial mortgage-backed	643,072	2,448	(12,786)	632,734
Asset-backed	632,426	7,642	(556)	639,512
	<u>\$ 7,151,259</u>	<u>\$ 140,303</u>	<u>\$ (39,607)</u>	<u>\$ 7,251,955</u>

We generally account for our fixed maturity securities as "trading", whereas other companies in our industry may utilize "available-for-sale" accounting. The difference is that unrealized changes on investments classified as trading are recorded through earnings, whereas unrealized changes on investments classified as available-for-sale are recorded directly to shareholders' equity. We may experience further unrealized losses on our fixed maturity investments, depending on investment conditions and general economic conditions. Unrealized amounts would only become realized in the event of a sale of the specific securities prior to maturity or a credit default. For further information on the sensitivity of our portfolio to changes in interest rates, refer to the Interest Rate Risk section within "Item 7A. Quantitative and Qualitative Disclosures About Market Risk", included within this Annual Report on Form 10-K. For further discussion of our investments, see "Investable Assets" below.

The following table summarizes the composition of our top ten corporate issuers included within our short-term investments and fixed maturity investments, classified as trading and available-for-sale and the fixed maturity investments included within our funds held - directly managed balance as at December 31, 2018:

	<b>Fair Value</b>	<b>Average Credit Rating</b>
	<small>(in thousands of U.S. dollars)</small>	
JPMorgan Chase & Co	\$ 108,973	A
Apple Inc	97,702	AA+
Citigroup Inc	82,585	A-
General Electric Co	76,811	BBB+
Morgan Stanley	76,345	A-
Wells Fargo & Co	73,372	A
Bank of America Corp	72,133	A-
HSBC Holdings PLC	62,765	A
Anheuser-Busch InBev SA/NV	59,512	BBB+
Comcast Corp	52,870	A-
	<u>\$ 763,068</u>	

#### ***Eurozone Exposure***

As at December 31, 2018 and 2017, we owned \$68.3 million and \$26.9 million, respectively, of investments in fixed maturity securities issued by the sovereign governments of Italy, Ireland and Spain.

### Investment Results - Consolidated

Comparability between periods is impacted by our acquisitions and significant new business as described in "Item 1. Business - Recent Acquisitions and Significant New Business" and Note 3 - "Acquisitions" and Note 4 - "Significant New Business" of our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

The following table summarizes our consolidated investment results for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars, except percentages)				
Fixed maturity investments	\$ 189,000	\$ 144,367	\$ 44,633	\$ 114,885	\$ 29,482
Short-term investments and cash and cash equivalents	12,117	9,314	2,803	4,491	4,823
Funds held	10,041	601	9,440	22,583	(21,982)
Funds held – directly managed	37,623	32,479	5,144	5,769	26,710
<b>Investment income from fixed maturities and cash and cash equivalents</b>	<b>248,781</b>	<b>186,761</b>	<b>62,020</b>	<b>147,728</b>	<b>39,033</b>
Equity investments	5,397	4,355	1,042	4,874	(519)
Other investments	19,703	14,337	5,366	22,515	(8,178)
Life settlements and other	6,511	14,370	(7,859)	18,191	(3,821)
<b>Investment income from equities and other investments</b>	<b>31,611</b>	<b>33,062</b>	<b>(1,451)</b>	<b>45,580</b>	<b>(12,518)</b>
Gross investment income	280,392	219,823	60,569	193,308	26,515
Investment expenses	(9,721)	(11,034)	1,313	(7,845)	(3,189)
<b>Net investment income</b>	<b>\$ 270,671</b>	<b>\$ 208,789</b>	<b>\$ 61,882</b>	<b>\$ 185,463</b>	<b>\$ 23,326</b>
Net realized gains (losses) on fixed maturity securities	\$ (27,709)	\$ 5,186	\$ (32,895)	\$ 2,232	\$ 2,954
Net realized investment losses on fixed maturity securities in funds held - directly managed portfolios	(3,940)	(4,219)	279	(14,616)	10,397
Net realized investment gains on equity investments, trading	4,016	701	3,315	5,348	(4,647)
<b>Total net realized gains (losses) on sale</b>	<b>(27,633)</b>	<b>1,668</b>	<b>(29,301)</b>	<b>(7,036)</b>	<b>8,704</b>
Fixed maturity securities, trading	(165,187)	35,878	(201,065)	36,314	(436)
Fixed maturity securities in funds held - directly managed portfolios	(46,257)	33,902	(80,159)	(28,317)	62,219
Equity investments, trading	(9,831)	16,498	(26,329)	6,561	9,937
Other investments	(163,976)	102,388	(266,364)	70,296	32,092
<b>Total net unrealized gains (losses)</b>	<b>(385,251)</b>	<b>188,666</b>	<b>(573,917)</b>	<b>84,854</b>	<b>103,812</b>
<b>Net realized and unrealized gains (losses)</b>	<b>\$ (412,884)</b>	<b>\$ 190,334</b>	<b>\$ (603,218)</b>	<b>\$ 77,818</b>	<b>\$ 112,516</b>
<b>Investment Book Yield</b>					
Income from cash and fixed maturities	\$ 248,781	\$ 186,761	\$ 62,020	\$ 147,728	\$ 39,033
Average aggregate fixed maturities and cash and cash equivalents, at cost <sup>(1)</sup>	\$ 9,498,578	\$ 8,362,062	\$ 1,136,516	\$ 7,358,424	\$ 1,003,638
Investment book yield	2.62 %	2.23%	0.39 %	2.01%	0.22%
<b>Financial Statement Portfolio Return</b>					
Total financial statement return	\$ (142,213)	\$ 399,123	\$ (541,336)	\$ 263,281	\$ 135,842
Average aggregate invested assets, at fair value <sup>(1)</sup>	\$ 11,206,825	\$ 9,545,415	\$ 1,661,410	\$ 8,524,264	\$ 1,021,151
Financial statement portfolio return	(1.27)%	4.18%	(5.45)%	3.09%	1.09%

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

**2018 versus 2017:** Net investment income increased by \$61.9 million during 2018, primarily due to a \$62.0 million increase in net investment income from fixed maturities and cash and cash equivalents, principally driven by an increase of \$1.1 billion in our average balance of fixed maturities and cash and cash equivalents. The increase in average balance of fixed maturities and cash and cash equivalents was primarily due to the transactions with Coca-Cola, KaylaRe, Zurich, Neon and Novae. The book yield increased by 39 basis points primarily due to higher reinvestment rates as a result of broad increases in effective yields.

Net realized and unrealized losses were \$412.9 million in 2018, compared to net realized and unrealized gains of \$190.3 million in 2017, a decrease of \$603.2 million. Included in net realized and unrealized gains (losses) are the following items:

- net realized losses on sale of investments of \$27.6 million in 2018, compared to net realized gains of \$1.7 million in 2017, a decrease of \$29.3 million;
- net unrealized losses on fixed maturity securities, trading of \$165.2 million in 2018, compared to net unrealized gains of \$35.9 million in 2017, a decrease of \$201.1 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period;
- net unrealized losses on fixed maturities securities in funds held - directly managed portfolios of \$46.3 million in 2018, compared to net unrealized gains of \$33.9 million in 2017, a decrease of \$80.2 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period.
- net unrealized losses on equity investments, trading of \$9.8 million in 2018, compared to net unrealized gains of \$16.5 million in 2017, a decrease of \$26.3 million, primarily driven by unfavorable volatility in equity markets in 2018; and
- net unrealized losses on other investments of \$164.0 million in 2018, compared to net unrealized gains of \$102.4 million in 2017, a decrease of \$266.4 million. The decrease for 2018 primarily comprised unrealized losses in our equity funds and hedge funds, principally driven by unfavorable volatility in the equity markets in 2018. The unrealized gains in 2017 primarily comprised unrealized gains in our equity funds, fixed income funds, hedge funds, private equities and CLO equities.

**2017 versus 2016:** Net investment income increased by \$23.3 million during 2017, primarily due to a \$39.0 million increase in net investment income from fixed maturities and cash and cash equivalents, principally driven by an increase of \$1.0 billion in our average balance of fixed maturities and cash and cash equivalents. The increase in average balance of fixed maturities and cash and cash equivalents was primarily due to the transactions with RSA and QBE. The book yield increased by 22 basis points primarily due to higher reinvestment rates. Net investment income from equities and other investments decreased by \$12.5 million primarily due to a decrease in the income received from CLO equities and private equity investments.

Net realized and unrealized gains were \$190.3 million in 2017, compared to \$77.8 million of net realized and unrealized gains in 2016, an increase of \$112.5 million. Included in net realized and unrealized gains and losses are the following items:

- net realized gains on sale of investments of \$1.7 million in 2017, compared to net realized losses of \$7.0 million in 2016, an increase of \$8.7 million;
- net unrealized gains on fixed maturity securities, trading of \$35.9 million in 2017, compared to net unrealized gains of \$36.3 million in 2016, a decrease of \$0.4 million, primarily driven by increased treasury yields in 2017, offset by tightening credit spreads;
- net unrealized gains on fixed maturities securities in funds held - directly managed portfolios of \$33.9 million in 2017, compared to an unrealized losses of \$28.3 million in 2016, an increase of \$62.2 million, primarily driven by the impact of tightening credit spreads.
- net unrealized gains on equity investments, trading of \$16.5 million in 2017, compared to net unrealized gains of \$6.6 million in 2016, an increase of \$9.9 million, primarily driven by strong returns in the equity markets in 2017; and
- net unrealized gains on other investments of \$102.4 million in 2017, compared to net unrealized gains on other investments of \$70.3 million in 2016, an increase of \$32.1 million, primarily driven by higher returns in

private equity and private equity funds, offset by lower returns on CLO equities, CLO equity funds, bond funds and hedge funds.

### Investment Results - By Segment

The following tables summarize our investment results by segment for the years ended December 31, 2018, 2017 and 2016. These tables have been prepared on a basis consistent with the consolidated table above.

#### Non-Life Run-off

	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars, except percentages)				
Fixed maturity investments	\$ 151,771	\$ 113,206	\$ 38,565	\$ 88,580	\$ 24,626
Short-term investments and cash and cash equivalents	8,574	7,516	1,058	2,973	4,543
Funds held	9,422	601	8,821	22,583	(21,982)
Funds held – directly managed	37,623	32,479	5,144	5,769	26,710
<b>Investment income from fixed maturities and cash and cash equivalents</b>	<b>207,390</b>	<b>153,802</b>	<b>53,588</b>	<b>119,905</b>	<b>33,897</b>
Equity investments	3,831	4,234	(403)	4,705	(471)
Other investments	19,186	13,914	5,272	22,159	(8,245)
Other	2,452	3,093	(641)	3,897	(804)
<b>Investment income from equities and other investments</b>	<b>25,469</b>	<b>21,241</b>	<b>4,228</b>	<b>30,761</b>	<b>(9,520)</b>
Gross investment income	232,859	175,043	57,816	150,666	24,377
Investment expenses	(6,572)	(8,365)	1,793	(5,429)	(2,936)
<b>Net investment income</b>	<b>\$ 226,287</b>	<b>\$ 166,678</b>	<b>\$ 59,609</b>	<b>\$ 145,237</b>	<b>\$ 21,441</b>
Net realized gains (losses) on fixed maturity securities	\$ (22,905)	\$ 7,631	\$ (30,536)	\$ (13)	\$ 7,644
Net realized investment losses on fixed maturity securities in funds held - directly managed portfolios	(3,940)	(4,219)	279	(14,616)	10,397
Net realized investment gains on equity investments, trading	3,272	659	2,613	4,871	(4,212)
<b>Total net realized gains (losses) on sale</b>	<b>(23,573)</b>	<b>4,071</b>	<b>(27,644)</b>	<b>(9,758)</b>	<b>13,829</b>
Fixed maturity securities, trading	(149,340)	28,857	(178,197)	36,599	(7,742)
Fixed maturity securities in funds held - directly managed portfolios	(46,257)	33,902	(80,159)	(28,317)	62,219
Equity investments, trading	(11,655)	15,171	(26,826)	6,063	9,108
Other investments	(150,887)	97,544	(248,431)	73,098	24,446
<b>Total net unrealized gains (losses)</b>	<b>(358,139)</b>	<b>175,474</b>	<b>(533,613)</b>	<b>87,443</b>	<b>88,031</b>
<b>Net realized and unrealized gains (losses)</b>	<b>\$ (381,712)</b>	<b>\$ 179,545</b>	<b>\$ (561,257)</b>	<b>\$ 77,685</b>	<b>\$ 101,860</b>

#### Investment Book Yield

Income from cash and fixed maturities	\$ 207,390	\$ 153,802	\$ 53,588	\$ 119,905	\$ 33,897
Average aggregate fixed maturities and cash and cash equivalents, at cost <sup>(1)</sup>	\$ 7,537,621	\$ 6,449,143	\$ 1,088,478	\$ 5,370,302	\$ 1,078,841
Investment book yield	2.75 %	2.38%	0.37 %	2.23%	0.15%

#### Financial Statement Portfolio Return

Total financial statement return	\$ (155,425)	\$ 346,223	\$ (501,648)	\$ 222,922	\$ 123,301
Average aggregate invested assets, at fair value <sup>(1)</sup>	\$ 9,041,377	\$ 7,315,153	\$ 1,726,224	\$ 6,279,130	\$ 1,036,023
Financial statement portfolio return	(1.72)%	4.73%	(6.45)%	3.55%	1.18%

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

**2018 versus 2017:** Net investment income increased by \$59.6 million during 2018, primarily due to a \$53.6 million increase in net investment income from fixed maturities and cash and cash equivalents, principally driven by an increase of \$1.1 billion in our average balance of fixed maturities and cash and cash equivalents. The increase in our average balance of fixed maturities and cash and cash equivalents was primarily due to the transactions with Coca-Cola, KaylaRe, Zurich, Neon and Novae. The book yield increased by 37 basis points primarily due to higher reinvestment rates as a result of broad increases in effective yields.

Net realized and unrealized losses were \$381.7 million in 2018, compared to net realized and unrealized gains of \$179.5 million in 2017, a decrease of \$561.3 million. Included in net realized and unrealized gains (losses) are the following items:

- net realized losses on sale of investments of \$23.6 million in 2018, compared to net realized gains of \$4.1 million in 2017, a decrease of \$27.6 million;
- net unrealized losses on fixed maturity securities, trading of \$149.3 million in 2018, compared to net unrealized gains of \$28.9 million in 2017, a decrease of \$178.2 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period;
- net unrealized losses on fixed maturities securities in funds held - directly managed portfolios of \$46.3 million in 2018, compared to unrealized gains of \$33.9 million in 2017, representing a decrease of \$80.2 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period.
- net unrealized losses on equity investments, trading of \$11.7 million in 2018, compared to net unrealized gains of \$15.2 million in 2017, a decrease of \$26.8 million, primarily driven by unfavorable volatility in the equity markets in 2018; and
- net unrealized losses on other investments of \$150.9 million in 2018, compared to net unrealized gains of \$97.5 million in 2017, a decrease of \$248.4 million. The decrease for 2018 was primarily comprised of unrealized losses in our equity funds and hedge funds, principally due to the poor performance of the equity markets in 2018. The unrealized gains in 2017 primarily comprised unrealized gains in our equity funds, fixed income funds, hedge funds, private equities and CLO equities.

**2017 versus 2016:** Net investment income increased by \$21.4 million during 2017, primarily due to a \$33.9 million increase in net investment income from fixed maturities and cash and cash equivalents, principally driven by an increase of \$1.1 billion in our average balance of fixed maturities and cash and cash equivalents. The increase in our average balance of fixed maturities and cash and cash equivalents was primarily due to the transactions with QBE and RSA. The book yield increased by 15 basis points due to higher reinvestment rates. Net investment income from equities and other investments decreased by \$9.5 million primarily due to a decrease in income received from CLO equities and private equity investments.

Net realized and unrealized gains were \$179.5 million in 2017, compared to net realized and unrealized gains of \$77.7 million in 2016, an increase of \$101.9 million. Included in net realized and unrealized gains (losses) are the following:

- net realized gains on sale of investments of \$4.1 million in 2017, compared to net realized losses of \$9.8 million in 2016, a change of \$13.8 million;
- net unrealized gains on fixed maturity securities, trading of \$28.9 million in 2017, compared to net unrealized gains of \$36.6 million in 2016, a decrease of \$7.7 million, primarily driven by increased treasury yields in 2017, offset by tightening credit spreads;
- net unrealized gains on fixed maturities securities in funds held - directly managed portfolios of \$33.9 million in 2017, compared to net unrealized losses of \$28.3 million in 2016, representing an increase of \$62.2 million, primarily driven by the impact of tighter credit spreads.
- net unrealized gains on equity investments, trading of \$15.2 million in 2017, compared to net unrealized gains of \$6.1 million in 2016, an increase of \$9.1 million, primarily driven by strong returns in the equity markets in 2017; and
- net unrealized gains on other investments of \$97.5 million in 2017, compared to net unrealized gains of \$73.1 million in 2016, an increase of \$24.4 million, primarily driven by higher returns in the private equity funds offset by lower returns on CLO equities, CLO equity funds, bond funds and hedge funds.

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	2018	2017	Change	2016	Change
(in thousands of U.S. dollars, except percentages)					
Fixed maturity investments	\$ 4,052	\$ 2,901	\$ 1,151	\$ 2,645	\$ 256
Short-term investments and cash and cash equivalents	550	394	156	652	(258)
Funds held	619	—	619	—	—
<b>Investment income from fixed maturities and cash and cash equivalents</b>	<b>5,221</b>	<b>3,295</b>	<b>1,926</b>	<b>3,297</b>	<b>(2)</b>
Equity investments	55	27	28	—	27
Other	684	1,155	(471)	(171)	1,326
<b>Investment income from equities and other investments</b>	<b>739</b>	<b>1,182</b>	<b>(443)</b>	<b>(171)</b>	<b>1,353</b>
Gross investment income	5,960	4,477	1,483	3,126	1,351
Investment expenses	(274)	(259)	(15)	(186)	(73)
<b>Net investment income</b>	<b>\$ 5,686</b>	<b>\$ 4,218</b>	<b>\$ 1,468</b>	<b>\$ 2,940</b>	<b>\$ 1,278</b>
Net realized gains (losses) on fixed maturity securities	\$ (485)	\$ (118)	\$ (367)	\$ 131	\$ (249)
Net realized investment gains on equity investments, trading	226	17	209	—	17
<b>Total net realized gains (losses) on sale</b>	<b>(259)</b>	<b>(101)</b>	<b>(158)</b>	<b>131</b>	<b>(232)</b>
Fixed maturity securities, trading	(2,029)	(90)	(1,939)	(732)	642
Equity investments, trading	(380)	317	(697)	—	317
Other investments	(583)	991	(1,574)	—	991
Total net unrealized gains (losses)	(2,992)	1,218	(4,210)	(732)	1,950
<b>Net realized and unrealized gains (losses)</b>	<b>\$ (3,251)</b>	<b>\$ 1,117</b>	<b>\$ (4,368)</b>	<b>\$ (601)</b>	<b>\$ 1,718</b>

**Investment Book Yield**

Income from cash and fixed maturities	\$ 5,221	\$ 3,295	\$ 1,926	\$ 3,297	\$ (2)
Average aggregate fixed maturities and cash and cash equivalents, at cost <sup>(1)</sup>	\$ 265,238	\$ 263,275	\$ 1,963	\$ 308,235	\$ (44,960)
Investment book yield	1.97%	1.25%	0.72 %	1.07%	0.18%

**Financial Statement Portfolio Return**

Total financial statement return	\$ 2,435	\$ 5,335	\$ (2,900)	\$ 2,339	\$ 2,996
Average aggregate invested assets, at fair value <sup>(1)</sup>	\$ 272,386	\$ 269,225	\$ 3,161	\$ 304,561	\$ (35,336)
Financial statement portfolio return	0.89%	1.98%	(1.09)%	0.77%	1.21%

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

**2018 versus 2017:** Net investment income increased by \$1.5 million during 2018, primarily due to a \$1.9 million increase in net investment income from fixed maturities and cash and cash equivalents. The book yield increased by 72 basis points, primarily due to higher reinvestment rates as a result of broad increases in effective yields and also asset allocation strategies. Net realized and unrealized gains (losses) decreased by \$4.4 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period and lower returns in other investments and equities.

**2017 versus 2016:** Net investment income increased by \$1.3 million during 2017. The book yield increased by 18 basis points, primarily driven by higher reinvestments and an increase in duration. Net realized and unrealized gains (losses) increased by \$1.7 million driven by the impact of tightening credit spreads and increased returns in other investments and equities.

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	2018	2017	Change	2016	Change
(in thousands of U.S. dollars, except percentages)					
Fixed maturity investments	\$ 31,780	\$ 26,640	\$ 5,140	\$ 21,790	\$ 4,850
Short-term investments and cash and cash equivalents	2,839	1,280	1,559	689	591
<b>Investment income from fixed maturities and cash and cash equivalents</b>	<b>34,619</b>	<b>27,920</b>	<b>6,699</b>	<b>22,479</b>	<b>5,441</b>
Equity investments	1,511	94	1,417	169	(75)
Other	2,522	1,865	657	1,528	337
<b>Investment income from equities and other investments</b>	<b>4,033</b>	<b>1,959</b>	<b>2,074</b>	<b>1,697</b>	<b>262</b>
Gross investment income	38,652	29,879	8,773	24,176	5,703
Investment expenses	(2,679)	(2,173)	(506)	(1,955)	(218)
<b>Net investment income</b>	<b>\$ 35,973</b>	<b>\$ 27,706</b>	<b>\$ 8,267</b>	<b>\$ 22,221</b>	<b>\$ 5,485</b>
Net realized gains (losses) on fixed maturity securities	\$ (4,325)	\$ (2,687)	\$ (1,638)	\$ 1,409	\$ (4,096)
Net realized investment gains on equity investments, trading	518	24	494	477	(453)
<b>Total net realized gains (losses) on sale</b>	<b>(3,807)</b>	<b>(2,663)</b>	<b>(1,144)</b>	<b>1,886</b>	<b>(4,549)</b>
Fixed maturity securities, trading	(13,818)	7,227	(21,045)	835	6,392
Equity investments, trading	2,204	1,010	1,194	498	512
Other investments	(2,251)	11,039	(13,290)	2,509	8,530
Total net unrealized gains (losses)	(13,865)	19,276	(33,141)	3,842	15,434
<b>Net realized and unrealized gains (losses)</b>	<b>\$ (17,672)</b>	<b>\$ 16,613</b>	<b>\$ (34,285)</b>	<b>\$ 5,728</b>	<b>\$ 10,885</b>

**Investment Book Yield**

Income from cash and fixed maturities	\$ 34,619	\$ 27,920	\$ 6,699	\$ 22,479	\$ 5,441
Average aggregate fixed maturities and cash and cash equivalents, at cost <sup>(1)</sup>	\$ 1,535,360	\$ 1,482,437	\$ 52,923	\$ 1,484,121	\$ (1,684)
Investment book yield	2.25%	1.88%	0.37 %	1.51%	0.37%

**Financial Statement Portfolio Return**

Total financial statement return	\$ 18,301	\$ 44,319	\$ (26,018)	\$ 27,949	\$ 16,370
Average aggregate invested assets, at fair value <sup>(1)</sup>	\$ 1,670,240	\$ 1,650,429	\$ 19,811	\$ 1,609,747	\$ 40,682
Financial statement portfolio return	1.10%	2.69%	(1.59)%	1.74%	0.95%

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

**2018 versus 2017:** Net investment income increased by \$8.3 million during 2018, primarily due to a \$6.7 million increase in net investment income from fixed maturities and cash and cash equivalents, principally driven by \$52.9 million increase in our average balance of fixed maturities and cash and cash equivalents. The book yield increased by 37 basis points due to higher reinvestment rates as a result of broad increases in effective yields.

The decrease in net realized and unrealized gains (losses) of \$34.3 million primarily comprised:

- net realized losses on sale of investments of \$3.8 million in 2018, compared to net realized losses of \$2.7 million in 2017, an increase of \$1.1 million;
- net unrealized losses on fixed maturity securities, trading of \$13.8 million in 2018 compared to net unrealized gains of \$7.2 million in 2017, a decrease of \$21.0 million, primarily driven by lower valuations due to increased sovereign yields and widening of corporate credit spreads in the current period;

- net unrealized losses on other investments of \$2.3 million in 2018, compared to net unrealized gains of \$11.0 million, a decrease of \$13.3 million. The decrease was due to lower returns on private equities, equity fund and hedge funds, partially offset by higher returns on bond funds.

**2017 versus 2016:** Net investment income increased by \$5.5 million during 2017, primarily due to a \$5.4 million increase in net investment income from fixed maturities and cash and cash equivalents. The book yield increased by 37 basis points primarily due to higher reinvestment rates and increase in duration. Net realized and unrealized gains increased by \$10.9 million primarily due net unrealized gains of \$19.3 million in 2017 compared to net unrealized gains of \$3.8 million in 2016, offset by a decrease in realized gains of \$4.5 million. The increase in net unrealized gains on fixed maturity investments was primarily due to the tightening credit spreads, partially offset by an increase in yields. The increase in net unrealized gains on other investments was primarily due to higher returns on private equity and bond funds.

#### Other Activities

	2018	2017	Change	2016	Change
(in thousands of U.S. dollars, except percentages)					
Net investment income	\$ 2,725	\$ 10,187	\$ (7,462)	\$ 15,065	\$ (4,878)
Net realized and unrealized losses	\$ (10,249)	\$ (6,941)	\$ (3,308)	\$ (4,994)	\$ (1,947)
<b>Financial Statement Portfolio Return</b>					
Total financial statement return	\$ (7,524)	\$ 3,246	\$ (10,770)	\$ 10,071	\$ (6,825)
Average aggregate invested assets, at fair value <sup>(1)</sup>	\$ 222,822	\$ 310,608	\$ (87,786)	\$ 330,826	\$ (20,218)
Financial statement portfolio return	(3.38)%	1.05%	(4.43)%	3.04%	(1.99)%

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

**2018 versus 2017:** Net investment income decreased by \$7.5 million during 2018 primarily due to a decrease in the income from life settlements. Net realized and unrealized losses increased by \$3.3 million, primarily due to higher impairments on the life settlement portfolio in 2018 compared to 2017.

**2017 versus 2016:** Net investment income decreased by \$4.9 million during 2017 primarily due to a decrease in the income from life settlements. Net realized and unrealized losses increased by \$1.9 million, primarily due to higher impairments on the life settlement portfolio in 2017 compared to 2016.

## Liquidity and Capital Resources

### Overview

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

Our capital resources as at December 31, 2018 included ordinary shareholders' equity of \$3.4 billion, preferred equity of \$510.0 million, redeemable noncontrolling interest of \$458.5 million classified as temporary equity, and debt obligations of \$861.5 million. The redeemable noncontrolling interest may be settled in the future in cash or our ordinary shares, at our option. Based on our current loss reserves position, our portfolios of in-force insurance and reinsurance business, and our investment positions, we believe we are well capitalized.

The following table details our capital position as at December 31, 2018 and 2017:

	2018	2017	Change
	(in thousands of U.S. dollars)		
Ordinary shareholders' equity	\$ 3,391,933	\$ 3,136,684	\$ 255,249
Series D and E Preferred Shares	510,000	—	510,000
Total Enstar Group Limited Shareholders' Equity (A)	3,901,933	3,136,684	765,249
Noncontrolling interest	12,056	9,264	2,792
Total Shareholders' Equity (B)	3,913,989	3,145,948	768,041
Senior Notes	348,054	347,516	538
Revolving credit facility	15,000	225,110	(210,110)
2018 EGL Term Loan Facility	498,485	—	498,485
2016 EGL Term Loan Facility	—	74,063	(74,063)
Total debt (C)	861,539	646,689	214,850
Redeemable noncontrolling interest (D)	458,543	479,606	(21,063)
Total capitalization = (B) + (C) + (D)	\$ 5,234,071	\$ 4,272,243	\$ 961,828
Total capitalization attributable to Enstar = (A) + (C)	\$ 4,763,472	\$ 3,783,373	\$ 980,099
Debt to total capitalization	16.5%	15.1%	1.4%
Debt and Series D and E Preferred Shares to total capitalization	26.2%	15.1%	11.1%
Debt to total capitalization attributable to Enstar	18.1%	17.1%	1.0%
Debt and Series D and E Preferred Shares to total capitalization attributable to Enstar	28.8%	17.1%	11.7%

As of December 31, 2018, we had \$602.1 million of cash and cash equivalents, excluding restricted cash that supports insurance operations, and included in this amount was \$445.5 million held by our foreign subsidiaries outside of Bermuda. Based on our group's current corporate structure with a Bermuda domiciled parent company and the jurisdictions in which we operate, if the cash and cash equivalents held by our foreign subsidiaries were to be distributed to us, as dividends or otherwise, such amount would not be subject to incremental income taxes, however in certain circumstances withholding taxes may be imposed by some jurisdictions, including by the United States. Based on existing tax laws, regulations and our current intentions, there were no accruals as of December 31, 2018 for any material withholding taxes on dividends or other distributions, as described in Note 20 - "Income Taxation" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

#### Dividends

Enstar has not historically declared a dividend on our ordinary shares. Our strategy is to retain earnings and invest distributions from our subsidiaries back into the company. We do not currently expect to pay any dividends on our ordinary shares.

On June 28, 2018, we issued 16,000 Series D Preferred Shares with an aggregate liquidation value of \$400.0 million. On November 21, 2018, we issued 4,400 Series E Preferred Shares with an aggregate liquidation value of \$110.0 million. The dividends on the Series D and E Preferred Shares are non-cumulative and may be paid quarterly in arrears on the first day of March, June, September and December of each year, only when, as and if declared.

The following table details the dividends that have been declared and paid on our Series D and E Preferred Shares from January 1, 2018 to March 1, 2019:

Preferred Share Series	Date Declared	Record Date	Date Payable	Dividend per:		Total Dividends Paid in 2018
				Preferred Share	Depository Share	
				(in U.S. dollars)		(in thousands of U.S. dollars)
Series D	July 31, 2018	August 15, 2018	September 1, 2018	\$ 320.83	\$ 0.32083	\$ 5,133
Series D	November 6, 2018	November 15, 2018	December 1, 2018	\$ 437.50	\$ 0.43750	7,000
Series D	February 21, 2019	February 15, 2019	March 1, 2019	\$ 437.50	\$ 0.43750	—
Series E	February 21, 2019	February 15, 2019	March 1, 2019	\$ 486.11	\$ 0.48611	—
						\$ 12,133

Any payment of common or preferred dividends must be approved by our Board of Directors. Our ability to pay common and preferred dividends is subject to certain restrictions, as described in Note 22 - "Dividend Restrictions and Statutory Financial Information" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### Sources and Uses of Cash

#### Holding Company Liquidity

The potential sources of cash flows to Enstar as a holding company consist of cash flows from our subsidiaries including dividends, advances and loans, and interest income on loans to our subsidiaries. We also borrow from our credit facilities and, during 2018, we entered into a new unsecured term loan facility as described below.

We use cash to fund new acquisitions of companies and significant new business. We also utilize cash for our operating expenses associated with being a public company, and to pay interest and principal on loans from subsidiaries and debt obligations including loans under our credit facilities.

Our holding company cash flows are summarized in "Item 8. Financial Statements and Supplementary Data - Schedule II - Condensed Financial Information of Registrant - Statements of Cash Flows - Parent Company Only for the years ended December 31, 2018, 2017 and 2016" and the notes thereto.

We may, from time to time, raise capital from the issuance of equity, debt or other securities as we continuously evaluate our strategic opportunities. We filed an automatic shelf registration statement on October 10, 2017 with the U.S. Securities and Exchange Commission ("SEC") to allow us to conduct future offerings of debt, equity and other securities, if desired.

On June 28, 2018, we issued 16,000 Series D Preferred Shares with an aggregate liquidation value of \$400.0 million. The net proceeds from the Series D Preferred Shares were used to repay a portion of amounts outstanding under our revolving credit facility, and fully repay our previous term loan facility. On November 21, 2018, we issued 4,400 Series E Preferred Shares with an aggregate liquidation value of \$110.0 million. The net proceeds from the Series E Preferred Shares were used to fund our new business in Non-life Run-off operations.

As we are a holding company and have no substantial operations of our own, our assets consist primarily of investments in subsidiaries and our loans and advances to subsidiaries. Dividends from our insurance subsidiaries are restricted by insurance regulation.

### Operating Company Liquidity

The ability of our insurance and reinsurance subsidiaries to pay dividends and make other distributions is limited by the applicable laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries operate, including Bermuda, the United Kingdom, the United States, Australia and Continental Europe, which subject these subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, certain of our insurance and reinsurance subsidiaries to maintain minimum capital resources requirements and limit the amount of dividends and other payments that these subsidiaries can pay to us, which in turn may limit our ability to pay dividends and make other payments. For more information on these laws and regulations, see "Item 1. Business - Regulation." As of December 31, 2018, all of our insurance and reinsurance subsidiaries' capital resources levels were in excess of the minimum levels required. The ability of our subsidiaries to pay dividends is subject to certain restrictions, as described in Note 22 - "Dividend Restrictions and Statutory Financial Information" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. Our subsidiaries' ability to pay dividends and make other forms of distributions may also be limited by our repayment obligations under certain of our outstanding loan facility agreements. Variability in ultimate loss payments may also result in increased liquidity requirements for our subsidiaries. During 2018, 2017 and 2016, our regulated subsidiaries paid aggregate capital distributions and dividends of \$243.0 million, \$580.3 million and \$517.1 million, respectively.

In the Non-life Run-off segment, sources of funds primarily consist of cash and investment portfolios acquired on the completion of acquisitions and loss portfolio transfer reinsurance agreements. Cash balances acquired upon our purchase of insurance or reinsurance companies are classified as cash provided by investing activities. Cash acquired from loss portfolio transfer reinsurance agreements is classified as cash provided by operating activities. We expect to use funds acquired from cash and investment portfolios, collected premiums, collections from reinsurance debtors, fees and commission income, investment income and proceeds from sales and redemptions of investments to meet expected claims payments and operational expenses with the remainder used for acquisitions and additional investments. In the Non-life Run-off segment, we generally expect negative operating cash flows to be met by positive investing cash flows.

In the Atrium and StarStone segments we expect a net provision of cash from operations as investment income earned and collected premiums should generally be in excess of total net claim payments, losses incurred on earned premiums and operating expenses.

Overall, we expect our cash flows, together with our existing capital base and cash and investments acquired on the acquisition of insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate our business.

### Cash Flows

The following table summarizes our consolidated cash flows, including those related to restricted cash, from operating, investing and financing activities for the years ended December 31, 2018, 2017 and 2016:

Cash provided by (used in):	2018	2017	Change	2016	Change
	(in thousands of U.S. dollars)				
Operating activities	\$ (160,072)	\$ (343,107)	\$ 183,035	\$ (202,689)	\$ (140,418)
Investing activities	(825,754)	293,262	(1,119,016)	156,709	136,553
Financing activities	752,986	(65,476)	818,462	83,441	(148,917)
Effect of exchange rate changes on cash	2,588	9,512	(6,924)	(13,985)	23,497
Net increase (decrease) in cash and cash equivalents	(230,252)	(105,809)	(124,443)	23,476	(129,285)
Cash and cash equivalents, beginning of year	1,212,836	1,318,645	(105,809)	1,295,169	23,476
Cash and cash equivalents, end of year	\$ 982,584	\$ 1,212,836	\$ (230,252)	\$ 1,318,645	\$ (105,809)

Details of our consolidated cash flows are included in "Item 8. Financial Statements and Supplementary Data - Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016."

**2018 versus 2017:** Cash used in operating activities was \$160.1 million for the year ended December 31, 2018 compared to \$343.1 million for the year ended December 31, 2017. The negative operating cash flow was predominantly driven by: (i) net paid losses in our Non-Life Run-off segment for the years ended December 31, 2018 and 2017 of \$838.8 million and \$581.7 million, respectively; partially offset by (ii) cash and restricted cash acquired in Non-life Run-off reinsurance transactions for the years ended December 31, 2018 and 2017 of \$652.0 million and \$428.6 million, respectively. In addition, we are also continuously seeking to deploy surplus operating cash into our investing activities.

Cash used in investing activities for 2018 primarily related to net purchases of other investments of \$464.7 million and cash and total acquisitions net of cash acquired of \$245.2 million, principally related to the Maiden Re North America transaction. In 2017, cash provided by investing activities was primarily due to \$126.6 million from the sale of a subsidiary and net redemptions of other investments of \$122.9 million.

Cash provided by financing activities for 2018 of \$753.0 million primarily related to the net proceeds of \$495.4 million from the issuance of the Series D and E Preferred Shares, net inflows of \$218.2 million from our credit facilities, which were principally used to fund new business and acquisitions, and \$55.4 million of inflows in respect of contributions by noncontrolling interests. Cash used in financing activities for 2017 of \$65.5 million primarily related to net repayments of \$38.0 million from our credit facilities, consisting of the repayment of the Sussex Facility in full and the repayment of a portion of the EGL Revolving Credit Facility, partially offset by the issuance of our \$350.0 million Senior Notes. In addition, we paid \$27.5 million in dividends to noncontrolling interests.

**2017 versus 2016:** Cash used in operating activities was \$343.1 million and \$202.7 million for the years ended December 31, 2017 and 2016, respectively. The negative operating cash flow was predominantly driven by net paid losses in our Non-Life Run-off segment for the years ended December 31, 2017 and 2016 of \$581.7 million and \$533.8 million, respectively, partially offset by cash and restricted cash acquired in Non-life Run-off reinsurance transactions for the years ended December 31, 2017 and 2016 of \$428.6 million and \$174.5 million, respectively.

Cash provided by investing activities for 2017 of \$293.3 million primarily related to net cash provided by sale of subsidiaries of \$126.6 million and net cash used in acquisitions of \$4.2 million, compared to net cash used in acquisitions of \$18.5 million in 2016. In addition, net redemptions of other investments and net sales of available for sale securities provided cash of \$122.9 million and \$71.5 million, compared to \$154.0 million and \$29.0 million, in 2017 and 2016, respectively.

Cash used in financing activities for 2017 primarily related to net repayments of \$38.0 million from our credit facilities, consisting of the repayment of the Sussex Facility in full and the repayment of a portion of the EGL Revolving Credit Facility, partially offset by the issuance of our \$350.0 million Senior Notes. In addition, we paid \$27.5 million in dividends to noncontrolling interests. During 2016, we had net borrowings of \$77.8 million from our credit facilities primarily utilized to finance acquisitions and significant new business.

#### ***Investable Assets***

We define investable assets as the sum of total investments, cash and cash equivalents, restricted cash and cash equivalents and funds held. Investable assets were \$12.5 billion as at December 31, 2018 as compared to \$10.1 billion as at December 31, 2017, an increase of 23.5%. The increase was primarily due to the investments and funds held balance acquired in relation to the Maiden Re North America, Neon, Novae, Zurich Australia and Kayla Re transactions.

For information regarding our investment strategy, portfolio and results, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments".

Included within our investable assets we had funds held - directly managed as of December 31, 2018 and 2017, of \$1,198.2 million and \$1,179.9 million, respectively. Our funds held - directly managed is carried on our consolidated balance sheets at fair value. For further information regarding our funds held - directly managed, refer to Note 6 - "Investments" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

In addition, as at December 31, 2018 and 2017, we had funds held by ceding companies of \$321.3 million and \$175.4 million, respectively, which are carried at cost with a fixed crediting rate.

For information regarding credit risk, refer to "Item 7A. Quantitative and Qualitative Disclosures About Market Risk - Credit Risk - Funds Held" of this Annual Report on Form 10-K.

**Reinsurance Balances Recoverable on Paid and Unpaid Losses**

As at December 31, 2018 and 2017, we had reinsurance balances recoverable on paid and unpaid losses of \$2,029.7 million and \$2,021.0 million, respectively. The increase is primarily related to the transactions with Maiden Re North America, Novae and Neon, partially offset by the acquisition of KaylaRe.

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

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

For further information regarding our reinsurance balances recoverable on paid and unpaid losses, refer to Note 8 - "Reinsurance Balances Recoverable on Paid and Unpaid Losses" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

**Debt Obligations**

We utilize debt financing and loan facilities primarily for acquisitions and significant new business, and, from time to time, for general corporate purposes. For information regarding our debt arrangements, including our loan covenants, refer to Note 15 - "Debt Obligations and Credit Facilities" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. Our debt obligations as of December 31, 2018 and 2017 were \$861.5 million and \$646.7 million, respectively, as detailed in the below table:

Facility	Origination Date	Term	2018	2017
Senior Notes	March 10, 2017	5 years	\$ 348,054	\$ 347,516
EGL Revolving Credit Facility	August 16, 2018	5 years	15,000	—
Previous EGL Revolving Credit Facility	September 16, 2014	5 years	—	225,110
2018 EGL Term Loan Facility	December 27, 2018	3 years	498,485	—
2016 EGL Term Loan Facility	November 18, 2016	3 years	—	74,063
Total debt obligations			<u>\$ 861,539</u>	<u>\$ 646,689</u>

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

On August 16, 2018, we and certain of our subsidiaries, as borrowers and guarantors, entered into a new five-year unsecured \$600.0 million revolving credit agreement. The credit agreement expires in August 2023 and we have the option to increase the commitments under the facility by up to an aggregate of \$400.0 million, subject to the terms of the agreement. Borrowings under the facility will bear interest at a rate based on the Company's long term senior unsecured debt ratings. In connection with our entry into the credit agreement described above, we terminated and fully repaid our previous revolving credit agreement.

As at December 31, 2018, we were permitted to borrow up to an aggregate of \$600.0 million under the facility. As at December 31, 2018, there was \$585.0 million of available unutilized capacity under this facility. We are in compliance with the covenants of the facility. Subsequent to December 31, 2018, we utilized \$173.0 million and repaid \$46.0 million, bringing the unutilized capacity under this facility to \$458.0 million.

On December 27, 2018, we entered into and fully utilized a three-year \$500.0 million unsecured term loan (the "2018 EGL Term Loan Facility"). Interest is payable at least every three months at the London Interbank Offered Rate ("LIBOR") or the alternate base rate ("ABR") plus a margin set forth in the agreement. In the event of default, the interest rate may increase and the agent may, and at the request of the required lenders shall, cancel lender commitments and demand early repayment. The proceeds were partially used to fund the acquisition of Maiden Re North America. We also previously had an unsecured term loan (the "2016 EGL Term Loan Facility") with outstanding principal of \$74.1 million as of December 31, 2017. This previous facility was fully repaid and terminated during 2018.

Financial and business covenants imposed on us, in relation to our revolving credit facility and our term loan credit facility include certain limitations on mergers and consolidations, acquisitions, indebtedness and guarantees, restrictions as to dispositions of stock and assets, and limitations on liens. Generally, the financial covenants require us to maintain a gearing ratio of consolidated indebtedness to total capitalization of not greater than 0.35 to 1.0 and to maintain a consolidated net worth of not less than the aggregate of (i) \$2.3 billion, (ii) 50% of net income available for distribution to the Company's ordinary shareholders at any time after August 16, 2018, and (iii) 50% of the proceeds of any common stock issuance made after August 16, 2018. In addition, we must maintain eligible capital in excess of the enhanced capital requirement imposed on us by the Bermuda Monetary Authority pursuant to the Insurance (Group Supervision) Rules 2011 of Bermuda. We are in compliance with these covenants.

### Contractual Obligations

The following table summarizes, as of December 31, 2018, our future payments under contractual obligations and estimated payments for losses and LAE and policy benefits by expected payment date. The table excludes short-term liabilities and includes only obligations that are expected to be settled in cash.

	Total	Less than 1 Year	1 - 3 years	3 - 5 years	6 - 10 years	More than 10 Years
(in millions of U.S. dollars)						
<b>Operating Activities</b>						
Estimated gross reserves for losses and LAE <sup>(1)</sup>						
Asbestos	\$ 1,617.0	\$ 97.8	\$ 180.4	\$ 168.1	\$ 300.5	\$ 870.2
Environmental	222.7	20.4	37.8	33.4	52.8	78.3
General Casualty	879.5	201.4	254.8	143.9	135.0	144.4
Workers' compensation/personal accident	2,286.8	257.3	370.2	283.0	411.0	965.3
Marine, aviation and transit	374.7	106.7	115.1	49.8	51.6	51.5
Construction defect	120.0	26.4	40.9	24.9	18.8	9.0
Professional indemnity/ Directors & Officers	820.5	190.9	258.1	147.0	131.3	93.2
Motor	886.3	314.5	258.7	102.2	83.1	127.8
Property	205.9	97.1	59.6	21.6	15.5	12.1
Other	386.1	101.1	102.3	53.8	58.5	70.4
Total Non-Life Run-off	7,799.5	1,413.6	1,677.9	1,027.7	1,258.1	2,422.2
Atrium	235.4	96.7	85.0	32.5	17.8	3.4
StarStone	1,584.1	567.7	567.3	228.3	158.7	62.1
Other	18.9	3.0	7.5	3.6	3.2	1.6
ULAE	360.9	65.1	80.9	49.0	58.6	107.3
Estimated gross reserves for losses and LAE <sup>(1)</sup>	9,998.8	2,146.1	2,418.6	1,341.1	1,496.4	2,596.6
Policy benefits for life and annuity contracts <sup>(2)</sup>	121.0	6.0	11.5	11.8	28.7	63.0
Operating lease obligations	65.4	9.5	20.5	14.1	19.2	2.1
<b>Investing Activities</b>						
Investment commitments to private equity funds	228.2	107.4	103.9	16.9	—	—
Investment commitments to equity method investments	167.2	167.2	—	—	—	—
<b>Financing Activities</b>						
Loan repayments (including estimated interest payments)	996.3	40.0	579.6	376.7	—	—
<b>Total</b>	<b>\$ 11,576.9</b>	<b>\$ 2,476.2</b>	<b>\$ 3,134.1</b>	<b>\$ 1,760.6</b>	<b>\$ 1,544.3</b>	<b>\$ 2,661.7</b>

<sup>(1)</sup> The reserves for losses and LAE represent management's estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above. The amounts in the above table represent our estimates of known liabilities as of December 31, 2018 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, certain of the reserves included in the audited consolidated financial statements as of December 31, 2018 were acquired by us and initially recorded at fair value with subsequent amortization, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustment in the amount payable.

<sup>(2)</sup> Policy benefits for life and annuity contracts recorded in our audited consolidated balance sheet as at December 31, 2018 of \$105.1 million are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

In addition to the contractual obligations in the table above, we also have the right to purchase the redeemable noncontrolling interests ("RNCI") from the RNCI holders at certain times in the future (each such right, a "call right") and the RNCI holders have the right to sell their RNCI interests to us at certain times in the future (each such right, a "put right"). The RNCI rights are described in Note 21 - "Related Party Transactions" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

For additional information relating to our commitments and contingencies, see Note 23 - "Commitments and Contingencies" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

***Off-Balance Sheet Arrangements***

At December 31, 2018, we did not have any off-balance sheet arrangements, as defined by Item 303(a) (4) of Regulation S-K.

**Critical Accounting Policies**

We believe the following accounting policies impact the most significant judgments and estimates used in the preparation of our financial statements.

**Losses and Loss Adjustment Expenses - Non-Life Run-off**

The following tables provides a breakdown of gross and net losses and LAE reserves, consisting of Outstanding Loss Reserve ("OLR") and IBNR by line of business and adjustments for fair value resulting from business combinations, adjustments for where we elected the fair value option, deferred charge assets and ULAE, as of December 31, 2018 and 2017:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Asbestos	\$ 341,544	\$ 1,275,476	\$ 1,617,020	\$ 321,356	\$ 1,171,754	\$ 1,493,110
Environmental	96,665	126,035	222,700	93,095	117,384	210,479
General casualty	500,033	379,484	879,517	416,097	298,612	714,709
Workers' compensation/personal accident	1,454,178	832,615	2,286,793	1,115,116	537,782	1,652,898
Marine, aviation and transit	301,783	72,888	374,671	227,994	78,023	306,017
Construction defect	20,712	99,288	120,000	19,310	94,736	114,046
Professional indemnity/Directors & Officers	603,665	216,839	820,504	426,020	166,898	592,918
Motor	564,307	321,992	886,299	414,847	304,874	719,721
Property	168,267	37,631	205,898	160,873	36,817	197,690
Other	220,615	165,519	386,134	175,289	111,453	286,742
	<u>\$ 4,271,769</u>	<u>\$ 3,527,767</u>	<u>\$ 7,799,536</u>	<u>\$ 3,369,997</u>	<u>\$ 2,918,333</u>	<u>\$ 6,288,330</u>
Fair value adjustments			(217,527)			(203,183)
Fair value adjustments - fair value option			(374,752)			(244,013)
Deferred charge assets on retroactive reinsurance			—			(86,585)
ULAE			333,405			333,405
Total			<u>\$ 7,540,662</u>			<u>\$ 6,087,954</u>

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Asbestos	\$ 366,446	\$ 1,434,598	\$ 1,801,044	\$ 341,355	\$ 1,337,467	\$ 1,678,822
Environmental	95,801	95,259	191,060	91,049	93,345	184,394
General casualty	344,425	266,526	610,951	276,791	194,747	471,538
Workers' compensation/personal accident	1,458,430	748,949	2,207,379	889,265	371,161	1,260,426
Marine, aviation and transit	109,102	56,284	165,386	90,101	51,904	142,005
Construction defect	28,701	135,608	164,309	27,406	122,307	149,713
Professional indemnity/Directors & Officers	214,803	40,265	255,068	181,027	39,591	220,618
Motor	242,213	30,734	272,947	98,866	19,321	118,187
Property	65,445	9,706	75,151	52,236	8,554	60,790
Other	260,337	85,998	346,335	205,322	75,376	280,698
	<u>\$ 3,185,703</u>	<u>\$ 2,903,927</u>	<u>\$ 6,089,630</u>	<u>\$ 2,253,418</u>	<u>\$ 2,313,773</u>	<u>\$ 4,567,191</u>
Fair value adjustments			(125,998)			(113,028)
Fair value adjustments - fair value option			(314,748)			(182,764)
Deferred charge assets on retroactive reinsurance			—			(80,192)
ULAE			300,588			300,588
Total			<u>\$ 5,949,472</u>			<u>\$ 4,491,795</u>

As of December 31, 2018 and 2017, the IBNR reserves (net of reinsurance balances receivable) accounted for \$2,918.3 million, or 46.4%, and \$2,313.8 million, or 50.7%, respectively, of our total Non-life Run-off net losses and LAE, excluding the fair value adjustments, deferred charge assets and ULAE.

Our primary objective in running off the operations of acquired companies and portfolios of insurance and reinsurance business in run-off is to increase book value by settling loss reserves below their acquired fair value. The earnings created in each acquired company or portfolio of insurance and reinsurance business, together with the related decrease in loss reserves, lead to a reduction in the capital required for each company, thereby providing the ability to distribute both earnings and excess capital to the parent company.

- To the extent that the nature of the acquired loss reserves are conducive to commutation, our aim is to settle the majority of the acquired loss reserves within a time frame of approximately five to seven years from the date of acquisition.
- To the extent that acquired reserves are not conducive to commutation, we will instead adopt a disciplined claims management approach to pay only valid claims on a timely basis and endeavor to reduce the level of acquired LAE provisions by streamlining claims handling procedures.

By adopting either of the above run-off strategies, we would expect that over the targeted life of the run-off, acquired ultimate loss reserves would settle below their acquired value, resulting in reductions in ultimate losses and LAE liabilities. There can be no assurance, however, that we will successfully implement our strategy.

Commutations of blocks of policies, along with disciplined claims management, have the potential to produce favorable claims development compared to established reserves. For each newly-acquired company, we determine a commutation strategy that broadly identifies commutation targets using the following criteria:

- previous commutations completed by existing portfolio companies with policyholders of the newly-acquired company;
- nature of liabilities;
- size of incurred loss reserves;
- recent loss development history; and
- targets for claims audits.

Once commutation targets are identified, they are prioritized into target years of completion. At the beginning of each year, the approach to commutation negotiations is determined by the commutation team, including claims and exposure analysis and broker account reconciliations. On completion of this analysis, settlement parameters are set around incurred liabilities. Commutation discussions can take many months or even years to come to fruition. Commutation targets not completed in a particular year are re-prioritized for the following year.

Every commutation, irrespective of value, requires the approval of our senior management. The impact of the commutation activity on the IBNR reserve is reflected as part of our annual actuarial reviews of reserves. However, if a significant commutation is completed during the year, loss reserves will be adjusted in the corresponding quarter to reflect management's then best estimate of the impact on remaining IBNR reserves.

Commutations provide an opportunity for us to exit exposures to entire policies with insureds and reinsureds for an agreed upon payment, or payments, often at a discount to the previously estimated ultimate liability. As a result of exiting all exposures to such policies, all advised case reserves and IBNR reserves relating to the insured or reinsured are eliminated. A commutation is recognized upon the execution of a commutation release agreement. Following completion of a commutation, all the related balances, including insurance and reinsurance balances payable and/or receivable, funds held by ceding companies, and losses and LAE (including fair value adjustments and estimated IBNR), are written off with corresponding gain or loss recorded in the net reduction of ultimate losses. A commutation may result in a net gain irrespective of whether the settlement exceeds the advised case reserves. Advised case reserves are those reserve estimates for a specific loss or losses reported by either the broker or insured or reinsured.

IBNR reserves are established at a class of business level. A commutation settlement is a negotiated settlement of both the advised case reserves and an estimate of the IBNR reserves that relate to the policies being commuted.

For latent exposures with a long reporting tail, the estimated level of IBNR reserves may be significantly higher than the advised case reserves. In such an instance, the commutation settlement of a block of such policies may be greater than the advised case reserves but less than the aggregate of the advised case reserves plus the estimated related IBNR reserves, resulting in a total saving on the remaining liability.

On a quarterly basis, we adjust our estimates of ultimate loss and LAE liabilities in the quarter that any significant commutation is concluded. The agreed commutation settlement is recorded in net losses paid.

To the extent that commuted policies are protected by reinsurance, then we will, on completion of a commutation with an insured or reinsured, negotiate with the reinsurers to contribute their share of the commutation settlement. Any amounts received from such reinsurers will be recorded in net losses paid and the impact of any savings or loss on reinsurance recoverable on unpaid losses will be included in the actuarial reassessment of net ultimate liabilities.

#### *Annual Losses and Loss Adjustment Reviews*

Because a significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event, the liability for unpaid losses and LAE is based largely upon estimates. On a quarterly basis, our management must use considerable judgment in the process of developing these estimates. Management reviews the actual loss development in the quarter and receives input from the actuarial, claims and legal staff on the drivers of any favorable or unfavorable loss emergence. The liability for unpaid losses and LAE for property and casualty business includes amounts determined from loss reports on individual cases and amounts for IBNR reserves.

Loss advices or reports from ceding companies are generally provided via the placing broker and comprise treaty statements, individual claims files, electronic messages and large loss advices or cash calls.

- Large loss advices and cash calls are provided to us as soon as practicable after an individual loss or claim is made or settled by the insured.
- The remaining broker advices are issued monthly, quarterly or annually depending on the provisions of the individual policies or the ceding company's practice.
- For certain direct insurance policies where the claims are managed by Third Party Administrators (TPAs) and Managing General Agents (MGAs), loss bordereaux are received either monthly or quarterly depending on the arrangement with the TPA and MGA. Loss advices for direct insurance policies may be received from the broker, agent or directly from the insured.

Where we provide reinsurance or retrocession reinsurance protection, the process of claims advice from the direct insurer to the reinsurers and/or retrocessionaires naturally involves more levels of communication, which inevitably creates delays or lags in the receipt of loss advice by the reinsurers/retrocessionaires relative to the date of first advice to the direct insurer. Certain types of exposure, typically latent health exposures such as asbestos-related claims, have inherently long reporting delays, in some cases many years, from the date a loss occurred to the manifestation and reporting of a claim and ultimately until the final settlement of the claim.

An industry-wide weakness in cedant reporting affects the adequacy and accuracy of reserving for advised claims. We attempt to mitigate this inherent weakness as follows:

- We closely monitor cedant loss reporting and, for those cedants identified as providing inadequate, untimely or unusual reporting of losses, we conduct, in accordance with the provisions of the insurance and reinsurance contracts, detailed claims audits at the insured's or reinsured's premises. Such claims audits have the benefit of validating advised claims, determining whether the cedant's loss reserving practices and reporting are adequate and identifying potential loss reserving issues of which our actuaries need to be made aware. Any required adjustments to advised claims reserves reported by cedants identified during the claims audits will be recorded as an adjustment to the advised case reserve.
- Onsite claims audits are often supplemented by further reviews by our internal and external legal advisors to determine the reasonableness of advised case reserves and, if considered necessary, an adjustment to the reported case reserve will be recorded.
- Our actuaries project expected paid and incurred loss development for each class of business, which is monitored on a quarterly basis. Should actual paid and incurred development differ significantly from the expected paid and incurred development, we will investigate the cause and, in conjunction with our actuaries, consider whether any adjustment to total loss reserves is required.
- Our actuaries consider the quality of ceding company data as part of their ongoing evaluation of the liability for ultimate losses and LAE, and the methodologies they select for estimating ultimate losses inherently compensate for potential weaknesses in this data, including weaknesses in loss reports provided by cedants.

We strive to apply the highest standards of discipline and professionalism to our claims adjusting, processing and settlement, and disputes with cedants are rare. However, we are from time to time involved in various disputes and legal proceedings in the ordinary course of our claims adjusting process. We are often involved in disputes commenced by other co-insurers who act in unison with any litigation or dispute resolution controlled by the lead underwriter. Coverage disputes arise when the insured/reinsured and insurer/reinsurer cannot reach agreement as to the interpretation of the policy and/or application of the policy to a claim. Most insurance and reinsurance policies contain dispute resolution clauses requiring arbitration or mediation. In the absence of a contractual dispute resolution process, civil litigation would be commenced. We aim to reach a commercially acceptable resolution to any dispute, using arbitration or litigation as a last resort. We regularly monitor and provide internal reports on disputes involving arbitration and litigation and engage external legal counsel to provide professional advice and assist with case management.

In establishing reserves, management includes amounts for IBNR reserves using information from the actuarial estimates of ultimate losses. We use generally accepted actuarial methodologies to estimate ultimate losses and LAE and those estimates are reviewed by our management. On an annual basis, independent actuarial firms are retained by management to provide their estimates of ultimate losses and to review the estimates developed by our actuaries.

Nearly all of our unpaid claims liabilities are considered to have a long claims payout tail. Net loss reserves, excluding the fair value adjustments, deferred charge assets and ULAE, for our non-life run-off subsidiaries relate primarily to casualty exposures, including latent claims, of which 27.1% in 2018 (2017: 40.8%) relate to asbestos and environmental ("A&E") exposures.

Within the annual loss reserve studies produced by either our actuaries or independent actuaries, exposures for each subsidiary are separated into homogeneous reserving categories for the purpose of estimating IBNR. Each reserving category contains either direct insurance or assumed reinsurance reserves and groups relatively similar types of risks and exposures (for example, asbestos, environmental, casualty, property) and lines of business written (for example, marine, aviation, non-marine). Based on the exposure characteristics and the nature of available data for each individual reserving category, a number of methodologies are applied. Recorded reserves for each category are selected from the actuarial indications produced by the various methodologies after consideration of exposure characteristics, data limitations and strengths and weaknesses of each method applied. This approach to estimating IBNR has been consistently adopted in the annual loss reserve studies for each period presented.

Our management, through the loss reserving committees, considers the reasonableness of loss reserves recommended by our actuaries, including actual loss development during the year, using the following reports produced internally on a quarterly basis for each of our insurance and reinsurance subsidiaries:

- Gross, ceded and net incurred loss report - This report provides, for each reporting period, the total (including commuted policies) gross, ceded and net incurred loss development for each company and a commentary on each company's loss development. The report highlights the causes of any unusual or significant loss development activity (including commutations).
- Actual versus expected gross incurred loss development schedule - This schedule provides a summary, and commentary thereon, of each company's (excluding companies or portfolios of business acquired in the current year) non-commuted incurred gross losses compared to the estimate of the development of non-commuted incurred gross losses provided by our actuaries at the beginning of the year as part of the prior year's reserving process.
- Commutations summary schedule - This schedule summarizes all commutations completed during the year for all companies, and identifies the policyholder with which we commuted, the incurred losses settled by the commutation (comprising outstanding unpaid losses and case reserves) and the amount of the commutation settlement.
- Analysis of paid, incurred and ultimate losses - This analysis for each company, and in the aggregate, provides a summary of the gross, ceded and net paid and incurred losses and the impact of applying our actuaries' recommended loss reserves. This report, reviewed in conjunction with the previous reports, provides an analytical tool to review each company's incurred loss or gain and reduction in IBNR reserves to assess whether the ultimate reduction in loss reserves appears reasonable in light of known developments within each company.

The above reports provide management with the relevant information to determine whether loss development (including commutations) during the year has, for each company, been sufficiently meaningful so as to warrant an adjustment to the reserves recommended by our actuaries in the most recent actuarial study.

When establishing loss reserves we have an expectation that, in the absence of commutations and significant favorable or unfavorable non-commuted loss development compared to expectations, loss reserves will not exceed the high, or be less than the low, end of the following ranges of gross losses and LAE reserves implied by the various methodologies used by each of our insurance subsidiaries as of December 31, 2018.

The range of gross loss and LAE reserves implied by the various methodologies used by each of our insurance and reinsurance subsidiaries as of December 31, 2018 and December 31, 2017 is presented in the following table ("Range of Outcomes"):

	2018			2017		
	Low	Selected	High	Low	Selected	High
	(in thousands of U.S. dollars)					
Asbestos	\$ 1,384,890	\$ 1,617,020	\$ 1,931,409	\$ 1,554,713	\$ 1,801,044	\$ 2,043,180
Environmental	184,749	222,700	267,159	170,461	191,060	217,643
General casualty	803,851	879,517	976,457	539,506	610,951	680,562
Workers' compensation/personal accident	2,063,005	2,286,793	2,577,116	1,973,167	2,207,379	2,434,441
Marine, aviation and transit	338,318	374,671	419,911	140,610	165,386	185,772
Construction defect	107,126	120,000	139,129	148,939	164,309	181,609
Professional indemnity/Directors & Officers	758,021	820,504	910,718	230,967	255,068	280,755
Motor	806,731	886,299	951,734	242,691	272,947	299,937
Property	192,869	205,898	225,013	66,697	75,151	83,403
Other	346,674	386,134	428,904	300,281	346,335	385,967
	<u>6,986,234</u>	<u>7,799,536</u>	<u>8,827,550</u>	<u>5,368,032</u>	<u>6,089,630</u>	<u>6,793,269</u>
Fair value adjustments	(198,969)	(217,527)	(239,227)	(108,145)	(125,998)	(141,880)
Fair value adjustments - fair value option	(329,874)	(374,752)	(420,609)	(273,680)	(314,748)	(349,607)
ULAE	296,704	333,405	373,360	263,433	300,588	333,735
Total	<u>\$ 6,754,095</u>	<u>\$ 7,540,662</u>	<u>\$ 8,541,074</u>	<u>\$ 5,249,640</u>	<u>\$ 5,949,472</u>	<u>\$ 6,635,517</u>

#### Quarterly Reserve Reviews

In addition to an in-depth annual review, we also perform quarterly reserve reviews. This is done by examining quarterly paid and incurred loss development to determine whether it is consistent with reserves established during the preceding annual reserve review and with expected development. Loss development is reviewed separately for each major exposure type (e.g., asbestos, environmental, etc.), for each of our relevant subsidiaries, and for large "wholesale" commutation settlements versus "routine" paid and advised losses. This process is undertaken to determine whether loss development experience during a quarter warrants any change to held reserves.

Loss development is examined separately by exposure type because different exposures develop differently over time. For example, the expected reporting and payout of losses for a given amount of asbestos reserves can be expected to take place over a different time frame and in a different quarterly pattern from the same amount of environmental reserves.

In addition, loss development is examined separately for each of our relevant subsidiaries. Companies can differ in their exposure profile due to the mix of insurance versus reinsurance, the mix of primary versus excess insurance, the underwriting years of participation and other criteria. These differing profiles lead to different expectations for quarterly and annual loss development by company.

Our quarterly paid and incurred loss development is often driven by large, wholesale settlements - such as commutations and policy buy-backs - which settle many individual claims in a single transaction. This allows for monitoring of the potential profitability of large settlements, which, in turn, can provide information about the adequacy of reserves on remaining exposures that have not yet been settled.

- For example, if it were found that large settlements were consistently leading to large negative, or favorable, incurred losses upon settlement, it might be an indication that reserves on remaining exposures are redundant.

- Conversely, if it were found that large settlements were consistently leading to large positive, or adverse, incurred losses upon settlement, it might be an indication—particularly if the size of the losses were increasing—that certain loss reserves on remaining exposures are deficient.

Moreover, removing the loss development resulting from large settlements allows for a review of loss development related only to those contracts that remain exposed to losses. Were this not done, it is possible that savings on large wholesale settlements could mask significant underlying development on remaining exposures.

Once the data has been analyzed as described above, an in-depth review is performed on classes of exposure with significant loss development. Discussions are held with appropriate personnel, including individual company managers, claims handlers and attorneys, to better understand the causes. If it were determined that development differs significantly from expectations, reserves would be adjusted.

As described above, our management regularly reviews and updates reserve estimates using the most current information available and employing various actuarial methods. Adjustments resulting from changes in our estimates are recorded in the period when such adjustments are determined. The ultimate liability for losses and LAE is likely to differ from the original estimate due to a number of factors, primarily consisting of the overall claims activity occurring during any period, including the completion of commutations of assumed liabilities and ceded reinsurance receivables, policy buy-backs and general incurred claims activity.

#### *Loss Reserving (All Classes, except Latent Claims)*

For our "All Other" (non-latent) loss exposure, including workers' compensation, our actuaries apply a range of traditional loss development extrapolation techniques. These methods assume that cohorts, or groups, of losses from similar exposures will increase over time in a predictable manner. Historical paid, incurred, and outstanding loss development experience is examined for earlier years to make inferences about how later years' losses will develop. The application and consideration of multiple methods is consistent with the Actuarial Standards of Practice.

When determining which loss development extrapolation methods to apply to each company and each class of exposure within each company, we consider the nature of the exposure for each specific subsidiary and reserving segment and the available loss development data, as well as the limitations of that data. In cases where company-specific loss development information is not available or reliable, we select methods that do not rely on historical data (such as incremental or run-off methods) and consider industry loss development information published by industry sources such as the Reinsurance Association of America. In determining which methods to apply, we also consider cause of loss coding information when available.

A brief summary of the methods that are considered most frequently in analyzing non-latent exposures is provided below. This summary discusses the strengths and weaknesses of each method, as well as the data requirements for each method, all of which are considered when selecting which methods to apply for each reserve segment.

*1. Cumulative Reported and Paid Loss Development Methods.* The Cumulative Reported (Case Incurred) Loss Development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Historical "age-to-age" loss development factors ('LDFs') are calculated to measure the relative development of an accident year from one maturity point to the next. Age-to-age LDFs are then selected based on these historical factors. The selected age-to-age LDFs are used to project the ultimate losses. The Cumulative Paid Loss Development Method is mechanically identical to the Cumulative Reported Loss Development Method described above, but the paid method does not rely on case reserves or claim reporting patterns in making projections. The validity of the results from using a cumulative loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple payments per claim, legal changes, or variations in a company's mix of business from year to year. Typically, the most appropriate circumstances in which to apply a cumulative loss development method are those in which the exposure is mature, full loss development data is available, and the historical observed loss development is relatively stable.

**2. Incremental Reported and Paid Loss Development Methods.** Incremental incurred and paid analyses are performed in cases where cumulative data is not available. The concept of the incremental loss development methods is similar to the cumulative loss development methods described above, in that the pattern of historical paid or incurred losses is used to project the remaining future development. The difference between the cumulative and incremental methods is that the incremental methods rely on only incremental incurred or paid loss data from a given point in time forward, and do not require full loss history. These incremental loss development methods are therefore helpful when data limitations apply. While this versatility in the incremental methods is a strength, the methods are sensitive to fluctuations in loss development, so care must be taken in applying them.

**3. IBNR-to-Case Outstanding Method.** This method requires the estimation of consistent cumulative paid and reported (case) incurred loss development patterns and age-to-ultimate LDFs, either from data that is specific to the segment being analyzed or from applicable benchmark or industry data. These patterns imply a specific expected relationship between IBNR, including both development on known claims (bulk reserve) and losses on true late reported claims, and reported case incurred losses. The IBNR-to-Case Outstanding method can be used in a variety of situations. It is appropriate for loss development experience that is mature and possesses a very high ratio of paid losses to reported case incurred losses. The method also permits an evaluation of the difference in maturity between the business being reviewed and benchmark development patterns. Depending on the relationship of paid to incurred losses, an estimate of the relative maturity of the business being reviewed can be made and a subsequent estimate of ultimate losses driven by the implied IBNR to case outstanding ratio at the appropriate maturity can be made. This method is also useful where loss development data is incomplete and only the case outstanding amounts are determined to be reliable. This method is less reliable in situations where relative case reserve adequacy has been changing over time.

**4. Bornhuetter-Ferguson Expected Loss Projection Reported and Paid Methods.** The Bornhuetter-Ferguson Expected Loss Projection Method based on reported loss data relies on the assumption that remaining unreported losses are a function of the total expected losses rather than a function of currently reported losses. The expected losses used in this analysis are based on initial selected ultimate loss ratios by year. The expected losses are multiplied by the unreported percentage to produce expected unreported losses. The unreported percentage is calculated as one minus the reciprocal of the selected cumulative incurred LDFs. Finally, the expected unreported losses are added to the current reported losses to produce ultimate losses. The calculations underlying the Bornhuetter-Ferguson Expected Loss Projection Method based on paid loss data are similar to the Bornhuetter-Ferguson calculations based on reported losses, with the exception that paid losses and unpaid percentages replace reported losses and unreported percentages. The Bornhuetter-Ferguson method is most useful as an alternative to other models for immature years. For these immature years, the amounts reported or paid may be small and unstable and therefore not predictive of future development. Therefore, future development is assumed to follow an expected pattern that is supported by more stable historical data or by emerging trends. This method is also useful when changing reporting patterns or payment patterns distort historical development of losses. Similar to the loss development methods, the Bornhuetter-Ferguson method may be applied to loss and ALAE on a combined or separate basis. The Bornhuetter-Ferguson method may not be appropriate in circumstances where the liabilities being analyzed are very mature, as it is not sensitive to the remaining amount of case reserves outstanding, or the actual development to date.

**5. Reserve Run-off Method.** This method first projects the future values of case reserves for all underwriting years to future ages of development. This is done by selecting a run-off pattern of case reserves. The selected case run-off ratios are chosen based on the observed run-off ratios at each age of development. Once the ratios have been selected, they are used to project the future values of case reserves. A paid on reserve factor is selected in a similar way. The ratios of the observed amounts paid during each development period to the respective case reserves at the beginning of the periods are used to estimate how much will be paid on the case reserves during each development period. These paid on reserve factors are then applied to the case reserve amounts that were projected during the first phase of this method. A summation of the resulting paid amounts yields an estimate of the liability. The Reserve Run-off Method works well when the historical run-off patterns are reasonably stable and when case reserves ultimately show a decreasing trend. Another strength of this method is that it only requires case reserves at a given point in time and incremental paid and incurred losses after that point, meaning that it can be applied in cases where full loss history is not available. In cases of volatile data where there is a persistent increasing trend in case reserves, this method will fail to produce a reasonable estimate. In several cases, reliance upon this method was limited due to this weakness.

Our actuaries select the appropriate loss development extrapolation methods to apply to each company and each class of exposure, and then apply these methods to calculate an estimate of ultimate losses. Our management, which is responsible for the final estimate of ultimate losses, reviews the calculations of our actuaries, considers whether the appropriate method was applied, and adjusts the estimate of ultimate losses as it deems necessary. Historically, we have not deviated from the recommendations of our actuaries. Paid-to-date losses are then deducted from the estimate of ultimate losses to arrive at an estimated total loss reserve, and reported outstanding case reserves are then deducted from estimated total loss reserves to calculate the estimated IBNR reserve.

#### *Loss Reserving (Latent Claims)*

##### Asbestos Claims

Asbestos continues to be the most significant and difficult mass tort for the insurance industry in terms of claims volume, legal expense and indemnity payments. In the United States, asbestos-related lawsuits emerged in the early 1970s, accelerated through the 1980s and continue today, nearly fifty years after the first significant lawsuit against an asbestos manufacturer. A unique feature of U.S. asbestos litigation is that a plaintiff will identify numerous defendants, often over 50, in a lawsuit, creating additional expense to defend the suit. Asbestos lawsuits have led to many of the traditional defendants filing for bankruptcy. We believe the insurance industry has been adversely affected by judicial interpretations that have had the effect of maximizing insurance recoveries from both a coverage and liability perspective.

A number of our subsidiaries, and counterparties who wrote portfolios we assumed, have exposure to bodily injury claims from alleged exposure to asbestos. The United States asbestos exposure arises mainly from general liability insurance policies underwritten prior to 1986, which our subsidiaries or counterparties either wrote directly, on a primary or excess basis, or as reinsurance. Our United Kingdom asbestos exposures emanates from Employers Liability insurance policies. Asbestos bodily injury claims differ from other bodily injury claims due to the long latency period for asbestos, which often triggers a policyholder's coverage over multiple policy periods. The long latency period, combined with the lack of clear judicial precedent with respect to coverage interpretations and expanded theories of liability, increase the uncertainty of the asbestos claim reserve estimates.

The following table provides a reconciliation of our gross and net loss and ALAE reserves from asbestos exposures and the movement in gross and net reserves for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
	(in thousands of U.S. dollars)		
Balance as at January 1	\$ 1,801,044	\$ 849,901	\$ 403,307
Less: reinsurance reserves recoverable	122,222	34,135	31,915
Net balance as at January 1	1,678,822	815,766	371,392
Total net incurred losses and LAE	(64,949)	27,029	(25,295)
Total net paid losses	(108,248)	(105,731)	(33,334)
Effect of exchange rate movement	(70,084)	79,515	(2,846)
Acquired on purchase of subsidiaries	7,569	—	6,977
Assumed business	50,000	862,243	498,872
Net balance as at December 31	1,493,110	1,678,822	815,766
Plus: reinsurance reserves recoverable	123,910	122,222	34,135
Balance as at December 31	\$ 1,617,020	\$ 1,801,044	\$ 849,901

The liability for unpaid losses and ALAE for asbestos reserves reflects our best estimate for future amounts needed to pay losses and related ALAE as of each of the balance sheet dates reflected in the financial statements herein in accordance with U.S. GAAP. As of December 31, 2018 and 2017, the net loss reserves for asbestos-related claims comprised 23.7% and 36.8%, respectively, of total non-life run-off net reserves for losses and LAE liabilities excluding the fair value adjustments, deferred charge assets and ULAE. In addition, we also have direct asbestos liabilities in other liabilities on our consolidated balance sheets, as described in Note 23 - "Commitments and Contingencies" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### Environmental Claims

Environmental pollution claims represent another exposure where we believe the insurance industry has been adversely affected by various legislative changes and judicial interpretations. Unlike asbestos claims which are generated primarily from injured individuals, environmental claims generally result from state or federal government activities initiated against a commercial enterprise. The most well-known legislation, passed in 1980, is the Comprehensive Environmental Restoration, Compensation and Liability Act ("CERCLA", also known as Superfund). CERCLA imposed strict and retroactive liability on potentially responsible parties ("PRP"), which expanded in the court system to be interpreted as joint and several liability.

Our subsidiaries and counterparties who wrote portfolios we assumed have exposure to environmental claims from general liability insurance policies written prior to the mid-1980s, that were not specifically written to cover damage to the environment from gradual releases of pollutants. Similar to asbestos, there is additional uncertainty with respect to environmental reserves as compared to other general liability exposures. This added uncertainty is due to the multiple policy periods and allocation of claims to policy years, number of solvent PRPs at any site, ultimate cost of the remediation, the number of ultimate sites and changes to judicial precedence.

The following table provides a reconciliation of our gross and net loss and ALAE reserves from environmental exposures and the movement in gross and net reserves for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
	(in thousands of U.S. dollars)		
Balance as at January 1	\$ 191,060	\$ 171,850	\$ 73,201
Less: reinsurance reserves recoverable	6,666	7,799	9,912
Net balance as at January 1	184,394	164,051	63,289
Total net incurred losses and LAE	14,153	9,356	(5,583)
Total net paid losses	(21,273)	(26,542)	(12,233)
Effect of exchange rate movement	(320)	267	(490)
Acquired on purchase of subsidiaries	13,525	—	—
Assumed business	20,000	37,262	119,068
Net balance as at December 31	210,479	184,394	164,051
Plus: reinsurance reserves recoverable	12,221	6,666	7,799
Balance as at December 31	\$ 222,700	\$ 191,060	\$ 171,850

The liability for unpaid losses and ALAE, for environmental reserves, reflects our best estimate for future amounts needed to pay losses and related ALAE as of each of the balance sheet dates reflected in the financial statements herein in accordance with U.S. GAAP. As of December 31, 2018 and 2017, the net loss reserves for environmental pollution-related claims comprised 3.3% and 4.0%, respectively, of total non-life run-off net reserves for losses and LAE excluding the fair value adjustments, deferred charge assets and ULAE.

### Asbestos and Environmental Reserving

The ultimate losses from asbestos and environmental claims cannot be estimated using traditional actuarial reserving techniques that extrapolate losses to an ultimate basis using loss development. Claims are spread across multiple policy years based on the still evolving case law in each jurisdiction, making historical development patterns unreliable to forecast the future claim payments. There can be no assurance that the reserves we establish will be adequate or not be adversely affected by the development of other latent exposures.

We use a variety of methodologies to estimate the appropriate IBNR reserves required for our asbestos and environmental exposures. We estimate the IBNR reserves separately for each of our subsidiaries in order to apply the appropriate methodologies and assumptions to match the distinct portfolios of exposure. For example, where we have policy and claim data at the defendant or claimant level, we will use a ground-up frequency/severity method (described later in this section). For our subsidiaries that primarily have reinsurance portfolios, we generally use industry benchmarking methodologies to estimate appropriate IBNR reserves. These methods are based on comparisons of our loss experience on A&E exposures relative to industry loss experience on similar exposures. The discussion that follows describes, in greater detail, the primary actuarial methodologies used by us to estimate IBNR for A&E exposures.

In addition to the specific considerations for each method described below, many general factors are considered in the application of the methods and the interpretation of results for each portfolio of exposures. These factors include:

- the mix of product types (e.g., primary insurance, excess insurance, reinsurance of primary, excess of loss reinsurance, retrocession)
- the average attachment point and limit of coverages (e.g., first-dollar primary versus umbrella over primary versus high-excess)
- payment and reporting lags related to the international domicile of our subsidiaries as well as the difference in lags between primary, excess and reinsurance policies
- payment and reporting pattern acceleration due to large "wholesale" settlements (e.g., policy buy-backs and commutations) pursued by us, and
- lists of individual risks remaining and general trends within the legal and tort environments.

1. *Paid Survival Ratio Method.* In this method, our expected annual average payment amount is multiplied by an expected future number of payment years to develop an indicated reserve. Our historical calendar year payments are examined to determine an expected future annual average payment amount. This amount is multiplied by an expected number of future payment years to estimate a reserve. Trends in calendar year payment activity are considered when selecting an expected future annual average payment amount. Accepted industry benchmarks are used in determining an expected number of future payment years. Each year, annual payments data is updated, trends in payments are re-evaluated and changes to benchmark future payment years are reviewed. Advantages of this method are ease of application and simplicity of assumptions. A potential disadvantage of the method is that results could be misleading for portfolios of high excess exposures where significant payment activity has not yet begun.

2. *Paid Market Share Method.* In this method, our estimated market share is applied to the industry estimated unpaid losses or estimate of industry ultimate losses. The ratio of our historical calendar year payments to industry historical calendar year payments is examined to estimate our market share. This ratio is then applied to the estimate of industry unpaid losses or estimate of industry ultimate losses. Each year, calendar year payment data is updated (for both us and industry), estimates of industry unpaid losses are reviewed and the selection of our estimated market share is revisited. This method has the advantage that trends in calendar year market share can be incorporated into the selection of company share of remaining market payments. A potential disadvantage of this method is that it is particularly sensitive to assumptions regarding the time-lag between industry payments and our payments.

3. *Reserve-to-Paid Method.* In this method, the ratio of estimated industry reserves to industry paid-to-date losses is multiplied by our paid-to-date losses to estimate our reserves. Specific considerations in the application of this method include the completeness of our paid-to-date loss information, the potential acceleration or deceleration in our payments (relative to the industry) due to our claims handling practices, and the impact of large individual settlements. Each year, paid-to-date loss information is updated (for both us and the industry) and updates to industry estimated reserves are reviewed. This method has the advantage of relying purely on paid loss data and so is not influenced by subjectivity of case reserve loss estimates. A potential disadvantage is that the application to our portfolios that do not have complete inception-to-date paid loss history could produce misleading results. To address this potential disadvantage, a variation of the method is also considered by multiplying the ratio of estimated industry reserves to industry losses paid during a recent period of time (e.g., 3 years) times our paid losses during that period.

4. *IBNR: Case Ratio Method.* In this method, the ratio of estimated industry IBNR reserves to industry case reserves is multiplied by our case reserves to estimate our IBNR reserves. Specific considerations in the application of this method include the presence of policies reserved at policy limits, changes in overall industry case reserve adequacy and recent loss reporting history. Each year, our case reserves are updated, the estimate of industry reserves is updated and the applicability of the industry IBNR: Case Ratio is reviewed. This method has the advantage that it incorporates the most recent estimates of amounts needed to settle open cases included in current case reserves. A potential disadvantage is that results could be misleading where our case reserve adequacy differs significantly from overall industry case reserve adequacy. In these instances, the industry IBNR: Case Ratios were adjusted to reflect our portfolio case reserve adequacy.

5. *Ultimate-to-Incurred Method.* In this method, the ratio of estimated industry ultimate losses to industry incurred-to-date losses is applied to our incurred-to-date losses to estimate our IBNR reserves. Specific considerations in the application of this method include the completeness of our incurred-to-date loss information, the potential acceleration or deceleration in our incurred losses (relative to the industry) due to our claims handling practices and the impact of large individual settlements. Each year incurred-to-date loss information is updated (for both us and the industry) and updates to industry estimated ultimate losses are reviewed. This method has the advantage that it incorporates both paid and case reserve information in projecting ultimate losses. A potential disadvantage is that results could be misleading where cumulative paid loss data is incomplete or where our case reserve adequacy differs significantly from overall industry case reserve adequacy. In these instances, the industry IBNR: Case Ratios were adjusted to reflect our portfolio case reserve adequacy.

6. *Decay Factor Method.* In this method, a decay factor is directly applied to our payment data to estimate future payments. The decay factors were selected based on a review of our own decays and industry decays. This method is most useful where our data shows a decreasing pattern and is credible enough to be reliable.

7. *Asbestos Ground-up Exposure Analysis Using Frequency-Severity Method.* This method is used when we have policy and claim data at the defendant or claimant level. In a frequency-severity method there are two components that need to be estimated, namely, (1) the number of claims that will ultimately be settled with payment and (2) the severity of these claims including legal costs. The estimate of future settled claims is based on the historical claim filing rates, claim dismissal rates, current pending claims and epidemiological forecasts of asbestos disease incident for future claim filings. The average severity is based on historical average settlement amounts trended for inflation to the expected year of settlement for claims that close with an indemnity payment. Loss adjustment expenses are loaded on based on historical expense to indemnity ratios. Multiplying the number of expected future claims settled with payments by the average severity results in an estimate of the ground-up losses at the defendant level. At this point, the defendant's insurance coverage is considered to determine the allocation of the ground-up estimate to policy years and policy within the insurance coverage as well as the amount retained by the defendant.

#### **Losses and Loss Adjustment Expenses - Atrium and StarStone**

The reserve for losses and loss expenses includes reserves for unpaid reported losses and for IBNR reserves. The reserves for unpaid reported losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by us. The reserve for incurred but not reported losses and loss expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

The following tables provide a breakdown of the gross and net losses and LAE by line of business and the fair value adjustments resulting from business combinations and ULAE as of December 31, 2018 and 2017 for the Atrium segment:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 32,999	\$ 36,011	\$ 69,010	\$ 21,460	\$ 24,207	\$ 45,667
Binding Authorities	28,512	59,302	87,814	26,601	57,016	83,617
Reinsurance	18,547	27,653	46,200	15,180	24,823	40,003
Accident and Health	4,972	6,348	11,320	4,225	5,837	10,062
Non-Marine Direct and Facultative	9,855	11,207	21,062	8,529	9,389	17,918
Total	\$ 94,885	\$ 140,521	\$ 235,406	\$ 75,995	\$ 121,272	\$ 197,267
Fair value adjustments			3,476			2,847
ULAE			2,402			2,402
Total			\$ 241,284			\$ 202,516

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 24,581	\$ 46,138	\$ 70,719	\$ 20,177	\$ 28,551	\$ 48,728
Binding Authorities	26,115	51,896	78,011	24,158	49,486	73,644
Reinsurance	14,381	34,489	48,870	13,815	26,336	40,151
Accident and Health	3,716	5,518	9,234	3,296	4,994	8,290
Non-Marine Direct and Facultative	9,570	12,467	22,037	9,444	9,665	19,109
Total	\$ 78,363	\$ 150,508	\$ 228,871	\$ 70,890	\$ 119,032	\$ 189,922
Fair value adjustments			9,547			7,965
ULAE			2,455			2,455
Total			\$ 240,873			\$ 200,342

The following tables provide a breakdown of the gross and net losses and LAE reserves by line of business and the fair value adjustments resulting from business combinations and ULAE as of December 31, 2018 and 2017 for the StarStone segment:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Casualty	\$ 177,432	\$ 331,432	\$ 508,864	\$ 137,828	\$ 282,026	\$ 419,854
Marine	185,084	182,453	367,537	163,889	133,426	297,315
Property	317,102	123,511	440,613	151,774	65,522	217,296
Aerospace	67,203	40,416	107,619	45,879	36,167	82,046
Workers' Compensation	49,373	110,082	159,455	33,759	68,969	102,728
Total	\$ 796,194	\$ 787,894	\$ 1,584,088	\$ 533,129	\$ 586,110	\$ 1,119,239
Fair value adjustments			(467)			1,432
ULAE			25,076			25,076
Total			\$ 1,608,697			\$ 1,145,747

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Casualty	\$ 139,200	\$ 282,789	\$ 421,989	\$ 98,070	\$ 188,518	\$ 286,588
Marine	130,962	118,375	249,337	94,115	69,828	163,943
Property	208,777	89,963	298,740	115,148	39,280	154,428
Aerospace	63,920	26,070	89,990	40,781	17,055	57,836
Workers' Compensation	48,118	82,024	130,142	31,213	41,920	73,133
Total	\$ 590,977	\$ 599,221	\$ 1,190,198	\$ 379,327	\$ 356,601	\$ 735,928
Fair value adjustments			(555)			1,698
ULAE			18,100			18,100
Total			\$ 1,207,743			\$ 755,726

#### Quarterly Reserve Reviews

The reserve for losses and loss expenses is reviewed on a quarterly basis. Each quarter, paid and incurred loss development is reviewed to determine whether it is consistent with expected development. Loss development is examined separately by class of business, and large individual losses or loss events are examined separately from regular attritional development. Discussions are held with appropriate personnel including underwriters, claims adjusters, actuaries, accountants and attorneys to fully understand quarterly loss development and implications for the quarter-end reserve balances. Based on analysis of the loss development data and the associated discussions, management determines whether any adjustment is necessary to quarter-end reserve balances.

**Policy Benefits for Life Contracts**

Policy benefits for life contracts as at December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Policy benefits for life contracts	\$ 105,080	\$ 117,207

Our policy benefits for life contracts (or policy benefits) are estimated using standard actuarial techniques and cash flow models. We establish and maintain our policy benefits at a level that we estimate will, when taken together with future premium payments and investment income expected to be earned on associated premiums, be sufficient to support future cash flow benefit obligations and third-party servicing obligations as they become payable. We review our policy benefits regularly and perform loss recognition testing based upon cash flow projections.

Since the development of the policy benefits is based upon cash flow projection models, we must make estimates and assumptions based on experience and industry mortality tables, longevity and morbidity rates, lapse rates, expenses and investment experience, including a provision for adverse deviation. The assumptions used to determine policy benefits are determined at the inception of the contracts, reviewed and adjusted at the point of acquisition as required, and are locked-in throughout the life of the contract unless a premium deficiency develops. The assumptions are reviewed no less than annually and are unlocked if they would result in a material adverse reserve change. We establish these estimates based upon transaction-specific historical experience, information provided by the ceding company for the assumed business and industry experience. Actual results could differ materially from these estimates. As the experience on the contracts emerges, the assumptions are reviewed by management. We determine whether actual and anticipated experience indicates that existing policy benefits, together with the present value of future gross premiums, are sufficient to cover the present value of future benefits, settlement and maintenance costs and to recover unamortized acquisition costs. If such a review indicates that policy benefits should be greater than those currently held, then the locked-in assumptions are revised and a charge for policy benefits is recognized at that time.

**Reinsurance Balances Recoverable on Paid and Unpaid Losses**

Reinsurance balances recoverable on paid and unpaid losses as at December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Reinsurance balances recoverable on paid and unpaid losses	\$ 1,290,072	\$ 1,478,806
Reinsurance balances recoverable on paid and unpaid losses, fair value	739,591	542,224
Total reinsurance balances recoverable on paid and unpaid losses	<u>\$ 2,029,663</u>	<u>\$ 2,021,030</u>

Our acquired insurance and reinsurance subsidiaries in all three of our operating segments, prior to acquisition by us, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance they assumed. Loss reserves represent total gross losses, and reinsurance balances recoverables represent anticipated recoveries of a portion of those loss reserves, as well as amounts receivable from reinsurers with respect to claims that have already been paid. While reinsurance arrangements are designed to limit losses and to permit recovery of a portion of loss reserves, reinsurance does not relieve us of our liabilities to our insureds or reinsureds. Therefore, we evaluate and monitor concentration of credit risk among our reinsurers, including companies that are insolvent, in run-off or facing financial difficulties. Provisions are made for amounts considered potentially uncollectible. In addition to the acquired retrocessional agreements, on an annual basis, our active underwriting subsidiaries purchase tailored outwards reinsurance programs designed to manage their risk profiles. The majority of the total third-party reinsurance cover for our active underwriting subsidiaries is with Lloyd's Syndicates or other reinsurers rated A- or better and reinsurers, while not rated, provide collateral in the form of letters of credit, trust funds or funds withheld.

**Valuation Allowances on Reinsurance Balances Recoverable and Deferred Tax Assets****Valuation Allowances on Reinsurance Balances Recoverable**

To estimate the provision for uncollectible reinsurance balances recoverable on paid and unpaid losses, the reinsurance balances recoverable on paid and unpaid losses is first allocated to applicable reinsurers. As part of this process, ceded IBNR is allocated by reinsurer. We then use a detailed analysis to estimate uncollectible reinsurance. The primary components of the analysis are reinsurance recoverable balances by reinsurer and bad debt provisions applied to these balances to determine the portion of a reinsurer's balance deemed to be uncollectible. These provisions require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer (in order to determine its ability to settle the reinsurance balances) as well as other key considerations and assumptions, such as claims and coverage issues.

**Valuation Allowances on Deferred Tax Assets**

Certain of our subsidiaries and branches operate in jurisdictions where they are subject to taxation. Current and deferred tax expense or benefit is charged or credited to net earnings (loss), or, in certain cases, to other comprehensive income (loss), based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred taxes are provided for temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that all or some portion of deferred tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets to reduce the assets to the amount more likely than not to be realized.

We recognize the benefit relating to tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A recognized tax benefit is measured as the largest amount that is greater than 50 percent likely of being realized. A liability or other adjustment is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

**Goodwill**

Goodwill as at December 31, 2018 and 2017 was as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Goodwill	\$ 114,807	\$ 73,071

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. We perform an initial valuation of our goodwill assets and assess goodwill for impairment on an annual basis. If, as a result of the assessment, we determine the value of our goodwill asset is impaired, goodwill is written down in the period in which the determination is made.

**Intangible Assets**

Intangible assets as of December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Intangible assets with a definite life	\$ 16,887	\$ 20,487
Intangible assets with an indefinite life	87,031	87,031
Total intangible assets	\$ 103,918	\$ 107,518

Intangible assets represent the Lloyd's syndicate capacity, customer relationships, management contract and brand arising from the acquisition of Atrium and the syndicate capacity, U.S. insurance licenses and software, technology arising from the acquisition of StarStone. Definite-lived intangible assets are amortized over their estimated useful lives. We recognize the amortization of all intangible assets in our consolidated statement of earnings. Indefinite-lived intangible assets are not subject to amortization. The carrying values of indefinite-lived intangible assets are reviewed for indicators of impairment on at least an annual basis or sooner whenever events or changes in circumstances indicate that the assets may be impaired. Impairment is recognized if the carrying values of the intangible assets are not recoverable from their undiscounted cash flows and is measured as the difference between the carrying value and the fair value.

### **Deferred Charge Assets**

Deferred charge assets as of December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Deferred charge asset	\$ 86,585	\$ 80,192

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. At the inception of a contract, a deferred charge asset is recorded for the excess, if any, of the estimated ultimate losses payable over the premiums received. The premium consideration that we charge the ceding companies may be lower than the undiscounted estimated ultimate losses payable due to the "time value of money". After receiving the premium consideration in full from our cedents at the inception of the contract, we invest the premium received over an extended period of time thereby generating investment income. We expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. Deferred charge assets, recorded in other assets, are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. Deferred charge assets amortization is adjusted periodically to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and the amount of periodic amortization.

### **Premium Revenue Recognition**

#### *Non-life Run-off, Atrium and StarStone*

Our premiums written are earned on a pro-rata basis over the coverage period. Our reinsurance premiums are recorded at the inception of the policy, unless policy language stipulates otherwise, and are estimated based upon information in underlying contracts and information provided by clients and/or brokers. A change in reinsurance premium estimates is made when additional information regarding changes in underlying exposures is obtained. Such changes in estimates are expected and may result in significant adjustments in future periods. We record any adjustments as premiums written in the period they are determined.

With respect to retrospectively rated contracts (where additional premium would be due should losses exceed pre-determined contractual thresholds), any additional premiums are based upon contractual terms, and management judgment is involved in estimating the amount of losses that we expect to be ceded. We would recognize additional premiums at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed. Changes in estimates of losses recorded on contracts with additional premium features would result in changes in additional premiums recognized.

### **Investments**

#### *Valuation of Investments*

Our non-life run-off, active underwriting and life and annuity businesses invest in trading portfolios of fixed maturity and short-term investments and equities, and an available-for-sale portfolio of fixed maturity and short-term investments. We record both the trading and available-for-sale portfolios at fair value on our balance sheet. For our trading portfolios, the unrealized gain or loss associated with the difference between the fair value and the amortized cost of the investments is recorded in net earnings. For our available-for-sale portfolios, the unrealized gain or loss (other than credit losses) is excluded from net earnings and reported as a separate component of accumulated other comprehensive income.

Our other investments comprise investments in various private equities and private equity funds, fixed income funds, fixed income hedge funds, equity funds, private credit funds and CLO equity funds, as well as direct investments in CLO equities. All of these other investments are recorded at fair value.

We measure fair value in accordance with ASC 820, Fair Value Measurements. The guidance dictates a framework for measuring fair value and a fair value hierarchy based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

In addition, certain of our other investments are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above. When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

The use of valuation techniques may require a significant amount of judgment. During periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent or market data becomes less observable.

#### *Fixed Maturity Investments*

Fixed maturity investments at December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>(in thousands of U.S. dollars)</b>	
Short-term investments, trading, at fair value	\$ 114,116	\$ 180,211
Fixed maturities, trading, at fair value	7,248,793	5,696,073
Fixed maturities, available-for-sale, at fair value	151,609	210,285
Fixed maturity investments within funds held - directly managed	1,183,374	1,165,386
<b>Total fixed maturity investments</b>	<b>\$ 8,697,892</b>	<b>\$ 7,251,955</b>

Fixed maturity investments are subject to fluctuations in fair value due to changes in interest rates, changes in issuer-specific circumstances such as credit rating and changes in industry-specific circumstances such as movements in credit spreads based on the market's perception of industry risks. As a result of these potential fluctuations, it is possible to have significant unrealized gains or losses on a security. At maturity, absent any credit loss, fixed maturity investments' amortized cost will equal their fair value and no realized gain or loss will be recognized in income. If, due to an unforeseen change in loss payment patterns, we need to sell any available-for-sale investments before maturity, we could realize significant gains or losses in any period, which could have a meaningful effect on reported net income for such period.

We perform regular reviews of our available-for-sale fixed maturities portfolios and utilize a process that considers numerous indicators in order to identify investments that are showing signs of potential other-than-temporary impairment losses. These indicators include the length of time and extent of the unrealized loss, any specific adverse conditions, historic and implied volatility of the security, failure of the issuer of the security to make scheduled interest payments, significant rating changes and recoveries or additional declines in fair value subsequent to the balance sheet date. The consideration of these indicators and the estimation of credit losses involve significant management judgment.

Any other-than-temporary impairment loss, or OTTI, related to a credit loss would be recognized in earnings, and the amount of the OTTI related to other factors (e.g. interest rates, market conditions, etc.) is recorded as a component of other comprehensive income. If no credit loss exists but either we have the intent to sell the fixed maturity investment or it is more likely than not that we will be required to sell the fixed maturity investment before its anticipated recovery, then the entire unrealized loss is recognized in earnings.

For the years ended December 31, 2018, 2017 and 2016, we did not recognize any other-than-temporary impairment charges through earnings.

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

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

Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

#### Equities

Equity investments, trading as of December 31, 2018 and 2017 were as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Publicly traded equity investments in common and preferred stocks	\$ 138,415	\$ 106,603
Privately held equity investments in common and preferred stocks	228,710	—
Total equity investments	<u>\$ 367,125</u>	<u>\$ 106,603</u>

Our publicly traded equity investments in common and preferred stocks predominantly trade on the major exchanges and are managed by our external advisors. Our publicly traded equity investments are widely diversified and there is no significant concentration in any specific industry. We have categorized all of publicly traded equity investments 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 our investments in preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Privately held equity investments are another method by which we can invest in the run off or active underwriting markets. Each investment may have its own unique terms and conditions and there may be restrictions on disposals. The market for these investments is illiquid and there is no active market. We have categorized all of our privately held equity investments as Level 3 investments because the market for these investments is illiquid and there is no active market. The Company uses a combination of internal models, reported values from co-investors/managers and observable inputs, such as capital raises and capital transactions between new and existing shareholders, to calculate the fair value of the privately held equity investments.

*Other Investments, at fair value*

Other investments as of December 31, 2018 and 2017 were as follows:

	2018	2017
Hedge funds	\$ 852,584	\$ 63,773
Fixed income funds	403,858	229,999
Equity funds	333,681	249,475
Private equity funds	248,628	289,556
CLO equities	39,052	56,765
CLO equity funds	37,260	12,840
Private credit funds	33,381	10,156
Other	9,313	828
<b>Total other investments</b>	<b>\$ 1,957,757</b>	<b>\$ 913,392</b>

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

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

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

Our investments in fixed income funds and equity funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.

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

We measure the fair value of our direct investment in CLO equities based on valuations provided by our external CLO equity manager. If the investment does not involve an external CLO equity manager, the fair value of the investment is valued based on valuations provided by the broker or lead underwriter of the investment (the "broker"). Our CLO equity investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.

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

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

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

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

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

Certain funds are subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights. As at December 31, 2018, we had \$71.5 million of fixed income hedge funds subject to gates or side-pockets.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the end of the quarter in which the reclassifications occur.

#### ***Accounting for Business Combinations - Fair Value Measurement***

The most significant liabilities and assets of an acquired company are typically the liability for losses and LAE, and the assets related to cash, investments and any reinsurance balances recoverable on paid and unpaid losses that may be contractually due to the acquired entity. The market for acquisition of run-off companies is not always sufficiently active and transparent to enable us to identify reliable, market exit values for acquired assets and liabilities. Accordingly, consistent with provisions of U.S. GAAP, we have developed internal models that we believe allow us to determine fair values that are reasonable proxies for market exit values. We are familiar with the major participants in the acquisition run-off market and believe that the key assumptions we make in valuing acquired assets and liabilities are consistent with the kinds of assumptions made by such market participants. Furthermore, in our negotiation of purchase prices with sellers, it is frequently clear to us that other bidders in the market are using models and assumptions similar in nature to ours during the competitive bid process. The majority of acquisitions are completed following a public tender process whereby the seller invites market participants to provide bids for the target acquisition.

We account for business combinations using the acquisition method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value. The fair values of each of the insurance and reinsurance assets and liabilities acquired are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy. Our run-off strategy, as well as that of other run-off market participants, is expected to be different from the seller's as generally sellers are not specialized in running off insurance and reinsurance liabilities whereas we and other market participants do specialize in such run-offs.

The key assumptions used by us and, we believe, by other run-off market participants in the fair valuation of acquired companies are (i) the projected payout, timing and amounts of claims liabilities; (ii) the related projected timing and amount of reinsurance collections; (iii) an appropriate discount rate, which is applied to determine the present value of the future cash flows; (iv) the estimated ULAE to be incurred over the life of the run-off; (v) the impact that any accelerated run-off strategy may have on the adequacy of acquired bad debt provisions; and (vi) an appropriate risk margin.

The probability-weighted projected cash flows of the acquired company are based on projected claims payouts provided by the seller predominantly in the form of the seller's most recent independent actuarial reserve report. In the absence of the seller's actuarial reserve report, our actuaries will determine the estimated claims payout. In certain jurisdictions, the local legislation provides for the possibility of pursuing strategies to achieve complete finality and conclude the run-off of a company, such as solvent schemes of arrangement. If appropriate we may estimate the probability of being able to complete a solvent scheme of arrangement and factor that into the claims payout projections.

On acquisition, we make a provision for ULAE liabilities. This provision considers the adequacy of the provision maintained and recorded by the seller in light of our run-off strategy and estimated ULAE to be incurred over the life of the acquired run-off as projected by the seller's actuaries or, in their absence, our actuaries. To the extent that our estimate of the total ULAE provision is different from the seller's, an adjustment will be made. While our objective is to accelerate the run-off by completing commutations of assumed and ceded business (which would have the effect of shortening the life, and therefore the cost, of the run-off), the success of this strategy is far from certain. Therefore, the estimates of ULAE are based on running off the liabilities and assets over the actuarially projected life of the run-off.

We believe that providing for ULAE based on our run-off strategy is appropriate in determining the fair value of the assets and liabilities acquired in an acquisition of a run-off company. We believe that other participants in the run-off acquisition marketplace factor into the price to pay for an acquisition the estimated cost of running off the acquired company based on how that participant expects to manage the assets and liabilities.

The difference between the carrying value of reserves acquired at the date of acquisition and the fair value is the Fair Value Adjustment, ("FVA"). The FVA is amortized over the estimated payout period and adjusted for accelerations on commutation settlements or any other new information or subsequent change in circumstances after the date of acquisition. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the acquisition, there is an adjustment to the estimated ultimate loss reserves, or there are changes in bad debt provisions or in estimates of future run-off costs following accelerated payouts, then the amortization of the FVA is accelerated or decelerated, as the case may be, to reflect such changes.

#### ***Fair Value Option - Insurance Contracts***

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

The fair value of the liability for losses and LAE and reinsurance recoverable under these contracts is presented separately in our consolidated balance sheet as of December 31, 2018 and 2017. Changes in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses are included in net incurred losses and LAE in our consolidated statement of operations. The carrying value of our reinsurance recoverable and liability for losses and LAE for which we elected the fair value option as of December 31, 2018 and 2017 was as follows:

	2018		2017	
	(in thousands of U.S. dollars)			
Gross Losses and loss adjustment expenses, fair value	\$	2,874,055	\$	1,794,669
Reinsurance balances recoverable on paid and unpaid losses, fair value	\$	739,591	\$	542,224
Net losses and LAE, fair value	\$	2,134,464	\$	1,252,445

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

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

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

The observable and unobservable inputs used in the model are described in Note 11 - "Fair Value Measurements" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

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

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

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

#### **Redeemable Noncontrolling Interest**

The redeemable noncontrolling interest as of December 31, 2018 and 2017 was as follows:

	2018	2017
	(in thousands of U.S. dollars)	
Redeemable noncontrolling interest	\$ 458,543	\$ 479,606

In connection with the acquisitions of Arden, Atrium and StarStone, certain subsidiaries have issued shares to noncontrolling interests. These shares provide certain redemption rights to the holder, which may be settled in Enstar's own shares or cash or a combination of cash and shares, at our option. We classify redeemable noncontrolling interests with redemption features that are not solely within our control within temporary equity in our consolidated balance sheets and carry them at the redemption value, which is fair value. We recognize changes in the fair value that exceed the carrying value of redeemable noncontrolling interest through retained earnings as if the balance sheet date were also the redemption date.

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

In addition to presenting net earnings (losses) attributable to Enstar Group Limited ordinary shareholders and diluted earnings (losses) per ordinary share determined in accordance with U.S. GAAP, we believe that presenting non-GAAP operating income (loss) attributable to Enstar Group Limited ordinary shareholders and diluted non-GAAP operating income (loss) per ordinary share, non-GAAP financial measures as defined in Item 10(e) of Regulation S-K, provides investors with valuable measures of our performance.

Non-GAAP operating income (loss) excludes: (i) net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed, (ii) change in fair value of insurance contracts for which we have elected the fair value option, (iii) gain (loss) on sale of subsidiaries, (vi) net earnings (loss) from discontinued operations, (v) tax effect of these adjustments where applicable, and (vi) attribution of share of adjustments to noncontrolling interest where applicable. We eliminate the impact of net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed and change in fair value of insurance contracts for which we have elected the fair value option because these items are subject to significant fluctuations in fair value from period to period, driven primarily by market conditions and general economic conditions, and therefore their impact on our earnings is not reflective of the performance of our core operations. We eliminate the impact of gain (loss) on sale of subsidiaries and net earnings (loss) on discontinued operations as these are not reflective of the performance of our core operations.

Further, these non-GAAP measures enable readers of the consolidated financial statements to more easily analyze our results in a manner more aligned with the manner in which our management analyzes our underlying performance. We believe that presenting these non-GAAP financial measures, which may be defined and calculated differently by other companies, improves the understanding of our consolidated results of operations. These measures should not be viewed as a substitute for those calculated in accordance with U.S. GAAP.

Non-GAAP operating income (loss) attributable to Enstar Group Limited ordinary shareholders is calculated by the addition or subtraction of certain items from within our consolidated statements of earnings to or from net earnings (loss) attributable to Enstar Group Limited ordinary shareholders, the most directly comparable GAAP financial measure, as illustrated in the table below, for the years ending December 31, 2018, 2017 and 2016:

	2018	2017	2016
	(in thousands of U.S. dollars, except per share data)		
Net earnings (loss) attributable to Enstar Group Limited ordinary shareholders	\$ (162,354)	\$ 311,458	\$ 264,807
Adjustments:			
Net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed <sup>(1)</sup>	243,093	(70,747)	4,387
Change in fair value of insurance contracts for which we have elected the fair value option	6,664	30,256	—
Loss on sale of subsidiary	—	16,349	—
Net loss from discontinued operations	—	(14,183)	(12,359)
Tax effects of adjustments <sup>(2)</sup>	(16,588)	5,364	4,956
Adjustments attributable to noncontrolling interest <sup>(3)</sup>	(9,166)	4,840	5,990
Non-GAAP operating income attributable to Enstar Group Limited ordinary shareholders <sup>(4)</sup>	<u>\$ 61,649</u>	<u>\$ 283,337</u>	<u>\$ 267,781</u>
Diluted net earnings (loss) per ordinary share <sup>(5)</sup>	\$ (7.84)	\$ 15.95	\$ 13.62
Adjustments:			
Net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed <sup>(1)</sup>	11.70	(3.62)	0.23
Change in fair value of insurance contracts for which we have elected the fair value option	0.32	1.55	—
Loss on sale of subsidiary	—	0.84	—
Net loss from discontinued operations	—	(0.73)	(0.64)
Tax effects of adjustments <sup>(2)</sup>	(0.79)	0.27	0.25
Adjustments attributable to noncontrolling interest <sup>(3)</sup>	(0.44)	0.25	0.31
Diluted non-GAAP operating income per ordinary share <sup>(4)</sup>	<u>\$ 2.95</u>	<u>\$ 14.51</u>	<u>\$ 13.77</u>
Weighted average ordinary shares outstanding - diluted	20,904,176	19,527,591	19,447,241

<sup>(1)</sup> Represents the net realized and unrealized gains and losses related to fixed maturity securities. Our fixed maturity securities are held directly on our balance sheet and also within the "Funds held - directly managed" balance. Refer to Note 6 - "Investments" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K for further details on our net realized and unrealized gains and losses.

<sup>(2)</sup> Represents an aggregation of the tax expense or benefit associated with the specific country to which the pre-tax adjustment relates, calculated at the applicable jurisdictional tax rate.

<sup>(3)</sup> Represents the impact of the adjustments on the net earnings (loss) attributable to noncontrolling interest associated with the specific subsidiaries to which the adjustments relate.

<sup>(4)</sup> Non-GAAP financial measure.

<sup>(5)</sup> During a period of loss, the basic weighted average ordinary shares outstanding is used in the denominator of the diluted loss per ordinary share computation as the effect of including potentially dilutive securities would be anti-dilutive.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following risk management discussion and the estimated amounts generated from sensitivity analysis presented are forward-looking statements of market risk assuming certain market conditions occur. Future results may differ materially from these estimated results due to, among other things, actual developments in the global financial markets, changes in the composition of our investment portfolio, or changes in our business strategies. The results of

analysis we use to assess and mitigate risk are not projections of future events or losses. See "Cautionary Statement Regarding Forward-Looking Statements" for additional information regarding our forward-looking statements.

We are principally exposed to four types of market risk: interest rate risk; credit risk; equity price risk and foreign currency risk. Our policies to address these risks in 2018 were not materially different than those used in 2017 other than as described herein, and, based on our current knowledge and expectations, we do not currently anticipate significant changes in our market risk exposures or in how we will manage those exposures in future reporting periods.

### Interest Rate and Credit Spread Risk

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

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in the treasury yield curve, assuming credit spreads remain constant, in our fixed maturity and short-term investments portfolio classified as trading and available-for-sale and our funds held directly managed portfolio as at December 31, 2018 and 2017:

As of December 31, 2018	Interest Rate Shift in Basis Points				
	-100	-50	—	+50	+100
	(in millions of U.S. dollars)				
Total Market Value	\$ 9,147	\$ 8,920	\$ 8,698	\$ 8,484	\$ 8,279
Market Value Change from Base	5.2%	2.6%	—	(2.5)%	(4.8)%
Change in Unrealized Value	\$ 449	\$ 222	\$ —	\$ (214)	\$ (419)
<b>As of December 31, 2017</b>	<b>-100</b>	<b>-50</b>	<b>—</b>	<b>+50</b>	<b>+100</b>
Total Market Value	\$ 7,685	\$ 7,466	\$ 7,252	\$ 7,047	\$ 6,852
Market Value Change from Base	6.0%	3.0%	—	(2.8)%	(5.5)%
Change in Unrealized Value	\$ 433	\$ 214	\$ —	\$ (205)	\$ (400)

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

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in credit spreads assuming interest rates remain fixed, in our fixed maturity and short-term investments portfolio classified as trading and available-for-sale and our funds held directly managed portfolio as at December 31, 2018 and 2017:

As at December 31, 2018	Credit Spread Shift in Basis Points		
	—	+50	+100
	(in millions of U.S. dollars)		
Total Market Value	\$ 8,698	\$ 8,502	\$ 8,314
Market Value Change from Base	—	(2.3)%	(4.4)%
Change in Unrealized Value	\$ —	\$ (196)	\$ (384)
<b>As at December 31, 2017</b>	<b>—</b>	<b>+50</b>	<b>+100</b>
Total Market Value	\$ 7,252	\$ 7,055	\$ 6,865
Market Value Change from Base	—	(2.7)%	(5.3)%
Change in Unrealized Value	\$ —	\$ (197)	\$ (387)

## Credit Risk

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

### Fixed Maturity and Short-Term Investments

As a holder of \$8.7 billion of fixed maturity and short-term investments, we also have exposure to credit risk as a result of investment ratings downgrades or issuer defaults. In an effort to mitigate this risk, our investment portfolio consists primarily of investment grade-rated, liquid, fixed maturity investments of short-to-medium duration and mutual funds. A table of credit ratings for our fixed maturity and short-term investments is in Note 6 - "Investments" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K. At December 31, 2018, 42.6% of our fixed maturity and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2017: 40.0%) with 3.6% rated lower than BBB- (December 31, 2017: 5.4%). The portfolio as a whole, including cash, restricted cash, fixed maturity and short term investments and funds held - directly managed, had an average credit quality rating of A+ as at December 31, 2018 (December 31, 2017: A+). In addition, we manage our portfolio pursuant to guidelines that follow what we believe are prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers and, as a result, we do not believe we have significant concentrations of credit risk.

A summary of our fixed maturity and short-term investments by credit rating as of December 31, 2018 and December 31, 2017 is as follows:

Credit rating	2018	2017	Change
AAA	28.2%	26.3%	1.9 %
AA	14.4%	13.7%	0.7 %
A	30.2%	33.9%	(3.7)%
BBB	23.4%	20.4%	3.0 %
Non-investment grade	3.6%	5.4%	(1.8)%
Not rated	0.2%	0.3%	(0.1)%
Total	100.0%	100.0%	
Average credit rating	A+	A+	

### Reinsurance Balances Recoverable on Paid and Unpaid Losses

We have exposure to credit risk as it relates to our reinsurance balances recoverable on paid and unpaid losses. Our insurance subsidiaries remain liable to the extent that retrocessionaires do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers. A discussion of our reinsurance balances recoverable on paid and unpaid losses is in Note 8 - "Reinsurance Balances Recoverable on Paid and Unpaid Losses" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

### Funds Held

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. The funds balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. Our funds held are shown under two categories on the consolidated balance sheets, where funds held upon which we receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where we receive a fixed crediting rate are shown as "Funds held by reinsured companies". Both types of funds held are subject to credit risk. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. As of December 31, 2018 we have a significant concentration of \$1.0 billion with one reinsured company, which has financial strength credit ratings of A+ from A.M. Best and AA from Standard & Poor's.

## Equity Price Risk

Our portfolio of equity investments, including the equity funds and equity call options included in other investments (collectively, "equities at risk"), has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our global publicly traded equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices and changes in this blend of indices would approximate the impact on our portfolio. A summary of our equity investments as at December 31, 2018 and 2017 is as follows:

	2018	2017	Change
	(in millions of U.S. dollars)		
Publicly traded equity investments in common and preferred stocks	\$ 138.4	\$ 106.6	\$ 31.8
Privately held equity investments in common and preferred stocks	228.7	—	228.7
Private equities funds	248.6	289.6	(41.0)
Equity funds	333.7	249.5	84.2
Fair value of equities at risk	<u>\$ 949.4</u>	<u>\$ 645.7</u>	<u>\$ 303.7</u>
Impact of 10% decline in fair value	<u>\$ 94.9</u>	<u>\$ 64.6</u>	<u>\$ 30.3</u>

In addition to the above, as of December 31, 2018, we had investments of \$852.6 million (December 31, 2017: \$63.8 million) in hedge funds, included within our other investments, at fair value, that have exposure, among other items, to equity price risk.

## Foreign Currency Risk

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

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

We have exposure to foreign currency risk through our ownership of European, British, and Australian subsidiaries whose functional currencies are the Euro, British pound and Australian dollar, respectively. Following the closing of the Pavonia sale, as discussed in Note 5 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations", we no longer have subsidiaries with a functional currency of Canadian dollars. The foreign exchange gain or loss resulting from the translation of their financial statements from functional currency into U.S. dollars is recorded in the cumulative translation adjustment account, which is a component of accumulated other comprehensive income (loss) in shareholders' equity. During the three months ended September 30, 2018, we fully repaid our borrowing of Euros under the EGL Revolving Credit Facility, which was hedging the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros, and replaced the hedge with a Euro-denominated foreign currency forward exchange rate contract. During the year ended December 31, 2018, we utilized forward exchange contracts to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currencies are denominated in Australian dollars. We utilize hedge accounting to record the foreign exchange gain or loss on these instruments in the cumulative translation account. The loan and the forward contracts are discussed in Note 15 - "Debt Obligations and Credit Facilities" and Note 7 - "Derivatives and Hedging Instruments", respectively, in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

In addition, from time to time, we may also utilize foreign currency forward contracts to hedge certain foreign currency exposures in British pounds, Canadian dollars, Euros and Australian dollars which were not designated for hedge accounting.

The table below summarizes our net exposures as at December 31, 2018 and 2017 to foreign currencies:

2018	AUD	CAD	EUR	GBP	Other	Total
	(in millions of U.S. dollars)					
Total net foreign currency exposure	\$ 17.5	\$ 20.2	\$ 17.2	\$ (35.8)	\$ 1.7	\$ 20.7
Pre-tax impact of a 10% movement of the U.S. dollar <sup>(1)</sup>	\$ 1.8	\$ 2.0	\$ 1.7	\$ (3.6)	\$ 0.2	\$ 2.1
2017	AUD	CAD	EUR	GBP	Other	Total
	(in millions of U.S. dollars)					
Total net foreign currency exposure	\$ (2.1)	\$ (3.4)	\$ 11.0	\$ 7.0	\$ 3.7	\$ 16.2
Pre-tax impact of a 10% movement of the U.S. dollar <sup>(1)</sup>	\$ (0.2)	\$ (0.3)	\$ 1.1	\$ 0.7	\$ 0.4	\$ 1.6

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

### Effects of Inflation

Inflation may have a material effect on our consolidated results of operations by its effect on our assets and our liabilities. Inflation could lead to higher interest rates, resulting in a decrease in the market value of our fixed maturity portfolio. We may choose to hold our fixed maturity investments to maturity, which would result in the unrealized gains or losses accreting back over time. Inflation may also affect the value of certain of our liabilities, primarily our estimate for losses and LAE, such as our cost of claims which includes medical treatments, litigation costs and judicial awards. Although our estimate for losses and LAE is established to reflect the likely payments in the future, we would be subject to the risk that inflation could cause these amounts to be greater than the current estimate for losses and LAE. We seek to take this into account when setting reserves and pricing new business.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****INDEX TO FINANCIAL STATEMENTS AND SCHEDULES**

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Schedules other than those listed above are omitted as they are not applicable or the information has been included in the consolidated financial statements, notes thereto, or elsewhere herein.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors  
Enstar Group Limited:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Enstar Group Limited and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018 and the related notes and financial statement schedules I to VI (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Audit Limited

We have served as the Company's auditor since 2012.

Hamilton, Bermuda

March 1, 2019

**ENSTAR GROUP LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2018 and 2017**

	2018	2017
	(expressed in thousands of U.S. dollars, except share data)	
<b>ASSETS</b>		
Short-term investments, trading, at fair value	\$ 114,116	\$ 180,211
Fixed maturities, trading, at fair value	7,248,793	5,696,073
Fixed maturities, available-for-sale, at fair value (amortized cost: 2018 — \$151,433; 2017 — \$208,097)	151,609	210,285
Funds held - directly managed	1,198,154	1,179,940
Equities, at fair value	367,125	106,603
Other investments, at fair value	1,957,757	913,392
Other investments, at cost	—	125,621
Equity method investments	204,507	343,005
<b>Total investments (Note 6 and Note 11)</b>	<b>11,242,061</b>	<b>8,755,130</b>
Cash and cash equivalents	602,096	955,150
Restricted cash and cash equivalents	380,488	257,686
Premiums receivable	787,468	425,702
Deferred tax assets (Note 20)	10,124	13,001
Prepaid reinsurance premiums	198,990	245,101
Reinsurance balances recoverable on paid and unpaid losses (Note 8)	1,290,072	1,478,806
Reinsurance balances recoverable on paid and unpaid losses, fair value (Note 8 and Note 11)	739,591	542,224
Funds held by reinsured companies	321,267	175,383
Deferred acquisition costs	121,101	64,984
Goodwill and intangible assets (Note 14)	218,725	180,589
Other assets	644,287	512,666
<b>TOTAL ASSETS</b>	<b>\$ 16,556,270</b>	<b>\$ 13,606,422</b>
<b>LIABILITIES</b>		
Losses and loss adjustment expenses (Note 10)	\$ 6,535,449	\$ 5,603,419
Losses and loss adjustment expenses, fair value (Note 10 and Note 11)	2,874,055	1,794,669
Policy benefits for life and annuity contracts (Note 12)	105,080	117,207
Unearned premiums	842,618	583,197
Insurance and reinsurance balances payable	388,086	236,697
Deferred tax liabilities (Note 20)	10,542	15,262
Debt obligations (Note 15)	861,539	646,689
Other liabilities	566,369	983,728
<b>TOTAL LIABILITIES</b>	<b>12,183,738</b>	<b>9,980,868</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 23)</b>		
<b>REDEEMABLE NONCONTROLLING INTEREST (Note 16)</b>	<b>458,543</b>	<b>479,606</b>
<b>SHAREHOLDERS' EQUITY (Note 17)</b>		
Ordinary shares (par value \$1 each, issued and outstanding 2018: 21,459,997; 2017: 19,406,722):		
Voting Ordinary Shares (issued and outstanding 2018: 17,950,315; 2017: 16,402,279)	17,950	16,402
Non-voting convertible ordinary Series C Shares (issued and outstanding 2018 and 2017: 2,599,672)	2,600	2,600
Non-voting convertible ordinary Series E Shares (issued and outstanding 2018: 910,010; 2017: 404,771)	910	405
Preferred Shares:		
Series C Preferred Shares (issued and held in treasury 2018 and 2017: 388,571)	389	389
Series D Preferred Shares (issued and outstanding 2018: 16,000)	400,000	—
Series E Preferred Shares (issued and outstanding 2018: 4,400)	110,000	—
Treasury shares, at cost (Series C Preferred Shares 2018 and 2017: 388,571)	(421,559)	(421,559)
Additional paid-in capital	1,804,664	1,395,067
Accumulated other comprehensive income	10,440	10,468
Retained earnings	1,976,539	2,132,912
Total Enstar Group Limited Shareholders' Equity	3,901,933	3,136,684
Noncontrolling interest	12,056	9,264
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 3,913,989</b>	<b>\$ 3,145,948</b>
<b>TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY</b>	<b>16,556,270</b>	<b>13,606,422</b>

See accompanying notes to the consolidated financial statements

**ENSTAR GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(expressed in thousands of U.S. dollars, except share and per share data)		
<b>INCOME</b>			
Net premiums earned	\$ 895,575	\$ 613,121	\$ 823,514
Fees and commission income	35,088	66,103	39,364
Net investment income	270,671	208,789	185,463
Net realized and unrealized gains (losses)	(412,884)	190,334	77,818
Other income	35,085	22,605	10,236
	<u>823,535</u>	<u>1,100,952</u>	<u>1,136,395</u>
<b>EXPENSES</b>			
Net incurred losses and loss adjustment expenses	454,025	193,551	174,099
Life and annuity policy benefits	1,003	4,015	(2,038)
Acquisition costs	192,790	96,906	186,569
General and administrative expenses	407,375	435,985	423,734
Interest expense	26,217	28,102	20,642
Net foreign exchange losses	2,668	17,537	665
Loss on sale of subsidiary	—	16,349	—
	<u>1,084,078</u>	<u>792,445</u>	<u>803,671</u>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>(260,543)</b>	<b>308,507</b>	<b>332,724</b>
Income tax benefit (expense)	6,124	6,395	(34,874)
Earnings (losses) from equity method investments	42,147	5,904	(5,400)
<b>NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS</b>	<b>(212,272)</b>	<b>320,806</b>	<b>292,450</b>
Net earnings from discontinued operations, net of income taxes	—	10,993	11,963
<b>NET EARNINGS (LOSS)</b>	<b>(212,272)</b>	<b>331,799</b>	<b>304,413</b>
Net loss (earnings) attributable to noncontrolling interest	62,051	(20,341)	(39,606)
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<b>(150,221)</b>	<b>311,458</b>	<b>264,807</b>
Dividends on preferred shares	(12,133)	—	—
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ (162,354)</b>	<b>\$ 311,458</b>	<b>\$ 264,807</b>
<b>Earnings per ordinary share attributable to Enstar Group Limited:</b>			
<b>Basic:</b>			
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.50	\$ 13.10
Net earnings from discontinued operations, net of income taxes	—	0.56	0.62
<b>Net earnings (loss) per ordinary share</b>	<b>\$ (7.84)</b>	<b>\$ 16.06</b>	<b>\$ 13.72</b>
<b>Diluted:</b>			
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.39	\$ 13.00
Net earnings from discontinued operations, net of income taxes	—	0.56	0.62
<b>Net earnings (loss) per ordinary share</b>	<b>\$ (7.84)</b>	<b>\$ 15.95</b>	<b>\$ 13.62</b>
<b>Weighted average ordinary shares outstanding:</b>			
Basic	20,698,310	19,388,621	19,299,426
Diluted	20,904,176	19,527,591	19,447,241

See accompanying notes to the consolidated financial statements

**ENSTAR GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2018, 2017 and 2016

	2018	2017	2016
	(expressed in thousands of U.S. dollars)		
NET EARNINGS (LOSS)	\$ (212,272)	\$ 331,799	\$ 304,413
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) on fixed income investments arising during the year	(2,284)	4,776	4,776
Reclassification adjustment for net realized gains (losses) included in net earnings	63	(491)	(384)
Unrealized gains (losses) arising during the year, net of reclassification adjustment	(2,221)	4,285	4,392
Change in currency translation adjustment	(202)	9,423	4,793
Reclassification to earnings on disposal of subsidiary	—	20,751	—
Total cumulative translation adjustment	(202)	30,174	4,793
Decrease in defined benefit pension liability	2,156	1,501	3,079
Total other comprehensive gain (loss)	(267)	35,960	12,264
Comprehensive income (loss)	(212,539)	367,759	316,677
Comprehensive loss (income) attributable to noncontrolling interest	62,291	(22,285)	(40,257)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ (150,248)	\$ 345,474	\$ 276,420

See accompanying notes to the consolidated financial statements

**ENSTAR GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(expressed in thousands of U.S. dollars)		
<b>Share Capital — Voting Ordinary Shares</b>			
Balance, beginning of year	\$ 16,402	\$ 16,175	\$ 16,133
Issue of shares	1,548	35	42
Conversion of Series C Non-Voting Convertible Ordinary Shares	—	192	—
Balance, end of year	<u>\$ 17,950</u>	<u>\$ 16,402</u>	<u>\$ 16,175</u>
<b>Share Capital — Non-Voting Convertible Ordinary Series A Shares</b>			
Balance, beginning of year	\$ —	\$ —	\$ 2,973
Shares converted to Series C Convertible Participating Non-Voting Preferred Shares	—	—	(2,973)
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Share Capital — Non-Voting Convertible Ordinary Series C Shares</b>			
Balance, beginning of year	\$ 2,600	\$ 2,792	\$ 2,726
Warrants exercised	—	—	66
Conversion to Voting Ordinary Shares	—	(192)	—
Balance, end of year	<u>\$ 2,600</u>	<u>\$ 2,600</u>	<u>\$ 2,792</u>
<b>Share Capital — Non-Voting Convertible Ordinary Series E Shares</b>			
Balance, beginning of year	\$ 405	\$ 405	\$ 405
Issue of shares	505	—	—
Balance, end of year	<u>\$ 910</u>	<u>\$ 405</u>	<u>\$ 405</u>
<b>Share Capital - Series C Convertible Participating Non-Voting Preferred Shares</b>			
Balance, beginning of year	\$ 389	\$ 389	\$ —
Conversion of Non-Voting Convertible Ordinary Series A Shares	—	—	389
Balance, end of year	<u>\$ 389</u>	<u>\$ 389</u>	<u>\$ 389</u>
<b>Share Capital - Series D Preferred Shares</b>			
Balance, beginning of year	\$ —	\$ —	\$ —
Issue of shares	400,000	—	—
Balance, end of year	<u>\$ 400,000</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Share Capital - Series E Preferred Shares</b>			
Balance, beginning of year	\$ —	\$ —	\$ —
Issue of shares	110,000	—	—
Balance, end of year	<u>\$ 110,000</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Treasury Shares (Series C Preferred Shares)</b>			
Balance, beginning and end of year	<u>\$ (421,559)</u>	<u>\$ (421,559)</u>	<u>\$ (421,559)</u>
<b>Additional Paid-in Capital</b>			
Balance, beginning of year	\$ 1,395,067	\$ 1,380,109	\$ 1,373,044
Issue of voting ordinary shares and warrants	413,141	450	529
Issuance costs of preferred shares	(14,643)	—	—
Conversion of Series A Non-Voting Convertible Ordinary Stock	—	—	2,584
Amortization of share-based compensation	11,099	14,508	3,952
Balance, end of year	<u>\$ 1,804,664</u>	<u>\$ 1,395,067</u>	<u>\$ 1,380,109</u>
<b>Accumulated Other Comprehensive Income (Loss)</b>			
Balance, beginning of year	\$ 10,468	\$ (23,549)	\$ (35,162)
<b>Cumulative translation adjustment</b>			
Balance, beginning of year	11,171	(18,993)	(23,790)
Change in currency translation adjustment	(185)	9,413	4,797
Reclassification to earnings on disposal of subsidiary	—	20,751	—
Balance, end of year	<u>10,986</u>	<u>11,171</u>	<u>(18,993)</u>
<b>Defined benefit pension liability</b>			
Balance, beginning of year	(3,143)	(4,644)	(7,723)
Change in defined benefit pension liability	2,156	1,501	3,079
Balance, end of year	<u>(987)</u>	<u>(3,143)</u>	<u>(4,644)</u>
<b>Unrealized gains on investments</b>			
Balance, beginning of year	2,440	88	(3,649)
Change in unrealized gains (losses) on investments	(1,999)	2,352	3,737
Balance, end of year	<u>441</u>	<u>2,440</u>	<u>88</u>

Balance, end of year	\$	10,440	\$	10,468	\$	(23,549)
<b>Retained Earnings</b>						
Balance, beginning of year	\$	2,132,912	\$	1,847,550	\$	1,578,312
Net earnings (loss) attributable to Enstar Group Limited ordinary shareholders		(212,272)		331,799		304,413
Net loss (earnings) attributable to noncontrolling interest		62,051		(20,341)		(39,606)
Dividends on preferred shares		(12,133)		—		—
Change in redemption value of redeemable noncontrolling interests		7,554		(30,978)		4,431
Cumulative effect of change in accounting principle		(1,573)		4,882		—
Balance, end of year	\$	1,976,539	\$	2,132,912	\$	1,847,550
<b>Noncontrolling Interest (excludes redeemable noncontrolling interests)</b>						
Balance, beginning of year	\$	9,264	\$	8,520	\$	3,911
Contribution of capital		49		22		5,643
Net earnings (loss) attributable to noncontrolling interest		2,743		722		(1,034)
Balance, end of year	\$	12,056	\$	9,264	\$	8,520

See accompanying notes to the consolidated financial statements

**ENSTAR GROUP LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(expressed in thousands of U.S. dollars)		
<b>OPERATING ACTIVITIES:</b>			
Net earnings (loss)	\$ (212,272)	\$ 331,799	\$ 304,413
Net earnings from discontinued operations, net of income taxes	—	(10,993)	(11,963)
<b>Adjustments to reconcile net earnings to cash flows used in operating activities:</b>			
Realized losses (gains) on sale of investments	27,633	(1,668)	7,036
Unrealized losses (gains) on investments	385,251	(188,666)	(84,854)
Depreciation and other amortization	33,295	36,115	34,938
Net change in trading securities held on behalf of policyholders	—	25,597	(1,284)
Earnings from equity method investments	(42,147)	(5,904)	5,400
Sales and maturities of trading securities	4,802,224	6,111,607	3,406,788
Purchases of trading securities	(5,592,311)	(7,544,649)	(3,100,515)
Net loss on sale of subsidiary	—	16,349	—
Other non-cash items	11,857	15,490	8,566
<b>Changes in:</b>			
Reinsurance balances recoverable on paid and unpaid losses	(268,039)	(530,857)	(21,866)
Funds held by reinsured companies	(126,897)	(93,310)	(967,379)
Losses and loss adjustment expenses	960,199	1,363,032	259,339
Policy benefits for life and annuity contracts	(6,776)	(3,314)	(11,037)
Insurance and reinsurance balances payable	151,918	(157,741)	120,515
Unearned premiums	173,725	34,854	5,682
Premiums receivable	(212,423)	(19,026)	(25,264)
Other operating assets and liabilities	(245,309)	278,178	(131,204)
Net cash flows used in operating activities	(160,072)	(343,107)	(202,689)
<b>INVESTING ACTIVITIES:</b>			
Acquisitions, net of cash acquired	\$ (245,151)	\$ (4,185)	\$ (18,454)
Sale of subsidiary, net of cash sold	—	126,611	—
Sales and maturities of available-for-sale securities	58,219	86,359	81,596
Purchase of available-for-sale securities	(10,386)	(14,848)	(52,568)
Purchase of other investments	(901,071)	(109,885)	(91,093)
Redemption of other investments	436,396	232,827	245,069
Purchase of equity method investments	(155,440)	—	—
Other investing activities	(8,321)	(23,617)	(7,841)
Net cash flows provided by (used in) investing activities	(825,754)	293,262	156,709
<b>FINANCING ACTIVITIES:</b>			
Net proceeds from the issuance of preferred shares	\$ 495,357	\$ —	\$ —
Dividends on preferred shares	(12,133)	—	—
Contribution by noncontrolling interest	49	22	5,643
Contribution by redeemable noncontrolling interest	55,377	—	—
Dividends paid to noncontrolling interest	(3,852)	(27,458)	—
Receipt of loans	1,132,507	874,100	571,048
Repayment of loans	(914,319)	(912,140)	(493,250)
Net cash flows provided by (used in) financing activities	752,986	(65,476)	83,441
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH, CASH EQUIVALENTS AND RESTRICTED CASH	2,588	9,512	(13,985)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(230,252)	(105,809)	23,476
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	1,212,836	1,318,645	1,295,169
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	\$ 982,584	\$ 1,212,836	\$ 1,318,645
<b>Supplemental Cash Flow Information:</b>			
Income taxes paid, net of refunds	\$ 17,610	\$ 13,192	\$ 22,216
Interest paid	\$ 25,240	\$ 21,487	\$ 19,451
<b>Reconciliation to Consolidated Balance Sheets:</b>			
Cash and cash equivalents	\$ 602,096	\$ 955,150	\$ 954,871
Restricted cash and cash equivalents	380,488	257,686	363,774
Cash, cash equivalents and restricted cash	\$ 982,584	\$ 1,212,836	\$ 1,318,645

See accompanying notes to the consolidated financial statements

**ENSTAR GROUP LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2018, 2017 and 2016**

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

**1. DESCRIPTION OF BUSINESS**

Enstar Group Limited ("Enstar") is a Bermuda-based holding company, formed in 2001. Enstar is a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through its network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Our ordinary shares are listed on the NASDAQ Global Select Market under the ticker symbol "ESGR". Unless the context indicates otherwise, the terms "Enstar," "we," "us" or "our" mean Enstar Group Limited and its consolidated subsidiaries and the term "Parent Company" means Enstar Group Limited and not any of its consolidated subsidiaries.

Our business is organized into three segments:

- (i) Non-life Run-off - This segment is comprised of the operations of our subsidiaries that are running off their property and casualty and other non-life business. It also includes our management business, which manages the run-off portfolios of third parties through our service companies.
- (ii) Atrium - Atrium Underwriters Ltd. is a managing general agent at Lloyd's of London ("Lloyd's"), which manages Syndicate 609. Through a corporate capital vehicle, Atrium 5 Ltd., we provide 25% of the syndicate's underwriting capacity and capital (with the balance provided by traditional Lloyd's Names). Atrium underwrites specialist marine, energy, aerospace, non-marine and liability classes.
- (iii) StarStone - StarStone is a global specialty insurer that underwrites a diverse range of property, casualty and specialty insurance through its operations in Bermuda, the United States, the United Kingdom, and Continental Europe. Certain run-off business of StarStone is recorded in our Non-life Run-off segment.

In addition to our three reportable segments, our other activities, which do not qualify as a reportable segment, include our corporate expenses, debt servicing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items.

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of Preparation***

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include our assets, liabilities and results of operations as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016. Results of operations for acquired subsidiaries are included from the date of acquisition. All significant intercompany transactions and balances have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings.

### ***Use of Estimates***

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ materially from our estimates. Accounting policies that we believe are most dependent on assumptions and estimates are considered to be our critical accounting policies and are related to the determination of:

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

### ***Significant Accounting Policies***

#### ***(a) Premiums***

##### ***Non-Life***

Non-life premiums written are earned on a pro-rata basis over the period the coverage is provided. Reinsurance premiums are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Certain non-life contracts are retrospectively rated and provide for a final adjustment to the premium based on the final settlement of all losses. Premiums on such contracts are adjusted based upon contractual terms, and management judgment is involved with respect to the estimate of the amount of losses that we expect to incur. Additional premiums are recognized at the time loss thresholds specified in the contract are exceeded and are earned over the coverage period, or are earned immediately if the period of risk coverage has passed.

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

*Life and Annuities*

Prior to going into run-off, our life and annuities subsidiaries wrote life insurance, including credit life and disability insurance, term life insurance, assumed life reinsurance and annuities. We will continue to recognize premiums on term life insurance, assumed life reinsurance and credit life and disability insurance. These premiums are generally recognized as revenue when due from policyholders. The policies include contracts with fixed and guaranteed premiums and benefits. Benefits and expenses are matched with such revenue to result in the recognition of profit over the life of the contracts.

*Premiums receivable*

Premiums receivable represent amounts currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net earnings in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

*Unearned premiums and prepaid reinsurance premiums*

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force. Premiums ceded are similarly prorated over the period the coverage is provided with the unearned portion being deferred as prepaid reinsurance premiums.

**(b) Acquisition Costs**

Acquisition costs, consisting principally of commissions and brokerage expenses and certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

**(c) Losses and LAE**

*Non-life Run-off*

The liability for losses and LAE in the Non-life Run-off segment includes an amount determined from reported claims and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported ("IBNR") determined using a variety of actuarial methods. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

Commutations of acquired companies' exposures have the effect of accelerating the payout of claims compared to the probability-weighted ranges of actuarially projected cash flows that we applied when estimating the fair values of assets and liabilities at the time of acquisition. Any material acceleration of payout together with the impact of any material loss reserve savings in any period will also accelerate the amortization of fair value adjustments in that period. Gains or losses on settlement of losses and LAE liabilities by way of commutation or policy buy-back are recognized upon execution of a commutation or policy buyback with the insured or reinsured.

Our insurance and reinsurance subsidiaries also establish provisions for LAE relating to run-off costs for the estimated duration of the run-off, which are included in losses and LAE. These provisions are assessed at each reporting date, and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration of the run-off period that may be caused by commutations. Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the consolidated statements of earnings.

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

*Atrium and StarStone*

The reserves for losses and LAE in the Atrium and StarStone segments include reserves for unpaid reported losses and for IBNR loss reserves. The reserves for unpaid reported losses and loss expenses are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us. The reserve for IBNR losses is established by us based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

*Components of Net Incurred Losses and LAE*

Included within the total net incurred losses and LAE on our consolidated statement of earnings are the following items:

- Net losses paid: paid losses and LAE, net of related reinsurance recoveries.
- Net change in case and LAE reserves: the change in case reserves and associated LAE, net of related reinsurance recoveries.
- Net change in IBNR reserves: the change in IBNR reserves, net of related reinsurance recoveries.
- Increase (reduction) in estimates of net ultimate losses: the total of net losses paid, net change in case and LAE reserves and the net change in IBNR.
- Increase (reduction) in provisions for unallocated LAE: the net change in our provision for unallocated LAE.
- Amortization of deferred charge assets: the amortization of the deferred charge assets associated with the retroactive reinsurance contracts which we assumed, where the estimated ultimate losses at inception were greater than the premiums received.
- Amortization of fair value adjustments: the amortization of the fair value adjustments associated with the acquisitions of companies, where the acquired reserves and recoveries were fair valued upon acquisition.
- Changes in fair value - fair value option: the changes in the fair value for reinsurance agreements where we have elected the fair value option. The change in fair value component includes the changes in the discounted cash flows and risk margin. The underlying net losses paid, net change in case and LAE reserves and the net change in IBNR reserves relating to these reinsurance agreements for which we have elected the fair value option is included in the appropriate line item described above.
- Net incurred losses and LAE: the total of increase (reduction) in estimates of net ultimate losses, increase (reduction) in provisions for unallocated LAE, amortization of deferred charge assets, amortization of fair value adjustments and changes in fair value - fair value option.

**(d) Policy Benefits for Life and Annuity Contracts**

Policy benefits for life and annuity contracts ("policy benefits") are calculated using the net level premium method and are derived using locked-in assumptions. Policy benefits are established and maintained at a level that we estimate will, when taken together with future premium payments and investment income expected to be earned on associated premiums, be sufficient to support all future cash flow benefit obligations and third-party servicing obligations as they become payable. We review policy benefits regularly and perform loss recognition testing based upon cash flow projections.

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

Since the development of the policy benefits is based upon projections of future cash flows, we are required to make assumptions for mortality, longevity and morbidity rates, lapse rates, expenses and investment income. The assumptions used to determine policy benefits are determined at the inception of the contracts, reviewed and adjusted at the point of acquisition, as required, and are locked-in throughout the life of the contract unless a premium deficiency develops. These locked-in assumptions are based on a best estimate view of experience at the time they are established and may include a provision for adverse deviation. Assumptions are established based upon a combination of historical and industry experience, when available, and management judgment. Actual results could differ from these estimates.

Policy benefit liabilities are reviewed periodically to determine whether a premium deficiency exists. Management reviews emerging experience and updates best estimate assumptions where appropriate. If existing policy benefit reserves, reduced by unamortized acquisition costs, together with the present value of future gross premiums using current best estimate assumptions, are insufficient in covering the present value of future benefits, settlement, and maintenance costs using current best estimate assumptions, a premium deficiency is deemed to exist. To remediate, unamortized acquisition costs are reduced until the premium deficiency has been eliminated. If unamortized acquisition costs have been entirely written off and a premium deficiency still exists, locked-in assumptions are revised and a charge for policy benefits is recognized.

Because of the many assumptions and estimates used in establishing policy benefits and the long-term nature of the contracts, the reserving process, while based on actuarial techniques, is inherently uncertain.

**(e) Reinsurance Balances Recoverable on Paid and Unpaid Losses**

Amounts billed to, and due from, reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable on paid and unpaid losses related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable on paid and unpaid losses related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

Our reinsurance balances recoverable on paid and unpaid losses are presented net of a provision for uncollectible amounts, reflecting the amount deemed not collectible due to credit quality, collection problems due to the location of the reinsurer, contractual disputes with reinsurers over individual contentious claims, contract language or coverage issues.

**(f) Investments, Cash and Cash Equivalents**

*Short-term investments and fixed maturity investments*

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in net earnings and reported as net realized and unrealized gains and losses.

Short-term and fixed maturity investments classified as available-for-sale are carried at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of accumulated other comprehensive income (loss) ("AOCI"). Realized gains and losses on sales of investments classified as available-for-sale are recognized in the consolidated statements of earnings.

The costs of short-term and fixed maturity investments are adjusted for amortization of premiums and accretion of discounts, recognized using the effective yield method and included in net investment income. For mortgage-backed and asset-backed investments, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and reviewed on a regular basis.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments.

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

*Other-Than-Temporary Impairments*

Fixed maturity investments classified as available-for-sale are reviewed quarterly to determine if they have sustained an impairment of value that is, based on our judgment, considered to be other than temporary. The process includes reviewing each fixed maturity investment that is below cost and: (1) determining if we have the intent to sell the fixed maturity investment; (2) determining if it is more likely than not that we will be required to sell the fixed maturity investment before its anticipated recovery; and (3) assessing whether a credit loss exists, that is, whether we expect that the present value of the cash flows expected to be collected from the fixed maturity investment is less than the amortized cost basis of the investment.

In assessing whether it is more likely than not that we will be required to sell a fixed maturity investment before its anticipated recovery, we consider various factors including our future cash flow requirements, legal and regulatory requirements, the level of our cash, cash equivalents, short-term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors.

In evaluating credit losses, we consider a variety of factors in the assessment of a fixed maturity investment including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the investment to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the investment to make scheduled interest or principal payments.

If we conclude that an investment is other-than-temporarily impaired ("OTTI"), then the difference between the fair value and the amortized cost of the investment is presented as an OTTI charge in the consolidated statements of earnings, with an offset for any non-credit related loss component of the OTTI charge to be recognized in other comprehensive income. Accordingly, only the credit loss component of the OTTI amount would have an impact on our earnings.

*Equities*

We have investments in publicly traded equities, which are classified as trading, and we also have investments in privately held equities. Our equity investments are carried at fair value with realized and unrealized holding gains and losses included in net earnings and reported as net realized and unrealized gains and losses.

*Other investments, at fair value*

Other investments include investments in limited partnerships and limited liability companies (collectively "private equities") and fixed income funds, hedge funds, equity funds, private credit funds and collateralized loan obligation ("CLO") equity funds that carry their investments at fair value, as well as direct investments in CLO equities. These other investments are stated at fair value, which ordinarily will be the most recently reported net asset value as advised by the fund manager or administrator. Many of our fund investments publish net asset values on a daily basis and provide daily liquidity; others report on a monthly basis. Private equities typically report quarterly. The change in fair value is included in net realized and unrealized gains and losses on investments and recognized in net earnings.

*Other investments, at cost*

During 2018, we sold our investments in life settlement contracts, which were recorded as other investments, at cost and accounted for under the investment method whereby we recognized our initial investment in the life settlement contracts at the transaction price plus all initial direct external costs. Continuing costs to keep the policy in force, primarily life insurance premiums, increase the carrying amount of the investment. We recognized income on individual investments in life settlements when the insured died, at an amount equal to the excess of the investment proceeds over the carrying amount of the investment at that time.

The investments were subject to quarterly impairment review on a contract-by-contract basis. An investment in life settlements was considered impaired if the undiscounted cash flows resulting from the expected proceeds from the investment in life settlements were not sufficient to recover the current carrying amount for the investment in life settlements plus anticipated undiscounted future premiums and other capitalizable future costs, if any. Impaired contracts were written down to their estimated fair value, which was determined on a discounted cash flow basis using current market longevity assumptions and market yields, with any impairment charges included within net realized and unrealized gains (losses).

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

*Equity method investments*

Investments in which the Company has significant influence over the operating and financial policies of the investee are classified as equity method investments and are accounted for using the equity method of accounting. In applying the equity method of accounting, investments are initially recorded at cost and are subsequently adjusted based on the Company's proportionate share of net income or loss of the investee. Adjustments are based on the most recently available financial information from the investee. Changes in the carrying value of such investments are recorded in our consolidated statements of earnings as earnings (losses) from equity method investments. Any decline in the value of our equity method investments considered by management to be other-than-temporary is reflected in our consolidated statements of earnings in the period in which it is determined.

*Cash and cash equivalents*

Cash equivalents includes money market funds, fixed interest deposits and all highly liquid debt instruments purchased with an original maturity of three months or less.

**(g) Funds Held**

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. The funds balance is credited with investment income and losses payable are deducted. Funds held are shown under two categories on the consolidated balance sheets, where funds held upon which we receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where we receive a fixed crediting rate are shown as "Funds held by reinsured companies". Funds held by reinsured companies are carried at cost. Funds held - directly managed, carried at fair value, represents the aggregate of funds held at cost and the value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio economics. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses). The revaluation of the embedded derivative is included in net unrealized gains (losses).

**(h) Fees and Commission Income**

Fees and commission income primarily includes profit commissions earned from managed Lloyd's syndicates as well as fees earned under fronting and consulting arrangements with third-party clients, which are recorded on an accrual basis.

**(i) Foreign Exchange**

Our reporting currency is the U.S. dollar. Assets and liabilities of entities whose functional currency is not the U.S. dollar are translated at period end exchange rates. Revenues and expenses of such foreign entities are translated at average exchange rates during the year. The effect of the currency translation adjustments for these foreign entities is included in accumulated other comprehensive income (loss).

Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated at transaction date exchange rates. These exchange gains and losses are recognized in net earnings.

**(j) Share-based Compensation**

We have primarily used three types of share-based compensation: (i) restricted shares, restricted share units and performance share units, (ii) cash-settled stock appreciation rights ("SARs") and (iii) shares issued under our employee share purchase plans. With the exception of SARs and the incentive plan awards issued to certain employees of Atrium, our share-based compensation awards qualify for equity classification. The fair value of the compensation cost is measured at the grant date and is expensed over the service period of the award. The SARs and the Atrium incentive plan awards are classified as liability awards. Liability classified awards are recorded at fair value within other liabilities in the consolidated balance sheet with changes in fair value relating to the vested portion of the award recorded within general and administrative expenses in the consolidated statements of earnings.

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

***(k) Derivative Instruments***

We utilize derivative instruments in our foreign currency risk management strategy and recognize all derivatives as either assets or liabilities in the consolidated balance sheets and carry them at the fair value of the specific instrument utilized. Changes in the fair value as well as realized gains or losses on derivative instruments are recognized in net earnings if they are not designated as qualifying hedging instruments or if the criteria for establishing a perfectly effective designated hedging relationship for our net investment hedges has not been met. However, if a designated net investment hedge is deemed to be perfectly effective, then we recognize the changes in the fair value of the underlying hedging instrument in accumulated other comprehensive income (loss) until the application of hedge accounting is discontinued. Any cumulative gains or losses arising on designated net investment hedges are deferred in accumulated other comprehensive income (loss) until the cumulative translation adjustment ("CTA") from the underlying hedged net investment is recognized in net earnings due to a disposal, deconsolidation or substantial liquidation.

Certain of our funds held arrangements also contain embedded derivatives as described above, which are carried at fair value. In addition, we also hold equity call options as part of our investment strategy.

***(l) Income Taxes***

Certain of our subsidiaries and branches operate in jurisdictions where they are subject to taxation. Current and deferred tax expense or benefit is charged or credited to net earnings (loss), or, in certain cases, to other comprehensive income (loss), based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred taxes are provided for temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that all or some portion of deferred tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets to reduce the assets to the amount more likely than not to be realized.

We recognize the benefit relating to tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A recognized tax benefit is measured as the largest amount that is greater than 50 percent likely of being realized. A liability or other adjustment is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP. Any changes in amounts recognized are recorded in the period in which they are determined.

***(m) Earnings Per Share***

Basic earnings per share is based on the weighted average number of ordinary shares outstanding and excludes potentially dilutive securities such as restricted shares, restricted share units, warrants, options and convertible securities. Diluted earnings per share is based on the weighted average number of ordinary and ordinary share equivalents outstanding calculated using the treasury stock method for all potentially dilutive securities. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted earnings per share.

***(n) Acquisitions, Goodwill and Intangible Assets***

The acquisition method is used to account for all business acquisitions. This method requires that we record the acquired assets and liabilities at their estimated fair value. The fair values of each of the acquired reinsurance assets and liabilities are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy. Our run-off strategy, as well as that of other run-off market participants, is expected to be different from the seller's as generally sellers are not specialized in running off insurance and reinsurance liabilities whereas we and other market participants do specialize in such run-offs.

The key assumptions used by us and, we believe, by other run-off market participants in the fair valuation of acquired companies are (i) the projected payout, timing and amount of claims liabilities; (ii) the related projected timing and amount of reinsurance collections; (iii) an appropriate discount rate, which is applied to determine the present value of the future cash flows; (iv) the estimated unallocated LAE to be incurred over the life of the run-off; (v) the impact of any accelerated run-off strategy; and (vi) an appropriate risk margin.

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

The difference between the original carrying value of reinsurance liabilities and reinsurance assets acquired at the date of acquisition and their fair value is recorded as an intangible asset or other liability, which we refer to as the fair value adjustment ("FVA"). The FVA is amortized over the estimated payout period of outstanding losses and loss expenses acquired. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the acquisition, there is an adjustment to the estimated ultimate loss reserves, or there are changes in bad debt provisions or in estimates of future run-off costs following accelerated payouts, then the amortization of the FVA is adjusted to reflect such changes.

The difference between the fair value of net assets acquired and the purchase price is recorded as a goodwill asset or as a gain from bargain purchase in the consolidated statements of earnings. Goodwill is established initially upon acquisition and assessed at least annually for impairment. If the goodwill asset is determined to be impaired it is written down in the period in which the determination is made.

Intangible assets represent the fair value adjustments related to unpaid losses and LAE, reinsurance balances recoverable on paid and unpaid losses and policy benefits for life and annuity contracts along with the intangible assets arising from the acquisitions of Atrium and StarStone. Definite-lived intangible assets are amortized over their useful lives. Amortization of intangible assets is recognized in the consolidated statement of earnings. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are reviewed for indicators of impairment at least annually. Impairment is recognized if the carrying values of the definite-lived intangible assets are not recoverable from their undiscounted cash flows and are measured as the difference between the carrying value and the fair value.

**(o) Retroactive Reinsurance**

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events. In our Non-life Run-off segment we use the balance sheet accounting approach for assumed loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in earnings.

In our Non-life Run-off and StarStone segments we have ceded business to KaylaRe Ltd., a wholly-owned reinsurer, as described in Note 21 - "Related Party Transactions". The reinsurance ceded by StarStone to KaylaRe Ltd. during the year ended December 31, 2016 was mostly recognized as retroactive reinsurance, except for the unearned ceded premium as at December 31, 2016 which was recognized as prospective reinsurance. The reinsurance ceded by StarStone to KaylaRe Ltd. from January 1, 2017 was recognized as prospective reinsurance.

*Deferred Charge Assets*

If, at the inception of a Non-life Run-off retroactive reinsurance contract, the estimated undiscounted ultimate losses payable are in excess of the premiums received, a deferred charge asset is recorded for the excess. The premium consideration that we charge the ceding companies may be lower than the undiscounted estimated ultimate losses payable due to the time value of money. After receiving the premium consideration in full from our cedents at the inception of the contract, we invest the premium received over an extended period of time, thereby generating investment income. We expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. Deferred charge assets, recorded in other assets, are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. Deferred charge assets amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and the amount of periodic amortization. Deferred charge assets are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

*Fair Value Option*

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

We use an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and the reinsurance balances recoverable on paid and unpaid losses asset. Note 11 - "Fair Value Measurements" describes the internal model, including the observable and unobservable inputs used in the model.

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

**(p) Redeemable Noncontrolling Interest**

In connection with the acquisitions of Arden, Atrium and StarStone, certain subsidiaries issued shares to noncontrolling interests. These shares provide certain redemption rights to the holders, which may be settled in our own shares or cash or a combination of cash and shares, at our option. Redeemable noncontrolling interest with redemption features that are not solely within our control are classified within temporary equity in the consolidated balance sheets and carried at the redemption value, which is fair value. Change in the fair value is recognized through retained earnings as if the balance sheet date were also the redemption date.

**(q) Internal-use Software**

Direct internal and external costs to acquire or develop internal-use software have been capitalized. We only capitalize costs incurred after the preliminary project stage has been completed, and when management has authorized and committed to funding the project and it is probable that the project will be completed and the software will be used to perform the functions intended. Capitalized costs related to internal-use software are amortized on a straight-line basis over the estimated useful lives of the assets. These capitalized costs are also assessed for impairment when impairment indicators exist.

**(r) Held-for-sale Business and Discontinued Operations**

We report a business as held-for-sale when certain criteria are met, which include (1) management either approved the sale or is in the process of obtaining approval to sell the business and is committed to a formal plan to sell the business, (2) the business is available for immediate sale in its present condition, (3) the business is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (4) the sale is anticipated to occur during the next 12 months, among other specified criteria. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less costs to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. Assets and liabilities related to the businesses classified as held-for-sale are separately reported in our Consolidated Balance Sheets beginning in the period in which the business is classified as held-for-sale. Refer to Note 5 for further information regarding our held-for-sale business. The Pavonia business was also classified as a discontinued operation whose results were aggregated and presented within one line in the consolidated statements of earnings for periods prior to its sale.

**New Accounting Standards Adopted in 2018**

*Accounting Standards Update ("ASU") 2017-09, Stock Compensation - Scope of Modification Accounting*

In May 2017, the Financial Accounting Standards Board (the "FASB") issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718 - *Compensation - Stock Compensation*. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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

In March 2017, the FASB issued ASU 2017-07, which amends the requirements in ASC 715 - *Compensation - Retirement Benefits*, related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU also requires that only the service-cost component of the net benefit cost is eligible for capitalization, which is a change from prior practice, under which entities capitalized the aggregate net benefit cost when applicable. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

In February 2017, the FASB issued ASU 2017-05 to clarify the scope of the Board's guidance on the derecognition of nonfinancial assets (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition of nonfinancial assets with the model for transactions in the revenue standard, ASC 606. The ASU clarifies that ASC 610-20 applies to the derecognition of all nonfinancial assets and in-substance nonfinancial assets. The ASU also requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary pursuant to ASC 810, and (2) control of the asset is transferred in accordance with ASC 606. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

*ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory*

In October 2016, the FASB issued ASU 2016-16, which requires immediate recognition of the tax consequences of many intercompany asset transfers other than inventory. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

*ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*

In August 2016, the FASB issued ASU 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

*ASUs 2016-01 and 2018-03, Recognition and Measurement of Financial Instruments*

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many of the current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities, and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

In February 2018, the FASB also issued ASU 2018-03, which clarifies that entities should use a prospective transition approach only for equity securities they elect to measure using the new measurement alternative. The amendments also clarify that an entity that voluntarily discontinues using the measurement alternative for an equity security without a readily determinable fair value must measure that security and all identical or similar investments of the same issuer at fair value. Under this guidance, this election is irrevocable and will apply to all future purchases of identical or similar investments of the same issuer. The amendments also clarify other aspects of ASU 2016-01 regarding how to apply the measurement alternative and the presentation requirements for financial liabilities measured under the fair value option. The adoption of this guidance was contingent on the adoption of ASU 2016-01.

We adopted ASU 2016-01 as amended by ASU 2018-03 on January 1, 2018 using the modified retrospective approach and recorded a cumulative-effect adjustment of \$1.6 million to reduce opening retained earnings for certain of our other investments that were previously classified as available-for-sale securities and for which changes in fair value were previously included in accumulated other comprehensive income.

*ASUs 2014-09, 2016-08, 2016-10 and 2016-12, Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU applies to all contracts with customers except those that are within the scope of other topics within the FASB's codification, including ASC 944 - *Financial Services - Insurance*, ASC 320 - *Investments - Debt Securities*, ASC 321 - *Investments - Equity Securities*, ASC 323 - *Investments - Equity Method and Joint Ventures* and ASC 825 - *Financial Instruments*. However, while contracts within the scope of ASC 944 are excluded from the scope of the ASU, certain insurance-related contracts are in scope, for example contracts under which service providers charge their customers fixed fees in exchange for an agreement to provide services for an uncertain future event. Certain of the ASU's provisions also apply to transfers of non-financial assets and include guidance on recognition and measurement. Subsequently, the FASB issued ASUs 2016-08, 2016-10 and 2016-12 that either made targeted amendments to or clarified the implementation of ASU 2014-09.

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

We adopted ASU 2014-09 and the related amendments on January 1, 2018 using the modified retrospective method with prior periods not being restated. The adoption of this guidance and the related amendments did not have a material impact on our consolidated financial statements and related disclosures, since substantially all of our revenues are from sources that are within the scope of other FASB topics, primarily ASC 944, ASC 320, ASC 321, ASC 323 and ASC 825, and therefore are excluded from the scope of the revenue recognition standard.

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

*ASU 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities*

In October 2018, the FASB issued ASU 2018-17, which clarifies that when determining whether a decision-making fee is a variable interest, a reporting entity should consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety, as currently required in U.S. GAAP. This amendment will (1) likely result in more decision makers not having a variable interest through their decision-making arrangements and (2) create alignment between determining whether a decision-making fee is a variable interest and determining whether a reporting entity within a related party group is the primary beneficiary of a variable interest entity ("VIE"). The ASU is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. All entities are required to apply this guidance retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. While some of our subsidiaries are involved in certain decision-making arrangements for which they earn fees that are considered variable interests, they do not meet the primary beneficiary definition under the VIE guidance with respect to these arrangements. Therefore, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements and the related disclosures.

*ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurements*

In August 2018, the FASB issued ASU 2018-13, which amended the fair value measurement guidance in ASC 820 - *Fair Value Measurement*, by removing and modifying certain existing disclosure requirements, while also adding new disclosure requirements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted, with the amendments being applied either prospectively or retrospectively, as specified in the ASU. In addition, an entity may elect to early adopt the removal or modification of disclosures immediately and delay the adoption of the new disclosure requirements until the effective date. We are currently assessing the impact of adopting this guidance however we do not expect the new or modified disclosures to have a material impact on our consolidated financial statements.

*ASU 2018-12, Targeted Improvements to the Accounting for Certain Long-Duration Insurance Contracts*

In August 2018, the FASB issued ASU 2018-12, which amends the accounting and disclosure model for certain long-duration insurance contracts under U.S GAAP. The goal of the amendments in this ASU is to improve the following aspects of financial reporting related to long-duration insurance contracts: (1) measurement of the liability for future policy benefits related to non-participating traditional and limited-payment contracts, (2) measurement and presentation of market risk benefits, (3) amortization of deferred acquisition costs, and (4) presentation and disclosures. The ASU is effective for interim and annual reporting periods beginning after December 15, 2020, although early adoption is permitted. Once the transfer of our remaining life insurance policies from our subsidiary Alpha Insurance SA ("Alpha") to Monument Insurance Group Limited ("Monument") is completed, as discussed in Note 12 - "Policy Benefits for Life Contracts", we will only have de minimis exposures relating to long duration insurance contracts in our consolidated subsidiaries. Therefore, the adoption of this guidance is not expected to have a material impact on our consolidated financial statements and related disclosures.

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

*ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*

In February 2018, the FASB issued ASU 2018-02, which gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income ("AOCI") that are deemed stranded in AOCI as a result of the Tax Cuts and Jobs Act (the "Tax Act") enacted in the United States at the end of 2017. The amendments in this guidance eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018 but early adoption is permitted in any interim or annual period for which financial statements have not yet been issued. Entities also have the option of applying the ASU either (1) in the period of adoption or (2) retrospectively to each period in which the income tax effects of the Tax Act related to items in AOCI, are recognized. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and related disclosures.

*ASUs 2016-13 and 2018-19, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13, which is codified in ASC 326, amending the guidance on the impairment of financial instruments and significantly changing how entities measure credit losses for most financial assets and certain other financial instruments including reinsurance balances recoverable on paid and unpaid losses that are not measured at fair value through net income. The ASU will replace the existing "incurred loss" approach, with an "expected loss" model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing OTTI model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019. In November 2018, the FASB also issued ASU 2018-19 covering targeted improvements to ASU 2016-13, which clarifies that receivables arising from operating leases are not within the scope of ASC 326-20 and that instead, the impairment of such receivables should be accounted for in accordance with ASC 842 - *Leases*.

We expect to adopt ASU 2016-13 and the related amendments on January 1, 2020 using the modified retrospective approach required by the standard. Upon adoption of the standard, the OTTI approach we currently use for our available-for-sale securities whereby any credit losses are presented as write-downs on individual securities will be replaced by an approach whereby any credit losses are instead presented as an allowance against each security. This revised approach records the full effect of reversals of any credit losses in current period earnings, compared to current U.S. GAAP which amortizes the reversal of credit losses over the lifetime of the security. The length of time an available for sale security has been in an unrealized loss position will no longer be considered in determining whether to record a credit loss. In addition, the historical and implied volatility of the fair value of an available for sale security and recoveries or declines in fair value after the balance sheet date will no longer be considered when making a determination of whether a credit loss exists. For our reinsurance balances recoverable on paid and unpaid losses, the ASU will require us to determine a provision for credit losses associated with our reinsurers based on an "expected loss" approach which will likely differ from the provisions for uncollectible reinsurance balances recoverable on paid and unpaid losses that we have currently recorded, based on the "incurred loss" approach under existing guidance.

We are continuing to review all of our financial instruments as well as assets that are subject to credit risk, primarily our reinsurance balances recoverable and available-for-sale debt securities to determine the provisions for credit losses on the instruments and to quantify the impact of adopting the "expected loss" approach required by the ASU. While we anticipate an increase in our allowances for credit losses for the financial instruments and assets that are within the scope of the ASU given the objective of the new guidance, the magnitude of any increase will depend largely on the composition of our investment portfolio and the reinsurance balances recoverable, in addition to the prevailing economic conditions and forecasts at the time of our adoption of the ASU.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*ASUs 2016-02, 2018-10 and 2018-11, Leases*

In February 2016, the FASB issued ASU 2016-02, which is codified in ASC 842, amending the guidance on the classification, measurement and disclosure of leases for both lessors and lessees. The ASU requires lessees to recognize a right-of-use asset and an offsetting lease liability on the balance sheet and to disclose qualitative and quantitative information about leasing arrangements. Subsequently, in July 2018, the FASB issued ASU 2018-10, which clarifies how to apply certain aspects of ASC 842. The amendments in the ASU address a number of issues in the new leases guidance, including (1) the rate implicit in the lease, (2) impairment of the net investment in the lease, (3) lessee reassessment of lease classification, (4) lessor reassessment of lease term and purchase options, (5) variable payments that depend on an index or rate, and (6) certain transition adjustments.

In July 2018, the FASB also issued ASU 2018-11, which adds a transition option for all entities and a practical expedient only for lessors to ASU 2016-02. The transition option, which we elected on adoption of the guidance, allows entities to choose not to apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can instead opt to continue to apply the legacy guidance in ASC 840 - *Leases*, including its disclosure requirements, in the comparative periods presented in the year they adopt the new leases standard. This means that entities that elect this option will only provide annual disclosures for the comparative periods because ASC 840 does not require interim disclosures. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The practical expedient provides lessors with an option to not separate the non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the revenue recognition standard in ASC 606 if the associated non-lease components are the predominant components.

We adopted the new leasing standard and the related amendments on January 1, 2019 using the modified retrospective transition method as required by the standard, and based on the detailed analysis of our operating lease arrangements, we will recognize a right-of-use asset and an offsetting lease liability of approximately \$65.0 million on our consolidated balance sheet, relating primarily to office space and facilities that we have leased to conduct our business operations.

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

**3. ACQUISITIONS****2018*****Maiden Re North America****Overview*

On December 27, 2018, we completed the acquisition of Maiden Reinsurance North America, Inc. ("Maiden Re North America") from a subsidiary of Maiden Holdings, Ltd. ("Maiden Holdings"). Maiden Re North America is a diversified insurance company domiciled in Missouri that provides property and casualty treaty reinsurance, casualty facultative reinsurance and accident and health treaty reinsurance. As part of the transaction, we also novated and assumed certain reinsurance agreements from Maiden Holdings' Bermuda reinsurer, including certain reinsurance agreements with Maiden Re North America. Refer to Note 4 - "Significant New Business" for additional information relating to these reinsurance agreements. We will operate the business in run-off. The renewal rights were not included in the transaction.

*Purchase Price*

The total cash paid in the transaction was \$286.4 million, subject to certain post-closing adjustments. The components of the consideration paid to acquire all of the outstanding shares of Maiden Re North America were as follows:

Cash paid	\$	286,375
Adjustment for the fair value of preexisting relationships		10,273
<b>Total purchase price</b>	<b>\$</b>	<b>296,648</b>
Net assets acquired at fair value (excluding preexisting relationships)	\$	296,648
<b>Excess of purchase price over fair value of net assets acquired</b>	<b>\$</b>	<b>—</b>

The purchase price was allocated to the acquired assets and liabilities of Maiden Re North America based on their estimated fair values at the acquisition date.

Adjustment for the Fair Value of Preexisting Relationships

Enstar had contractual preexisting relationships with Maiden Re North America, which were deemed to be effectively settled at fair value on the acquisition date. The differences between the carrying value and the fair value of the preexisting relationships was included as part of the purchase price in accordance with ASC 805 - *Business Combinations*. The fair value of the balances relating to preexisting reinsurance relationships with Maiden Re North America were deemed to equal their carrying values given their short-term nature and the expectation that they would all be settled within the next twelve months.

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

*Fair Value of Net Assets Acquired and Liabilities Assumed*

The following table summarizes the fair values of the assets acquired and liabilities assumed (excluding preexisting relationships and net of the intercompany cession assumed as part of the transaction) in the Maiden Re North America transaction at the acquisition date, which have all been allocated to the Non-life Run-off segment.

**ASSETS**

Fixed maturities, trading, at fair value	\$ 1,098,593
Short-term investments, trading, at fair value	3,508
Total investments	1,102,101
Cash and cash equivalents	12,035
Restricted cash and cash equivalents	26,871
Premiums receivable	138,378
Prepaid reinsurance premiums	3,257
Reinsurance balances recoverable	87,018
Other assets	96,669
<b>TOTAL ASSETS</b>	<b>\$ 1,466,329</b>

**LIABILITIES**

Losses and LAE	\$ 1,027,367
Unearned premiums	85,696
Other liabilities	56,618
<b>TOTAL LIABILITIES</b>	<b>1,169,681</b>
<b>NET ASSETS ACQUIRED AT FAIR VALUE</b>	<b>\$ 296,648</b>

*Maiden Re North America's Results Included in Condensed Consolidated Statement of Earnings*

The table below summarizes the results of the Maiden Re North America operations, which are included in our condensed consolidated statement of earnings from the acquisition date to December 31, 2018:

Net investment income	\$ 675
Net unrealized gains	3,749
General and administrative expenses	(435)
<b>Net earnings</b>	<b>\$ 3,989</b>

**KaylaRe**

*Overview*

On May 14, 2018, the Company acquired all of the outstanding shares and warrants of KaylaRe Holdings, Ltd. ("KaylaRe"). In consideration for the acquired shares and warrants of KaylaRe, the Company issued an aggregate of 2,007,017 ordinary shares to the shareholders of KaylaRe, comprising 1,501,778 voting ordinary shares and 505,239 Series E non-voting ordinary shares. Effective May 14, 2018, we consolidated KaylaRe into our consolidated financial statements, and any balances between KaylaRe and Enstar are now eliminated upon consolidation.

Refer to Note 20 - "Related Party Transactions" for additional information relating to KaylaRe.

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

*Purchase Price*

The components of the consideration paid to acquire all of the outstanding shares and warrants of KaylaRe were as follows:

Fair value of Enstar ordinary shares issued	\$	414,750
Fair value of previously held equity method investment		336,137
Adjustment for the fair value of preexisting relationships		37,169
Total purchase price	\$	788,056
Net assets acquired at fair value (excluding preexisting relationships)	\$	746,320
Excess of purchase price over fair value of net assets acquired	\$	41,736

The purchase price was allocated to the acquired assets and liabilities of KaylaRe based on their estimated fair values at the acquisition date. We recognized goodwill of \$41.7 million on the transaction, primarily attributable to (i) the capital synergies from integrating KaylaRe into our group capital structure, (ii) investment management capabilities on a total return basis, and (iii) the incremental acquired capital to be utilized for future non-life run-off transactions.

*Fair Value of Enstar Ordinary Shares Issued*

The fair value of the Enstar ordinary shares issued was based on the closing price of Enstar's voting ordinary shares of \$206.65 as at May 14, 2018, the date the transaction closed. Enstar's non-voting ordinary shares are economically equivalent to Enstar's voting ordinary shares.

Number of Enstar ordinary shares issued	2,007,017
Closing price of Enstar voting ordinary shares as of May 14, 2018	\$ 206.65
Fair value of Enstar ordinary shares issued to shareholders of KaylaRe	\$ 414,750

*Fair Value of Previously Held Equity Method Investment*

Prior to the close of the transaction, Enstar held a 48.2% interest in KaylaRe, which was accounted for as an equity method investment in accordance with ASC 323 - *Investments - Equity Method and Joint Ventures*. The acquisition of the remaining 51.8% equity interest in KaylaRe was considered a step acquisition, whereby the Company remeasured the previously held equity method investment to fair value. The Company considered multiple factors in determining the fair value of the previously held equity method investment, including (i) the price negotiated with the selling shareholders for the 51.8% equity interest in KaylaRe, (ii) recent market transactions for similar companies, and (iii) current trading multiples for comparable companies. Based on this analysis, a valuation multiple of 1.05 to KaylaRe's carrying book value was determined to be appropriate to remeasure the previously held equity method investment at fair value. This resulted in the recognition of a gain of \$16.0 million on completion of the step acquisition of KaylaRe, which was recorded in other income (loss) for the three and six months ended June 30, 2018.

Carrying value of previously held equity method investment prior to the close of the transaction	\$	320,130
Price-to-book multiple		1.05
Fair value of previously held equity method investment prior to the close of the transaction	\$	336,137
Gain recognized on remeasurement of previously held equity method investment to fair value	\$	16,007

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

*Adjustment for the Fair Value of Preexisting Relationships*

Enstar had contractual preexisting relationships with KaylaRe, which were deemed to be effectively settled at fair value on the acquisition date. The differences between the carrying value and the fair value of the preexisting relationships was included as part of the purchase price in accordance with ASC 805 - *Business Combinations*. The fair value of the balances relating to preexisting reinsurance relationships with KaylaRe was determined using a discounted cash flow approach and, where applicable, consideration was given to stated contractual settlement provisions, when determining the loss to be recorded on the deemed settlement of these preexisting relationships. The fair values of the balances arising from the non-reinsurance preexisting relationships with KaylaRe were deemed to equal their carrying values given their short-term nature and the expectation that they would all be settled within the next twelve months.

As a result of effectively settling all the contractual preexisting relationships with KaylaRe, the Company recognized a loss of \$15.6 million, which was recorded in other income (loss) in the three and six months ended June 30, 2018, as summarized below:

<b>ASSETS</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Loss on deemed settlement</b>
Funds held by reinsured companies	\$ 386,793	\$ 386,793	\$ —
Deferred acquisition costs/Value of business acquired	33,549	40,268	6,719
<b>TOTAL ASSETS</b>	<b>420,342</b>	<b>427,061</b>	<b>6,719</b>
<b>LIABILITIES</b>			
Losses and LAE	339,747	333,205	(6,542)
Unearned premiums	105,602	105,602	—
Insurance and reinsurance balances payable	25,897	23,559	(2,338)
Other liabilities	1,864	1,864	—
<b>TOTAL LIABILITIES</b>	<b>473,110</b>	<b>464,230</b>	<b>(8,880)</b>
<b>NET ASSETS (LIABILITIES)</b>	<b>\$ (52,768)</b>	<b>\$ (37,169)</b>	<b>\$ 15,599</b>

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

*Fair Value of Net Assets Acquired and Liabilities Assumed*

The following table summarizes the fair values of the assets acquired and liabilities assumed (excluding preexisting relationships) in the KaylaRe transaction at the acquisition date, which have all been allocated to the Non-life Run-off segment.

**ASSETS**

Fixed maturities, trading, at fair value	\$ 126,393
Other investments, at fair value	626,476
Total investments	<u>752,869</u>
Cash and cash equivalents	5,657
Premiums receivable	10,965
Deferred acquisition costs	275
Other assets	614
TOTAL ASSETS	<u>\$ 770,380</u>

**LIABILITIES**

Losses and LAE	\$ 4,059
Unearned premiums	10,984
Insurance and reinsurance balances payable	13
Other liabilities	9,004
TOTAL LIABILITIES	<u>24,060</u>
NET ASSETS ACQUIRED AT FAIR VALUE	<u>\$ 746,320</u>

*KaylaRe's Results Included in Consolidated Statement of Earnings*

The table below summarizes the results of the KaylaRe operations, which are included in our consolidated statement of earnings from the acquisition date to December 31, 2018:

Premiums earned	\$ 10,188
Incurred losses and LAE	(9,190)
Acquisition costs	<u>(332)</u>
Underwriting income	666
Net investment income	1,972
Net unrealized gains	(6,621)
Net loss	<u>\$ (4,556)</u>

**Supplemental Pro Forma Financial Information (Unaudited)**

The following unaudited pro forma condensed combined statement of earnings for the years ended December 31, 2018 and 2017 combines our historical consolidated statements of earnings with those of Maiden Re North America and KaylaRe, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2018 and 2017, respectively. For the year ended December 31, 2018, the operating results of Maiden Re North America and KaylaRe have been included in the consolidated financial statements from each of their respective dates of acquisition. 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 acquisitions of Maiden Re North America and KaylaRe and related transactions had taken place at the beginning of each period presented, nor is it indicative of future results.

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

	Unaudited				
	Enstar Group Limited	Maiden Re North America	KaylaRe	Pro forma Adjustments	Enstar Group Limited - Pro forma
<b>2018</b>					
Total income	\$ 865,682	\$ 596,860	\$ (20,554)	\$ 86,842	\$ 1,528,830
Total expenses	(1,077,954)	(618,719)	(57,607)	2,208	(1,752,072)
Total noncontrolling interest	62,051	—	—	—	62,051
Net earnings (loss)	<u>\$ (150,221)</u>	<u>\$ (21,859)</u>	<u>\$ (78,161)</u>	<u>\$ 89,050</u>	<u>\$ (161,191)</u>

**Summary of the Pro Forma Adjustments to the Pro Forma Condensed Consolidated Statement of Earnings for the Twelve Months Ended December 31, 2018 (Unaudited):**

Income

(a) Share of net earnings related to KaylaRe as an equity method investee through to May 14, 2018, the date of acquisition	\$	(10,503)
(b) Loss on settlement of pre-existing relationships on acquisition of KaylaRe		15,598
(c) Revaluation gain on previously held equity method investment in KaylaRe as of the acquisition date		(16,007)
(d) Total income for the period subsequent to the acquisition of KaylaRe already included within Enstar's full year results		97,754
	<u>\$</u>	<u>86,842</u>

Expenses

(a) Total expenses for the period subsequent to the acquisition of KaylaRe already included within Enstar's full year results	\$	<u>2,208</u>
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	Unaudited				
	Enstar Group Limited	Maiden Re North America	KaylaRe	Pro forma Adjustments	Enstar Group Limited - Pro forma
<b>2017</b>					
Total income	\$ 1,106,856	\$ 498,233	\$ 85,528	\$ (16,203)	\$ 1,674,414
Total expenses	(786,050)	(498,679)	(51,932)	—	(1,336,661)
Total noncontrolling interest	(20,341)	—	—	—	(20,341)
Net earnings (loss)	<u>\$ 300,465</u>	<u>\$ (446)</u>	<u>\$ 33,596</u>	<u>\$ (16,203)</u>	<u>\$ 317,412</u>

**Summary of the Pro Forma Adjustments to the Pro Forma Condensed Consolidated Statement of Earnings for the Twelve Months Ended December 31, 2017 (Unaudited)**

Income

(a) Share of net earnings related to KaylaRe as an equity method investee for the full year to December 31, 2017		<u>(16,203)</u>
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**2016**

**DCo**

On December 30, 2016, we completed the acquisition of DCo LLC ("DCo"). DCo holds liabilities associated with personal injury asbestos claims and environmental claims arising from its legacy manufacturing operations. DCo's assets include, amongst others, insurance rights related to coverage against these liabilities and marketable securities.

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

The total consideration for the transaction was \$88.5 million.

Purchase price	\$ 88,500
Net assets acquired at fair value	\$ 88,500
Excess of purchase price over fair value of net assets acquired	\$ —

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date, recorded in our Non-life Run-off segment.

	<b>Total</b>
<b>ASSETS</b>	
Short-term investments, trading, at fair value	\$ 22,747
Fixed maturities, trading, at fair value	61,389
Other investments, at fair value	46,589
Total investments	130,725
Cash and cash equivalents	58,430
Restricted cash and cash equivalents	1,692
Other assets - Insurance balances recoverable	133,032
Other assets	5,383
<b>TOTAL ASSETS</b>	<b>329,262</b>
<b>LIABILITIES</b>	
Other liabilities - Asbestos related	220,496
Other liabilities	20,266
<b>TOTAL LIABILITIES</b>	<b>240,762</b>
<b>NET ASSETS ACQUIRED AT FAIR VALUE</b>	<b>\$ 88,500</b>

From the date of acquisition to December 31, 2016, we did not record any earnings from DCo.

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

**4. SIGNIFICANT NEW BUSINESS****2019***Maiden*

On March 1, 2019, we entered into a Master Agreement with Maiden Holdings, Ltd. ("Maiden Holdings") and Maiden Reinsurance Ltd. ("Maiden Re Bermuda"). Under the Master Agreement, Enstar and Maiden Re Bermuda agreed to enter into an Adverse Development Cover Reinsurance Agreement ("ADC Agreement") pursuant to which Maiden Re Bermuda will cede and Enstar will reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda's two existing quota share agreements with certain insurance companies owned directly or indirectly by AmTrust Financial Services, Inc. ("AmTrust") for losses incurred on or prior to December 31, 2018 in excess of a \$2.44 billion retention, as such figure may be adjusted based upon Maiden's final year end reserves for the underlying business, up to a \$675 million limit. The premium payable by Maiden Re Bermuda to Enstar under the ADC Agreement is \$500 million. Completion of the transaction is subject to, among other things, regulatory approvals and satisfaction of various closing conditions. The Master Agreement contains customary representations, warranties, covenants and other closing conditions. The transaction is expected to close in the first half of 2019.

Effective immediately upon the signing of the Master Agreement, the parties terminated and released each other from their respective obligations under the previously disclosed Master Agreement, entered into on November 9, 2018. The previous agreement provided for the parties to enter into a retrocession agreement pursuant to which Maiden Re Bermuda would cede and Enstar would reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda's two existing AmTrust quota share agreements for losses incurred on or prior to June 30, 2018, for a premium payable by Maiden Re Bermuda to Enstar of \$2.675 billion.

*Amerisure*

On February 15, 2019, we entered into a loss portfolio transfer reinsurance agreement with Amerisure Mutual Insurance Company ("Amerisure") and Allianz Risk Transfer (Bermuda) Limited ("ART Bermuda"). In the transaction, Amerisure has agreed to cede, and each of Enstar and ART Bermuda has agreed to severally assume, a 50% quota share of the construction defect losses incurred by Amerisure and certain of its subsidiaries on or before December 31, 2012. At closing, Amerisure would pay Enstar and ART Bermuda an aggregate premium of \$125.0 million, which would be adjusted for a broker commission and paid claims and recoveries from April 1, 2018. Enstar's subsidiary would assume \$60.0 million of net reserves in the transaction. Completion of the transaction, which is expected to occur in the first quarter of 2019, is subject to, among other things, regulatory approvals and satisfaction of various other customary closing conditions.

*AmTrust RITC Transactions*

On February 14, 2019, we entered into four RITC transactions with Syndicates 1206, 1861, 2526 and 5820, managed by AmTrust Syndicates Limited, under which we reinsured to close the 2016 and prior underwriting years. We assumed net reinsurance reserves of approximately £650.0 million (approximately \$830.0 million) for cash consideration approximately equal to the net amount of reserves assumed. We have an investment in AmTrust, as described further in Note 21 - "Related Party Transactions".

**2018***Allianz*

Effective December 31, 2018, we and Allianz SE amended the January 1, 2016 reinsurance agreement between our subsidiary and Allianz SE, which related to our reinsurance of certain U.S. workers' compensation, construction defect, and asbestos, pollution and toxic tort business originally held by Fireman's Fund Insurance Company. The amendment increased the original sub-limit related to asbestos & environmental ("A&E") liabilities in exchange for a premium of \$70.0 million. This additional business is also covered by the consulting agreement that we entered into with San Francisco Reinsurance Company, an affiliate of Allianz, in connection with our 2016 transaction with Allianz discussed below.

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

**Maiden LPT**

On December 27, 2018, as part of the acquisition of Maiden Re North America as discussed in Note 3 - "Acquisitions", we also novated and assumed certain reinsurance agreements from Maiden Re Bermuda, including certain affiliate reinsurance agreements with Maiden Re North America. We assumed total gross unaffiliated reserves of \$72.1 million for total assets of \$70.4 million on a funds held basis and recorded a deferred charge asset of \$1.7 million, included in other assets.

**Coca-Cola**

On August 1, 2018, we entered into a reinsurance transaction with The Coca-Cola Company and its subsidiaries ("Coca-Cola"), pursuant to which we reinsured certain of Coca-Cola's retention and deductible risks under its subsidiaries' U.S. workers' compensation, auto liability, general liability and product liability insurance coverage. We assumed total gross reserves of \$120.8 million for cash consideration of \$103.6 million and recorded a deferred charge of \$17.2 million, included in other assets. We transferred the cash consideration received of \$103.6 million into a trust to support our obligations under the reinsurance agreement.

**Zurich Australia**

On February 23, 2018, we entered into a reinsurance agreement with Zurich Australian Insurance Limited, a subsidiary of Zurich Insurance Group ("Zurich"), to reinsure its New South Wales Vehicle Compulsory Third Party ("CTP") insurance business. Under the agreement, which was effective as of January 1, 2018, we assumed gross loss reserves of AUD\$359.4 million (\$280.8 million) in exchange for consideration of AUD\$343.9 million (\$268.7 million). We elected the fair value option for this reinsurance contract and recorded an initial fair value adjustment of AUD\$15.5 million (\$12.1 million) on the assumed gross loss reserves. Refer to Note 11 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

Following the initial reinsurance transaction, which transferred the economics of the CTP insurance business, we and Zurich also completed a portfolio transfer of the CTP insurance business under Division 3A Part III of Australia's Insurance Act 1973 (Cth), effective December 31, 2018, which provided legal finality for Zurich's obligations.

**Neon RITC Transaction**

On February 16, 2018, we completed a reinsurance-to-close ("RITC") transaction with Neon Underwriting Limited ("Neon"), under which we reinsured to close the 2015 and prior underwriting years of account (comprising underwriting years 2008 to 2015) of Neon's Syndicate 2468, with effect from January 1, 2018. We assumed gross loss reserves of £403.9 million (\$546.3 million) and net loss reserves of £342.1 million (\$462.6 million) relating to the portfolio in exchange for consideration of £329.1 million (\$445.1 million). We elected the fair value option for this reinsurance contract and recorded initial fair value adjustments of \$20.6 million and \$17.5 million on the gross and net loss reserves assumed, respectively. Refer to Note 11 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

**Novae RITC Transaction**

On January 29, 2018, we completed an RITC transaction with AXIS Managing Agency Limited, under which we reinsured to close the 2015 and prior underwriting years of account of Novae Syndicate 2007 ("Novae"), with effect from January 1, 2018. We assumed gross loss reserves of £860.1 million (\$1,163.2 million) and net loss reserves of £630.7 million (\$853.0 million) relating to the portfolio in exchange for consideration of £594.1 million (\$803.5 million) and recorded initial fair value adjustments of \$67.5 million and \$49.5 million on the gross and net loss reserves assumed, respectively. Refer to Note 11 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

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

**2017****Allianz**

On December 28, 2017, we entered into a reinsurance agreement with Allianz SE ("Allianz") to reinsure a portfolio of Allianz's run-off business, effective December 31, 2017. Pursuant to the reinsurance agreement, we reinsured 50% of certain U.S. workers' compensation, asbestos, and toxic tort business originally held by San Francisco Reinsurance Company, an affiliate of Allianz, and in the process assumed net reinsurance reserves of \$81.4 million. Affiliates of Allianz retained \$81.4 million of reinsurance premium as funds withheld collateral for the obligations under the reinsurance agreement and we transferred \$8.1 million to a reinsurance trust to further support our obligations. We also provide ongoing consulting services with respect to the entire \$162.8 million portfolio, including the 50% share retained by affiliates of Allianz.

**RSA**

On February 7, 2017, we entered into an agreement to reinsure the U.K. employers' liability legacy business of RSA Insurance Group PLC ("RSA"). Pursuant to the transaction, our subsidiary assumed gross insurance reserves of £1,046.4 million (\$1,301.8 million), relating to 2005 and prior year business. Net insurance reserves assumed were £927.5 million (\$1,153.9 million) and the reinsurance premium received was £801.6 million (\$997.2 million). We elected the fair value option for this reinsurance contract. The initial fair value adjustment on the gross reserves was \$174.1 million, and on the net reserves was \$156.7 million. Refer to Note 11 - "Fair Value Measurements" for a description of the fair value process and assumptions.

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

**QBE**

On January 11, 2017, we closed a transaction to reinsure multi-line property and casualty business of QBE Insurance Group Limited ("QBE"). We assumed gross reinsurance reserves of approximately \$1,019.0 million (net reserves of \$447.0 million) relating to the portfolio, which primarily includes workers' compensation, construction defect, and general liability discontinued lines of business. The reinsurance premium received was \$403.8 million, comprised of \$227.6 million in restricted cash and \$176.2 million in funds held. We elected the fair value option for this reinsurance contract. The initial fair value adjustment was \$180.0 million on the gross reserves and \$43.2 million on the net reserves. Refer to Note 11 - "Fair Value Measurements" for a description of the fair value process and assumptions. In addition, we pledged a portion of the premium as collateral to a subsidiary of QBE, and we have provided additional collateral and a limited parental guarantee.

**2016****Coca-Cola**

On August 5, 2016, we entered into a reinsurance transaction with The Coca-Cola Company and its subsidiaries ("Coca-Cola") pursuant to which we reinsured certain of Coca-Cola's retention and deductible risks under its subsidiaries' U.S. workers' compensation, auto liability, general liability, and product liability insurance coverage. We assumed total gross reserves of \$108.8 million, received total assets of \$101.3 million and recorded a deferred charge of \$7.5 million, included in other assets. We have transferred \$108.8 million into a trust to support our obligations under the reinsurance agreements. We provided a limited parental guarantee, subject to an overall maximum of \$27.0 million.

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

***Allianz***

On February 17, 2016, we entered into a reinsurance agreement with Allianz to reinsure portfolios of Allianz's run-off business. Pursuant to the reinsurance agreement, our subsidiary reinsured 50% of certain portfolios of workers' compensation, construction defect, and asbestos, pollution, and toxic tort business originally held by Fireman's Fund Insurance Company, and in the process assumed net reinsurance reserves of \$1.1 billion. Affiliates of Allianz retained \$1.1 billion of reinsurance premium as funds withheld collateral for the obligations of our subsidiary under the reinsurance agreement and we transferred \$110.0 million to a reinsurance trust to further support our subsidiary's obligations. We have also provided a limited parental guarantee, which is subject to a maximum cap. The combined monetary total of the support offered by us through the trust and parental guarantee was initially capped at \$270.0 million.

In addition to the reinsurance transaction described above, we have entered into a consulting agreement with San Francisco Reinsurance Company, an affiliate of Allianz, with respect to the entire \$2.2 billion portfolio, including the 50% share retained by affiliates of Allianz.

***Neon RITC Transaction***

On November 15, 2016, we entered into a RITC transaction of the 2007 and prior underwriting years of account of a Lloyd's syndicate managed by Neon (formerly Marketform), under which we assumed total net insurance reserves of £121.5 million (\$158.0 million) for cash consideration of an equal amount.

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

**5. DIVESTITURES, HELD-FOR-SALE BUSINESSES AND DISCONTINUED OPERATIONS**

***Pavonia***

On December 29, 2017, we completed the sale of our subsidiary, Pavonia Holdings (US), Inc. (“Pavonia”), to Southland National Holdings, Inc. (“Southland”), a Delaware corporation and a subsidiary of Global Bankers Insurance Group, LLC. The aggregate purchase price was \$120.0 million. We used the proceeds to make repayments under our revolving credit facility. Pavonia was a substantial portion of our previously reported Life and Annuities segment. We classified the assets and liabilities of the business to be sold as held-for-sale.

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

	<b>2017</b>	<b>2016</b>
<b>Operations:</b>		
<b>INCOME</b>		
Net premiums earned	\$ 55,906	\$ 69,089
Net investment income	41,117	38,140
Net realized and unrealized gains	577	4,263
Other income	1,564	1,912
	<u>\$ 99,164</u>	<u>\$ 113,404</u>
<b>EXPENSES</b>		
Life and annuity policy benefits	84,029	76,594
Acquisition costs	9,025	9,836
General and administrative expenses	12,813	14,416
Other expenses	(26)	199
	<u>\$ 105,841</u>	<u>\$ 101,045</u>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<u>(6,677)</u>	<u>12,359</u>
<b>INCOME TAXES</b>	<u>\$ (3,190)</u>	<u>(396)</u>
<b>NET EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS BEFORE GAIN ON SALE</b>	<u>\$ (9,867)</u>	<u>\$ 11,963</u>
<b>Disposal:</b>		
Consideration received	120,000	—
Less: Carrying value of subsidiary	86,961	—
Less: Cumulative currency translation adjustment previously recorded in accumulated other comprehensive income	12,179	—
Gain on sale of subsidiary	<u>\$ 20,860</u>	<u>\$ —</u>
<b>NET EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS</b>	<u>\$ 10,993</u>	<u>\$ 11,963</u>

The following table presents the cash flows of Pavonia whilst under our ownership for the years ended December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Operating activities	\$ 75,714	\$ (71,521)
Investing activities	42,542	56,646
Change in cash of businesses held for sale	<u>\$ 118,256</u>	<u>\$ (14,875)</u>

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

The cash, cash equivalents and restricted cash carried on the balance sheet of Pavonia on December 29, 2017, the date of disposal, were \$135.1 million.

A sale of one subsidiary, Pavonia Life Insurance Company of New York ("PLIC NY"), has not yet completed. As of both December 31, 2018 and 2017, included within other assets and other liabilities on our consolidated balance sheet were amounts of \$24.0 million and \$11.3 million, respectively, relating to PLIC NY.

**Laguna**

On August 29, 2017, we closed the previously-announced sale of our wholly-owned subsidiary Laguna Life DAC ("Laguna") to a subsidiary of Monument Insurance Group Limited ("Monument"), for a total consideration of €25.6 million (approximately \$30.8 million). We have an equity method investment in Monument, as described further in Note 21 - "Related Party Transactions". Laguna was classified as held-for-sale during 2017 prior to its sale.

Following the closing of the sale of Laguna, we recorded a loss on sale of \$16.3 million for the year ended December 31, 2017, which has been included in earnings from continuing operations before income taxes in our consolidated statement of earnings. This loss includes a cumulative currency translation adjustment balance of \$6.3 million, which has been reclassified from accumulated other comprehensive income and included in earnings as a component of the loss on sale of Laguna during the year ended December 31, 2017, following the closing of the sale. Excluding the loss on sale, the net earnings (losses) relating to Laguna for the years ended December 31, 2017 and 2016 were \$(1.2) million and \$1.0 million, respectively. These amounts were not significant to our consolidated operations and therefore Laguna was not classified as a discontinued operation in current or prior periods.

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

**6. INVESTMENTS**

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

**Fixed Maturity Investments**
*Asset Types*

The fair values of the underlying asset types of our short-term investments and fixed maturity investments, classified as trading and available-for-sale, and the fixed maturity investments included within our funds held - directly managed balance were as follows as at December 31, 2018 and 2017:

	2018				
	Short-term Investments	Trading	Available-for- sale	Funds Held - Directly Managed	Total
U.S. government and agency	\$ 45,885	\$ 389,735	\$ 573	\$ 74,052	\$ 510,245
U.K. government	2,275	298,356	—	—	300,631
Other government	19,064	679,525	73,185	22,036	793,810
Corporate	44,900	4,081,793	75,359	637,788	4,839,840
Municipal	—	73,856	2,480	53,929	130,265
Residential mortgage-backed	—	682,962	12	90,583	773,557
Commercial mortgage-backed	—	488,598	—	224,465	713,063
Asset-backed	1,992	553,968	—	80,521	636,481
<b>Total fixed maturity and short-term investments</b>	<b>\$ 114,116</b>	<b>\$ 7,248,793</b>	<b>\$ 151,609</b>	<b>\$ 1,183,374</b>	<b>\$ 8,697,892</b>

	2017				
	Short-term Investments	Trading	Available-for- sale	Funds Held - Directly Managed	Total
U.S. government and agency	\$ 25,083	\$ 528,953	\$ 4,187	\$ 69,850	\$ 628,073
U.K. government	6,528	304,357	—	—	310,885
Other government	532	295,715	85,437	2,926	384,610
Corporate	147,766	3,215,294	115,121	695,490	4,173,671
Municipal	201	100,020	5,136	58,930	164,287
Residential mortgage-backed	—	288,713	31	29,439	318,183
Commercial mortgage-backed	101	421,447	—	211,186	632,734
Asset-backed	—	541,574	373	97,565	639,512
<b>Total fixed maturity and short-term investments</b>	<b>\$ 180,211</b>	<b>\$ 5,696,073</b>	<b>\$ 210,285</b>	<b>\$ 1,165,386</b>	<b>\$ 7,251,955</b>

Included within residential and commercial mortgage-backed securities as at December 31, 2018 were securities issued by U.S. governmental agencies with a fair value of \$656.6 million (as at December 31, 2017: \$181.8 million). Included within corporate securities as at December 31, 2018 were senior secured loans of \$20.4 million (as at December 31, 2017: \$68.9 million).

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

*Contractual Maturities*

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

<b>As of December 31, 2018</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Total Fair Value</b>
One year or less	\$ 338,175	\$ 333,037	3.8%
More than one year through two years	646,924	630,858	7.3%
More than two years through five years	2,037,268	1,991,016	22.9%
More than five years through ten years	2,225,632	2,163,507	24.9%
More than ten years	1,532,670	1,456,373	16.7%
Residential mortgage-backed	772,457	773,557	8.9%
Commercial mortgage-backed	729,232	713,063	8.2%
Asset-backed	642,618	636,481	7.3%
	<u>\$ 8,924,976</u>	<u>\$ 8,697,892</u>	<u>100.0%</u>

*Credit Ratings*

The following table sets forth the credit ratings of our short-term investments and fixed maturity investments, classified as trading and available-for-sale, and the fixed maturity investments included within our funds held - directly managed balance as at December 31, 2018:

	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>% of Total</b>	<b>AAA Rated</b>	<b>AA Rated</b>	<b>A Rated</b>	<b>BBB Rated</b>	<b>Non-Investment Grade</b>	<b>Not Rated</b>
U.S. government and agency	\$ 512,360	\$ 510,245	5.9%	\$ 502,819	\$ 7,426	\$ —	\$ —	\$ —	\$ —
U.K. government	301,749	300,631	3.5%	2,144	298,487	—	—	—	—
Other government	814,614	793,810	9.1%	322,606	213,639	69,601	154,800	32,592	572
Corporate	5,019,018	4,839,840	55.6%	129,059	470,571	2,306,532	1,731,398	197,822	4,458
Municipal	132,928	130,265	1.5%	7,934	69,270	41,666	11,395	—	—
Residential mortgage-backed	772,457	773,557	8.9%	644,418	51,729	8,658	10,495	54,727	3,530
Commercial mortgage-backed	729,232	713,063	8.2%	487,054	70,620	77,538	60,879	7,297	9,675
Asset-backed	642,618	636,481	7.3%	358,574	68,174	125,644	66,136	17,573	380
<b>Total</b>	<u>\$ 8,924,976</u>	<u>\$ 8,697,892</u>	<u>100.0%</u>	<u>\$ 2,454,608</u>	<u>\$ 1,249,916</u>	<u>\$ 2,629,639</u>	<u>\$ 2,035,103</u>	<u>\$ 310,011</u>	<u>\$ 18,615</u>
% of total fair value				28.2%	14.4%	30.2%	23.4%	3.6%	0.2%

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

*Unrealized Gains and Losses on Available-for-sale Fixed Maturity Investments*

The amortized cost and fair values of our fixed maturity investments classified as available-for-sale were as follows as at December 31, 2018 and 2017:

<b>2018</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses Non-OTTI</b>	<b>Fair Value</b>
U.S. government and agency	\$ 576	\$ —	\$ (3)	\$ 573
Other government	72,811	1,219	(845)	73,185
Corporate	75,535	1,006	(1,182)	75,359
Municipal	2,499	—	(19)	2,480
Residential mortgage-backed	12	—	—	12
	<u>\$ 151,433</u>	<u>\$ 2,225</u>	<u>\$ (2,049)</u>	<u>\$ 151,609</u>

<b>2017</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses Non-OTTI</b>	<b>Fair Value</b>
U.S. government and agency	\$ 4,210	\$ —	\$ (23)	\$ 4,187
Other government	84,776	1,249	(588)	85,437
Corporate	113,561	2,436	(876)	115,121
Municipal	5,146	8	(18)	5,136
Residential mortgage-backed	31	—	—	31
Asset-backed	373	—	—	373
	<u>\$ 208,097</u>	<u>\$ 3,693</u>	<u>\$ (1,505)</u>	<u>\$ 210,285</u>

*Gross Unrealized Losses on Available-for-sale Fixed Maturity Investments*

The following tables summarize our fixed maturity and short-term investments classified as available-for-sale in a gross unrealized loss position, as at December 31, 2018 and 2017:

	<b>12 Months or Greater</b>		<b>Less Than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>
<b>2018</b>						
<b>Fixed maturity investments, at fair value</b>						
U.S. government and agency	\$ 573	\$ (3)	\$ —	\$ —	\$ 573	\$ (3)
Other government	7,351	(345)	11,000	(500)	18,351	(845)
Corporate	11,888	(629)	25,227	(553)	37,115	(1,182)
Municipal	1,783	(18)	283	(1)	2,066	(19)
Residential mortgage-backed	12	—	—	—	12	—
<b>Total fixed maturity investments</b>	<u>\$ 21,607</u>	<u>\$ (995)</u>	<u>\$ 36,510</u>	<u>\$ (1,054)</u>	<u>\$ 58,117</u>	<u>\$ (2,049)</u>

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

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>2017</b>						
<b>Fixed maturity and short-term investments, at fair value</b>						
U.S. government and agency	\$ 2,344	\$ (16)	\$ 1,842	\$ (7)	\$ 4,186	\$ (23)
Other government	11,101	(373)	20,965	(215)	32,066	(588)
Corporate	9,177	(807)	24,200	(69)	33,377	(876)
Municipal	369	(5)	3,605	(13)	3,974	(18)
<b>Total fixed maturity investments</b>	<b>\$ 22,991</b>	<b>\$ (1,201)</b>	<b>\$ 50,612</b>	<b>\$ (304)</b>	<b>\$ 73,603</b>	<b>\$ (1,505)</b>

As at December 31, 2018 and 2017, the number of securities classified as available-for-sale in an unrealized loss position was 88 and 96, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 42 and 37, respectively.

*Other-Than-Temporary Impairment on Available-for-sale Fixed Maturity Investments*

For the years ended December 31, 2018, 2017 and 2016, we did not recognize any other-than-temporary impairment losses on our available-for-sale securities. We determined that no credit losses existed as at December 31, 2018 and 2017. A description of our other-than-temporary impairment process is included in Note 2 - "Significant Accounting Policies". There were no changes to our process in the years ended December 31, 2018 and 2017.

**Equity Investments**

The following table summarizes our equity investments classified as trading as at December 31, 2018 and 2017:

	2018	2017
Publicly traded equity investments in common and preferred stocks	\$ 138,415	\$ 106,603
Privately held equity investments in common and preferred stocks	228,710	—
	<b>\$ 367,125</b>	<b>\$ 106,603</b>

Our publicly traded equity investments in common and preferred stocks predominantly trade on the major exchanges and are managed by our external advisors. Our publicly traded equity investments are widely diversified and there is no significant concentration in any specific industry.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment may have its own unique terms and conditions and there may be restrictions on disposals. The market for these investments is illiquid and there is no active market. Included within the above balance as at December 31, 2018 is an indirect investment in AmTrust, with a fair value of \$200.0 million. Refer to Note 21 - "Related Party Transactions" for further information.

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

**Other Investments, at fair value**

The following table summarizes our other investments carried at fair value as of December 31, 2018 and 2017:

	2018	2017
Hedge funds	\$ 852,584	\$ 63,773
Fixed income funds	403,858	229,999
Equity funds	333,681	249,475
Private equity funds	248,628	289,556
CLO equities	39,052	56,765
CLO equity fund	37,260	12,840
Private credit funds	33,381	10,156
Others	9,313	828
	<u>\$ 1,957,757</u>	<u>\$ 913,392</u>

The valuation of our other investments is described in Note 11 - "Fair Value Measurements". Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

- *Hedge funds* may invest in a wide range of instruments, including debt and equity securities, and utilize various sophisticated strategies to achieve their objectives. We invest in a mixture of fixed income, equity and multi-strategy hedge funds. The hedge funds in which we invest have various imposed lock-up periods of up to three years and redemption terms, predominantly 60 and 90 days. Certain of the hedge funds in which we invest that are past their lock up periods are currently eligible for redemption, while others, with a market value of \$766.1 million, are still in the lock-up period. Investments of \$71.5 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.
- *Fixed income funds* comprise a number of positions in diversified fixed income funds that are managed by third-party managers. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. One of the funds, with a market value of \$44.2 million in which we invest has a lock-up period of up to two years and is eligible for quarterly redemptions thereafter with 65 days' notice. Another fund, with a market value of \$68.8 million, is not currently eligible for redemption. All other funds have liquidity terms that vary from daily up to 30 days' notice.
- *Equity funds* invest in a diversified portfolio of U.S. and international publicly-traded equity securities. The funds have liquidity terms that vary from daily up to quarterly.
- *Private equity funds* invest primarily in the financial services industry. All of our investments in private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the dates of our initial investments.
- *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.
- *CLO equity fund* invests primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. This fund has a fair value of \$37.3 million and approximately 28% of the fund is eligible for redemption.

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

- *Private credit funds* invest in direct senior or collateralized loans. The investments are subject to restrictions on redemption and sales that are determined by the governing documents and limit our ability to liquidate our positions in the funds.
- *Others* comprise of various investments including a real estate debt fund that invests primarily in European commercial real estate equity, call options on equities and a fund that provides loans to educational institutions throughout the United States and its territories.

The increase in our other investments carried at fair value between December 31, 2018 and December 31, 2017 was primarily attributable to \$626.5 million of other investments acquired as part of the KaylaRe acquisition and net additional subscriptions of \$583.7 million to hedge funds, equity funds and fixed income funds.

As at December 31, 2018, we had unfunded commitments of \$228.2 million to private equity funds.

**Other Investments, at cost**

During 2018, we sold our investments in life settlement contracts, which were carried at cost. During the years ended December 31, 2018, 2017 and 2016, net investment income included \$6.5 million, \$13.8 million and \$18.0 million, respectively, related to investments in life settlements. During the years ended December 31, 2018, 2017 and 2016, there were impairment charges of \$6.6 million, \$7.2 million and \$5.3 million, respectively, recognized in net realized and unrealized gains/losses.

**Equity Method Investments**

The table below shows our equity method investments as of December 31, 2018 and 2017:

	2018			2017		
	Investment	Ownership %	Carrying Value	Investment	Ownership %	Carrying Value
Enhanced Re	\$ 94,800	47.4%	\$ 94,800	\$ —	—%	\$ —
Citco	50,000	31.9%	50,812	—	—%	—
Monument	26,600	26.6%	42,193	15,960	26.6%	15,960
Clear Spring	11,210	20.0%	\$ 10,070	11,210	20.0%	10,596
Other	15,250	~30%	6,632	15,250	~30%	6,633
KaylaRe	—	—%	—	299,026	48.2%	309,816
	<u>\$ 197,860</u>		<u>\$ 204,507</u>	<u>\$ 341,446</u>		<u>\$ 343,005</u>

Refer to Note 21 - "Related Party Transactions" for further information regarding our investments in Clear Spring, Citco, Monument, KaylaRe and Enhanced Re.

As at December 31, 2018, we had unfunded commitments of \$167.2 million related to equity method investments.

**Funds Held**

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. We either have (i) funds held by reinsured companies, which are carried at amortized cost and on which we receive a fixed crediting rate, or (ii) funds held - directly managed, which are carried at fair value and on which we receive the underlying return on the portfolio. The investment returns on both categories of funds held are recognized in net investment income and net realized and unrealized gains (losses). The funds held balance is credited with investment income and losses payable are deducted.

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

*Funds Held - Directly Managed*

Funds held - directly managed, where we receive the underlying return on the investment portfolio, are carried at fair value, either because we elected the fair value option at the inception of the reinsurance contract, or because it represents the aggregate of funds held at amortized cost and the fair value of an embedded derivative. The embedded derivative relates to our contractual right to receive the return on the underlying investment portfolio supporting the reinsurance contract. We include the estimated fair value of these embedded derivatives in the consolidated balance sheets with the host contract in order to reflect the expected settlement of these features with the host contract. The change in the fair value of the embedded derivative is included in net unrealized gains (losses). The following table summarizes the components of the funds held - directly managed as of December 31, 2018 and 2017:

	2018	2017
Fixed maturity investments, trading	\$ 1,183,374	\$ 1,165,386
Other assets	14,780	14,554
	<u>\$ 1,198,154</u>	<u>\$ 1,179,940</u>

The following table summarizes the fixed maturity investment components of funds held - directly managed as of December 31, 2018 and 2017:

	2018			2017		
	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total	Funds held - Directly Managed - Fair Value Option	Funds held - Directly Managed - Variable Return	Total
Fixed maturity investments, at amortized cost	\$ 179,670	\$ 1,044,377	\$ 1,224,047	\$ 174,227	\$ 985,486	\$ 1,159,713
Net unrealized gains (losses):						
Change in fair value - fair value option accounting	(2,733)	—	(2,733)	973	—	973
Change in fair value - embedded derivative accounting	—	(37,940)	(37,940)	—	4,700	4,700
Fixed maturity investments within funds held - directly managed, at fair value	<u>\$ 176,937</u>	<u>\$ 1,006,437</u>	<u>\$ 1,183,374</u>	<u>\$ 175,200</u>	<u>\$ 990,186</u>	<u>\$ 1,165,386</u>

Refer to the sections above for details of the fixed maturity investments within our funds held - directly managed portfolios.

*Funds Held by Reinsured Companies*

Funds held by reinsured companies, where we received a fixed crediting rate, are carried at cost on our consolidated balance sheets. As of December 31, 2018 and 2017, we had funds held by reinsured companies of \$321.3 million and \$175.4 million, respectively.

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

**Net Investment Income**

Major categories of net investment income for the years ended December 31, 2018, 2017 and 2016 are summarized as follows:

	2018	2017	2016
Fixed maturity investments	\$ 189,000	\$ 144,367	\$ 114,885
Short-term investments and cash and cash equivalents	12,117	9,314	4,491
Funds held	10,041	601	22,583
Funds held – directly managed	37,623	32,479	5,769
Investment income from fixed maturities and cash and cash equivalents	248,781	186,761	147,728
Equity investments	5,397	4,355	4,874
Other investments	19,703	14,337	22,515
Life settlements and other	6,511	14,370	18,191
Investment income from equities and other investments	31,611	33,062	45,580
Gross investment income	280,392	219,823	193,308
Investment expenses	(9,721)	(11,034)	(7,845)
Net investment income	<u>\$ 270,671</u>	<u>\$ 208,789</u>	<u>\$ 185,463</u>

**Net Realized and Unrealized Gains (Losses)**

Components of net realized and unrealized gains (losses) for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Net realized gains (losses) on sale:			
Gross realized gains on fixed maturity securities, available-for-sale securities <sup>(1)</sup>	\$ 27	\$ 616	\$ 405
Gross realized losses on fixed maturity securities, available-for-sale securities <sup>(1)</sup>	(90)	(125)	(21)
Net realized gains (losses) on fixed maturity securities, trading	(27,646)	4,695	1,848
Net realized losses on fixed maturity securities in funds held - directly managed portfolios	(3,940)	(4,219)	(14,616)
Net realized gains on equity investments, trading	4,016	701	5,348
Total net realized gains (losses) on sale	(27,633)	1,668	(7,036)
Net unrealized gains (losses):			
Fixed maturity securities, trading	(165,187)	35,878	36,314
Fixed maturity securities in funds held - directly managed portfolios	(46,257)	33,902	(28,317)
Equity investments, trading	(9,831)	16,498	6,561
Other investments	(163,976)	102,388	70,296
Total net unrealized gains (losses)	(385,251)	188,666	84,854
Net realized and unrealized gains (losses)	<u>\$ (412,884)</u>	<u>\$ 190,334</u>	<u>\$ 77,818</u>

<sup>(1)</sup>The gross realized gains and losses on available-for-sale investments included in the table above resulted from sales of \$11.4 million, \$40.8 million and \$41.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

**Restricted Assets**

We utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. We are also required to maintain investments and cash and cash equivalents on deposit with regulatory authorities and Lloyd's to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. Collateral generally takes the form of assets held in trust, letters of credit or funds held. The assets used as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of \$380.5 million and \$257.7 million, as of December 31, 2018 and 2017, respectively, was as follows:

	<b>2018</b>	<b>2017</b>
Collateral in trust for third party agreements	\$ 4,336,752	\$ 3,118,892
Assets on deposit with regulatory authorities	579,048	599,829
Collateral for secured letter of credit facilities	127,841	151,467
Funds at Lloyd's <sup>(1)</sup>	354,589	234,833
	<u>\$ 5,398,230</u>	<u>\$ 4,105,021</u>

<sup>(1)</sup> Our businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. We also utilize unsecured letters of credit for Funds at Lloyd's, as described in Note 15 - "Debt Obligations and Credit Facilities".

The increase in the collateral held in trust for third-party agreements and Funds at Lloyd's was primarily due to the transactions with Neon, Novae, Zurich and Maiden Re North America described in Note 3 - "Acquisitions" and Note 4 - "Significant New Business".

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

**7. DERIVATIVES AND HEDGING INSTRUMENTS**
**Foreign Currency Hedging of Net Investments in Foreign Operations**

We use foreign currency forward exchange rate contracts in qualifying hedging relationships to hedge the foreign currency exchange rate risk associated with certain of our net investments in foreign operations. At December 31, 2018 and 2017, we had forward foreign currency contracts in place which we had designated as hedges of our net investments in foreign operations.

The following table presents the gross notional amounts and the estimated fair values recorded within other assets and liabilities related to our qualifying foreign currency forward exchange rate contracts as at December 31, 2018 and 2017:

	2018			2017		
	Gross Notional Amount	Fair Value		Gross Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forward - AUD	\$ 42,258	\$ 1,377	\$ —	\$ 32,810	\$ —	\$ 965
Foreign exchange forward - EUR	66,422	238	300	—	—	—
Foreign exchange forward - CAD	—	—	—	27,141	11	512
Total qualifying hedges	\$ 108,680	\$ 1,615	\$ 300	\$ 59,951	\$ 11	\$ 1,477

The Canadian Dollar ("CAD") foreign currency contract that we had in place to hedge the net investment in our CAD denominated operations was discontinued effective December 31, 2017 following the disposal of those operations.

The following table presents the amounts of the net gains and losses deferred in the CTA account, which is a component of AOCI, in shareholders' equity, related to our qualifying foreign currency forward exchange rate contracts for the years ended December 31, 2018, 2017 and 2016:

	Amount of Gains (Losses) Deferred in AOCI		
	2018	2017	2016
	Foreign exchange forward - AUD	\$ 3,438	\$ (1,247)
Foreign exchange forward - EUR	1,000	—	—
Foreign exchange forward - CAD	—	—	1,186
Total qualifying hedges	\$ 4,438	\$ (1,247)	\$ 3,754

Following the completion of the sale of Pavonia, which closed on December 29, 2017, we reclassified from CTA to earnings, the cumulative losses of \$1.1 million related to the CAD foreign currency forward contract which hedged our CAD denominated net investment in Pavonia.

**Non-derivative Hedging Instruments of Net Investments in Foreign Operations**

As at December 31, 2018 and 2017, there were borrowings of €nil and €50.0 million (\$60.1 million), respectively, under our revolving credit facilities that were designated as non-derivative hedges of our net investment in certain subsidiaries whose functional currency is denominated in Euros. These Euro-denominated borrowings were repaid in full and replaced by a Euro-denominated foreign currency forward exchange rate contract in a qualifying hedging arrangement during the year ended December 31, 2018.

The following table presents the amounts of the net gains and losses deferred in the CTA account in AOCI relating to these qualifying Euro-loan non-derivative hedging instruments for the years ended December 31, 2018, 2017 and 2016:

	Amount of Gains (Losses) Deferred in AOCI		
	2018	2017	2016
	Net gains (losses) on qualifying non-derivative hedges	\$ 3,144	\$ (9,375)

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

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

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

*Foreign Currency Forward Contracts*

The following table presents the gross notional amounts and the estimated fair values recorded within other assets and liabilities as at December 31, 2018 and 2017 and the gains and losses during the years ended December 31, 2018 and 2017, related to our non-qualifying foreign currency forward exchange rate hedging relationships:

	December 31, 2018			2018	
	Gross Notional Amount	Fair Value		Gains (losses) on non-qualifying hedges charged to earnings	
		Assets	Liabilities		
Foreign exchange forward - AUD	\$ 45,427	\$ 1,952	\$ 310	\$ 4,958	
Foreign exchange forward - CAD	55,050	1,441	—	9,311	
Foreign exchange forward - EUR	54,282	139	301	2,296	
Foreign exchange forward - GBP	256,959	1,554	72	15,078	
Total non-qualifying hedges	<u>\$ 411,718</u>	<u>\$ 5,086</u>	<u>\$ 683</u>	<u>\$ 31,643</u>	

	December 31, 2017			2017	
	Gross Notional Amount	Fair Value		Gains (losses) on non-qualifying hedges charged to earnings	
		Assets	Liabilities		
Foreign exchange forward - AUD	\$ 57,028	\$ —	\$ 1,002	\$ (1,002)	
Foreign exchange forward - EUR	19,235	46	455	(971)	
Foreign exchange forward - GBP	207,323	262	4,312	(6,367)	
Total non-qualifying hedges	<u>\$ 283,586</u>	<u>\$ 308</u>	<u>\$ 5,769</u>	<u>\$ (8,340)</u>	

There were no such non-qualifying foreign currency forward contracts utilized during the year ended December 31, 2016.

*Investments in Call Options on Equities*

During the year ended December 31, 2018, we purchased call options on equities at a cost of \$10.0 million and recorded unrealized losses in net earnings of \$9.4 million on the instruments for the year ended December 31, 2018. We did not have any equity call option instruments as of or during the year ended December 31, 2017. During the year ended December 31, 2016, we purchased call options on equities at a cost of \$5.5 million and sold these for a realized gain of \$5.4 million.

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

**8. REINSURANCE BALANCES RECOVERABLE ON PAID AND UNPAID LOSSES**

The following table provides the total reinsurance balances recoverable on paid and unpaid losses as of December 31, 2018 and 2017:

	2018				
	Non-life Run-off	Atrium	StarStone	Other	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	\$ 901,772	\$ 18,891	\$ 263,065	\$ —	\$ 1,183,728
IBNR	609,434	19,247	201,784	—	830,465
Fair value adjustments - acquired companies	(14,344)	630	(1,899)	—	(15,613)
Fair value adjustments - fair value option	(130,739)	—	—	—	(130,739)
Total reinsurance reserves recoverable	1,366,123	38,768	462,950	—	1,867,841
Paid losses recoverable	138,265	(256)	23,813	—	161,822
	<u>\$ 1,504,388</u>	<u>\$ 38,512</u>	<u>\$ 486,763</u>	<u>\$ —</u>	<u>\$ 2,029,663</u>
Reinsurance balances recoverable on paid and unpaid losses	\$ 764,797	\$ 38,512	\$ 486,763	\$ —	\$ 1,290,072
Reinsurance balances recoverable on paid and unpaid losses - fair value option	739,591	—	—	—	739,591
Total	<u>\$ 1,504,388</u>	<u>\$ 38,512</u>	<u>\$ 486,763</u>	<u>\$ —</u>	<u>\$ 2,029,663</u>
<b>2017</b>					
	Non-life Run-off	Atrium	StarStone	Other	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	\$ 932,284	\$ 7,472	\$ 211,650	\$ —	\$ 1,151,406
IBNR	590,154	31,476	242,620	—	864,250
Fair value adjustments - acquired companies	(12,970)	1,583	(2,253)	—	(13,640)
Fair value adjustments - fair value option	(131,983)	—	—	—	(131,983)
Total reinsurance reserves recoverable	1,377,485	40,531	452,017	—	1,870,033
Paid losses recoverable	128,253	(451)	23,179	16	150,997
	<u>\$ 1,505,738</u>	<u>\$ 40,080</u>	<u>\$ 475,196</u>	<u>\$ 16</u>	<u>\$ 2,021,030</u>
Reconciliation to Consolidated Balance Sheet:					
Reinsurance balances recoverable on paid and unpaid losses	\$ 963,514	\$ 40,080	\$ 475,196	\$ 16	\$ 1,478,806
Reinsurance balances recoverable on paid and unpaid losses - fair value option	542,224	—	—	—	542,224
Total	<u>\$ 1,505,738</u>	<u>\$ 40,080</u>	<u>\$ 475,196</u>	<u>\$ 16</u>	<u>\$ 2,021,030</u>

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

The fair value adjustments, determined on acquisition of insurance and reinsurance subsidiaries, are based on the estimated timing of loss and LAE recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the acquired reinsurance balances recoverable on paid and unpaid losses 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. The determination of the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 11 - "Fair Value Measurements".

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

As of December 31, 2018 and 2017, we had reinsurance balances recoverable on paid and unpaid losses of approximately \$2,029.7 million and \$2,021.0 million, respectively. The increase of \$8.6 million in reinsurance balances recoverable on paid and unpaid losses was primarily related/due to the Maiden Re North America, Neon and Novae transactions, partially offset by the KaylaRe transaction and by reserve reductions, commutations and cash collections made during the year ended December 31, 2018 in our Non-life Run-off segment.

**Top Ten Reinsurers**

	December 31, 2018						December 31, 2017					
	Non-life Run-off	Atrium	StarStone	Other	Total	% of Total	Non-life Run-off	Atrium	StarStone	Other	Total	% of Total
Top ten reinsurers	\$ 1,124,079	\$ 25,239	\$ 263,192	\$ —	\$ 1,412,510	69.6%	\$ 1,166,057	\$ 22,422	\$ 328,257	\$ —	\$ 1,516,736	75.0%
Other reinsurers > \$1 million	364,098	12,091	220,123	—	596,312	29.4%	322,722	16,631	144,336	—	483,689	24.0%
Other reinsurers < \$1 million	16,211	1,182	3,448	—	20,841	1.0%	16,959	1,027	2,603	16	20,605	1.0%
<b>Total</b>	<b>\$ 1,504,388</b>	<b>\$ 38,512</b>	<b>\$ 486,763</b>	<b>\$ —</b>	<b>\$ 2,029,663</b>	<b>100.0%</b>	<b>\$ 1,505,738</b>	<b>\$ 40,080</b>	<b>\$ 475,196</b>	<b>\$ 16</b>	<b>\$ 2,021,030</b>	<b>100.0%</b>

	December 31, 2018	December 31, 2017
Information regarding top ten reinsurers:		
Number of top 10 reinsurers rated A- or better	7	6
Number of top 10 non-rated reinsurers <sup>(1)</sup>	3	4
Top 10 rated A- or better reinsurers recoverables	\$ 1,096,272	\$ 829,164
Top 10 collateralized non-rated reinsurers recoverables <sup>(1)</sup>	316,238	687,572
	<b>\$ 1,412,510</b>	<b>\$ 1,516,736</b>

Single reinsurers that represent 10% or more of total reinsurance balance recoverables as at September 30, 2018:

Hannover Ruck SE <sup>(2)</sup>	\$ 279,723	\$ 320,047
Lloyd's Syndicates <sup>(3)</sup>	\$ 334,509	\$ 193,838

<sup>(1)</sup> For the three non-rated reinsurers as at December 31, 2018 and four non-rated reinsurers as at December 31, 2017, we hold security in the form of pledged assets in trust or letters of credit issued to us in the full amount of the recoverable.

<sup>(2)</sup> Hannover Ruck SE is rated AA- by Standard & Poor's and A+ by A.M. Best.

<sup>(3)</sup> Lloyd's Syndicates are rated A+ by Standard & Poor's and A by A.M. Best.

**Provisions for Uncollectible Reinsurance Balances Recoverable on Paid and Unpaid Losses**

We evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.

The following table shows our reinsurance balances recoverable on paid and unpaid losses by rating of reinsurer and our provisions for uncollectible reinsurance balances recoverable on paid and unpaid losses ("provisions for bad debt") as of December 31, 2018 and 2017. The provisions for bad debt all relate to the Non-life Run-off segment.

	2018				2017			
	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross
Reinsurers rated A- or above	\$ 1,612,464	\$ 51,519	\$ 1,560,945	3.2%	\$ 1,252,887	\$ 51,115	\$ 1,201,772	4.1%
Reinsurers rated below A-, secured	430,852	—	430,852	—%	771,097	—	771,097	—%
Reinsurers rated below A-, unsecured	143,079	105,213	37,866	73.5%	162,259	114,098	48,161	70.3%
<b>Total</b>	<b>\$ 2,186,395</b>	<b>\$ 156,732</b>	<b>\$ 2,029,663</b>	<b>7.2%</b>	<b>\$ 2,186,243</b>	<b>\$ 165,213</b>	<b>\$ 2,021,030</b>	<b>7.6%</b>

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

**9. DEFERRED CHARGE ASSETS**

Deferred charge assets relate to retroactive reinsurance policies providing indemnification of losses and LAE with respect to past loss events in the Non-life Run-off segment. For insurance and reinsurance contracts for which we do not elect the fair value option, a deferred charge asset is recorded for the excess, if any, of the estimated ultimate losses payable over the premiums received at the initial measurement. The premium consideration that we charge the ceding companies may be lower than the undiscounted estimated ultimate losses payable due to the time value of money. After receiving the premium consideration in full from our cedents at the inception of the contract, we invest the premium received over an extended period of time thereby generating investment income. We expect to generate profits from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. Further information on deferred charge assets recorded during the years ended December 31, 2018, 2017 and 2016 is included in Note 4 - "Significant New Business".

Deferred charge assets are included in other assets on our consolidated balance sheets. The following table presents a reconciliation of the deferred charge assets for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Beginning carrying value	\$ 80,192	\$ 94,551	\$ 255,911
Recorded during the year	20,174	—	7,467
Amortization	(13,781)	(14,359)	(130,194)
Impairment	—	—	(38,633)
Ending carrying value	<u>\$ 86,585</u>	<u>\$ 80,192</u>	<u>\$ 94,551</u>

Deferred charge assets are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in earnings as a component of losses and LAE. Deferred charge assets amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charge assets and the amount of periodic amortization. Deferred charge assets are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made. The impairment recognized in the year ended December 31, 2016 was offset in earnings by favorable loss reserve development. For the year ended December 31, 2018, we completed our assessment for impairment of deferred charge assets and concluded that there had been no impairment of our carried deferred charge assets amount.

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

**10. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The liability for losses and loss adjustment expenses ("LAE"), also referred to as loss reserves, represents our gross estimates before reinsurance for unpaid reported losses and losses that have been incurred but not reported ("IBNR") for our Non-life Run-off, Atrium and StarStone segments using a variety of actuarial methods. We recognize an asset for the portion of the liability that we expect to recover from reinsurers. LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for loss and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

The following table summarizes the liability for losses and LAE by segment and for our other activities as of December 31, 2018 and 2017:

	<b>2018</b>				
	<b>Non-life Run-off</b>	<b>Atrium</b>	<b>StarStone</b>	<b>Other</b>	<b>Total</b>
Outstanding losses	\$ 4,271,769	\$ 94,885	\$ 796,194	\$ 6,052	\$ 5,168,900
IBNR	3,527,767	140,521	787,894	12,809	4,468,991
Fair value adjustments	(217,527)	3,476	(467)	—	(214,518)
Fair value adjustments - fair value option	(374,752)	—	—	—	(374,752)
ULAE	333,405	2,402	25,076	—	360,883
<b>Total</b>	<b>\$ 7,540,662</b>	<b>\$ 241,284</b>	<b>\$ 1,608,697</b>	<b>\$ 18,861</b>	<b>\$ 9,409,504</b>
Reconciliation to Consolidated Balance Sheet:					
Losses and loss adjustment expenses	\$ 4,666,607	\$ 241,284	\$ 1,608,697	\$ 18,861	\$ 6,535,449
Losses and loss adjustment expenses, at fair value	2,874,055	—	—	—	2,874,055
<b>Total</b>	<b>\$ 7,540,662</b>	<b>\$ 241,284</b>	<b>\$ 1,608,697</b>	<b>\$ 18,861</b>	<b>\$ 9,409,504</b>

	<b>2017</b>				
	<b>Non-life Run-off</b>	<b>Atrium</b>	<b>StarStone</b>	<b>Other</b>	<b>Total</b>
Outstanding losses	\$ 3,185,703	\$ 78,363	\$ 590,977	\$ —	\$ 3,855,043
IBNR	2,903,927	150,508	599,221	—	3,653,656
Fair value adjustments	(125,998)	9,547	(555)	—	(117,006)
Fair value adjustments - fair value option	(314,748)	—	—	—	(314,748)
ULAE	300,588	2,455	18,100	—	321,143
<b>Total</b>	<b>\$ 5,949,472</b>	<b>\$ 240,873</b>	<b>\$ 1,207,743</b>	<b>\$ —</b>	<b>\$ 7,398,088</b>
Reconciliation to Consolidated Balance Sheet:					
Losses and loss adjustment expenses	\$ 4,154,803	\$ 240,873	\$ 1,207,743	\$ —	\$ 5,603,419
Losses and loss adjustment expenses, at fair value	1,794,669	—	—	—	1,794,669
<b>Total</b>	<b>\$ 5,949,472</b>	<b>\$ 240,873</b>	<b>\$ 1,207,743</b>	<b>\$ —</b>	<b>\$ 7,398,088</b>

The overall increase in the liability for losses and LAE between December 31, 2017 and December 31, 2018 was primarily attributable to the assumed reinsurance agreements with Neon, Novae and Zurich for which we have elected the fair value option, as described in Note 4 - "Significant New Business", and the acquisition of Maiden Re North America, as described in Note 3 - "Acquisitions", in our Non-life Run-off segment.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Balance as at January 1	\$ 7,398,088	\$ 5,987,867	\$ 5,720,149
Less: reinsurance reserves recoverable	1,870,033	1,388,193	1,360,382
Less: deferred charge assets on retroactive reinsurance	80,192	94,551	255,911
Net balance as at January 1	5,447,863	4,505,123	4,103,856
Net incurred losses and LAE:			
Current period	689,782	437,853	493,016
Prior periods	(235,757)	(244,302)	(318,917)
Total net incurred losses and LAE	454,025	193,551	174,099
Net paid losses:			
Current period	(189,560)	(82,273)	(79,579)
Prior periods	(1,194,985)	(862,921)	(753,478)
Total net paid losses	(1,384,545)	(945,194)	(833,057)
Effect of exchange rate movement	(145,243)	158,429	(46,903)
Acquired on purchase of subsidiaries	1,310,874	10,251	10,019
Assumed business	1,772,104	1,525,703	1,340,444
Ceded business	—	—	(243,335)
Net balance as at December 31	7,455,078	5,447,863	4,505,123
Plus: reinsurance reserves recoverable	1,867,841	1,870,033	1,388,193
Plus: deferred charge assets on retroactive reinsurance	86,585	80,192	94,551
Balance as at December 31	\$ 9,409,504	\$ 7,398,088	\$ 5,987,867

The tables below provide the components of net incurred losses and LAE by segment and for our other activities for the years ended December 31, 2018, 2017 and 2016:

	2018				
	Non-life Run-off	Atrium	StarStone	Other	Total
Net losses paid	\$ 838,817	\$ 64,506	\$ 477,130	\$ 4,092	\$ 1,384,545
Net change in case and LAE reserves	(547,420)	6,331	75,887	4,808	(460,394)
Net change in IBNR reserves	(565,385)	4,091	113,879	7,999	(439,416)
Increase (reduction) in estimates of net ultimate losses	(273,988)	74,928	666,896	16,899	484,735
Increase (reduction) in provisions for unallocated LAE	(65,401)	—	6,753	—	(58,648)
Amortization of deferred charge assets	13,781	—	—	—	13,781
Amortization of fair value adjustments	12,877	(5,118)	(266)	—	7,493
Changes in fair value - fair value option	6,664	—	—	—	6,664
Net incurred losses and LAE	\$ (306,067)	\$ 69,810	\$ 673,383	\$ 16,899	\$ 454,025

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	2017			
	Non-life Run-off	Atrium	StarStone	Total
Net losses paid	\$ 581,723	\$ 55,678	\$ 307,793	\$ 945,194
Net change in case and LAE reserves	(381,053)	8,338	31,685	(341,030)
Net change in IBNR reserves	(390,727)	7,679	(23,540)	(406,588)
Increase (reduction) in estimates of net ultimate losses	(190,057)	71,695	315,938	197,576
Increase (reduction) in provisions for bad debt	(1,536)	159	—	(1,377)
Increase (reduction) in provisions for unallocated LAE	(53,810)	285	(187)	(53,712)
Amortization of deferred charge assets	14,359	—	—	14,359
Amortization of fair value adjustments	10,114	(2,720)	(945)	6,449
Changes in fair value - fair value option	30,256	—	—	30,256
Net incurred losses and LAE	<u>\$ (190,674)</u>	<u>\$ 69,419</u>	<u>\$ 314,806</u>	<u>\$ 193,551</u>

	2016			
	Non-life Run-off	Atrium	StarStone	Total
Net losses paid	\$ 533,806	\$ 47,998	\$ 251,253	\$ 833,057
Net change in case and LAE reserves	(608,785)	(148)	73,049	(535,884)
Net change in IBNR reserves	(347,384)	13,700	75,643	(258,041)
Increase (reduction) in estimates of net ultimate losses	(422,363)	61,550	399,945	39,132
Reduction in provisions for bad debt	(13,822)	—	—	(13,822)
Increase (reduction) in provisions for unallocated LAE	(43,955)	145	3,543	(40,267)
Amortization of deferred charge assets	168,827	—	—	168,827
Amortization of fair value adjustments	25,432	(3,308)	(1,895)	20,229
Changes in fair value - fair value option	—	—	—	—
Net incurred losses and LAE	<u>\$ (285,881)</u>	<u>\$ 58,387</u>	<u>\$ 401,593</u>	<u>\$ 174,099</u>

**Loss Development Information**

***Methodology for Establishing Reserves***

The liability for losses and LAE includes an amount determined from reported claims and an amount based on historical loss experience and industry statistics for IBNR using a variety of actuarial methods. Our loss reserves cover multiple lines of business, which include workers' compensation, general casualty, asbestos and environmental, marine, aviation and transit, construction defects and other non-life lines of business. Our management, through our loss reserving committees, considers the reasonableness of loss reserves recommended by our actuaries, including actual loss development during the year.

Case reserves are recognized for known claims (including the cost of related litigation) when sufficient information has been reported to us to indicate the involvement of a specific insurance policy. We use considerable judgment in estimating losses for reported claims on an individual claim basis based upon our knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and our experience with the line of business and policy provisions relating to the particular type of claim. The reserves for unpaid reported losses and LAE are established by management based on reports from brokers, ceding companies and insureds and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified, by us. We also consider facts currently known and the current state of the law and coverage litigation.

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IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. We use generally accepted actuarial methodologies to estimate ultimate losses and LAE and those estimates are reviewed by management. In addition, the routine settlement of claims, at either below or above the carried advised loss reserve, updates historical loss development information to which actuarial methodologies are applied, often resulting in revised estimates of ultimate liabilities. On an annual basis, independent actuarial firms are retained by management to provide their estimates of ultimate losses and to review the estimates developed by our actuaries.

Within the annual loss reserve studies produced by either our actuaries or independent actuaries, exposures for each subsidiary are separated into homogeneous reserving categories for the purpose of estimating IBNR. Each reserving category contains either direct insurance or assumed reinsurance reserves and groups relatively similar types of risks and exposures (for example, asbestos, environmental, casualty, property) and lines of business written (for example, marine, aviation, non-marine). Based on the exposure characteristics and the nature of available data for each individual reserving category, a number of methodologies are applied. Recorded reserves for each category are selected from the actuarial indications produced by the various methodologies after consideration of exposure characteristics, data limitations and strengths and weaknesses of each method applied. This approach to estimating IBNR has been consistently adopted in the annual loss reserve studies for each period presented.

The estimation of unpaid claim liabilities at any given point in time is subject to a high degree of uncertainty for a number of reasons. A significant amount of time can lapse between the assumption of risk, the occurrence of a loss event, the reporting of the event to an insurance or reinsurance company and the ultimate payment of the claim on the loss event. Our actuarial methodologies include industry benchmarking which, under certain methodologies, compares the trend of our loss development to that of the industry. To the extent that the trend of our loss development compared to the industry changes in any period, it is likely to have an impact on the estimate of ultimate liabilities. Unpaid claim liabilities for property and casualty exposures in general are impacted by changes in the legal environment, jury awards, medical cost trends and general inflation. Certain estimates for unpaid claim liabilities involve considerable uncertainty due to significant coverage litigation, and it can be unclear whether past claim experience will be representative of future claim experience. Ultimate values for such claims cannot be estimated using reserving techniques that extrapolate losses to an ultimate basis using loss development factors, and the uncertainties surrounding the estimation of unpaid claim liabilities are not likely to be resolved in the near future. In addition, reserves are established to cover loss development related to both known and unasserted claims. Consequently, our subsequent estimates of ultimate losses and LAE, and our liability for losses and LAE, may differ materially from the amounts recorded in the consolidated financial statements.

These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves established in previous calendar years.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Asbestos and Environmental*

In establishing the reserves for losses and LAE related to asbestos and environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, reserves have been established to cover additional exposures on both known and unreported claims. Estimates of the reserves are reviewed and updated continually. Developed case law and claim histories are still evolving for such claims, especially because significant uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of our potential losses for these claims. There can be no assurance that the reserves established by us will be adequate or will not be adversely affected by the development of other latent exposures. The net liability for unpaid losses and LAE as of December 31, 2018 and 2017 included \$1,703.6 million and \$1,863.2 million, respectively, which represented an estimate of the net ultimate liability for asbestos and environmental claims. The gross liability for such claims as at December 31, 2018 and 2017 was \$1,839.7 million and \$1,992.1 million, respectively. For the years ended December 31, 2018 and 2017, our reserves for asbestos and environmental liabilities decreased by \$152.4 million and increased by \$970.4 million on a gross basis, respectively, and decreased by \$159.6 million and increased by \$883.4 million on a net basis, respectively. The increase in 2017 was primarily due to acquisition activity and the decrease in 2018 was primarily due to net paid losses, foreign exchange and net favourable development, partially offset by acquisition activity.

**Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages**

The loss development tables disclosed below, sets forth our historic incurred and paid loss development by accident year through December 31, 2018, net of reinsurance, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information.

The loss development tables disclosed below are presented as follows:

- **Non-Life Run-off** - Presented by acquisition year, if significant, and further disaggregated, if significant, by line of business within that acquisition year. The lines of business disclosed include Asbestos, Environmental, General Casualty, Workers' Compensation, Professional Indemnity/Directors & Officers, Motor and Property.
- **StarStone** - All the lines of business related to the StarStone segment have been included within the loss development disclosures below, namely, Casualty, Marine, Property, Aerospace and Workers' Compensation.
- **Atrium** - The loss development disclosures for our Atrium segment have not been disaggregated further by line of business as the segment comprised approximately only 3% of our total consolidated liability for losses and LAE as at December 31, 2018 and was, therefore, not considered material for further disaggregation.

For each acquisition year and/or line of business for which loss development tables have been provided below, the disclosure approach and format adopted reflects the following:

- The incurred loss development tables include both reported case reserves and IBNR liabilities, as well as cumulative paid losses;
- Both the incurred and cumulative paid loss development tables include allocated LAE (i.e. claims handling costs allocated to specific individual claims) but exclude unallocated LAE (i.e. the costs associated with internal claims staff and third party administrators as well as consultants that cannot be allocated to specific individual claims);
- The fair value adjustments related to business acquisitions are excluded from the loss development tables, however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to business acquisitions are included in the loss development tables;
- The fair value adjustments related to retroactive reinsurance agreements for which we have elected the fair value option are excluded from the loss development tables, however the undiscounted incurred losses, cumulative paid losses and allocated LAE related to retroactive reinsurance agreements for which we have elected the fair value option are included in the loss development tables;

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- The amounts relating to the amortization of deferred charge assets are excluded from the loss development tables;
- The amounts relating to the increase (reduction) in provisions for unallocated LAE are excluded from the loss development tables;
- The amounts included within the loss development tables for the years ended December 31, 2009 through to December 31, 2017 (April 1, 2014 through to December 31, 2017 in the case of StarStone since its date of acquisition), as well as the historical average annual percentage payout ratios as of December 31, 2018, are presented as supplementary information and are therefore unaudited;
- All data presented within the loss development tables is net of reinsurance recoveries, excluding provisions for uncollectible reinsurance recoverables;
- The IBNR reserves included within each incurred loss development table by accident year, reflect the net IBNR recorded as of December 31, 2018, including expected development on reported losses;
- For the Non-life Run-off segment loss development tables, all information for both acquisitions and retroactive reinsurance agreements is presented prospectively. As the reserves are effectively re-underwritten at the date the reserves are acquired or assumed, we believe that the historical loss development prior to being acquired is not relevant to our own experience managing these reserves. In addition, the information required to prepare the loss development disclosures on a retrospective basis is not always available to us and a mixed approach would result in loss development tables that are not entirely reflective of the actual loss development;
- For the StarStone segment loss development tables, all information has been presented on a prospective basis from the date of our acquisition of StarStone, which was effective on April 1, 2014. Providing pre-acquisition incurred and paid losses by accident year for years prior to 2014 was determined to be impracticable due to significant data limitations; and
- For the Atrium segment loss development tables, all information has been presented on a retrospective basis.

The historical amounts disclosed within the loss development tables for all lines of business presented below are on a constant-currency basis, which is achieved by using constant foreign exchange rates between periods in the loss development tables, and translating prior period amounts denominated in currencies other than the U.S. dollar, which is our reporting currency, using the closing exchange rates as at December 31, 2018.

The impact of this exchange rate conversion is to show the change between periods exclusive of the effect of exchange rate fluctuations, which would otherwise distort the change in incurred losses and the cash flow patterns associated with those incurred losses shown within the loss development tables. The change in net incurred losses shown within the loss development tables will, however, differ from other U.S. GAAP disclosures of incurred current and prior period reserve development amounts, which include the effect of exchange rate fluctuations.

Establishing an estimate for loss reserves involves various assumptions and judgments, therefore, the information contained within the loss development disclosures only allows readers or users of our consolidated financial statements to understand, at the summary level presented in the development tables, the change over time in our reported incurred loss estimates as well as the nature and patterns of the cash flows associated with those estimates. We, therefore, believe that the information provided within the loss development tables disclosed below is of limited use for independent analysis or application of standard actuarial estimations, and any results obtained from doing so should be interpreted with caution.

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

**Cumulative Number of Reported Claims**

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by accident year. We measure claim frequency information on an individual claim count basis within each of our segments as follows:

- **Non-Life Run-off** - The claim frequency information for the exposures included within our Non-life Run-off lines of business includes direct and assumed open and closed claims by accident year at the claimant level. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure. The claim count numbers exclude counts related to claims within policy deductibles where the insured is responsible for the payment of losses within the deductible layer. Individual claim counts related to certain assumed reinsurance contracts such as excess-of-loss and quota share treaties are not available to us, and the losses arising from these treaties have been treated as single claims for the purposes of determining claim counts. Therefore, each treaty year within the reinsurance contract is deemed a single claim because the detailed underlying individual claim information is generally not reported to us by our cedents; and
- **StarStone and Atrium** - The claim frequency information is determined at the claimant level for the exposures within the lines of business related to these segments. Our claims system assigns a unique claim identifier to each reported claim we receive. Each unique claim identifier is deemed to be a single claim, irrespective of whether the claim remains open or has been closed with or without payment. For certain insurance facilities and business produced or managed by managing general agents, coverholders and third party administrators where the underlying claims data is reported to us in an aggregated format, the information necessary to provide cumulative claims frequency is not available. In such cases, we typically record a "block" claim in our system. This also applies to a small amount of assumed reinsurance business that we write where, similarly, the underlying claims data is reported to us in an aggregated format. In such instances, each assumed reinsurance contract is deemed a single claim.

The cumulative number of reported claims for our Atrium segment includes all claim counts for Syndicate 609. Our Atrium segment represents our 25% share of Syndicate 609's underwriting capacity and capital, however, the claims count is the same whether viewed at the 100% Syndicate level or for our 25% share.

Our reported claim frequency information is subject to the following inherent limitations when analyzing our loss experience and severity:

- Claim counts are presented only on a reported and not on an ultimate basis. Therefore, reported claim counts include open claims which have outstanding reserves but exclude IBNR claims. As such the reported claims are consistent with reported losses, which can be calculated by subtracting IBNR losses from incurred losses. However, the reported claim counts are inconsistent with the losses in the incurred loss development tables, which include IBNR losses, and to losses in the paid loss development tables, which exclude outstanding reserves;
- Reported claim counts have not been adjusted for ceded reinsurance, which may distort any measures of frequency or severity;
- For lines of business that have a mix of primary and excess layer exposures, such as our general casualty and workers' compensation lines of business, the reported claim counts may fluctuate from period to period between exposure layers, thereby distorting any measure of frequency and severity; and
- The use of our reported claim frequency information to project ultimate loss payouts by disaggregated disclosure category or line of business may not be as meaningful as claim count information related to individual contracts at a more granular level.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Non-Life Run-off Segment**

The table below provides a reconciliation of the beginning and ending reserves for losses and LAE for the years ended December 31, 2018, 2017 and 2016 for the Non-life Run-off segment:

	2018	2017	2016
Balance as at January 1	\$ 5,949,472	\$ 4,716,363	\$ 4,585,454
Less: reinsurance reserves recoverable	1,377,485	1,000,953	1,034,747
Less: deferred charge assets on retroactive reinsurance	80,192	94,551	255,911
Net balance as at January 1	4,491,795	3,620,859	3,294,796
Net incurred losses and LAE:			
Current period	12,451	5,866	5,829
Prior periods	(318,518)	(196,540)	(291,710)
Total net incurred losses and LAE	(306,067)	(190,674)	(285,881)
Net paid losses:			
Current period	(5)	(2,835)	(3,869)
Prior periods	(838,812)	(578,888)	(529,937)
Total net paid losses	(838,817)	(581,723)	(533,806)
Effect of exchange rate movement	(132,632)	138,772	(27,478)
Acquired on purchase of subsidiaries	1,111,839	10,251	10,019
Assumed business	1,761,836	1,494,310	1,340,444
Ceded business	—	—	(177,235)
Net balance as at December 31	6,087,954	4,491,795	3,620,859
Plus: reinsurance reserves recoverable	1,366,123	1,377,485	1,000,953
Plus: deferred charge assets on retroactive reinsurance	86,585	80,192	94,551
Balance as at December 31	\$ 7,540,662	\$ 5,949,472	\$ 4,716,363

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

Net incurred losses and LAE in the Non-life Run-off segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018			2017			2016		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 838,812	\$ 5	\$ 838,817	\$ 578,888	\$ 2,835	\$ 581,723	\$ 529,937	\$ 3,869	\$ 533,806
Net change in case and LAE reserves	(552,124)	4,704	(547,420)	(381,450)	397	(381,053)	(608,168)	(617)	(608,785)
Net change in IBNR reserves	(573,127)	7,742	(565,385)	(393,100)	2,373	(390,727)	(349,726)	2,342	(347,384)
Increase (reduction) in estimates of net ultimate losses	(286,439)	12,451	(273,988)	(195,662)	5,605	(190,057)	(427,957)	5,594	(422,363)
Reduction in provisions for bad debt	—	—	—	(1,536)	—	(1,536)	(13,822)	—	(13,822)
Increase (reduction) in provisions for unallocated LAE	(65,401)	—	(65,401)	(54,071)	261	(53,810)	(44,190)	235	(43,955)
Amortization of deferred charge assets	13,781	—	13,781	14,359	—	14,359	168,827	—	168,827
Amortization of fair value adjustments	12,877	—	12,877	10,114	—	10,114	25,432	—	25,432
Changes in fair value - fair value option	6,664	—	6,664	30,256	—	30,256	—	—	—
Net incurred losses and LAE	\$ (318,518)	\$ 12,451	\$ (306,067)	\$ (196,540)	\$ 5,866	\$ (190,674)	\$ (291,710)	\$ 5,829	\$ (285,881)

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

**Year Ended December 31, 2018**

The reduction in net incurred losses and LAE for the year ended December 31, 2018 of \$306.1 million included net incurred losses and LAE of \$12.5 million related to current period net earned premium from previously acquired businesses that renewed certain policies while being run-off. Excluding current period net incurred losses and LAE of \$12.5 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$318.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$286.4 million, a reduction in provisions for unallocated LAE of \$65.4 million relating to 2018 run-off activity, partially offset by the amortization of the deferred charge assets of \$13.8 million, amortization of fair value adjustments of \$12.9 million and an increase in the fair value of liabilities of \$6.7 million related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

The reduction in estimates of prior period net ultimate losses of \$286.4 million for the year ended December 31, 2018 included a net reduction in case and IBNR reserves of \$1,125.3 million, partially offset by net losses paid of \$838.8 million. For the year ended December 31, 2018, the overall change in our estimates of net ultimate losses related to prior periods by line of business within our Non-life Run-off was as presented in the table below:

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

	Net losses paid	Net change in case and LAE reserves	Net change in IBNR reserves	Increase (reduction) in estimates of net ultimate losses
Asbestos	\$ 108,248	\$ (21,535)	\$ (151,662)	\$ (64,949)
Environmental	21,273	479	(7,599)	14,153
General Casualty	141,624	(115,240)	(60,828)	(34,444)
Workers' Compensation	139,226	(178,138)	(115,648)	(154,560)
Marine, aviation and transit	67,831	(44,200)	(21,188)	2,443
Construction defect	22,182	(7,257)	(33,146)	(18,221)
Professional indemnity/ Directors & Officers	161,797	(11,159)	(130,957)	19,681
Motor	104,182	(109,962)	(34,215)	(39,995)
Property	22,178	(24,271)	(11,497)	(13,590)
All Other	50,271	(40,841)	(6,387)	3,043
<b>Total</b>	<b>\$ 838,812</b>	<b>\$ (552,124)</b>	<b>\$ (573,127)</b>	<b>\$ (286,439)</b>

The significant drivers of the results in the table above are explained below.

*Workers' Compensation*

A \$154.6 million reduction in estimates of net ultimate losses in our workers' compensation line of business in 2018 arose across multiple portfolios, where reported incurred loss development was generally significantly less than expected. When actual development is less than expected for a sustained period of time across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. Updates to actuarial analysis, factoring in the less-than-expected reported incurred loss development for the year, is the primary driver of the \$154.6 million reduction to Workers' Compensation net ultimate loss estimates.

For certain of our portfolios, the lower than expected actual development was driven by significant pro-active settlement activity on individual claimants where we were able to close open claims earlier than was indicated by the original payout pattern, and in other portfolios, based on the review of recent loss development activity we revised our actuarial development "tail factor" assumption, which led to a reduction in net ultimate losses. For example, in one portfolio we observed favorable incurred loss development, primarily relating to accident years 1995 through 2005 where we paid \$22.7 million in loss payments to release a corresponding \$37.0 million of associated case reserves for \$14.3 million in favorable incurred loss development.

For recently acquired portfolios of workers' compensation business, we have utilized our subsidiary, Paladin Managed Care Services ("Paladin"), to assist us in reviewing claims. Paladin generally produces savings related to medical expense liabilities over and above savings achieved by prior vendors of such services, and the savings lead to actual development that is less than expected, thereby driving reductions to the estimates of net ultimate losses. In one particular program, our claims personnel pursued a pro-active strategy of settling with numerous workers' compensation claimants whose injuries arose in recent accident years. For this portfolio, the claims team reduced the open inventory of claims by 78% during 2018. This reduction in exposure, when incorporated into an updated actuarial analysis, led to a reduction in our estimate of ultimate net losses of \$30.2 million, primarily relating to accident years 2010 through 2014.

We also continue to actively seek to commute policies when possible, and where the commutation of the policy is settled at a level below the carried value of the loss reserves, we record a reduction in our estimates of net ultimate losses. During the year ended December 31, 2018, we completed 11 commutations across several portfolios that contributed to the reduction in estimates of net ultimate losses.

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

*Asbestos*

The \$64.9 million reduction in estimates of net ultimate losses in our asbestos line of business arose primarily due to one asbestos portfolio where lower than expected volume of claims reported and a lower than expected severity on claims settled in the period, when projected to net ultimate losses through actuarial methodologies, resulted in a significant reduction in estimates of net ultimate losses. The volume of claims reported was 3% less than expected and the average cost per claim was 5% less than expected. Across our other asbestos portfolios we had a combination of commutations, detailed actuarial studies and lower than expected incurred loss development, which all resulted in reductions in estimates of net ultimate losses.

*Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, favorable actual versus expected loss development, pro-active claim management and commutations.

The reduction of \$65.4 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$13.8 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments.

The amortization of fair value adjustments of \$12.9 million was related to the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

The increase in the fair value of liabilities for which we have elected the fair value option of \$6.7 million was primarily due to decreases in the estimated duration of the net liabilities, partially offset by changes in the corporate bond yield.

***Year Ended December 31, 2017***

The reduction in net incurred losses and LAE for the year ended December 31, 2017 of \$190.7 million included net incurred losses and LAE of \$5.9 million related to current period net earned premium from previously acquired businesses that renewed certain policies while being run-off. Excluding current period net incurred losses and LAE of \$5.9 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$196.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$195.7 million, and a reduction in provisions for unallocated LAE of \$54.1 million, relating to 2017 run-off activity, partially offset by an increase in the fair value of liabilities of \$30.3 million related to our assumed retroactive reinsurance agreements for which we have elected the fair value option, the amortization of the deferred charge assets of \$14.4 million and the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$10.1 million.

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

The reduction in estimates of prior period net ultimate losses of \$195.7 million for the year ended December 31, 2017 included a net reduction in case and IBNR reserves of \$774.6 million, partially offset by net losses paid of \$578.9 million. For the year ended December 31, 2017, the overall change in our estimates of net ultimate losses related to prior periods by line of business within our Non-life Run-off was as presented in the table below:

	Net losses paid	Net change in case and LAE reserves	Net change in IBNR reserves	Increase (reduction) in estimates of net ultimate losses
Asbestos	\$ 105,731	\$ (1,865)	\$ (76,837)	\$ 27,029
Environmental	26,542	(9,438)	(7,748)	9,356
General Casualty	94,526	(54,292)	(49,025)	(8,791)
Workers' Compensation	187,712	(190,924)	(151,797)	(155,009)
Marine, aviation and transit	18,272	(9,322)	(11,517)	(2,567)
Construction defect	33,802	(24,023)	(42,804)	(33,025)
Professional indemnity/ Directors & Officers	33,402	(19,054)	(24,559)	(10,211)
Motor	24,391	(15,990)	(8,513)	(112)
Property	13,440	(11,196)	(5,162)	(2,918)
All Other	41,070	(45,346)	(15,138)	(19,414)
<b>Total</b>	<b>\$ 578,888</b>	<b>\$ (381,450)</b>	<b>\$ (393,100)</b>	<b>\$ (195,662)</b>

The significant drivers of the results in the table above are explained below.

*Workers' Compensation*

The \$155.0 million reduction in estimates of net ultimate losses in our workers' compensation line of business arose primarily in five separate portfolios. Across these five portfolios, the reported incurred loss development was generally significantly lower than expected. When actual development is less than expected for a sustained period of time, across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. In addition, we continue to pro-actively manage and settle claims where possible, commute policies if appropriate and, through Paladin, we are able to achieve significant savings on medical costs through active claims management strategies over the life of the reported claims. All of these items reduce the estimates of net ultimate losses.

*Construction Defect*

The \$33.0 million reduction in estimates of net ultimate losses in our construction defect line of business arose primarily due to lower than expected actual incurred development in one portfolio. The active claims management approach that our claims team adopted for the assumed exposures within this portfolio led to a significant reduction loss in the inventory of the assumed open claims of 73% during 2017. This reduction in exposure, when incorporated into our updated actuarial analysis, resulted in a reduction in estimates of net ultimate losses for this line of business.

*Asbestos*

The \$27.0 million increase in estimates of net ultimate losses in our asbestos line of business resulted from a ground-up study performed by a consulting actuarial firm on one of our portfolios. This study resulted in the recording of additional reserves of \$60.5 million due to a small number of accounts that experienced an increase in the notification of claims which are expected to attach to the excess policies that we reinsure. This increase was partially offset by favorable development of \$33.5 million in our other portfolios of asbestos exposures arising primarily from lower than expected claim notifications.

*Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, favorable actual versus expected loss development, pro-active claim management and commutations.

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

The reduction in provisions for bad debt of \$1.5 million was a result of the favorable recoveries from reinsurers, the reduction in bad debt provisions for insolvent reinsurers as a result of distributions received and the reduction of specific provisions held for certain reinsurers.

The reduction of \$54.1 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$14.4 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments.

The amortization of fair value adjustment of \$10.1 million was related to the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

The increase in the fair value of liabilities for which we have elected the fair value option of \$30.3 million was primarily due to decreases in the estimated duration of the net liabilities, partially offset by changes in the corporate bond yield.

**Year Ended December 31, 2016**

The reduction in net incurred losses and LAE for the year ended December 31, 2016 of \$285.9 million included net incurred losses and LAE of \$5.8 million related to current period net earned premium, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$5.8 million, the reduction in net incurred losses and LAE liabilities relating to prior periods was \$291.7 million, which was attributable to a reduction in estimates of net ultimate losses of \$428.0 million, a reduction in provisions for unallocated LAE of \$44.2 million, relating to 2016 run-off activity, and a reduction in the provision for bad debt of \$13.8 million, partially offset by the amortization of the deferred charge assets of \$168.8 million and the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$25.4 million.

The reduction in estimates of prior period net ultimate losses of \$428.0 million for the year ended December 31, 2016 included a net reduction in case and IBNR reserves of \$957.9 million, partially offset by net losses paid of \$529.9 million. For the year ended December 31, 2016, the overall change in our estimates of net ultimate losses related to prior periods by line of business within our Non-life Run-off was as presented in the table below:

	Net losses paid	Net change in case and LAE reserves	Net change in IBNR reserves	Increase (reduction) in estimates of net ultimate losses
Asbestos	\$ 33,334	\$ 544	\$ (59,173)	\$ (25,295)
Environmental	12,233	7,922	(25,738)	(5,583)
General Casualty	83,821	(51,885)	(47,209)	(15,273)
Workers' Compensation	255,886	(405,102)	(173,846)	(323,062)
Marine, aviation and transit	15,885	(15,738)	(7,773)	(7,626)
Construction defect	39,915	(19,491)	(10,014)	10,410
Professional indemnity/ Directors & Officers	32,397	(45,530)	616	(12,517)
Motor	11,788	(24,832)	(4,103)	(17,147)
Property	29,203	(34,543)	(13,137)	(18,477)
All Other	15,475	(19,513)	(9,349)	(13,387)
<b>Total</b>	<b>\$ 529,937</b>	<b>\$ (608,168)</b>	<b>\$ (349,726)</b>	<b>\$ (427,957)</b>

The significant drivers of the results in the table above are explained below.

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

*Workers' Compensation*

The \$323.1 million reduction in estimates of net ultimate losses in our workers' compensation line of business arose primarily in three separate portfolios. Across these three portfolios, the reported incurred loss development was generally significantly lower than expected. When actual development is lower than expected for a sustained period of time across a significant volume of exposures, an updated actuarial analysis tends to indicate reductions in IBNR reserves. In one specific portfolio, having observed a general trend of lower than expected actual development over a sustained period of time, we revised the medical inflation assumption used to estimate case and LAE reserves for long term disability claimants. This change to an actuarial assumption, driven by observed actual development, resulted in a significant reduction in our estimates of net ultimate losses of \$234.5 million, primarily across accident years 1991 through 2001. This was partially offset by a significant reduction in the related deferred charge asset as described below.

*Asbestos*

The \$25.3 million reduction in estimates of net ultimate losses in our asbestos line of business arose primarily due to six commutations, which resulted in a \$13.1 million reduction in net ultimate losses. The remainder of the reduction arose due to lower than expected actual loss development.

*Other*

All other line of business changes in estimates of net ultimate losses were primarily due to the application of our reserving methodologies, generally favorable actual versus expected loss development, pro-active claim management and commutations.

The reduction in provisions for bad debt of \$13.8 million was a result of the favorable recoveries from reinsurers, and the reduction in bad debt provisions for insolvent reinsurers as a result of distributions received, partially offset by additional provisions for certain reinsurers.

The reduction of \$44.2 million in provisions for unallocated LAE was due to a reduction in our estimate of the total future costs to administer the claims.

The amortization of deferred charge assets of \$168.8 million was associated with retroactive reinsurance contracts where, at the inception of the contract, the estimated ultimate losses payable were in excess of premium received. Deferred charge assets are amortized over the estimated claim payment period of the related contract and are adjusted periodically to reflect new estimates of the amount and timing of the remaining loss payments. In the year ended December 31, 2016, the amortization of the deferred charge asset included an impairment of \$38.6 million, which was offset in earnings by favorable loss reserve development.

The amortization of fair value adjustment of \$25.4 million was related to the fair value adjustments associated with the acquisition of companies. On acquisition, we are required to fair value the net assets acquired, including the reinsurance balances recoverable and the liability for losses and LAE. The resulting fair value adjustments are then amortized over the expected life of the reinsurance balances recoverable and the liability for losses and LAE.

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

**Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages**

The following tables provides a breakdown of gross and net losses and LAE reserves, consisting of Outstanding Loss Reserve ("OLR") and IBNR by line of business and adjustments for fair value resulting from business combinations, adjustments for where we elected the fair value option, deferred charge assets and ULAE, as of December 31, 2018 and 2017:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Asbestos	\$ 341,544	\$ 1,275,476	\$ 1,617,020	\$ 321,356	\$ 1,171,754	\$ 1,493,110
Environmental	96,665	126,035	222,700	93,095	117,384	210,479
General casualty	500,033	379,484	879,517	416,097	298,612	714,709
Workers' compensation/personal accident	1,454,178	832,615	2,286,793	1,115,116	537,782	1,652,898
Marine, aviation and transit	301,783	72,888	374,671	227,994	78,023	306,017
Construction defect	20,712	99,288	120,000	19,310	94,736	114,046
Professional indemnity/Directors & Officers	603,665	216,839	820,504	426,020	166,898	592,918
Motor	564,307	321,992	886,299	414,847	304,874	719,721
Property	168,267	37,631	205,898	160,873	36,817	197,690
Other	220,615	165,519	386,134	175,289	111,453	286,742
	<u>\$ 4,271,769</u>	<u>\$ 3,527,767</u>	<u>\$ 7,799,536</u>	<u>\$ 3,369,997</u>	<u>\$ 2,918,333</u>	<u>\$ 6,288,330</u>
Fair value adjustments			(217,527)			(203,183)
Fair value adjustments - fair value option			(374,752)			(244,013)
Deferred charge on retroactive reinsurance			—			(86,585)
ULAE			333,405			333,405
Total			<u>\$ 7,540,662</u>			<u>\$ 6,087,954</u>

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Asbestos	\$ 366,446	\$ 1,434,598	\$ 1,801,044	\$ 341,355	\$ 1,337,467	\$ 1,678,822
Environmental	95,801	95,259	191,060	91,049	93,345	184,394
General casualty	344,425	266,526	610,951	276,791	194,747	471,538
Workers' compensation/personal accident	1,458,430	748,949	2,207,379	889,265	371,161	1,260,426
Marine, aviation and transit	109,102	56,284	165,386	90,101	51,904	142,005
Construction defect	28,701	135,608	164,309	27,406	122,307	149,713
Professional indemnity/Directors & Officers	214,803	40,265	255,068	181,027	39,591	220,618
Motor	242,213	30,734	272,947	98,866	19,321	118,187
Property	65,445	9,706	75,151	52,236	8,554	60,790
Other	260,337	85,998	346,335	205,322	75,376	280,698
	<u>\$ 3,185,703</u>	<u>\$ 2,903,927</u>	<u>\$ 6,089,630</u>	<u>\$ 2,253,418</u>	<u>\$ 2,313,773</u>	<u>\$ 4,567,191</u>
Fair value adjustments			(125,998)			(113,028)
Fair value adjustments - fair value option			(314,748)			(182,764)
Deferred charge on retroactive reinsurance			—			(80,192)
ULAE			300,588			300,588
Total			<u>\$ 5,949,472</u>			<u>\$ 4,491,795</u>

In addition to the breakdown of our non-life run-off reserves by line of business we also monitor our reserves by acquisition year. The acquisition year is the year in which the net reserves were acquired via a business acquisition or assumed via a retroactive reinsurance agreement. By analyzing the loss development tables by acquisition year on a prospective basis, the impact of the take-on positions from year to year does not distort the loss development tables.

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

The following table provides a summary of our net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2018, by year of acquisition and by significant line of business:

	Acquisition Year												Total
	2008 and Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
Asbestos	\$ 205,298	\$ 3,936	\$ 43,316	\$ 17	\$ 653	\$ 11,860	\$ —	\$ 931	\$ 440,388	\$ 709,758	\$ 50,139	\$ 1,466,296	
Environmental	35,045	1,331	8,847	87	—	—	—	—	97,424	32,007	29,238	203,979	
General casualty	69,876	3,759	15,743	29,110	13,715	15,300	35,645	46,730	5,610	99,801	372,058	707,347	
Workers' compensation/personal accident	4,444	218	66,030	177,572	2,524	77,629	—	426,225	315,788	80,525	498,872	1,649,827	
Marine, aviation and transit	4,127	7,519	4,132	10,739	—	—	13,968	2,126	—	75,303	186,721	304,635	
Construction defect	—	—	230	413	—	—	—	55,727	29,569	28,102	—	114,041	
Professional indemnity/Directors & Officers	6,778	5,278	5,622	10,040	36,836	—	36,252	—	90,260	—	401,029	592,095	
Motor	24,407	1,560	6,097	209	1,290	617	332	20,820	1,050	7,201	653,103	716,686	
Property	4,099	1,553	5,108	672	9,352	—	14,268	6,112	—	2,633	151,939	195,736	
All Other	19,773	3,560	16,083	1,134	8,291	3,663	16,453	16,044	26,474	135,951	35,709	283,135	
<b>Total</b>	<b>\$ 373,847</b>	<b>\$ 28,714</b>	<b>\$ 171,208</b>	<b>\$ 229,993</b>	<b>\$ 72,661</b>	<b>\$ 109,069</b>	<b>\$ 116,918</b>	<b>\$ 574,715</b>	<b>\$ 1,006,563</b>	<b>\$ 1,171,281</b>	<b>\$ 2,378,808</b>	<b>\$ 6,233,777</b>	

The table below reconciles the net loss reserves, prior to provisions for bad debt, fair value adjustments, deferred charge assets and ULAE as of December 31, 2018, by significant line of business to the line of business table presented above:

	2018		
	Total Net Reserves per all Acquisition Years	Provision for Bad Debt	Total Net Reserves
Asbestos	\$ 1,466,296	\$ 26,814	\$ 1,493,110
Environmental	203,979	6,500	210,479
General casualty	707,347	7,362	714,709
Workers' compensation/personal accident	1,649,827	3,071	1,652,898
Marine, aviation and transit	304,635	1,382	306,017
Construction defect	114,041	5	114,046
Professional indemnity/Directors & Officers	592,095	823	592,918
Motor	716,686	3,035	719,721
Property	195,736	1,954	197,690
All Other	283,135	3,607	286,742
<b>Total</b>	<b>\$ 6,233,777</b>	<b>\$ 54,553</b>	<b>\$ 6,288,330</b>

Loss development tables have been provided for acquisition years 2009 through 2018. In addition, the workers' compensation line of business in the 2015 acquisition year; the asbestos, environmental and workers' compensation lines of business in the 2016 acquisition year; the asbestos and general casualty lines of business in the 2017 acquisition year; and the general casualty, workers' compensation, marine, aviation & transit, professional indemnity/directors & officers, motor and property lines of business in the 2018 acquisition year, are significant and we have provided additional loss development tables for those lines of business within those acquisition years.

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

Our non-life run-off segment is unique within the insurance industry in that legacy reserves are continuously being acquired and added to this segment through business acquisitions or through retroactive reinsurance agreements. Accordingly, it would not be appropriate to extrapolate redundancies or deficiencies into the future from the loss development tables provided below. Acquired and assumed reserves arising from business acquisitions and retroactive reinsurance agreements are presented on a full prospective basis.

The following tables set forth information about incurred and paid loss development, total IBNR reserves and cumulative loss frequency related to our 2009 through 2018 acquisition years within the Non-Life Run-off segment as at December 31, 2018. In addition, we have also presented loss development tables for the significant lines of business within certain acquisition years. The information related to incurred and paid loss development for the years ended December 31, 2009 through 2017 is presented as supplementary information and is therefore unaudited.

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2009*

<b>Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>												<b>As of December 31, 2018</b>	
<b>For the Years Ended December 31,</b>													
Accident Year	Total Net Reserves Acquired	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$131,793	\$ 96,548	\$ 91,326	\$ 83,838	\$ 81,452	\$ 75,169	\$ 68,177	\$ 63,682	\$ 63,950	\$ 66,807	\$63,986	\$9,519	35,356
	<u>\$131,793</u>										<u>\$63,986</u>	<u>\$9,519</u>	<u>35,356</u>

<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>										
<b>For the Years Ended December 31,</b>										
Accident Year	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 685	\$ 5,630	\$ 12,385	\$ 13,836	\$ 19,409	\$ 23,324	\$ 25,377	\$ 30,210	\$ 32,498	\$35,272
										<u>\$35,272</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance										<u>\$28,714</u>

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2010*

<b>Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>										<b>As of December 31, 2018</b>		
<b>For the Years Ended December 31,</b>												
Accident Year	Total Net Reserves Acquired	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$1,096,347	\$854,415	\$849,383	\$883,938	\$ 864,842	\$796,083	\$ 794,240	\$733,381	\$737,257	\$742,236	\$ 48,175	162,496
	<u>\$1,096,347</u>									<u>\$742,236</u>	<u>\$ 48,175</u>	<u>162,496</u>

<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>									
<b>For The Years Ended December 31,</b>									
Accident Year	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 101,867	\$218,628	\$377,473	\$ 456,666	\$483,460	\$ 510,815	\$527,521	\$555,686	\$571,028
									<u>\$571,028</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance									<u>\$ 171,208</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2011*

<b>Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>										<b>As of December 31, 2018</b>	
<b>For the Years Ended December 31,</b>										<b>IBNR</b>	<b>Cumulative Number of Claims</b>
<b>Accident Year</b>	<b>Total Net Reserves Acquired</b>	<b>2011 (unaudited)</b>	<b>2012 (unaudited)</b>	<b>2013 (unaudited)</b>	<b>2014 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>2016 (unaudited)</b>	<b>2017 (unaudited)</b>	<b>2018</b>		
2008 and Prior	\$ 584,503	\$ 619,722	\$ 584,875	\$ 489,467	\$ 422,779	\$ 369,809	\$ 314,713	\$ 269,695	\$ 256,086	\$ 41,675	112,695
2009	794	651	605	360	365	362	360	485	484	—	—
2010	285	412	450	140	140	140	139	142	142	—	26
2011	—	102	36	45	54	61	71	79	86	—	19
2012	—	—	122	11	10	10	10	17	18	—	7
2013	—	—	—	23	43	15	15	15	15	—	16
2014	—	—	—	—	1	3	3	3	18	—	14
2015	—	—	—	—	—	—	(2)	(2)	32	5	—
2016	—	—	—	—	—	—	2	(139)	(111)	11	—
2017	—	—	—	—	—	—	—	—	21	6	2
2018	—	—	—	—	—	—	—	—	7	9	1
	<u>\$ 585,582</u>								<u>\$ 256,798</u>	<u>\$ 41,706</u>	<u>112,780</u>

<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance</b>									
<b>For The Years Ended December 31,</b>									
<b>Accident Year</b>	<b>2011 (unaudited)</b>	<b>2012 (unaudited)</b>	<b>2013 (unaudited)</b>	<b>2014 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>2016 (unaudited)</b>	<b>2017 (unaudited)</b>	<b>2018</b>	
2008 and Prior	\$ 59,722	\$ 96,783	\$ 91,615	\$ 21,241	\$ 14,849	\$ 23,759	\$ 15,936	\$ 26,176	
2009	164	326	336	357	359	359	484	484	
2010	91	115	140	139	140	139	142	142	
2011	27	36	46	54	61	71	79	86	
2012	—	6	10	10	10	10	17	17	
2013	—	—	6	11	15	15	15	15	
2014	—	—	—	1	3	3	3	4	
2015	—	—	—	—	(1)	(2)	(2)	2	
2016	—	—	—	—	—	2	(153)	(125)	
2017	—	—	—	—	—	—	—	3	
2018	—	—	—	—	—	—	—	1	
								<u>\$ 26,805</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance								<u>\$ 229,993</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2012*

Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									As of December 31, 2018	
Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,							IBNR	Cumulative Number of Claims
		2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018		
2008 and Prior	\$ 264,599	\$ 258,299	\$ 239,637	\$ 228,316	\$ 211,171	\$ 203,818	\$ 197,435	\$ 190,413	\$ 14,730	39,243
2009	50,431	50,351	58,008	63,730	68,503	66,344	66,507	65,567	4,183	8,402
2010	848	852	2,710	2,602	2,378	2,474	1,404	1,268	97	6
2011	1,388	1,001	989	984	972	971	969	964	—	5
2012	52	61	46	254	257	329	329	156	—	6
2013	—	—	626	112	334	342	342	127	—	5
2014	—	—	—	2,492	2,792	1,423	1,221	1,116	63	7
2015	—	—	—	—	545	1,125	690	690	—	5
2016	—	—	—	—	—	61	1,196	1,039	193	3
2017	—	—	—	—	—	—	71	156	23	4
2018	—	—	—	—	—	—	—	—	—	—
	<u>\$ 317,318</u>							<u>\$ 261,496</u>	<u>\$ 19,289</u>	<u>47,686</u>

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance							
Accident Year	For The Years Ended December 31,						
	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 2,688	\$ 44,936	\$ 72,959	\$ 95,345	\$ 113,135	\$ 120,239	\$ 130,651
2009	124	22,143	34,680	42,632	48,856	51,911	54,517
2010	171	472	631	699	727	764	792
2011	112	463	693	809	866	924	964
2012	28	46	46	48	156	156	156
2013	—	102	112	127	127	127	127
2014	—	—	63	209	429	630	807
2015	—	—	—	105	109	690	690
2016	—	—	—	—	2	52	91
2017	—	—	—	—	—	12	40
2018	—	—	—	—	—	—	—
						<u>\$ 188,835</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance						<u>\$ 72,661</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2013*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,						As of December 31, 2018	
		2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 141,479	\$ 154,707	\$ 161,367	\$ 149,397	\$ 140,275	\$ 163,936	\$ 117,398	\$ 20,406	35,539
2009	73,355	79,859	84,556	83,495	85,782	77,425	75,458	2,249	10,798
2010	110,815	118,740	113,479	133,045	135,120	124,905	122,412	4,000	10,968
2011	94,482	99,857	99,107	100,243	95,848	87,913	86,554	2,203	9,063
2012	131,066	127,271	121,328	118,085	114,772	110,045	107,853	2,654	3,503
2013	13,062	90,739	91,634	88,920	85,791	81,732	80,036	2,202	5,676
2014	—	—	4,514	3,714	3,425	16,800	16,225	124	175
2015	—	—	—	265	280	982	329	136	2
2016	—	—	—	—	103	71	70	4	—
2017	—	—	—	—	—	30	13	—	—
2018	—	—	—	—	—	—	22	4	—
	<u>\$ 564,259</u>					<u>\$ 606,370</u>	<u>\$ 33,982</u>	<u>75,724</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 24,794	\$ 42,185	\$ 56,732	\$ 67,472	\$ 64,574	\$ 66,269
2009	23,624	41,720	52,664	60,486	59,810	65,201
2010	24,617	48,579	75,114	92,540	98,098	104,253
2011	30,323	52,455	63,952	70,498	75,055	77,096
2012	33,361	59,095	74,663	86,916	92,445	96,780
2013	17,022	37,653	52,638	62,876	68,866	71,487
2014	—	993	1,747	2,256	15,804	15,959
2015	—	—	43	102	112	165
2016	—	—	—	34	64	65
2017	—	—	—	—	9	13
2018	—	—	—	—	—	13
					<u>\$ 497,301</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance					<u>\$ 109,069</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2014*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,					As of December 31, 2018	
		2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 6,408	\$ 4,008	\$ 12,807	\$ 10,342	\$ 10,890	\$ 10,005	\$ (82)	3,102
2009	16,653	16,660	11,135	11,188	12,142	11,799	1,010	3,250
2010	88,445	85,176	100,646	133,824	119,628	115,867	6,740	6,416
2011	71,579	127,132	153,758	133,072	135,430	141,102	12,270	6,667
2012	111,052	116,752	177,374	185,033	178,528	165,648	8,088	5,076
2013	86,920	75,991	93,508	82,007	86,415	85,571	13,620	3,162
2014	—	14,448	9,917	8,740	7,394	6,154	4,328	1,113
2015	—	—	33,543	20,004	20,738	18,736	1,873	184
2016	—	—	—	393	1,038	4,728	87	37
2017	—	—	—	—	5,071	4,087	998	32
2018	—	—	—	—	—	6	4	13
	<u>\$ 381,057</u>				<u>\$ 563,703</u>	<u>\$ 48,936</u>	<u>29,052</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,				
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ —	\$ 6,195	\$ 7,509	\$ 8,097	\$ 8,079
2009	6,244	5,956	8,140	8,256	8,525
2010	29,403	69,303	86,997	101,876	101,494
2011	83,733	109,089	109,761	107,670	121,972
2012	47,291	89,180	119,165	127,955	125,635
2013	21,624	39,847	47,052	55,262	60,093
2014	1,455	2,479	3,260	3,954	5,902
2015	—	1,740	4,282	11,466	12,956
2016	—	—	20	556	571
2017	—	—	—	537	1,553
2018	—	—	—	—	5
				<u>\$ 446,785</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance				<u>\$ 116,918</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2015*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,				As of December 31, 2018	
		2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 937,917	\$ 851,896	\$ 558,013	\$ 518,739	\$ 467,433	\$ 87,408	10,507
2009	15,534	21,850	24,324	22,490	25,519	5,050	968
2010	49,125	53,990	52,966	55,899	51,485	10,976	2,284
2011	124,473	137,175	131,062	129,445	127,203	27,098	5,109
2012	178,981	187,333	197,756	200,809	192,957	33,953	4,504
2013	229,274	189,521	196,290	199,681	188,635	28,841	5,143
2014	143,795	142,596	137,196	142,468	136,522	12,854	10,664
2015	22,811	69,337	68,322	65,446	63,986	4,703	20,998
2016	—	—	14,329	12,646	12,900	1,039	3,311
2017	—	—	—	4,065	4,502	325	855
2018	—	—	—	—	2,979	2,164	242
	<u>\$ 1,701,910</u>				<u>\$ 1,274,121</u>	<u>\$ 214,411</u>	<u>64,585</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,			
	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 17,038	\$ 58,929	\$ 89,533	\$ 112,037
2009	2,336	5,400	10,340	13,953
2010	9,191	15,304	19,675	25,640
2011	33,826	55,084	70,985	86,339
2012	52,728	94,781	119,413	142,208
2013	46,761	89,882	120,448	145,688
2014	30,747	64,381	90,801	109,217
2015	20,653	38,309	46,202	51,467
2016	—	5,386	7,112	8,385
2017	—	—	2,312	3,912
2018	—	—	—	560
				<u>\$ 699,406</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance				<u>\$ 574,715</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2015 - Workers' Compensation*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,				As of December 31, 2018	
		2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 919,158	\$ 822,252	\$ 526,222	\$ 485,189	\$ 435,607	\$ 80,160	7,963
2009	8,741	12,207	12,350	11,559	12,069	1,941	171
2010	31,919	34,360	31,402	30,407	27,360	4,003	468
2011	76,789	73,723	69,009	68,013	66,216	6,325	1,235
2012	120,298	110,007	108,251	106,625	99,446	10,793	1,800
2013	146,237	124,726	122,238	121,010	112,590	13,657	2,369
2014	82,141	86,852	82,038	83,095	77,884	6,223	3,665
2015	4,089	18,647	12,623	13,488	12,071	793	2,895
2016	—	—	873	955	583	138	38
2017	—	—	—	358	61	48	10
2018	—	—	—	—	—	—	1
	<u>\$ 1,389,372</u>				<u>\$ 843,887</u>	<u>\$ 124,081</u>	<u>20,615</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,			
	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 15,493	\$ 53,889	\$ 79,228	\$ 97,797
2009	1,061	2,952	5,854	7,171
2010	4,352	8,446	11,906	16,141
2011	16,032	30,462	39,635	50,470
2012	25,103	52,851	66,092	79,367
2013	27,737	55,675	75,065	91,559
2014	17,824	38,051	53,308	65,561
2015	3,034	5,672	7,917	9,169
2016	—	134	363	417
2017	—	—	2	10
2018	—	—	—	—
				<u>\$ 417,662</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance				<u>\$ 426,225</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2016*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,			As of December 31, 2018	
		2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 1,253,129	\$ 1,264,108	\$ 1,289,089	\$ 1,270,673	\$ 441,087	21,229
2009	29,081	28,961	31,299	28,023	9,296	739
2010	15,312	15,312	16,599	14,282	4,542	613
2011	17,291	17,291	19,920	19,754	3,673	747
2012	13,717	13,717	17,020	14,765	4,663	748
2013	373	373	1,312	1,237	946	96
2014	391	391	1,380	1,056	765	43
2015	—	—	—	—	—	—
2016	—	—	—	—	—	—
2017	—	—	—	—	—	—
2018	—	—	—	—	—	—
	<u>\$ 1,329,294</u>		<u>\$ 1,349,790</u>		<u>\$ 464,972</u>	<u>24,215</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,		
	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 94,972	\$ 208,671	\$ 311,721
2009	2,832	7,946	10,360
2010	2,068	4,137	5,905
2011	2,758	6,647	8,218
2012	2,734	5,206	6,461
2013	145	191	278
2014	178	207	284
2015	—	—	—
2016	—	—	—
2017	—	—	—
2018	—	—	—
			<u>\$ 343,227</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			<u>\$ 1,006,563</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2016 - Asbestos*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,			As of December 31, 2018	
		2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 506,930	\$ 505,241	\$ 565,448	\$ 563,630	\$ 325,953	1,397
	<u>\$ 506,930</u>			<u>\$ 563,630</u>	<u>\$ 325,953</u>	<u>1,397</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,		
	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 20,256	\$ 70,443	\$ 123,242
			123,242
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			<u>\$ 440,388</u>

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2016 - Environmental*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,			As of December 31, 2018	
		2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 118,691	\$ 118,691	\$ 129,591	\$ 136,557	\$ 41,424	947
	<u>\$ 118,691</u>			<u>\$ 136,557</u>	<u>\$ 41,424</u>	<u>947</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,		
	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 8,330	\$ 25,633	\$ 39,133
			39,133
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			<u>\$ 97,424</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2016 - Workers' Compensation*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,			As of December 31, 2018	
		2016 (unaudited)	2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 408,373	\$ 406,992	\$ 369,993	\$ 362,829	\$ 27,133	8,416
2009	20,892	20,772	21,474	18,476	5,637	191
2010	8,191	8,191	9,767	8,572	2,655	268
2011	15,376	15,376	16,399	16,501	1,566	473
2012	13,074	13,074	15,465	13,276	3,518	607
2013	—	—	—	—	—	—
2014	—	—	—	—	—	—
2015	—	—	—	—	—	—
2016	—	—	—	—	—	—
2017	—	—	—	—	—	—
2018	—	—	—	—	—	—
	<u>\$ 465,906</u>		<u>\$ 419,654</u>		<u>\$ 40,509</u>	<u>9,955</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,		
	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 32,768	\$ 58,133	\$ 81,166
2009	1,482	4,439	5,918
2010	1,219	2,565	3,230
2011	2,631	5,871	7,305
2012	2,638	5,028	6,247
2013	—	—	—
2014	—	—	—
2015	—	—	—
2016	—	—	—
2017	—	—	—
2018	—	—	—
			<u>\$ 103,866</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			<u>\$ 315,788</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2017*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,		As of December 31, 2018	
		2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 1,364,332	\$ 1,297,232	\$ 1,233,017	\$ 786,519	9,003
2009	36,488	35,015	32,763	12,799	20
2010	33,609	28,417	18,901	6,633	36
2011	40,742	29,226	25,389	8,388	7
2012	43,647	34,946	31,230	8,237	11
2013	35,667	30,029	28,134	5,623	10
2014	32,858	20,315	16,984	3,306	19
2015	8,808	6,494	7,002	982	8
2016	362	(4)	126	58	3
2017	—	174	—	—	1
2018	—	—	—	—	—
	<u>\$ 1,596,513</u>	<u>\$ 1,393,546</u>	<u>\$ 832,545</u>	<u>9,118</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,	
	2017 (unaudited)	2018
2008 and Prior	\$ 71,708	\$ 150,472
2009	7,088	11,288
2010	4,286	7,393
2011	4,125	9,257
2012	10,348	15,371
2013	9,509	15,712
2014	6,482	8,986
2015	1,361	3,720
2016	(56)	66
2017	4	—
2018	—	—
	<u>\$ 222,265</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$ 1,171,281</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2017 - Asbestos*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,		As of December 31, 2018	
		2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 888,394	\$ 847,036	\$ 766,788	\$ 613,475	4,477
2009	—	—	—	—	—
2010	—	—	—	—	—
2011	—	—	—	—	—
2012	—	—	—	—	—
2013	—	—	—	—	—
	<u>\$ 888,394</u>	<u>\$ 847,036</u>	<u>\$ 766,788</u>	<u>\$ 613,475</u>	<u>4,477</u>

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,	
	2017 (unaudited)	2018
2008 and Prior	\$ 19,733	\$ 57,030
2009	—	—
2010	—	—
2011	—	—
2012	—	—
2013	—	—
2014	—	—
2015	—	—
2016	—	—
2017	—	—
2018	—	—
		57,030
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$</u>	<u>709,758</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2017 - General Casualty*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Years Ended December 31,		As of December 31, 2018	
		2017 (unaudited)	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 98,580	\$ 90,256	\$ 79,420	\$ 17,112	2,371
2009	17,641	18,897	16,904	5,638	1
2010	14,642	10,985	7,321	1,883	1
2011	17,902	11,459	11,418	4,529	1
2012	16,756	15,861	17,398	4,796	1
2013	16,870	17,720	17,358	3,159	1
2014	12,730	6,651	6,526	1,590	1
2015	3,112	3,464	4,424	818	1
2016	(72)	(77)	(21)	56	1
2017	—	—	—	—	1
2018	—	—	—	—	—
	<u>\$ 198,161</u>	<u>\$ 160,748</u>	<u>\$ 39,581</u>	<u>2,380</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,	
	2017 (unaudited)	2018
2008 and Prior	\$ 10,363	\$ 22,697
2009	3,341	6,237
2010	1,958	3,659
2011	753	3,724
2012	6,850	10,050
2013	5,927	9,667
2014	1,581	2,426
2015	469	2,487
2016	—	—
2017	—	—
2018	—	—
		<u>60,947</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$</u>	<u>99,801</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	IBNR	Cumulative Number of Claims	
2008 and Prior	\$ 486,710	\$ 322,299	\$ 108,367	199,629	
2009	68,375	60,850	4,586	9,862	
2010	88,753	109,592	33,728	13,724	
2011	156,555	145,051	26,322	13,995	
2012	220,662	215,610	47,105	14,245	
2013	261,673	265,032	70,607	15,928	
2014	405,168	448,775	136,884	19,020	
2015	348,524	467,058	155,456	23,632	
2016	169,194	171,134	84,128	2,095	
2017	206,944	207,082	130,071	4,238	
2018	318,474	318,474	222,772	5,032	
	<u>\$ 2,731,032</u>	<u>\$ 2,730,957</u>	<u>\$ 1,020,026</u>	<u>321,400</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$ 26,326	
2009	15,338	
2010	11,010	
2011	26,671	
2012	31,391	
2013	41,824	
2014	93,171	
2015	100,091	
2016	6,275	
2017	52	
2018	—	
	<u>\$ 352,149</u>	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$ 2,378,808</u>	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - General Casualty*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 84,065	\$ 40,977	\$ 9,892	44,790	
2009	9,157	7,123	1,437	1,006	
2010	28,863	22,098	4,240	1,856	
2011	16,394	14,709	2,302	1,392	
2012	33,326	30,385	7,501	1,549	
2013	38,708	53,146	16,166	1,563	
2014	54,487	73,680	22,038	2,149	
2015	74,380	87,639	32,230	3,296	
2016	27,306	27,306	15,306	252	
2017	36,246	36,246	24,289	232	
2018	35,770	35,770	23,606	186	
	<u>\$ 438,702</u>	<u>\$ 429,079</u>	<u>\$ 159,007</u>	<u>58,271</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$	3,181
2009		850
2010		5,981
2011		2,480
2012		1,819
2013		10,855
2014		14,645
2015		17,210
2016		—
2017		—
2018		—
	<u>\$</u>	<u>57,021</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$</u>	<u>372,058</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Workers' Compensation*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 83,867	\$ 84,667	\$ 20,321	1,483	
2009	22,548	17,287	6,039	259	
2010	24,914	25,231	11,209	362	
2011	30,399	25,693	13,686	419	
2012	29,438	29,880	15,481	484	
2013	38,737	39,263	21,095	888	
2014	69,212	70,525	37,658	1,380	
2015	39,430	39,794	23,340	1,408	
2016	49,476	49,476	32,657	886	
2017	57,899	57,899	43,036	993	
2018	68,486	68,486	59,043	885	
	\$ 514,406	\$ 508,201	\$ 283,565	9,447	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$	—
2009		3,788
2010		316
2011		(1,402)
2012		520
2013		1,527
2014		3,238
2015		1,342
2016		—
2017		—
2018		—
	\$	9,329
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$	498,872

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Marine, Aviation & Transit*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 38,020	\$ 25,608	\$ (6,123)	54,343	
2009	8,569	5,091	(3,636)	2,649	
2010	3,402	3,700	5,905	3,248	
2011	8,795	10,053	646	3,962	
2012	16,038	12,198	(1,141)	4,265	
2013	44,550	36,642	4,640	5,699	
2014	64,292	84,106	13,641	5,838	
2015	32,534	69,590	10,864	6,516	
2016	29	29	24	79	
2017	134	134	120	71	
2018	1,399	1,399	1,386	66	
	<u>\$ 217,762</u>	<u>\$ 248,550</u>	<u>\$ 26,326</u>	<u>86,736</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$	859
2009		2,410
2010		(3,887)
2011		5,094
2012		1,323
2013		6,093
2014		25,299
2015		24,638
2016		—
2017		—
2018		—
	<u>\$</u>	<u>61,829</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$</u>	<u>186,721</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Professional Indemnity/Directors & Officers.*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	IBNR	Cumulative Number of Claims	
2008 and Prior	\$ 140,108	\$ 72,453	\$ 8,451	48,133	
2009	30,592	21,317	(9,645)	4,246	
2010	35,237	39,743	8,473	4,251	
2011	39,028	49,320	10,443	3,736	
2012	53,094	66,622	13,273	3,249	
2013	52,894	59,615	16,106	3,186	
2014	83,767	104,639	36,447	3,518	
2015	48,715	96,152	48,769	3,804	
2016	—	—	—	—	
2017	—	—	—	—	
2018	—	—	—	—	
	<u>\$ 483,435</u>	<u>\$ 509,861</u>	<u>\$ 132,317</u>	<u>74,123</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,
	2018
2008 and Prior	\$ 20,413
2009	6,891
2010	3,969
2011	12,927
2012	16,105
2013	10,992
2014	23,424
2015	14,111
2016	—
2017	—
2018	—
	<u>\$ 108,832</u>
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	<u>\$ 401,029</u>

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Motor*

**Incurring Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	IBNR	Cumulative Number of Claims	
2008 and Prior	\$ 115,064	\$ 11,687	\$ 3,708	265	
2009	8,370	3,922	986	86	
2010	23,614	13,761	(206)	920	
2011	41,740	36,047	1,539	1,219	
2012	50,413	53,766	4,875	1,611	
2013	50,493	66,587	15,539	667	
2014	76,186	98,361	28,650	1,203	
2015	87,977	125,513	30,960	1,371	
2016	79,459	86,144	36,147	701	
2017	90,289	90,479	59,706	2,766	
2018	150,684	150,684	112,294	3,726	
	\$ 774,289	\$ 736,951	\$ 294,198	14,535	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$ 1,518	
2009	887	
2010	4,578	
2011	6,158	
2012	12,600	
2013	10,703	
2014	21,007	
2015	20,070	
2016	6,275	
2017	52	
2018	—	
	\$ 83,848	
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 653,103	

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

*Business Acquired and Contracts Incepting in the Year Ended December 31, 2018 - Property*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	Total Net Reserves Acquired	For the Year Ended December 31,		As of December 31, 2018	
		2018	2018	IBNR	Cumulative Number of Claims
2008 and Prior	\$ 3,441	\$ 8,012	\$ (393)	49,684	
2009	623	579	(266)	1,387	
2010	3,095	2,186	2	2,776	
2011	2,655	2,915	1,043	2,965	
2012	4,571	3,276	(15)	2,770	
2013	7,640	8,771	305	3,657	
2014	14,663	14,249	873	4,389	
2015	44,595	46,448	456	6,649	
2016	8,152	8,152	(34)	174	
2017	22,267	22,267	2,860	174	
2018	61,894	61,894	26,202	166	
	<u>\$ 173,596</u>	<u>\$ 178,749</u>	<u>\$ 31,033</u>	<u>74,791</u>	

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Year Ended December 31,	
	2018	
2008 and Prior	\$	257
2009		39
2010		119
2011		273
2012		(236)
2013		1,640
2014		3,958
2015		20,760
2016		—
2017		—
2018		—
	\$	26,810
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$	151,939

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

*Annual Historical Duration of Claims*

The following is unaudited supplementary information, which presents the annual percentage payout since the year of acquisition, by year of acquisition and significant line of business within each acquisition year:

Year of Acquisition	Annual Percentage Payout of Incurred Losses since Year of Acquisition, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2009 - All lines of business	1.07%	7.73%	10.56 %	2.27 %	8.71 %	6.12%	3.21 %	7.55%	3.57%	4.34%
2010 - All lines of business	13.72%	15.73%	21.40 %	10.67 %	3.61 %	3.69%	2.25 %	3.79%	2.07%	
2011 - All lines of business	23.37%	14.51%	(1.99)%	(27.39)%	(2.48)%	3.47%	(3.05)%	4.01%		
2012 - All lines of business	1.19%	24.87%	15.69 %	11.77 %	9.34 %	4.24%	5.10 %			
2013 - All lines of business	25.35%	21.26%	15.65 %	10.82 %	5.22 %	3.70%				
2014 - All lines of business	33.66%	23.78%	11.07 %	7.00 %	3.75 %					
2015 - All lines of business	16.74%	16.81%	11.72 %	9.62 %						
2015 - Workers' compensation	13.11%	16.29%	10.81 %	9.28 %						
2016 - All lines of business	7.83%	9.43%	8.17 %							
2016 - Asbestos	3.59%	8.90%	9.37 %							
2016 - Environment	6.10%	12.67%	9.89 %							
2016 - Workers' Compensation	9.71%	8.41%	6.63 %							
2017 - All lines of business	8.24%	7.71%								
2017 - Asbestos	2.57%	4.86%								
2017 - General Casualty	19.44%	18.48%								
2018 - All lines of business	12.89%									
2018 - General Casualty	13.29%									
2018 - Workers' Compensation	1.84%									
2018 - Marine, Aviation & Transit	24.88%									
2018 - Professional Indemnity/Directors & Officers	21.35%									
2018 - Motor	11.38%									
2018 - Property	15.00%									

**Atrium**

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

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>		<b>2017</b>		<b>2016</b>	
Balance as at January 1	\$	240,873	\$	212,122	\$	201,017
Less: reinsurance reserves recoverable		40,531		30,009		25,852
Net balance as at January 1		200,342		182,113		175,165
Net incurred losses and LAE:						
Current period		83,627		90,359		71,358
Prior periods		(13,817)		(20,940)		(12,971)
Total net incurred losses and LAE		69,810		69,419		58,387
Net paid losses:						
Current period		(35,537)		(24,571)		(23,582)
Prior periods		(28,969)		(31,107)		(24,416)
Total net paid losses		(64,506)		(55,678)		(47,998)
Effect of exchange rate movement		(3,130)		4,488		(3,441)
Net balance as at December 31		202,516		200,342		182,113
Plus: reinsurance reserves recoverable		38,768		40,531		30,009
Balance as at December 31	\$	241,284	\$	240,873	\$	212,122

Net incurred losses and LAE in the Atrium segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	<b>2018</b>			<b>2017</b>			<b>2016</b>		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 28,969	\$ 35,537	\$ 64,506	\$ 31,107	\$ 24,571	\$ 55,678	\$ 24,416	\$ 23,582	\$ 47,998
Net change in case and LAE reserves	(10,161)	16,492	6,331	(13,324)	21,662	8,338	(13,115)	12,967	(148)
Net change in IBNR reserves	(27,507)	31,598	4,091	(35,650)	43,329	7,679	(20,543)	34,243	13,700
Increase (reduction) in estimates of net ultimate losses	(8,699)	83,627	74,928	(17,867)	89,562	71,695	(9,242)	70,792	61,550
Increase in provisions for bad debt	—	—	—	89	70	159	—	—	—
Increase (reduction) in provisions for unallocated LAE	—	—	—	(442)	727	285	(421)	566	145
Amortization of fair value adjustments	(5,118)	—	(5,118)	(2,720)	—	(2,720)	(3,308)	—	(3,308)
Net incurred losses and LAE	\$ (13,817)	\$ 83,627	\$ 69,810	\$ (20,940)	\$ 90,359	\$ 69,419	\$ (12,971)	\$ 71,358	\$ 58,387

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

**Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages**

The following tables provide a breakdown of the gross and net losses and LAE by line of business and the fair value adjustments resulting from business acquisitions and ULAE as of December 31, 2018 and 2017 for the Atrium segment:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 32,999	\$ 36,011	\$ 69,010	\$ 21,460	\$ 24,207	\$ 45,667
Binding Authorities	28,512	59,302	87,814	26,601	57,016	83,617
Reinsurance	18,547	27,653	46,200	15,180	24,823	40,003
Accident and Health	4,972	6,348	11,320	4,225	5,837	10,062
Non-Marine Direct and Facultative	9,855	11,207	21,062	8,529	9,389	17,918
Total	<u>\$ 94,885</u>	<u>\$ 140,521</u>	<u>\$ 235,406</u>	<u>\$ 75,995</u>	<u>\$ 121,272</u>	<u>\$ 197,267</u>
Fair value adjustments			3,476			2,847
ULAE			2,402			2,402
Total			<u>\$ 241,284</u>			<u>\$ 202,516</u>

	2017					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Marine, Aviation and Transit	\$ 24,581	\$ 46,138	\$ 70,719	\$ 20,177	\$ 28,551	\$ 48,728
Binding Authorities	26,115	51,896	78,011	24,158	49,486	73,644
Reinsurance	14,381	34,489	48,870	13,815	26,336	40,151
Accident and Health	3,716	5,518	9,234	3,296	4,994	8,290
Non-Marine Direct and Facultative	9,570	12,467	22,037	9,444	9,665	19,109
Total	<u>\$ 78,363</u>	<u>\$ 150,508</u>	<u>\$ 228,871</u>	<u>\$ 70,890</u>	<u>\$ 119,032</u>	<u>\$ 189,922</u>
Fair value adjustments			9,547			7,965
ULAE			2,455			2,455
Total			<u>\$ 240,873</u>			<u>\$ 200,342</u>

The Atrium segment comprises only 3% of the total consolidated gross liability for losses and LAE as at December 31, 2018 and therefore has not been disaggregated further for purposes of presenting the accident year disclosures below.

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

The following tables set forth information about incurred and paid loss development information for the Atrium segment as at December 31, 2018. The information related to incurred and paid loss development for the years ended December 31, 2009 through 2017 is presented as supplementary information and is therefore unaudited. Information about total IBNR reserves and cumulative loss frequency as at December 31, 2018, including expected development on reported losses included within the net incurred losses and allocated LAE amounts for the Atrium segment, are set forth in the table below.

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For the Years Ended December 31,										As of December 31, 2018		
	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims	
2008 and Prior	500,211	503,236	549,063	538,463	521,835	519,162	515,066	512,187	510,687	499,948	5,514	1,439	
2009	27,570	40,073	56,949	51,804	48,592	47,663	45,919	45,197	44,947	54,509	1,112	216	
2010		26,676	64,641	57,524	51,433	47,309	45,776	45,293	44,049	43,501	863	280	
2011			85,641	84,006	72,297	70,524	68,799	67,505	66,773	66,317	1,487	378	
2012				70,040	57,094	55,745	53,582	51,800	50,880	50,399	989	517	
2013					58,144	63,518	57,599	54,288	51,534	51,894	2,405	829	
2014						68,975	69,230	65,812	60,255	57,384	5,237	1,290	
2015							69,347	71,112	63,198	59,906	9,190	2,183	
2016								72,753	74,799	69,704	14,229	3,856	
2017									89,814	94,485	27,401	6,287	
2018										84,612	52,845	5,590	
										Total	\$ 1,132,659	\$ 121,272	22,865

<sup>(1)</sup> Total of IBNR plus expected development on reported losses.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,										
	2009 (unaudited)	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	
2008 and Prior	\$ 438,313	\$ 461,160	\$ 472,617	\$ 480,751	\$ 488,939	\$ 492,516	\$ 496,718	\$ 498,426	\$ 499,533	\$ 497,063	
2009	11,910	27,487	34,408	37,887	39,882	41,069	41,741	42,023	42,278	43,212	
2010		11,425	25,006	32,075	36,349	38,815	39,829	40,416	40,989	41,151	
2011			16,991	39,667	51,975	58,114	62,012	63,351	64,631	64,102	
2012				11,211	31,366	37,869	42,026	44,308	45,194	46,757	
2013					14,552	31,972	40,314	43,375	45,249	45,963	
2014						17,524	34,232	41,425	46,663	48,298	
2015							11,993	29,562	38,806	44,324	
2016								13,665	34,408	43,992	
2017									14,312	47,500	
2018										13,030	
									Total	\$ 935,392	
										Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 197,267

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the Atrium segment for the year ended December 31, 2018 is set forth below:

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

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 197,267
Reinsurance recoverable on unpaid losses	38,139
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	\$ 235,406

The following is unaudited supplementary information for average annual historical duration of claims within the Atrium segment:

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Atrium	22.47%	32.32%	14.77%	8.28%	4.37%	1.93%	1.90%	0.35%	0.42%	1.71%

**StarStone**

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Balance as at January 1	\$ 1,207,743	\$ 1,059,382	\$ 933,678
Less: reinsurance reserves recoverable	452,017	357,231	299,783
Net balance as at January 1	755,726	702,151	633,895
Net incurred losses and LAE:			
Current period	578,892	341,628	415,829
Prior periods	94,491	(26,822)	(14,236)
Total net incurred losses and LAE	673,383	314,806	401,593
Net paid losses:			
Current period	(150,778)	(54,867)	(52,128)
Prior periods	(326,352)	(252,926)	(199,125)
Total net paid losses	(477,130)	(307,793)	(251,253)
Effect of exchange rate movement	(9,481)	15,169	(15,984)
Acquired on purchase of subsidiaries	192,981	—	—
Assumed business	10,268	31,393	—
Ceded business	—	—	(66,100)
Net balance as at December 31	1,145,747	755,726	702,151
Plus: reinsurance reserves recoverable	462,950	452,017	357,231
Balance as at December 31	\$ 1,608,697	\$ 1,207,743	\$ 1,059,382

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

Net incurred losses and LAE in the StarStone segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018			2017			2016		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 326,352	\$ 150,778	\$ 477,130	\$ 252,926	\$ 54,867	\$ 307,793	\$ 199,125	\$ 52,128	\$ 251,253
Net change in case and LAE reserves	(81,491)	157,378	75,887	(63,785)	95,470	31,685	(51,309)	124,358	73,049
Net change in IBNR reserves	(144,212)	258,091	113,879	(208,244)	184,704	(23,540)	(156,546)	232,189	75,643
Increase (reduction) in estimates of net ultimate losses	100,649	566,247	666,896	(19,103)	335,041	315,938	(8,730)	408,675	399,945
Increase (reduction) in provisions for unallocated LAE	(5,892)	12,645	6,753	(6,774)	6,587	(187)	(3,611)	7,154	3,543
Amortization of fair value adjustments	(266)	—	(266)	(945)	—	(945)	(1,895)	—	(1,895)
Net incurred losses and LAE	\$ 94,491	\$ 578,892	\$ 673,383	\$ (26,822)	\$ 341,628	\$ 314,806	\$ (14,236)	\$ 415,829	\$ 401,593

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

**Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages**

The following tables provide a breakdown of the gross and net losses and LAE reserves by line of business and the fair value adjustments resulting from business acquisitions and ULAE as of December 31, 2018 and 2017:

	2018					
	Gross			Net		
	OLR	IBNR	Total	OLR	IBNR	Total
	(in thousands of U.S. dollars)					
Casualty	\$ 177,432	\$ 331,432	\$ 508,864	\$ 137,828	\$ 282,026	\$ 419,854
Marine	185,084	182,453	367,537	163,889	133,426	297,315
Property	317,102	123,511	440,613	151,774	65,522	217,296
Aerospace	67,203	40,416	107,619	45,879	36,167	82,046
Workers' Compensation	49,373	110,082	159,455	33,759	68,969	102,728
Total	\$ 796,194	\$ 787,894	\$ 1,584,088	\$ 533,129	\$ 586,110	\$ 1,119,239
Fair value adjustments			(467)			1,432
ULAE			25,076			25,076
Total			\$ 1,608,697			\$ 1,145,747

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

	<b>2017</b>					
	<b>Gross</b>			<b>Net</b>		
	<b>OLR</b>	<b>IBNR</b>	<b>Total</b>	<b>OLR</b>	<b>IBNR</b>	<b>Total</b>
	(in thousands of U.S. dollars)					
Casualty	\$ 139,200	\$ 282,789	\$ 421,989	\$ 98,070	\$ 188,518	\$ 286,588
Marine	130,962	118,375	249,337	94,115	69,828	163,943
Property	208,777	89,963	298,740	115,148	39,280	154,428
Aerospace	63,920	26,070	89,990	40,781	17,055	57,836
Workers' Compensation	48,118	82,024	130,142	31,213	41,920	73,133
Total	<u>\$ 590,977</u>	<u>\$ 599,221</u>	<u>\$ 1,190,198</u>	<u>\$ 379,327</u>	<u>\$ 356,601</u>	<u>\$ 735,928</u>
Fair value adjustments			(555)			1,698
ULAE			18,100			18,100
Total			<u>\$ 1,207,743</u>			<u>\$ 755,726</u>

The following tables set forth information about incurred and paid loss development, total IBNR reserves and cumulative loss frequency related to all the individual lines of business within the StarStone segment as at December 31, 2018. The information related to incurred and paid loss development for the years ended December 31, 2014 through 2017 is presented as supplementary information and is therefore unaudited. The information within the tables below is presented on a prospective basis from the date of our acquisition of StarStone on April 1, 2014 since providing pre-acquisition incurred and paid losses by accident year for years prior to 2014 was determined to be impracticable due to significant data limitations.

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

*Casualty*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					As of December 31, 2018	
	2014 (Unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims
2008 and Prior	\$ 60,044	\$ 60,046	\$ 60,119	\$ 60,041	\$ 60,077	\$ —	2,080
2009	20,026	20,085	20,085	20,089	20,261	3	463
2010	16,173	17,320	17,406	18,085	18,103	171	728
2011	20,969	25,275	25,633	24,861	25,301	816	2,034
2012	56,901	48,179	43,901	40,082	39,468	978	3,121
2013	72,918	66,628	77,630	76,072	78,777	6,811	4,974
2014	91,491	92,600	92,857	90,459	90,685	12,504	5,694
2015		104,603	111,262	110,453	123,529	27,687	4,698
2016			125,456	129,264	140,765	41,362	4,363
2017				137,600	162,707	72,210	4,613
2018					159,331	119,484	2,982
				Total	\$ 919,004	\$ 282,026	35,750

<sup>(1)</sup> Total of IBNR plus expected development on reported losses.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,				
	2014 (Unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ 60,044	\$ 60,046	\$ 60,119	\$ 60,041	\$ 60,077
2009	20,026	20,085	20,085	20,089	20,261
2010	15,113	17,320	17,406	18,085	18,103
2011	15,605	20,945	23,612	24,176	24,806
2012	18,348	29,436	32,625	33,873	36,082
2013	23,056	30,400	50,018	54,570	60,273
2014	5,737	21,884	37,575	50,740	64,658
2015		8,121	27,389	49,136	68,363
2016			4,659	42,999	75,019
2017				9,992	50,704
2018					20,804
				Total	\$ 499,150
		Total outstanding liabilities for unpaid losses and LAE, net of reinsurance			\$ 419,854

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

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 419,854
Reinsurance recoverable on unpaid losses	89,010
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	<u>\$ 508,864</u>

The following is unaudited supplementary information for average annual historical duration of claims:

	<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance</b>									
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
Casualty	7.1%	21.4%	16.7%	20.8%	12.6%	8.3%	1.7%	1.6%	— %	0.5%

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

Marine

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					As of December 31, 2018	
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims
2008 and Prior	\$ 16,526	\$ 16,557	\$ 16,600	\$ 16,620	\$ 16,644	\$ —	1,361
2009	10,420	10,321	10,294	10,307	10,308	—	629
2010	22,356	19,282	19,123	19,185	19,054	265	1,026
2011	29,616	27,854	27,430	27,469	27,809	392	1,953
2012	48,187	51,686	51,341	50,073	50,877	421	2,414
2013	62,952	55,068	52,846	53,780	57,059	99	2,210
2014	50,259	53,650	48,624	55,074	50,713	601	3,931
2015		71,122	70,134	79,611	81,159	2,640	5,605
2016			82,859	83,670	87,791	14,330	6,679
2017				131,200	159,664	50,006	7,799
2018					168,750	64,672	6,302
				Total	\$ 729,829	\$ 133,426	39,909

<sup>(1)</sup> Total of IBNR plus expected development on reported losses.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	
2008 and Prior	\$ 16,518	\$ 16,557	\$ 16,600	\$ 16,620	\$ 16,644	
2009	10,298	10,309	10,291	10,298	10,308	
2010	16,307	18,337	18,415	18,386	18,450	
2011	24,366	25,419	26,392	26,639	26,748	
2012	38,547	42,684	44,509	45,294	45,742	
2013	29,186	38,324	42,405	44,863	46,921	
2014	10,930	24,933	32,463	36,908	42,560	
2015		10,883	30,685	50,222	56,305	
2016			12,200	42,041	57,764	
2017				25,417	69,437	
2018					41,635	
				Total	\$ 432,514	
					Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 297,315

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

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

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 297,315
Reinsurance recoverable on unpaid losses	70,222
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	<u>\$ 367,537</u>

The following is unaudited supplementary information for average annual historical duration of claims:

	<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance</b>									
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
Marine	17.9%	28.4%	18.2%	7.9%	5.7%	4.8%	0.5%	0.1%	0.2%	0.1%

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

*Property*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					As of December 31, 2018	
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims
2008 and Prior	\$ 84,812	\$ 84,652	\$ 84,265	\$ 84,500	\$ 82,172	\$ —	1,835
2009	28,360	27,824	28,297	28,550	31,831	—	1,060
2010	74,412	72,959	71,600	71,661	71,679	—	1,561
2011	90,707	89,271	89,305	88,991	88,919	—	1,612
2012	65,516	61,422	60,420	61,350	58,443	—	1,495
2013	77,944	64,848	64,509	63,673	61,930	—	1,956
2014	58,855	43,619	42,917	43,308	41,258	846	2,077
2015		78,721	76,362	70,132	70,018	2,064	5,580
2016			87,266	94,995	94,530	4,690	6,710
2017				155,053	171,510	19,966	7,766
2018					164,155	37,956	4,383
				Total	\$ 936,445	\$ 65,522	36,035

<sup>(1)</sup> Total of IBNR plus expected development on reported losses.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	
2008 and Prior	\$ 84,362	\$ 84,594	\$ 84,265	\$ 84,278	\$ 80,906	
2009	27,693	27,731	28,088	28,325	31,607	
2010	68,605	71,491	71,600	71,661	71,679	
2011	86,986	88,197	88,697	88,944	88,919	
2012	47,879	51,935	54,072	55,027	55,222	
2013	30,763	46,146	50,932	52,982	59,070	
2014	5,470	18,727	31,426	34,347	35,868	
2015		10,410	28,582	55,204	63,718	
2016			26,741	57,761	74,938	
2017				37,369	98,107	
2018					59,115	
				Total	\$ 719,149	
					Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 217,296

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

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

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 217,296
Reinsurance recoverable on unpaid losses	223,317
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	<u>\$ 440,613</u>

The following is unaudited supplementary information for average annual historical duration of claims:

	<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance</b>									
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
Property	22.8%	31.6%	28.0%	8.5%	3.0%	4.0%	0.2%	0.2%	0.3%	0.2%

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

*Aerospace*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					As of December 31, 2018	
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims
2008 and Prior	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
2009	—	—	—	—	—	—	—
2010	18,516	18,144	18,454	18,956	19,032	78	572
2011	58,771	57,244	57,668	58,102	59,637	215	2,188
2012	55,720	55,418	56,261	56,214	57,506	356	2,410
2013	72,065	70,148	70,475	74,847	77,341	801	2,549
2014	65,227	53,549	53,563	52,342	54,412	1,149	2,830
2015		66,347	69,500	72,503	73,175	1,874	2,922
2016			37,728	44,912	48,093	6,853	2,783
2017				31,257	35,050	1,585	2,809
2018					59,448	23,256	1,682
				Total	\$ 483,694	\$ 36,167	20,745

<sup>(1)</sup> Total of IBNR plus expected development on reported losses

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,				
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ —	\$ —	\$ —	\$ —	\$ —
2009	—	—	—	—	—
2010	15,471	16,615	17,218	18,274	18,558
2011	53,812	55,170	55,850	56,427	57,020
2012	45,950	49,381	52,191	53,668	54,859
2013	50,856	59,845	63,417	68,735	72,721
2014	17,307	31,165	38,439	40,686	43,805
2015		32,375	52,180	60,813	63,986
2016			11,803	31,798	36,963
2017				10,389	28,200
2018					25,536
				Total	\$ 401,648
				Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 82,046

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

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

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 82,046
Reinsurance recoverable on unpaid losses	25,573
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	<u>\$ 107,619</u>

The following is unaudited supplementary information for average annual historical duration of claims:

	<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance</b>									
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
Aerospace	34.6%	31.4%	11.9%	4.8%	4.9%	3.7%	2.1%	3.3%	1.5%	—%

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

*Workers' Compensation*

**Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,					As of December 31, 2018	
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018	IBNR <sup>(1)</sup>	Cumulative Number of Claims
2008 and Prior	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—
2009	—	—	—	—	—	—	—
2010	—	—	—	—	—	—	—
2011	—	—	—	—	—	—	—
2012	—	—	—	—	—	—	—
2013	—	—	—	—	—	—	—
2014	15,607	17,199	18,290	15,662	15,202	1,755	1,062
2015	—	54,977	55,505	50,103	47,338	6,620	2,518
2016	—	—	62,942	54,121	54,793	12,404	2,489
2017	—	—	—	43,366	39,089	17,876	2,079
2018	—	—	—	—	44,615	30,314	2,303
				Total	\$ 201,037	\$ 68,969	10,451

<sup>(1)</sup> Total of IBNR plus expected development on reported losses.

**Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance**

Accident Year	For The Years Ended December 31,				
	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018
2008 and Prior	\$ —	\$ —	\$ —	\$ —	\$ —
2009	—	—	—	—	—
2010	—	—	—	—	—
2011	—	—	—	—	—
2012	—	—	—	—	—
2013	—	—	—	—	—
2014	1,491	6,079	9,279	11,431	12,242
2015	—	6,361	20,194	30,439	35,311
2016	—	—	7,953	23,428	32,739
2017	—	—	—	5,477	13,509
2018	—	—	—	—	4,508
				Total	\$ 98,309
				Total outstanding liabilities for unpaid losses and LAE, net of reinsurance	\$ 102,728

The reconciliation of incurred and paid loss development to the liability for unpaid losses and LAE as presented in the tables above for the year ended December 31, 2018 is set forth below:

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

	<b>2018</b>
Liabilities for unpaid losses and allocated LAE, net of reinsurance	\$ 102,728
Reinsurance recoverable on unpaid losses	56,727
Gross liability for unpaid losses and LAE before unallocated loss adjustment expenses and fair value adjustments	\$ 159,455

The following is unaudited supplementary information for average annual historical duration of claims:

	<b>Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance</b>									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Workers' compensation	12.4%	27.0%	19.9%	12.2%	5.3%	—%	—%	—%	—%	—%

## 11. FAIR VALUE MEASUREMENTS

### *Fair Value Hierarchy*

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

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

In addition, certain of our other investments are measured at fair value using net asset value ("NAV") per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above. We have categorized our assets and liabilities that are recorded at fair value on a recurring basis among levels based on the observability of inputs, or at fair value using NAV per share (or its equivalent) as follows:

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

	December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
<b>Investments:</b>					
Fixed maturity investments:					
U.S. government and agency	\$ —	\$ 510,245	\$ —	\$ —	\$ 510,245
U.K. government	—	300,631	—	—	300,631
Other government	—	793,810	—	—	793,810
Corporate	—	4,802,454	37,386	—	4,839,840
Municipal	—	130,265	—	—	130,265
Residential mortgage-backed	—	773,557	—	—	773,557
Commercial mortgage-backed	—	705,674	7,389	—	713,063
Asset-backed	—	627,360	9,121	—	636,481
	<u>\$ —</u>	<u>\$ 8,643,996</u>	<u>\$ 53,896</u>	<u>\$ —</u>	<u>\$ 8,697,892</u>
Other assets included within funds held - directly managed	—	14,780	—	—	14,780
Equities:					
Publicly traded equity investments	\$ 102,102	\$ 36,313	\$ —	\$ —	\$ 138,415
Privately held equity investments	—	—	228,710	—	228,710
	<u>\$ 102,102</u>	<u>\$ 36,313</u>	<u>\$ 228,710</u>	<u>\$ —</u>	<u>\$ 367,125</u>
Other investments:					
Hedge funds	\$ —	\$ —	\$ —	\$ 852,584	\$ 852,584
Fixed income funds	—	290,864	—	112,994	403,858
Equity funds	—	100,440	—	233,241	333,681
Private equity funds	—	—	—	248,628	248,628
CLO equities	—	—	39,052	—	39,052
CLO equity fund	—	—	—	37,260	37,260
Private credit funds	—	—	—	33,381	33,381
Others	—	578	315	8,420	9,313
	<u>\$ —</u>	<u>\$ 391,882</u>	<u>\$ 39,367</u>	<u>\$ 1,526,508</u>	<u>\$ 1,957,757</u>
Total Investments	<u>\$ 102,102</u>	<u>\$ 9,086,971</u>	<u>\$ 321,973</u>	<u>\$ 1,526,508</u>	<u>\$ 11,037,554</u>
<b>Cash and cash equivalents</b>	<u>\$ 243,839</u>	<u>\$ 21,146</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 264,985</u>
<b>Reinsurance balances recoverable on paid and unpaid losses:</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 739,591</u>	<u>\$ —</u>	<u>\$ 739,591</u>
<b>Other Assets:</b>					
Derivative Instruments	\$ —	\$ 6,701	\$ —	\$ —	\$ 6,701
	<u>\$ —</u>	<u>\$ 6,701</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,701</u>
<b>Losses and LAE:</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,874,055</u>	<u>\$ —</u>	<u>\$ 2,874,055</u>
<b>Other Liabilities:</b>					
Derivative Instruments	\$ —	\$ 983	\$ —	\$ —	\$ 983
	<u>\$ —</u>	<u>\$ 983</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 983</u>

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

	December 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Based on NAV as Practical Expedient	Total Fair Value
<b>Investments:</b>					
Fixed maturity investments:					
U.S. government and agency	\$ —	\$ 628,073	\$ —	\$ —	\$ 628,073
U.K government	—	310,885	—	—	310,885
Other government	—	384,610	—	—	384,610
Corporate	—	4,106,493	67,178	—	4,173,671
Municipal	—	164,287	—	—	164,287
Residential mortgage-backed	—	315,103	3,080	—	318,183
Commercial mortgage-backed	—	611,240	21,494	—	632,734
Asset-backed	—	611,620	27,892	—	639,512
	<u>\$ —</u>	<u>\$ 7,132,311</u>	<u>\$ 119,644</u>	<u>\$ —</u>	<u>\$ 7,251,955</u>
Other assets included within funds held - directly managed	\$ —	\$ 14,554	\$ —	\$ —	\$ 14,554
Equities:					
Publicly traded equity investments	\$ 103,652	\$ 2,951	\$ —	\$ —	\$ 106,603
Privately held equity investments	—	—	—	—	—
	<u>\$ 103,652</u>	<u>\$ 2,951</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 106,603</u>
Other investments:					
Private equities and private equity funds	\$ —	\$ —	\$ —	\$ 289,556	\$ 289,556
Equity funds	—	121,046	—	128,429	249,475
Fixed income funds	—	202,570	—	27,429	229,999
Hedge funds	—	—	—	63,773	63,773
CLO equities	—	—	56,765	—	56,765
CLO equity funds	—	—	—	12,840	12,840
Private credit funds	—	—	—	10,156	10,156
Other	—	—	314	514	828
	<u>\$ —</u>	<u>\$ 323,616</u>	<u>\$ 57,079</u>	<u>\$ 532,697</u>	<u>\$ 913,392</u>
Total Investments	<u>\$ 103,652</u>	<u>\$ 7,473,432</u>	<u>\$ 176,723</u>	<u>\$ 532,697</u>	<u>\$ 8,286,504</u>
<b>Cash and cash equivalents</b>	<u>\$ 107,156</u>	<u>\$ 48,051</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 155,207</u>
<b>Reinsurance recoverable:</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 542,224</u>	<u>\$ —</u>	<u>\$ 542,224</u>
<b>Other Assets:</b>					
Derivative Instruments	\$ —	\$ 319	\$ —	\$ —	\$ 319
	<u>\$ —</u>	<u>\$ 319</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 319</u>
<b>Losses and LAE:</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,794,669</u>	<u>\$ —</u>	<u>\$ 1,794,669</u>
<b>Other Liabilities:</b>					
Derivative Instruments	\$ —	\$ 7,246	\$ —	\$ —	\$ 7,246
	<u>\$ —</u>	<u>\$ 7,246</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,246</u>

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

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

***Fixed Maturity Investments***

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

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

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

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

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

- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

#### *Equities*

Our investments in equities consist of a combination of publicly and privately traded investments. Our publicly traded equity investments in common and preferred stocks predominantly trade on the major exchanges and are managed by our external advisors. Our publicly traded equities are widely diversified and there is no significant concentration in any specific industry. We use an internationally recognized pricing service to estimate the fair value of our publicly traded equities. We have categorized the majority of our publicly traded equity investments other than preferred stock as Level 1 investments because the fair values of these investments are based on unadjusted quoted prices in active markets for identical assets. One equity security is trading in an inactive market and, as a result has been classified as Level 2. The fair value estimates of our investments in publicly traded preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Our privately held equity investments in common and preferred stocks are direct investments in companies that we believe offer attractive risk adjusted returns and/or offer other strategic advantages. Each investment may have its own unique terms and conditions and there may be restrictions on disposals. The market for these investments is illiquid and there is no active market. The Company uses a combination of cost, internal models, reported values from co-investors/managers and observable inputs, such as capital raises and capital transactions between new and existing shareholders to calculate the fair value of the privately held equity investments. The fair value estimates of our investments in privately held equities are based on unobservable market data and, as a result, have been categorized as Level 3. As of December 31, 2018, we have used cost as our estimate of fair value for the majority of our privately held equity investments, given that only a short period of time has passed since the investments were made.

#### *Other investments, at fair value*

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

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

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

- For our investments in private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in fixed income funds and equity funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.

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

- For our investments in hedge funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by our external CLO equity manager. If the investment does not involve an external CLO equity manager, the fair value of the investment is based on valuations provided by the broker or lead underwriter of the investment (the "broker"). Our CLO equity investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.
- Included within others is our investments in the real estate debt fund which we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair value of this investment is measured using the NAV as a practical expedient and therefore has not been categorized within the fair value hierarchy.

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

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

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

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

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

*Insurance Contracts - Fair Value Option*

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

*Derivative Instruments*

The fair values of our foreign currency exchange contracts, as described in Note 7 - "Derivatives and Hedging Instruments" are classified as Level 2. The fair values are based upon prices in active markets for identical contracts.

**Level 3 Measurements and Changes in Leveling**

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

*Investments*

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 years ended December 31, 2018 and 2017:

	2018						
	Corporate	Residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Privately-held Equities	Other Investments	Total
Beginning fair value	\$ 67,178	\$ 3,080	\$ 21,494	\$ 27,892	\$ —	\$ 57,079	\$ 176,723
Purchases	14,391	—	3,749	46,074	227,000	13,173	304,387
Sales	(65,700)	(1,184)	(5,781)	(49,020)	—	(12,091)	(133,776)
Total realized and unrealized losses	(57)	(28)	(645)	(1,843)	(2)	(18,794)	(21,369)
Transfer into Level 3 from Level 2	28,339	1,795	4,897	9,890	1,712	—	46,633
Transfer out of Level 3 into Level 2	(6,765)	(3,663)	(16,325)	(23,872)	—	—	(50,625)
Ending fair value	<u>\$ 37,386</u>	<u>\$ —</u>	<u>\$ 7,389</u>	<u>\$ 9,121</u>	<u>\$ 228,710</u>	<u>\$ 39,367</u>	<u>\$ 321,973</u>

	2017						
	Corporate	Residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Privately-held Equities	Other Investments	Total
Beginning fair value	\$ 74,534	\$ —	\$ 12,213	\$ 14,692	\$ —	\$ 76,878	\$ 178,317
Purchases	28,872	711	21,306	9,749	—	435	61,073
Sales	(37,941)	(37)	(424)	(20,795)	—	(12,350)	(71,547)
Total realized and unrealized gains (losses)	249	(16)	(434)	205	—	(7,884)	(7,880)
Transfer into Level 3 from Level 2	24,431	3,085	18,974	56,074	—	—	102,564
Transfer out of Level 3 into Level 2	(22,967)	(663)	(30,141)	(32,033)	—	—	(85,804)
Ending fair value	<u>\$ 67,178</u>	<u>\$ 3,080</u>	<u>\$ 21,494</u>	<u>\$ 27,892</u>	<u>\$ —</u>	<u>\$ 57,079</u>	<u>\$ 176,723</u>

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

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

The securities transferred from Level 2 to Level 3 were transferred due to insufficient market observable inputs for the valuation of the specific assets. The transfers from Level 3 to Level 2 were based upon obtaining market observable information regarding the valuations of the specific assets.

*Insurance Contracts - Fair Value Option*

The following table presents a reconciliation of the beginning and ending balances for all insurance contracts measured at fair value on a recurring basis using Level 3 inputs during the years ended December 31, 2018 and 2017:

	2018			2017		
	Liability for losses and LAE	Reinsurance balances recoverable on paid and unpaid losses	Net	Liability for losses and LAE	Reinsurance balances recoverable on paid and unpaid losses	Net
Beginning fair value	\$ 1,794,669	\$ 542,224	\$ 1,252,445	\$ —	\$ —	\$ —
Assumed business	1,890,061	372,780	1,517,281	1,966,843	565,824	1,401,019
Incurring losses and LAE:						
Reduction in estimates of ultimate losses	(108,429)	(30,041)	(78,388)	(100,494)	(1,848)	(98,646)
Reduction in unallocated LAE	(20,656)	—	(20,656)	(22,303)	—	(22,303)
Change in fair value	27,845	21,181	6,664	54,007	23,751	30,256
Total incurred losses and LAE	(101,240)	(8,860)	(92,380)	(68,790)	21,903	(90,693)
Paid losses	(576,949)	(148,175)	(428,774)	(197,102)	(56,256)	(140,846)
Effect of exchange rate movements	(132,486)	(18,378)	(114,108)	93,718	10,753	82,965
Ending fair value	\$ 2,874,055	\$ 739,591	\$ 2,134,464	\$ 1,794,669	\$ 542,224	\$ 1,252,445

Changes in fair value in the table above are included in net incurred losses and LAE in our consolidated statements of earnings.

The following table presents the components of the net change in fair value for the years ended December 31, 2018 and 2017:

	2018	2017
Changes in fair value due to changes in:		
Duration	\$ 74,011	\$ 41,332
Corporate bond yield	(71,031)	(11,076)
Risk cost of capital	3,684	—
Change in fair value	\$ 6,664	\$ 30,256

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at December 31, 2018 and 2017:

Valuation Technique	Unobservable (U) and Observable (O) Inputs	2018	2017
		Weighted Average	Weighted Average
Internal model	Corporate bond yield (O)	A rated	A rated
Internal model	Credit spread for non-performance risk (U)	0.2%	0.2%
Internal model	Risk cost of capital	5.0%	5.0%
Internal model	Weighted average cost of capital (U)	8.5%	8.5%
Internal model	Duration - liability (U)	7.33 years	11.41 years
Internal model	Duration - reinsurance balances recoverable on paid and unpaid losses (U)	7.98 years	11.66 years

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

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

- An increase in the corporate bond rate or credit spread for non-performance risk would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses. Conversely, a decrease in the corporate bond rate or credit spread for non-performance risk would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses.
- An increase in the weighted average cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses. Conversely, a decrease in the weighted average cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses.
- An increase in the risk cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses. Conversely, a decrease in the risk cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses.
- The duration of the liability and recoverable is adjusted every period to reflect actual net payments during the period and expected future payments. An acceleration of the estimated payment pattern, a decrease in duration, would result in an increase in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses. Conversely, a deceleration of the estimated payment pattern, an increase in duration, would result in a decrease in the fair value of the liability for losses and LAE and reinsurance balances recoverable on paid and unpaid losses.

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

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

*Life Settlement Contracts*

During 2018, we sold our investments in life settlement contracts, which were carried at cost. As of December 31, 2017, investments in life settlement contracts were carried at cost of \$125.6 million and their fair values were \$131.9 million.

*Senior Notes*

As of December 31, 2018, our 4.5% Senior Notes due 2022 had a carrying value of \$348.1 million, while the fair value based on observable market pricing from a third party service was \$352.2 million. The fair value is classified as Level 2.

*Insurance Contracts*

Disclosure of fair value of amounts relating to insurance contracts is not required, except those for which we elected the fair value option, as described above.

*Remaining Assets and Liabilities*

Our remaining assets and liabilities were generally carried at cost or amortized cost, which due to their short-term nature approximates fair value as of December 31, 2018 and 2017.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**12. POLICY BENEFITS FOR LIFE CONTRACTS**

We have acquired long duration contracts that subject us to mortality, longevity and morbidity risks and which are accounted for as life and annuity premiums earned. Life benefit reserves are established using assumptions for investment yields, mortality, morbidity, lapse and expenses, including a provision for adverse deviation. We establish and review our life reserves regularly based upon cash flow projections. We establish and maintain our life reinsurance reserves at a level that we estimate will, when taken together with future premium payments and investment income expected to be earned on associated premiums, be sufficient to support all future cash flow benefit obligations and third-party servicing obligations as they become payable. Refer to Note 2 - "Significant Accounting Policies" - (d) Policy Benefits for Life and Annuity Contracts" for a description of the assumptions used and the process for establishing our assumptions and estimates. Policy benefits for life contracts as at December 31, 2018 and 2017 were \$105.1 million and \$117.2 million, respectively.

On October 10, 2018, we entered into a Business Transfer Agreement between our wholly-owned subsidiary Alpha and a subsidiary of Monument. This agreement will transfer our remaining life assurance policies written by Alpha to Monument, via a Portfolio Transfer, subject to regulatory approval. The transaction is expected to close during 2019. Our life and annuities operations do not qualify for inclusion in our reportable segments and are therefore included within other activities. The related assets, as well as the results from these operations, were not significant to our consolidated operations and therefore they have not been classified as a discontinued operation. In addition, our proposed transfer of these life assurance policies to Monument was not classified as a held-for-sale business transaction since the underlying contracts do not meet the definition of a business. We have an investment in Monument, as described further in Note 21 - "Related Party Transactions".

**13. PREMIUMS WRITTEN AND EARNED**

The following tables provide a summary of net premiums written and earned for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
<i>Non-life Run-off</i>						
Gross	\$ (8,910)	\$ 25,230	\$ 14,102	\$ 23,950	\$ 17,316	\$ 25,989
Ceded	(307)	(15,803)	(7,620)	(9,788)	(8,114)	(9,234)
Net	\$ (9,217)	\$ 9,427	\$ 6,482	\$ 14,162	\$ 9,202	\$ 16,755
<i>Atrium</i>						
Gross	\$ 171,494	\$ 164,428	\$ 153,472	\$ 152,278	\$ 143,170	\$ 140,438
Ceded	(18,006)	(18,113)	(19,258)	(17,531)	(2,733)	(16,022)
Net	\$ 153,488	\$ 146,315	\$ 134,214	\$ 134,747	\$ 140,437	\$ 124,416
<i>StarStone</i>						
Gross	\$ 1,121,135	\$ 1,010,816	\$ 895,160	\$ 865,159	\$ 854,699	\$ 830,186
Ceded	(315,573)	(295,857)	(430,259)	(405,756)	(206,663)	(153,578)
Net	\$ 805,562	\$ 714,959	\$ 464,901	\$ 459,403	\$ 648,036	\$ 676,608
<i>Other</i>						
Gross	\$ 32,378	\$ 25,237	\$ 5,719	\$ 5,900	\$ 7,157	\$ 7,220
Ceded	(311)	(363)	(926)	(1,091)	(896)	(1,485)
Net	\$ 32,067	\$ 24,874	\$ 4,793	\$ 4,809	\$ 6,261	\$ 5,735
<i>Total</i>						
Gross	\$ 1,316,097	\$ 1,225,711	\$ 1,068,453	\$ 1,047,287	\$ 1,022,342	\$ 1,003,833
Ceded	(334,197)	(330,136)	(458,063)	(434,166)	(218,406)	(180,319)
Net	\$ 981,900	\$ 895,575	\$ 610,390	\$ 613,121	\$ 803,936	\$ 823,514

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**14. GOODWILL AND INTANGIBLE ASSETS**

The following table presents a reconciliation of the beginning and ending goodwill and intangible assets for the years ended December 31, 2018 and 2017:

	Goodwill	Intangible assets		Total	Total
		Intangible assets with a definite life	Intangible assets with an indefinite life		
Balance as at December 31, 2016	\$ 73,071	\$ 24,753	\$ 87,031	\$ 111,784	\$ 184,855
Acquired during the year	—	—	—	—	—
Amortization	—	(4,266)	—	(4,266)	(4,266)
Balance as at December 31, 2017	\$ 73,071	\$ 20,487	\$ 87,031	\$ 107,518	\$ 180,589
Acquired during the year	41,736	—	—	—	41,736
Amortization	—	(3,600)	—	(3,600)	(3,600)
Balance as at December 31, 2018	\$ 114,807	\$ 16,887	\$ 87,031	\$ 103,918	\$ 218,725

**Goodwill**

Goodwill as of December 31, 2018 and 2017, related to our Non-life Run-off, Atrium and StarStone segments, was as follows:

	2018	2017
Non-life Run-Off	\$ 62,959	\$ 21,223
Atrium	38,848	38,848
StarStone	13,000	13,000
	\$ 114,807	\$ 73,071

The increase in the goodwill balance in the Non-life Run-off segment was due to the acquisition of KaylaRe as discussed in Note 3 - "Acquisitions", which resulted in the recognition of goodwill of \$41.7 million, none of which is amortizable for tax purposes. For the year ended December 31, 2018, we completed our assessment for impairment of goodwill and concluded that there had been no impairment of our carried goodwill amount.

**Intangible Assets**

*Intangible assets with a definite life* includes the distribution channel, technology and brand related to our acquisitions of Atrium and StarStone. These assets are amortized on a straight-line basis over a period ranging from four to fifteen years. The following table provides a summary of the amortization recorded on the intangible assets for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Intangible asset amortization	\$ 3,600	\$ 4,266	\$ 6,449

*Intangible assets with an indefinite life* includes assets associated with the Lloyd's syndicate capacity for StarStone and Atrium, StarStone's 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 CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The gross carrying value, accumulated amortization and net carrying value of intangible assets by type as of December 31, 2018 and 2017 was as follows:

	2018			2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets with a definite life:						
Distribution channel	\$ 20,000	\$ (6,776)	\$ 13,224	\$ 20,000	\$ (5,444)	\$ 14,556
Technology	15,000	(14,778)	222	15,000	(13,210)	1,790
Brand	7,000	(3,559)	3,441	7,000	(2,859)	4,141
Total	<u>\$ 42,000</u>	<u>\$ (25,113)</u>	<u>\$ 16,887</u>	<u>\$ 42,000</u>	<u>\$ (21,513)</u>	<u>\$ 20,487</u>
Intangible assets with an indefinite life:						
Lloyd's syndicate capacity	\$ 37,031	—	\$ 37,031	\$ 37,031	—	\$ 37,031
Licenses	19,900	—	19,900	19,900	—	19,900
Management contract	30,100	—	30,100	30,100	—	30,100
Total	<u>\$ 87,031</u>	<u>\$ —</u>	<u>\$ 87,031</u>	<u>\$ 87,031</u>	<u>\$ —</u>	<u>\$ 87,031</u>

The net carrying value of intangible assets by segment and by type as of December 31, 2018 and 2017 was as follows:

	2018			2017		
	Atrium	StarStone	Total	Atrium	StarStone	Total
Intangible assets with a definite life:						
Distribution channel	\$ 13,224	\$ —	\$ 13,224	\$ 14,556	\$ —	\$ 14,556
Technology	—	222	222	—	1,790	1,790
Brand	3,441	—	3,441	4,141	—	4,141
Total	<u>\$ 16,665</u>	<u>\$ 222</u>	<u>\$ 16,887</u>	<u>\$ 18,697</u>	<u>\$ 1,790</u>	<u>\$ 20,487</u>
Intangible assets with an indefinite life:						
Lloyd's syndicate capacity	\$ 33,031	\$ 4,000	\$ 37,031	\$ 33,031	\$ 4,000	\$ 37,031
Licenses	—	19,900	19,900	—	19,900	19,900
Management contract	30,100	—	30,100	30,100	—	30,100
Total	<u>\$ 63,131</u>	<u>\$ 23,900</u>	<u>\$ 87,031</u>	<u>\$ 63,131</u>	<u>\$ 23,900</u>	<u>\$ 87,031</u>
Total intangible assets	<u>\$ 79,796</u>	<u>\$ 24,122</u>	<u>\$ 103,918</u>	<u>\$ 81,828</u>	<u>\$ 25,690</u>	<u>\$ 107,518</u>

The estimated future amortization expense related to our intangible assets with a definite life is as follows:

Year	Atrium	StarStone	Total
2019	\$ 2,033	\$ 222	\$ 2,255
2020	2,033	—	2,033
2021	2,033	—	2,033
2022	2,033	—	2,033
2023	1,975	—	1,975
2024 and thereafter	6,558	—	6,558
Total amortization	<u>\$ 16,665</u>	<u>\$ 222</u>	<u>\$ 16,887</u>

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

**15. DEBT OBLIGATIONS AND CREDIT FACILITIES**

We primarily utilize debt facilities for acquisitions and significant new business and, from time to time, for general corporate purposes. Under these facilities, debt obligations as of December 31, 2018 and 2017 were as follows:

Facility	Origination Date	Term	2018		2017	
Senior Notes	March 10, 2017	5 years	\$	348,054	\$	347,516
EGL Revolving Credit Facility	August 16, 2018	5 years		15,000		—
Previous EGL Revolving Credit Facility	September 16, 2014	5 years		—		225,110
2018 EGL Term Loan Facility	December 27, 2018	3 years		498,485		—
2016 EGL Term Loan Facility	November 18, 2016	3 years		—		74,063
Total debt obligations			\$	861,539	\$	646,689

During the year ended December 31, 2018, we utilized \$1,132.5 million and repaid \$914.3 million under our facilities. The facilities were primarily utilized for funding acquisitions as described in Note 3 - "Acquisitions", significant new business as described in Note 4 - "Significant New Business", and investing activities.

The table below provides a summary of the total interest expense for the years ended December 31, 2018, 2017 and 2016:

	2018		2017		2016	
Interest expense on debt obligations	\$	25,742	\$	26,035	\$	20,349
Funds withheld balances and other		475		2,067		293
Total interest expense	\$	26,217	\$	28,102	\$	20,642

**Senior Notes**

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

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

We incurred costs of \$2.9 million in issuing the Notes. These costs included underwriters' fees, legal and accounting fees, and other fees, and are capitalized and presented as a direct deduction from the principal amount of debt obligations in the consolidated balance sheets. These costs are amortized over the term of the Notes and are included in interest expense in our consolidated statements of earnings. The unamortized costs as of December 31, 2018 and 2017 were \$1.9 million and \$2.5 million, respectively.

**EGL Revolving Credit Facility**

On August 16, 2018, we and certain of our subsidiaries, as borrowers and guarantors, entered into a new five-year unsecured \$600.0 million revolving credit agreement. The revolving credit agreement expires in August 2023 and we have the option to increase the commitments under the facility by up to an aggregate amount of \$400.0 million from the existing lenders, or through the addition of new lenders subject to the terms of the agreement. Borrowings under the facility will bear interest at a rate based on the Company's long term senior unsecured debt ratings. In connection with our entry into this revolving credit agreement, we terminated and fully repaid our previous revolving credit agreement, which was originated on September 16, 2014 and was most recently amended on July 17, 2018.

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

As at December 31, 2018, we were permitted to borrow up to an aggregate of \$600.0 million under the facility. As at December 31, 2018, there was \$585.0 million of available unutilized capacity under the facility. Subsequent to December 31, 2018, we drew down \$173.0 million and repaid \$46.0 million, bringing the unutilized capacity under this facility to \$458.0 million.

Interest is payable at least every three months at either the alternate base rate ("ABR") or LIBOR plus a margin as set forth in the revolving credit agreement. The margin could vary based upon any change in our long term senior unsecured debt rating assigned by S&P or Fitch. We also pay a commitment fee based on the average daily unutilized portion of the facility. During the existence of an event of default, the interest rate may increase and the agent may, and at the request of the required lenders shall, cancel lender commitments and demand early repayment.

Financial and business covenants imposed on us in relation to the new revolving credit facility include certain limitations on mergers and consolidations, acquisitions, indebtedness and guarantees, restrictions as to dispositions of stock and assets, and limitations on liens. Generally, the financial covenants require us to maintain a gearing ratio of consolidated indebtedness to total capitalization of not greater than 0.35 to 1.0 and to maintain a consolidated net worth of not less than the aggregate of (i) \$2.3 billion, (ii) 50% of net income available for distribution to our ordinary shareholders at any time after August 16, 2018, and (iii) 50% of the proceeds of any common stock issuance made after August 16, 2018. In addition, we must maintain eligible capital in excess of the enhanced capital requirement imposed on us by the Bermuda Monetary Authority pursuant to the Insurance (Group Supervision) Rules 2011 of Bermuda. We are in compliance with the covenants of the EGL Revolving Credit Facility.

As at December 31, 2018 and December 31, 2017, there were borrowings of €nil (\$nil) and €50.0 million (approximately \$60.1 million), respectively, under our revolving credit facilities in effect as of such dates that were designated as non-derivative hedges of our net investment in certain subsidiaries whose functional currency is denominated in Euros. These borrowings were repaid in full during the three months ended September 30, 2018 and the non-derivative hedge was replaced by a Euro-denominated foreign currency forward exchange rate contract in a qualifying hedging arrangement. Refer to Note 7 - "Derivatives and Hedging Instruments" for more information on our derivative and non-derivative hedging instruments.

#### ***2018 EGL Term Loan Facility***

On December 27, 2018, we entered into and fully utilized a three-year \$500.0 million unsecured term loan (the "2018 EGL Term Loan Facility"). The proceeds were partially used to fund the acquisition of Maiden Re North America. We have the option to increase the principal amount of the term loan credit facility up to an aggregate amount of \$150 million from the existing lenders or through the addition of new lenders, subject to the terms of the term loan credit agreement.

Interest is payable at least every three months at either ABR or LIBOR plus a margin set forth in the term loan credit agreement. The margin could vary based upon any change in our long term senior unsecured debt rating assigned by S&P or Fitch. During the existence of an event of default, the interest rate may increase and the agent may, and at the request of the required lenders shall, demand early repayment.

Financial and business covenants imposed on us, in relation to the new term loan credit facility, include certain limitations on mergers, consolidations, acquisitions, indebtedness and guarantees, restrictions on dividends, and limitations on liens. Generally, the financial covenants require us to maintain a gearing ratio of consolidated indebtedness to total capitalization of not greater than 0.35 to 1.0 and to maintain a consolidated net worth of not less than the aggregate of (i) \$2.3 billion, (ii) 50% of net income available for distribution to our ordinary shareholders at any time after August 16, 2018, and (iii) 50% of the proceeds of any common stock issuance made after August 16, 2018. In addition, we must maintain eligible capital in excess of the enhanced capital requirement imposed on us by the Bermuda Monetary Authority pursuant to the Insurance (Group Supervision) Rules 2011 of Bermuda. We are in compliance with the covenants of the 2018 EGL Term Loan Facility.

We incurred costs of \$1.5 million associated with closing the 2018 EGL Term Loan Facility. These costs included bank, legal and accounting fees, and other fees, and are capitalized and presented as a direct deduction from the principal amount of debt obligations in the consolidated balance sheets. These costs are amortized over the term of the facility and are included in interest expense in our consolidated statements of earnings. The unamortized costs as of December 31, 2018 were \$1.5 million.

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**2016 EGL Term Loan Facility**

On November 18, 2016, we entered into and fully utilized a three-year \$75.0 million unsecured term loan (the "2016 EGL Term Loan Facility"). We fully repaid this facility in the second quarter of 2018 and subsequently terminated it.

**Unsecured Letters of Credit**

We also utilize unsecured letters of credit for Funds at Lloyd's. On February 8, 2018, we amended and restated our unsecured letter of credit agreement for Funds at Lloyd's ("FAL Facility") to issue up to \$325.0 million of letters of credit, with provision to increase the facility up to \$400.0 million, subject to lenders approval. Subsequent to year end, on February 12, 2019, we increased the facility up to \$375.0 million and maintained the provision to increase the facility to \$400.0 million. The FAL Facility is available to satisfy our Funds at Lloyd's requirements and expires in 2022. As at December 31, 2018, our combined Funds at Lloyd's were comprised of cash and investments of \$354.6 million and unsecured letters of credit of \$295.0 million.

**16. NONCONTROLLING INTEREST**

We have both redeemable noncontrolling interest and noncontrolling interest on our consolidated balance sheets. Redeemable noncontrolling interest with redemption features that are not solely within our control are classified within temporary equity in the consolidated balance sheets and carried at redemption value, which is fair value. The change in fair value is recognized through retained earnings as if the balance sheet date were also the redemption date. In addition, we also have noncontrolling interest, which does not have redemption features and is classified within equity in the consolidated balance sheets.

**Redeemable Noncontrolling Interest**

Redeemable noncontrolling interest ("RNCI") as of December 31, 2018 and 2017 comprises the ownership interests held by Trident V Funds ("Trident") (39.3%) and Dowling Capital Partners, L.P. ("Dowling") (1.7%) in our subsidiary North Bay Holdings Limited ("North Bay"). North Bay owns our investments in Atrium and StarStone.

The following is a reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Balance at beginning of year	\$ 479,606	\$ 454,522
Capital contributions	55,377	—
Dividends paid	(3,852)	(27,458)
Net earnings attributable to RNCI	(64,794)	19,619
Accumulated other comprehensive income (loss) attributable to RNCI	(240)	1,945
Change in redemption value of RNCI	(7,554)	30,978
Balance at end of year	<u>\$ 458,543</u>	<u>\$ 479,606</u>

We carried the RNCI at its estimated redemption value, which is fair value, as of December 31, 2018. The fair value is based on tangible book value and a valuation multiple derived from a combination of comparable company market valuations, recent comparable transaction multiples and discounted cash flow models. The decrease in the fair value of the RNCI during 2018 was primarily attributable to a decrease in tangible net assets due to net losses relating to StarStone during 2018 and the distribution of Atrium dividends during the year ended December 31, 2018, which were partially offset by a capital contribution to StarStone and net earnings from Atrium. The valuation multiples did not change significantly.

Refer to Note 2 - "Significant Accounting Policies", Note 21 - "Related Party Transactions" and Note 23 - "Commitments and Contingencies" for additional information regarding RNCI.

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**Noncontrolling Interest**

As of December 31, 2018 and 2017, we had \$12.1 million and \$9.3 million, respectively, of noncontrolling interest ("NCI") primarily related to an external interest in two of our non-life run-off subsidiaries. A reconciliation of the beginning and ending carrying amount of the equity attributable to NCI is included in the Consolidated Statement of Changes in Shareholders Equity.

**17. SHARE CAPITAL**

As at December 31, 2018 and 2017, the authorized share capital was 111,000,000 ordinary shares ("Voting Ordinary Shares") and non-voting convertible ordinary shares ("Non-Voting Ordinary Shares"), each of par value \$1.00 per share, and 45,000,000 preferred shares of par value \$1.00 per share.

**Voting Ordinary Shares**

The Voting Ordinary Shares are listed and trade on the NASDAQ Global Select Market. Each Voting Ordinary Share entitles the holder thereof to one vote. In accordance with the bye-laws, 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 is entitled to less than one vote for each Voting Ordinary Share held by it. On May 14, 2018, 1,501,778 Voting Ordinary Shares were issued as consideration for the acquisition of KaylaRe Holdings Ltd, as described in Note 3 - "Acquisitions".

**Non-Voting Ordinary Shares**

The Non-Voting Ordinary Shares are comprised of several different series as of December 31, 2018:

- the Series A shares were canceled in June 2016 in an internal reorganization as described below.
- the Series C shares were originally issued in connection with investment transactions in April and December of 2011. In addition, there were 66,520 Series C Non-Voting Ordinary Shares issued in March 2017 in connection with the exercise of warrants as described below. The Series C shares: (i) have all of the economic rights (including dividend rights) attaching to Voting Ordinary Shares but are non-voting except in certain limited circumstances; (ii) 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; (iii) may only vote on certain limited matters that would constitute a variation of class rights and as required under Bermuda law, provided that the aggregate voting power of the Series C shares with respect to any merger, consolidation or amalgamation will not exceed 0.01% of the aggregate voting power of our issued share capital; and (iv) require the registered holders' written consent in order to vary the rights of the shares in a significant and adverse manner. During the three months ended March 31, 2017, 192,485 Series C Non-Voting Ordinary Shares were converted into Voting Ordinary Shares in a widely dispersed offering by their registered holders.
- the Series B and Series D shares were created in connection with the 2011 investment transactions, but no shares in these series are issued and outstanding. Holders of the Series C shares have the right to convert such shares, on a share-for-share basis, subject to certain adjustments, into Series D shares at their option. There is no economic difference in Series B, C or D shares, but there are slight differences in the conversion rights and the limited voting rights of each series.
- there were 910,010 Series E shares issued and outstanding as of December 31, 2018. There were 714,015 Series E shares originally issued and outstanding in connection with the acquisition of StarStone. During 2015, 309,244 of the previously issued and outstanding Series E shares were converted into Voting Ordinary Shares upon market sales by their registered holders constituting a widely dispersed offering. On May 14, 2018, 505,239 Series E non-voting shares were issued as consideration for the acquisition of KaylaRe Holdings Ltd, as described in Note 3 - "Acquisitions". The Series E shares have substantially the same rights as the Series C shares, except that (i) they are convertible only into Voting Ordinary Shares and (ii) they may only vote as required under Bermuda law. The Series E shares include all other Non-Voting Ordinary Shares authorized under our bye-laws but not classified as Series A, B, C or D Non-Voting Ordinary Shares.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Series C Preferred Shares**

As of December 31, 2018, there were 388,571 Series C Participating Non-Voting Perpetual Preferred Stock ("Series C Preferred Shares") issued and held by one of our wholly-owned subsidiaries. The Series C Preferred Shares were issued in June 2016 in an internal reorganization transaction that resulted in the cancellation of all of the Series A Shares, which had an equivalent value and were also previously held by our wholly-owned subsidiary. The Series C Preferred Shares (i) upon liquidation, dissolution or winding up of the Company, entitle their holders to a preference over holders of our ordinary voting and non-voting shares of an amount equal to \$0.001 per share with respect to surplus assets and (ii) are non-voting except in certain limited circumstances. The Series C Preferred shares have dividend rights equal to those of the ordinary voting shares, subject to certain limitations and in an amount determined by a "participation rate" that is generally reflective of the reduction in the number of Series C Preferred Shares issued in exchange for the previously outstanding Series A Shares. The Series C Preferred Shares otherwise rank on parity with the ordinary voting and non-voting shares, and they rank senior to each other class or series of share capital, unless the terms of any such class or series shall expressly provide otherwise.

**Series D Preferred Shares**

On June 28, 2018, the Company raised \$400.0 million of gross proceeds through the public offering of 16,000 shares of its 7.00% non-cumulative fixed-to-floating rate Series D perpetual preferred shares ("Series D Preferred Shares") (equivalent to 16,000,000 depositary shares, each of which represents a 1/1,000th interest in a Series D Preferred Share), \$1.00 par value and \$25,000 liquidation preference (the "Liquidation Preference") per share (equivalent to \$25.00 per depositary share). After underwriting discounts and other expenses, the Company received net proceeds of \$389.2 million which was used to repay a portion of amounts outstanding under the EGL Revolving Credit Facility and repay in full the EGL Term Loan Facility. The depositary shares are listed and trade on the NASDAQ Global Select Market.

The Series D Preferred Shares are not redeemable prior to September 1, 2028, except in specified circumstances relating to certain tax, corporate, capital or rating agency events as described in the prospectus supplement relating to the offering. On and after September 1, 2028, the Series D Preferred Shares, represented by the depositary shares, will be redeemable at the Company's option, in whole or from time to time in part, at a redemption price equal to \$25,000 per Series D Preferred Share (equivalent to \$25.00 per depositary share), plus any declared and unpaid dividends.

**Series E Preferred Shares**

On November 21, 2018, the Company raised \$110.0 million of gross proceeds through the public offering of 4,400 shares of its 7.00% fixed rate non-cumulative Series E perpetual preferred shares ("Series E Preferred Shares") (equivalent to 4,400,000 depositary shares, each of which represents a 1/1,000th interest in a Series E Preferred Share), \$1.00 par value and \$25,000 liquidation preference (the "Series E Liquidation Preference") per share (equivalent to \$25.00 per depositary share). After underwriting discounts and other expenses, the Company received net proceeds of \$106.1 million which was used to fund operations within our Non-life Run-off segment. The depositary shares are listed and trade on the NASDAQ Global Select Market.

The Series E Preferred Shares are not redeemable prior to March 1, 2024, except in specified circumstances relating to certain tax, corporate, capital or rating agency events as described in the prospectus supplement relating to the offering. On and after March 1, 2024, the Series D Preferred Shares, represented by the depositary shares, will be redeemable at the Company's option, in whole or from time to time in part, at a redemption price equal to \$25,000 per Series D Preferred Share (equivalent to \$25.00 per depositary share), plus any declared and unpaid dividends.

**Warrants**

As of December 31, 2018, there were warrants outstanding to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of \$115.00 per share, subject to certain adjustments (the "Warrants"). The Warrants were issued in April 2011 and expire in April 2021. The Warrant holder may, at its election, satisfy the exercise price of the Warrants on a cashless basis by surrender of shares otherwise issuable upon exercise of the Warrants in accordance with a formula set forth in the Warrants. During December 2016, 164,919 Warrants were exercised on a cashless basis, resulting in the issuance of 66,520 Series C Non-Voting Ordinary Shares.

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

**Dividends**

There were no dividends declared or paid on our ordinary shares during the year ended December 31, 2018, 2017 or 2016.

Holders of Series D and Series E Preferred Shares are entitled to receive, only when, as and if declared, non-cumulative cash dividends, paid quarterly in arrears on the 1st day of March, June, September and December of each year, commencing on September 1, 2018 for the Series D Preferred Shares and March 1, 2019 for the Series E Preferred Shares, of 7.00% per annum. Commencing on September 1, 2028, the Series D Preferred Shares will convert to a floating rate basis and dividends will be payable on a non-cumulative basis, when, as and if declared, at three-month LIBOR plus 4.015% per annum. Dividends that are not declared will not accumulate and will not be payable.

The following table presents the dividends that have been declared and payable on our Series D and E Preferred Shares from January 1, 2018 to March 1, 2019:

Preferred Share Series	Date Declared	Record Date	Date Payable	Dividend per:		Total Dividends Paid in 2018
				Preferred Share	Depositary Share	
Series D	July 31, 2018	August 15, 2018	September 1, 2018	\$ 320.83	\$ 0.32083	\$ 5,133
Series D	November 6, 2018	November 15, 2018	December 1, 2018	\$ 437.50	\$ 0.43750	7,000
Series D	February 21, 2019	February 15, 2019	March 1, 2019	\$ 437.50	\$ 0.43750	—
Series E	February 21, 2019	February 15, 2019	March 1, 2019	\$ 486.11	\$ 0.48611	—
						\$ 12,133

Any payment of dividends must be approved by our Board of Directors. Our ability to pay dividends is subject to certain restrictions, as described in Note 22 - "Dividend Restrictions and Statutory Financial Information".

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

**18. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
<b>Numerator:</b>			
Net earnings (loss) from continuing operations	\$ (162,354)	\$ 300,465	\$ 252,844
Net earnings from discontinued operations, net of income taxes	—	10,993	11,963
Net earnings (loss) attributable to Enstar Group Limited	<u>\$ (162,354)</u>	<u>\$ 311,458</u>	<u>\$ 264,807</u>
<b>Denominator:</b>			
Weighted-average ordinary shares outstanding — basic	20,698,310	19,388,621	19,299,426
Effect of dilutive securities:			
Share-based compensation plans	129,746	62,732	48,428
Warrants	76,120	76,238	99,387
Weighted-average ordinary shares outstanding — diluted	<u>20,904,176</u>	<u>19,527,591</u>	<u>19,447,241</u>
<b>Earnings per share attributable to Enstar Group Limited:</b>			
<b>Basic:</b>			
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.50	\$ 13.10
Net earnings from discontinued operations, net of income taxes	—	0.56	0.62
Net earnings (loss) per ordinary share	<u>\$ (7.84)</u>	<u>\$ 16.06</u>	<u>\$ 13.72</u>
<b>Diluted<sup>(1)</sup>:</b>			
Net earnings (loss) from continuing operations	\$ (7.84)	\$ 15.39	\$ 13.00
Net earnings from discontinued operations, net of income taxes	—	0.56	0.62
Net earnings (loss) per ordinary share	<u>\$ (7.84)</u>	<u>\$ 15.95</u>	<u>\$ 13.62</u>

<sup>(1)</sup> During a period of loss, the basic weighted average ordinary shares outstanding is used in the denominator of the diluted loss per ordinary share computation as the effect of including potentially dilutive securities would be anti-dilutive.

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

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

***Share-based compensation***

Employee share awards have been granted under the 2016 and 2006 Equity Incentive Plans. The table below provides a summary of the compensation costs for share-based compensation plans for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Restricted shares and restricted share units	\$ 7,641	\$ 7,302	\$ 2,950
Performance share units	1,968	5,832	—
Cash-settled stock appreciation rights	(3,316)	8,875	35,626
Total share-based compensation costs	<u>\$ 6,293</u>	<u>\$ 22,009</u>	<u>\$ 38,576</u>

***Restricted Shares and Restricted Share Units***

Restricted shares and restricted share units are service awards that typically vest over three to four years. These awards are share-settled and are recorded in additional paid-in capital on the consolidated balance sheets. The fair value of these awards is measured at the grant date and expensed over the service period. The following table summarizes the activity related to restricted shares and restricted share awards during 2018:

	Number of Shares	Weighted-Average Share Price of Award
Nonvested — January 1	99,305	\$ 187.84
Granted	3,991	214.37
Vested	(42,000)	184.38
Forfeited	(1,360)	194.16
Nonvested — December 31	<u>59,936</u>	<u>191.89</u>

The unrecognized compensation cost related to our non-vested share awards as at December 31, 2018 was \$4.7 million. This cost is expected to be recognized over the next 1.32 years, which is the weighted average contractual life of the awards.

***Performance Share Units ("PSUs")***

PSUs are share-settled and vest on the third anniversary of the grant date. The number of shares to vest will be determined by a performance adjustment based on the change in fully diluted book value per share ("FDBVPS") over three years, based upon the following award terms:

Grant Year	PSUs Granted at Target	Nonvested Units As of December 31, 2018	Change in FDBVPS (3 - year)		
			Threshold	Target	Maximum
2017	36,321	34,878	20.00%	30.00%	40.00%
2017	91,875	91,875	30.30%	35.70%	41.00%
2018	39,682	32,415	25.00%	32.50%	40.00%
	<u>167,878</u>	<u>159,168</u>			

An increase of Target to Maximum or more in FDBVPS results in a settlement of 100% to a maximum of 150% of the units granted, respectively. An increase of Threshold to Target in FDBVPS results in a settlement of 50% to 100% of the units granted, respectively. Straight-line interpolation applies within these ranges and no settlement occurs if the increase in FDBVPS is less than the Threshold. For expense purposes we assume a Target vesting at the initial time of award. As of December 31, 2018, we revised the expected vesting level to Threshold on all PSU awards.

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

The following table summarizes the activity related to PSUs during 2018:

	Number of Shares	Weighted-Average Share Price of Award
Nonvested — January 1	126,753	\$ 188.06
Granted	39,682	200.87
Vested	(407)	199.70
Forfeited	(6,860)	198.55
Nonvested — December 31	159,168	190.77

The unrecognized compensation cost related to our non-vested share awards as at December 31, 2018 was \$7.7 million. This cost is expected to be recognized over the next 1.64 years, which is the weighted average contractual life of the awards.

*Cash-Settled Stock Appreciation Rights*

Cash-settled stock appreciation right awards ("SARs") give the holder the right, upon exercise, to receive in cash the difference between the market price per share of our ordinary shares at the time of exercise and the exercise price of the SARs. The exercise price of each SAR is equal to the market price of our ordinary shares on the date of the grant. Vested SARs are exercisable for periods not to exceed either 4 years or 10 years from the date of grant.

The following table summarizes the activity related to SARs during 2018:

	Number of SARs	Weighted- Average Exercise Price of SARs	Weighted Average Expected Term (in years)	Aggregate Intrinsic Value <sup>(1)</sup>
Balance, beginning of year	310,867	\$ 141.30		
Exercised	(201,786)	140.72		
Balance, end of year	109,081	142.37	2.88	\$ 3,244

<sup>(1)</sup> 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 our ordinary shares of \$167.57 on December 31, 2018.

Compensation expense for SARs is 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. The unrecognized compensation cost related to our SARs as at December 31, 2018 was less than \$0.1 million.

The following table sets forth the assumptions used to estimate the fair value of the SARs using the Black-Scholes option valuation model as of December 31, 2018, 2017 and 2016:

	2018	2017	2016
Weighted-average fair value per SAR	\$ 45.85	\$ 75.38	\$ 62.39
Weighted-average volatility	18.94%	19.44%	19.82%
Weighted-average risk-free interest rate	2.72%	1.65%	1.12%
Dividend yield	0.00%	0.00%	0.00%

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

**Other share-based compensation plans**

*Northshore Incentive Plan*

Our subsidiary, Northshore, has long-term incentive plans that award time-based restricted shares of Northshore to certain Atrium employees. Shares generally vest over two to three years. These share awards have been classified as liability awards. The unrecognized compensation cost related to the Northshore incentive plan at December 31, 2018 was \$4.1 million. This cost is expected to be recognized over the next 0.87 years, which is the weighted average contractual life of the awards.

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Compensation costs	\$ 2,792	\$ 3,156	\$ 2,827

*Deferred Compensation and Ordinary Share Plan for Non-Employee Directors*

The following table summarizes the expenses related to restricted share units and the number of units outstanding for the years ended December 31, 2018, 2017 and 2016 under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors (the "Deferred Compensation Plan"):

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Restricted share units expense	\$ 823	\$ 758	\$ 696
Restricted share units credited to the accounts of non-employee directors	3,975	3,852	4,298

*Employee Share Purchase Plan*

The following table summarizes the expenses related to the Employee Share Purchase Plan and the number of shares issued to employees for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Compensation costs	\$ 430	\$ 403	\$ 306
Number of units issued to employees	14,183	12,401	12,234

**Pension Plans**

We provide retirement benefits to eligible employees through various plans that we sponsor. Pension expense can be affected by changes in our employee headcount. The table below summarizes the pension expenses related to our Defined Contribution Plans and our Defined Benefit Plan for the years ended December 31, 2018, 2017 and 2016.

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Defined contribution plans	\$ 11,434	\$ 12,247	\$ 10,810
Defined benefit plan	2,243	1,988	2,273
Total pension expense	<u>\$ 13,677</u>	<u>\$ 14,235</u>	<u>\$ 13,083</u>

*Defined Benefit Plan*

During 2018, an actuarial review was performed on the defined benefit plan, which determined that the plan's unfunded liability, as of December 31, 2018 and 2017 was \$8.4 million and \$9.4 million, respectively. As of December 31, 2018 and 2017, we had an accrued liability of \$8.4 million and \$9.4 million, respectively, for this plan.

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

**20. INCOME TAXATION**

Enstar Group Limited is incorporated under the laws of Bermuda and under Bermuda law is not required to pay taxes in Bermuda based upon income or capital gains. The Company, under the Exempted Undertakings Tax Protection Act of 1966, is protected against any legislation that may be enacted in Bermuda which would impose any tax on profits, income, or gain until March 31, 2035.

We have foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. Deferred tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. If the earnings were to be distributed, as dividends or other distributions, withholding taxes may be imposed by the jurisdiction of the paying subsidiary. For our U.S. subsidiaries, we have not currently accrued any withholding taxes with respect to unremitted earnings as management has indefinitely reinvested these earnings. For our United Kingdom subsidiaries, there are no withholding taxes imposed. For our other foreign subsidiaries, it would not be practicable to compute such amounts due to a variety of factors, including the amount, timing, and manner of any repatriation. Because we operate in many jurisdictions, our net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which we operate.

The following table presents earnings before taxes by jurisdiction from continuing operations, including earnings (loss) from equity method investments, for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Domestic (Bermuda)	\$ (232,743)	\$ 167,263	\$ 191,647
Foreign	14,347	147,148	135,677
Total earnings (loss) before income tax on continuing operations	<u>\$ (218,396)</u>	<u>\$ 314,411</u>	<u>\$ 327,324</u>

The following table presents our current and deferred income tax expense (benefit) from continuing operations by jurisdiction for the years ended December 31, 2018, 2017 and 2016:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current:			
Domestic (Bermuda)	\$ —	\$ —	\$ —
Foreign	(3,632)	10,299	21,485
	<u>(3,632)</u>	<u>10,299</u>	<u>21,485</u>
Deferred:			
Domestic (Bermuda)	—	—	—
Foreign	(2,492)	(16,694)	13,389
	<u>(2,492)</u>	<u>(16,694)</u>	<u>13,389</u>
Total income tax expense (benefit) on continuing operations	<u>\$ (6,124)</u>	<u>\$ (6,395)</u>	<u>\$ 34,874</u>

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

The actual income tax rate differs from the amount computed by applying the statutory rate of 0% under Bermuda law to earnings from continuing operations before income taxes, including earnings (loss) from equity method investments for the years ended December 31, 2018, 2017 and 2016 as shown in the following reconciliation:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Earnings (loss) before income tax	\$ (218,396)	\$ 314,411	\$ 327,324
Bermuda income taxes at statutory rate	0.0 %	0.0 %	0.0 %
Foreign income tax rate differential	0.7 %	13.1 %	8.8 %
Change in valuation allowance	(0.3)%	(34.9)%	(0.1)%
Effect of change in foreign (U.S.) tax rate	— %	20.3 %	— %
U.S. base erosion and anti-abuse tax	(0.6)%	— %	— %
Other	3.0 %	(0.5)%	2.0 %
Effective tax rate	2.8 %	(2.0)%	10.7 %

Our effective tax rate is generally driven by the geographical distribution of our pre-tax net earnings between our taxable and non-taxable jurisdictions.

**Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities reflect the tax effect of the differences between the financial reporting and income tax bases of assets and liabilities. Significant components of the deferred tax assets and deferred tax liabilities related to our continuing operations as of December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 183,633	\$ 177,695
Insurance reserves	18,677	9,082
Unearned premiums	11,314	1,690
Lloyd's underwriting losses taxable in future periods	6,201	9,131
Provisions for bad debt	2,594	6,371
Unrealized losses on investments	5,160	—
Other deferred tax assets	183	1,944
Gross deferred tax assets	227,762	205,913
Valuation allowance	(212,113)	(188,300)
Deferred tax assets	15,649	17,613
<b>Deferred tax liabilities:</b>		
Unrealized gains on investments	—	(3,798)
Other deferred tax liabilities	(16,067)	(16,076)
Deferred tax liabilities	(16,067)	(19,874)
<b>Net deferred tax liability</b>	<b>\$ (418)</b>	<b>\$ (2,261)</b>

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

**Net Deferred Tax Liability balance for continuing operations by major jurisdiction:**

	December 31,			
	2018		2017	
	Net Deferred Tax Liability		Net Deferred Tax Liability	
United States	\$	5,151	\$	4,947
United Kingdom		(8,377)		(5,150)
Other		2,808		(2,058)
<b>Total</b>	<b>\$</b>	<b>(418)</b>	<b>\$</b>	<b>(2,261)</b>

As of December 31, 2018, we had net operating loss carryforwards that could be available to offset future taxable income, as follows:

Tax Jurisdiction	Loss Carryforwards		Tax effect		Expiration
<b>Operating and Capital Loss Carryforwards:</b>					
United States - Net operating loss	\$	522,116	\$	109,644	2030-2038
United States - Capital loss		15,160		3,191	2021-2023
United Kingdom		248,448		47,205	None
Other		96,418		23,593	None

The U.S. net operating loss carryforwards are also subject to certain utilization limitations based upon their nature and the specific legal entity that holds them.

**Impact of U.S. Tax Reform**

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act resulted in a reduction of the U.S. Federal Tax rate to 21% from 35% effective for tax years beginning after December 31, 2017. Consequently, we recorded a \$63.8 million reduction of our U.S. deferred tax asset in 2017. The Tax Act also repealed the corporate AMT. Taxpayers with AMT credit carryovers in excess of their tax liability may have the credits refunded over multiple years between 2018 and 2022.

As of December 31, 2018, we completed our accounting for the tax effects of the enactment of the Tax Cuts Jobs Act; however, the United States Treasury may continue to issue regulations that could have a material financial statement impact on our effective tax rate in future periods.

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

As of December 31, 2018 and 2017, we had deferred tax asset valuation allowances of \$212.1 million and \$188.3 million, respectively, related to foreign subsidiaries. We recorded an increase of \$23.8 million in our deferred tax valuation allowance for continuing operations during 2018. The deferred tax asset valuation allowances increased primarily due to deferred tax assets acquired during the year.

The realization of deferred tax assets is dependent on generating sufficient taxable income in future periods in which the tax benefits are deductible or creditable. The amount of the deferred tax asset considered realizable, however, could be revised in the future if estimates of future taxable income change. Taxes are determined and assessed jurisdictionally by legal entity or by filing group. Certain jurisdictions require or allow combined or consolidated tax filings. We have estimated future taxable income of our foreign subsidiaries and provided a valuation allowance in respect of those assets where we do not expect to realize a benefit. We have considered all available evidence using a "more likely than not" standard in determining the amount of the valuation allowance. We considered the following evidence: (i) net earnings or losses in recent years; (ii) the future sustainability and likelihood of positive net earnings of our subsidiaries; (iii) the carryforward periods of tax losses including the effect of reversing temporary differences; and (iv) tax planning strategies, in making our determination. The assumptions used in determining future taxable income require significant judgment and any changes in these assumptions could have an impact on earnings.

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

***Uncertainty in Income Taxes***

During the years ended December 31, 2018, 2017 and 2016, there were no unrecognized tax benefits. There were no accruals for the payment of interest and penalties related to unrecognized tax benefits as at December 31, 2018, 2017 and 2016.

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. Tax authorities may propose adjustments to our income taxes. Listed below are the tax years that remain subject to examination by a major tax jurisdiction as of December 31, 2018:

<b>Major Tax Jurisdiction</b>	<b>Open Tax Years</b>
United States	2015-2018
United Kingdom	2015-2018
Australia	2013-2018

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

**21. RELATED PARTY TRANSACTIONS**

***Stone Point Capital LLC***

Through several private transactions occurring from May 2012 to July 2012 and an additional private transaction that closed in May 2018, investment funds managed by Stone Point Capital LLC ("Stone Point") have acquired an aggregate of 1,635,986 of our Voting Ordinary Shares (which now constitutes approximately 9.1% of our outstanding Voting Ordinary Shares). On November 6, 2013, we appointed James D. Carey to our Board of Directors. Mr. Carey is the sole member of an entity that is one of four general partners of the entities serving as general partners for Trident, is a member of the investment committees of such general partners, and is a member and senior principal of Stone Point, the manager of the Trident funds.

In addition, we have entered into certain agreements with Trident with respect to Trident's co-investments in the Atrium, Arden, and StarStone acquisitions. These include investors' agreements and shareholders' agreements, which provide for, among other things: (i) our right to redeem Trident's equity interest in the Atrium/Arden and StarStone transactions in cash at fair market value within the 90 days following September 6, 2018 and April 1, 2019, respectively, and at any time following September 6, 2020 and April 1, 2021, respectively; and (ii) Trident's right to have its equity co-investment interests in the Atrium/Arden and StarStone transactions redeemed by us at fair market value (which we may satisfy in either cash or our ordinary shares) following September 6, 2020 and April 1, 2021, respectively. We did not exercise our right to redeem Trident's equity interest in Atrium/Arden during the 90 days following September 6, 2018. Pursuant to the terms of the shareholders' agreements, Mr. Carey serves as a Trident representative on the boards of the holding companies, including North Bay Holdings Limited ("North Bay"), established in connection with the Atrium/Arden and StarStone co-investment transactions. Trident also has a second representative on these boards who is a Stone Point employee.

On December 26, 2018, the shareholders of North Bay completed a transaction to provide capital support to StarStone in the form of a contribution to its contributed surplus account and a loss portfolio transfer of certain discontinued and discontinuing lines of business. To fund the transaction, the North Bay shareholders contributed an aggregate amount of \$135.0 million to North Bay in proportion to their ownership interests. Trident's proportionate contribution of \$53.1 million was temporarily funded by North Bay and is expected to be reimbursed in the first quarter of 2019, subject to the terms and conditions of the reimbursement agreement executed by the parties.

As at December 31, 2018 and December 31, 2017, the RNCI on our balance sheet relating to these Trident co-investment transactions was as follows:

	<b>2018</b>	<b>2017</b>
Redeemable Noncontrolling Interest	\$ 439,428	\$ 459,613

As of December 31, 2018, we had the following additional relationships with Stone Point and its affiliates:

- Investments in funds (carried within other investments) managed by Stone Point, with respect to which we recognized unrealized gains and interest income;
- Investments in registered investment companies affiliated with entities owned by Trident or otherwise affiliated with Stone Point, with respect to which we recognized unrealized gains and interest income;
- Separate accounts managed by Eagle Point Credit Management and PRIMA Capital Advisors, which are affiliates of entities owned by Trident, with respect to which we incurred management fees;
- Investments in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director, with respect to which we recognized net unrealized gains;
- Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO equity securities, with respect to which we recognized net unrealized gains (losses) and interest income; and
- A separate account managed by Sound Point Capital, with respect to which we incurred management fees.

In the fourth quarter of 2018, we invested \$25.0 million in Mitchell International, a claims software provider for workers' compensation and auto insurance business, as a co-investor alongside Stone Point.

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

The following table presents the amounts included in our consolidated balance sheet as of December 31, 2018 and 2017, related to our related party transactions with Stone Point and its affiliated entities:

	2018	2017
Investments in funds managed by Stone Point	\$ 422,771	\$ 255,905
Investments in registered investment companies affiliated with entities owned by Trident	32,302	22,060
Investments managed by Eagle Point Credit Management and PRIMA Capital Advisors	176,624	183,448
Investments in funds managed by Sound Point Capital	29,922	27,429
Investments in CLO equity securities with Sound Point Capital as collateral manager	13,449	17,760
Separate account managed by Sound Point Capital	1,079	63,572

The following table presents the amounts included in net earnings for the years ended December 31, 2018, 2017 and 2016, related to our related party transactions with Stone Point and its affiliated entities:

	2018	2017	2016
Net unrealized gains on funds managed by Stone Point	\$ 1,074	\$ 22,259	17,271
Net unrealized gains on registered investment companies affiliated with entities owned by Trident or Stone Point	3,886	2,878	377
Interest income on registered investment companies affiliated with entities owned by Trident	3,273	2,478	3,099
Management fees on investments managed by Eagle Point Credit Management and PRIMA Capital Advisors	(486)	(480)	(469)
Net unrealized gains (losses) on investments in funds managed by Sound Point Capital	(442)	2,043	1,901
Net unrealized losses on investments in CLO equity securities with Sound Point Capital as collateral manager	(4,311)	(2,496)	2,086
Interest income on investments in CLO equity securities with Sound Point Capital as collateral manager	4,811	4,292	6,739
Management fees on separate account managed by Sound Point Capital	(174)	(300)	(275)
Total net earnings	\$ 7,631	\$ 30,674	\$ 30,729

### **KaylaRe**

On May 14, 2018, the Company completed a transaction to acquire all of the outstanding shares and warrants of KaylaRe, following the receipt of all required regulatory approvals. In consideration for the acquired shares and warrants of KaylaRe, the Company issued an aggregate of 2,007,017 ordinary shares, comprising 1,501,778 voting ordinary shares and 505,239 Series E non-voting ordinary shares to the shareholders of KaylaRe as follows: (i) 1,204,353 voting ordinary shares and 505,239 Series E Shares to a fund managed by Hillhouse Capital Management, Ltd. (together with its affiliates, "Hillhouse Capital"); (ii) 285,986 voting ordinary shares to Trident; and (iii) 11,439 voting ordinary shares to the minority shareholder. In addition, the Shareholders Agreement between Enstar and the other KaylaRe shareholders was effectively terminated. Effective May 14, 2018 we consolidated KaylaRe into our consolidated financial statements and any balances between KaylaRe and Enstar are now eliminated upon consolidation. Refer to Note 2 - "Acquisitions" for additional information.

On December 15, 2016, KaylaRe completed an initial capital raise of \$620.0 million. We originally owned approximately 48.2% of KaylaRe's common shares and recorded our investment in KaylaRe using the equity method basis of accounting, pursuant to the conclusion that we were not required to consolidate following an analysis based on the guidance in ASC 810 - *Consolidation*. Our investment in the common shares and warrants of KaylaRe was carried at \$320.1 million and \$309.8 million in other assets on our consolidated balance sheet as at May 14, 2018 and December 31, 2017, respectively.

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

Our subsidiary, Enstar Limited, acts as insurance and reinsurance manager to KaylaRe's subsidiary, KaylaRe Ltd., for which it receives fee income. Affiliates of Enstar have also entered into various reinsurance agreements with KaylaRe Ltd. We provide administrative services to KaylaRe and KaylaRe Ltd.

Through a Quota Share Agreement dated December 15, 2016 (the "KaylaRe-StarStone QS"), several of our StarStone affiliates entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which KaylaRe Ltd. reinsures 35% of all business written by these StarStone affiliates for risks attaching from January 1, 2016, net of the StarStone affiliates' external reinsurance programs. The reinsurance of StarStone's U.S. and U.K. affiliates was non-renewed as of January 1, 2018 and January 1, 2019, respectively.

In addition, Fitzwilliam Insurance Limited ("Fitzwilliam"), one of our non-life run-off subsidiaries, ceded \$177.2 million of loss reserves to KaylaRe Ltd. in 2016, on a funds held basis. Under the terms of this reinsurance agreement, Fitzwilliam is entitled to receive a profit commission calculated with reference to reserve savings made during the term of this agreement. Our Non-life Run-off subsidiaries did not cede any new business to KaylaRe Ltd. during years ended December 31, 2018 and 2017.

Our consolidated balance sheets as of December 31, 2017 included the following balances related to transactions between us and KaylaRe and KaylaRe Ltd.:

	<b>2017</b>
Reinsurance balances recoverable on paid and unpaid losses	\$ 357,355
Prepaid reinsurance premiums	116,356
Funds held	174,181
Insurance and reinsurance balances payable	232,884
Ceded acquisition costs	36,070

Our consolidated statement of earnings for the years ended December 31, 2018, 2017 and 2016 included the following balances related to transactions between us and KaylaRe and KaylaRe Ltd. up until May 14, 2018, the date of acquisition:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Fee income due to Enstar Limited	\$ 1,453	\$ 2,679	\$ 6,799
Transactions under KaylaRe-StarStone QS:			
Ceded premium earned	(52,651)	(234,079)	(117,561)
Net incurred losses	31,654	155,433	75,659
Acquisition costs	18,774	99,500	42,516
Transactions under Fitzwilliam reinsurance agreement:			
Profit Commission	—	18,843	7,055
Total net earnings (loss)	<u>\$ (770)</u>	<u>\$ 42,376</u>	<u>\$ 14,468</u>

### **Hillhouse**

Investment funds managed by Hillhouse Capital collectively own approximately 9.7% of Enstar's voting ordinary shares. These funds also own non-voting ordinary shares and warrants to purchase additional non-voting ordinary shares, which together with their voting ordinary shares, represent an approximate 17.1% economic interest in Enstar. In February 2017, Jie Liu, a Partner of Hillhouse Capital, was appointed to our Board.

As of December 31, 2017, KaylaRe had investments in a fund managed by Hillhouse Capital. On May 14, 2018 KaylaRe was acquired (refer to Note 3 - "Acquisitions" for further details), at which point KaylaRe was consolidated and KaylaRe's investment in Hillhouse InRe Fund, L.P. ("InRe Fund") was recorded within other investments on our consolidated balance sheet. As of December 31, 2018, Enhanced Re had investments in a fund managed by Hillhouse Capital, as described below.

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

As of December 31, 2018, our carrying value of the InRe Fund was \$678.4 million and the fund was invested in approximately 35% in fixed income securities, 15% in North American equities, 55% in international equities and (5)% in financing, derivatives and other items.

Our consolidated balance sheet as of December 31, 2018 and 2017 included the following balances related to transactions between us and Hillhouse and its affiliated entities:

	2018	2017
Investments in funds managed by Hillhouse Capital, held by equity method investees	\$ 75,192	\$ 456,660
Our ownership of equity method investments	47.4%	48.2%
Our indirect investment in funds managed by Hillhouse Capital	\$ 35,641	\$ 220,247
Investment in funds managed by Hillhouse Capital:		
InRe Fund	\$ 678,420	\$ —
Other funds	166,646	—
	<u>\$ 845,066</u>	<u>\$ —</u>

The increase in the investment in funds managed by Hillhouse was primarily due to consolidation of the InRe Fund, which was previously held by KaylaRe, our equity method investment, and additional subscriptions of \$445.5 million, partially offset by net unrealized losses on the investments.

We incurred fees of approximately \$8.2 million, included within net unrealized gains (losses), for the year ended December 31, 2018 to Hillhouse and its affiliated entities in relation to the management of the funds described above.

**Monument**

Monument was established in October 2016 and Enstar has invested a total of \$26.6 million in the common and preferred shares of Monument. We have approximately a 26.6% interest in Monument. In connection with our investment in Monument, we entered into a Shareholders Agreement with the other shareholders. We recorded the investment in Monument using the equity method basis of accounting, as we concluded that we are not required to consolidate based on the guidance in ASC 810 - *Consolidation*.

On August 29, 2017, we sold our wholly-owned subsidiary, Laguna, to a subsidiary of Monument for a total consideration of €25.6 million (approximately \$30.8 million). The total loss recorded on the sale of Laguna, for the year ended December 31, 2017 was \$16.3 million, which has been included in earnings from continuing operations before taxes in our consolidated statement of earnings. This loss includes a cumulative currency translation adjustment balance of \$6.3 million, which has been reclassified from accumulated other comprehensive income and included in earnings as a component of the loss on sale of Laguna during the year ended December 31, 2017, following the closing of the sale.

On October 10, 2018, we entered into a Business Transfer Agreement between our wholly-owned subsidiary Alpha and a subsidiary of Monument. This agreement will transfer life assurance policies written by Alpha to Monument via a Portfolio Transfer, which is subject to regulatory approval. The transaction is expected to close during 2019.

Our investment in the common and preferred shares of Monument, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 and 2017 was as follows:

	2018	2017
Investment in Monument	\$ 42,193	\$ 15,960

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

***Clear Spring (formerly SeaBright)***

On January 1, 2017 we sold SeaBright Insurance Company (“SeaBright Insurance”) and its licenses to Delaware Life Insurance Company (“Delaware Life”). Following the sale, SeaBright Insurance was renamed Clear Spring Property and Casualty Company (“Clear Spring”). Clear Spring was subsequently capitalized with \$56.0 million of equity, with Enstar retaining a 20% indirect equity interest in Clear Spring.

We have recorded the investment in Clear Spring using the equity method basis of accounting, pursuant to the conclusion that we are not required to consolidate following an analysis based on the guidance in ASC 810 - *Consolidation*. Our investment in the common shares of Clear Spring, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 and 2017 was as follows:

	<b>2018</b>	<b>2017</b>
Investment in Clear Spring	\$ 10,070	\$ 10,596

Effective January 1, 2017, StarStone National Insurance Company (“StarStone National”) entered into a ceding quota share treaty with Clear Spring pursuant to which Clear Spring reinsures 33.3% of core workers' compensation business written by StarStone National. This agreement was terminated as of December 31, 2018.

Effective January 1, 2017, we also entered into an assuming quota share treaty with Clear Spring pursuant to which an Enstar subsidiary reinsures 25% of all workers' compensation business written by Clear Spring. This is recorded as other activities.

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

Our consolidated balance sheet as at December 31, 2018 and 2017 included the following balances between us and Clear Spring:

	2018	2017
Balances under StarStone ceding quota share:		
Reinsurance balances recoverable on paid and unpaid losses	\$ 23,718	\$ 9,053
Prepaid insurance premiums	13,821	13,747
Ceded payable	14,153	13,964
Ceded acquisition costs	3,233	3,186
Balances under assuming quota share:		
Losses and LAE	5,778	2,231
Unearned reinsurance premiums	3,455	3,437
Funds held	10,242	5,095

Our consolidated statement of earnings for the years ended December 31, 2018 and 2017 included the following amounts between us and Clear Spring:

	2018	2017
Amounts under StarStone ceding quota share:		
Ceded premium earned	\$ (29,520)	\$ (14,256)
Net incurred losses and LAE	18,143	9,533
Acquisition costs	7,035	6,718
Amounts under assuming quota share:		
Premium earned	7,380	3,564
Net incurred losses and LAE	(4,536)	(1,181)
Acquisition costs	(1,836)	(1,753)
Total net earnings (loss)	\$ (3,334)	\$ 2,625

**AmTrust**

In November 2018, pursuant to a Subscription Agreement with Evergreen Parent L.P. ("Evergreen"), K-Z Evergreen, LLC and Trident Pine Acquisition LP ("Trident Pine"), we purchased equity in Evergreen in the aggregate amount of \$200.0 million. Evergreen is an entity formed by private equity funds managed by Stone Point and the Karfunkel-Zyskind family that acquired the approximately 45% of the issued and outstanding shares of common stock of AmTrust Financial Services, Inc. ("AmTrust") that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not already own or control. The equity interest was in the form of three separate classes of equity securities issued at the same price and in the same proportion as the equity interest purchased by Trident Pine. Following the closing of the transaction, Enstar owns approximately 7.5% of the equity interest in Evergreen and Trident Pine owns approximately 21.8%. Evergreen owns all of the equity interest in AmTrust. In addition, upon the successful closing of the transaction we received a fee of \$3.5 million, half of which was payable upon closing and the other on the first anniversary of the closing. The fee has been recorded in full in other income within our consolidated statements of earnings for the year ended December 31, 2018.

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

Our indirect investment in the shares of AmTrust, carried in equities on our consolidated balance sheet, as of December 31, 2018 was as follows:

		<b>2018</b>
Investment in AmTrust	\$	200,000

During the year ended December 31, 2018 we recorded net investment income of \$0.3 million related to our indirect equity investment in AmTrust.

**Citco**

In June 2018, our subsidiary made a \$50.0 million indirect investment in the shares of Citco III Limited ("Citco"), a fund administrator with global operations. Pursuant to an investment agreement and in consideration for participation therein, a related party of Hillhouse Capital provided investment support to our subsidiary. In a private transaction that preceded our co-investment opportunity, certain Citco shareholders, including Trident, agreed to sell all or a portion of their interests in Citco. As of December 31, 2018, Trident owned an approximate 3.4% interest in Citco. Mr. Carey currently serves as an observer to the board of directors of Citco in connection with Trident's investment therein.

Our indirect investment in the shares of Citco, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 was as follows:

		<b>2018</b>
Investment in Citco		50,812

**Enhanced Re**

Enhanced Reinsurance Ltd. ("Enhanced Re") is a joint venture between Enstar, Allianz SE and Hillhouse Capital that was capitalized in December 2018. Enhanced Re is a Bermuda-based Class 4 and Class E reinsurer and will reinsure life, non-life run-off, and property and casualty insurance business, initially sourced from Allianz SE and Enstar. Enstar, Allianz and Hillhouse Capital affiliates have made equity investment commitments in aggregate of \$470.0 million to Enhanced Re. Enstar owns 47.4% of the entity, Allianz owns 24.9%, and an affiliate of Hillhouse Capital owns 27.7%. As of December 31, 2018, Enstar contributed \$94.8 million of its total capital commitment to Enhanced Re and an uncalled amount of \$128.0 million.

Enstar acts as the (re)insurance manager for Enhanced Re, Hillhouse Capital acts as primary investment manager, and an affiliate of Allianz SE provides investment management services. Enhanced Re intends to write business from affiliates of its operating sponsors, Allianz SE and Enstar. It will seek to underwrite business to maximize diversification by risk and geography.

Our investment in the common shares of Enhanced Re, carried in equity method investments on our consolidated balance sheet, as of December 31, 2018 was as follows:

		<b>2018</b>
Investment in EnhancedRe	\$	94,800

There were no transactions between us and Enhanced Re in the year ended December 31, 2018.

**22. DIVIDEND RESTRICTIONS AND STATUTORY FINANCIAL INFORMATION**

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

**Parent Company Dividend Restrictions**

There were no significant restrictions on the Parent Company's ability to pay dividends from retained earnings as at December 31, 2018. Bermuda law permits the payment of dividends if (i) we are not, or would not be after payment, unable to pay our liabilities as they become due and (ii) the realizable value of our assets is in excess of our liabilities after taking such payment into account. We have not historically declared a dividend on our ordinary shares. The issuance of our Series D and E Preferred Shares have resulted in the declaration of dividends. Holders of Series D and Series E Preferred Shares are entitled to receive, only when, as and if declared, non-cumulative cash dividends, paid quarterly in arrears on the 1st day of March, June, September and December of each year of 7.0% per annum. Refer to Note 17 - "Share Capital" for details regarding dividends on preferred shares.

The Bermuda Monetary Authority ("BMA") acts as group supervisor to Enstar. On an annual basis, we are required to file group statutory financial statements, a group statutory financial return, a group capital and solvency return, audited group financial statements and a Group Solvency Self-Assessment ("GSSA") with the BMA. The GSSA is designed to document our perspective on the capital resources necessary to achieve our business strategies and remain solvent, and to provide the BMA with insights on our risk management, governance procedures and documentation related to this process. We are required to maintain available group statutory capital and surplus in an amount that is at least equal to the group enhanced capital requirement ("Group ECR"). The BMA has also established a group target capital level equal to 120% of the Group ECR. We are in compliance with these requirements.

Our ability to pay dividends to our shareholders is dependent upon the ability of our insurance and reinsurance subsidiaries to distribute capital and pay dividends to us. Our insurance and reinsurance subsidiaries are subject to certain regulatory restrictions on the distribution of capital and payment of dividends in the jurisdictions in which they operate, as described below. The restrictions are generally based on net income or levels of capital and surplus as determined in accordance with the relevant statutory accounting practices. Failure of these subsidiaries to meet their applicable regulatory requirements could result in restrictions on any distributions of capital or retained earnings or stricter regulatory oversight of the subsidiaries.

Our ability to pay dividends and make other forms of distributions may also be limited by repayment obligations and financial covenants in our outstanding loan facility agreements.

**Subsidiary Statutory Financial Information and Dividend Restrictions**

Our insurance and reinsurance subsidiaries prepare their statutory financial statements in accordance with statutory accounting practices prescribed or permitted by local regulators. Statutory accounting differs from U.S. GAAP, including in the treatment of investments, acquisition costs and deferred income taxes, amongst other items.

The statutory capital and surplus amounts for the years ended December 31, 2018 and 2017 and statutory net income amounts for the years ended December 31, 2018, 2017 and 2016 for our insurance and reinsurance subsidiaries based in Bermuda, the United Kingdom, Australia, the United States and Continental Europe are summarized in the table below which includes information relating to acquisitions from the year of acquisition:

	<b>Statutory Capital and Surplus</b>						<b>Statutory Income</b>		
	<b>Required</b>		<b>Actual</b>						
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>		
Bermuda	\$ 1,591,991	\$ 1,556,644	\$ 3,701,825	\$ 2,802,653	\$ 29,486	\$ 390,752	\$ 339,548		
U.K.	654,721	453,160	715,448	699,798	(52,936)	77,900	131,619		
U.S.	392,394	195,855	660,470	589,029	(75,005)	(5,065)	(1,439)		
Europe	239,582	253,981	431,863	444,870	(17,611)	(4,245)	31,075		
Australia	22,535	12,521	26,882	27,672	1,761	(874)	701		

As at December 31, 2018, the total amount of net assets of our consolidated subsidiaries that were restricted was \$2.9 billion.

Certain material aspects of these laws and regulations as they relate to solvency, dividends and capital and surplus are summarized below.

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

*Bermuda*

Our Bermuda-based insurance and reinsurance subsidiaries are registered under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). The Insurance Act imposes certain solvency and liquidity standards and auditing and reporting requirements and grants the BMA powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

The Insurance Act requires that our Bermuda-based insurance and reinsurance subsidiaries maintain certain solvency and liquidity standards. The minimum liquidity ratio requires that the value of relevant assets not be less than 75% of the amount of relevant liabilities. The minimum solvency margin, which varies depending on the class of the insurer, is determined as a percentage of either net reserves for losses and LAE or premiums or pursuant to a risk-based capital measure. Our Bermuda subsidiaries with commercial insurance licenses are required to maintain a minimum statutory capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model.

Each of our regulated Bermuda insurance and reinsurance subsidiaries would be prohibited from declaring or paying any dividends if it were in breach of their minimum solvency margin (which is a function of outstanding losses) or liquidity ratio (which is a function of relevant assets) or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, each of our regulated Bermuda insurance and reinsurance subsidiaries is prohibited, without the prior approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year's statutory financial statements. Our Bermuda insurance companies that manage portfolios in run-off are required to seek regulatory approval for any dividends or distributions.

As of December 31, 2018 and 2017, each of our Bermuda-based insurance and reinsurance subsidiaries exceeded their respective minimum solvency and liquidity requirements. The Bermuda insurance and reinsurance subsidiaries in aggregate exceeded minimum solvency requirements by \$2.1 billion as of December 31, 2018 (2017: \$1.2 billion) and were in compliance with their liquidity requirements.

*United Kingdom*

U.K. Insurance Companies (non-Lloyd's)

Our U.K. based insurance subsidiaries are regulated by the U.K. Prudential Regulatory Authority (the "PRA") and the Financial Conduct Authority (the "FCA", together with the PRA, the "U.K. Regulator").

Our U.K.-based insurance subsidiaries are required to maintain adequate financial resources in accordance with the requirements of the U.K. Regulator. Insurers must comply with a Solvency Capital Requirement ("SCR"), which is calculated using either the Solvency II standard formula or a bespoke internal model. Our non-Lloyd's U.K. companies use the standard formula.

The calculation of the minimum capital resources requirements in any particular case depends on, among other things, the type and amount of insurance business written and claims paid by the insurance company. As at December 31, 2018 and 2017, all of our U.K. insurance subsidiaries maintained capital in excess of the minimum capital resources requirements and complied with the relevant U.K. Regulator requirements. The U.K.-based insurance subsidiaries, in aggregate, maintained capital in excess of the minimum capital resources requirements by \$60.7 million and \$246.6 million as of December 31, 2018 and 2017, respectively.

The U.K. Regulator's rules require our U.K. insurance subsidiaries to obtain regulatory approval for any proposed or actual payment of a dividend. The U.K. Regulator uses the SCR, among other tests, when assessing requests to make distributions.

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

### Lloyd's

As of December 31, 2018, we participated in the Lloyd's market through our interests in: (i) Atrium's Syndicate 609, which is managed by Atrium Underwriters Limited, a Lloyd's managing agent, and the Atrium corporate member; (ii) StarStone's Syndicate 1301, which is managed by StarStone Underwriting Limited ("SUL"), a Lloyd's managing agent, and the StarStone corporate member; and (iii) Syndicate 2008, a wholly aligned syndicate that has permission to underwrite RITC business and other run-off or discontinued business type transactions with other Lloyd's syndicates, and its corporate member. During 2015, SUL assumed the role of managing agent for Syndicate 2008 in place of Shelbourne Syndicate Services Limited as we streamlined our organizational structure and combined Shelbourne and StarStone resources into one agency. For the 2018 underwriting year, participation in all three syndicates has been through a common corporate member.

The underwriting capacity of a member of Lloyd's is supported by providing Funds at Lloyd's, as described in Note 6 - "Investments". Business plans, including maximum underwriting capacity, for Lloyd's syndicates requires annual approval by the Lloyd's Franchise Board, which may require changes to any business plan or additional capital to support underwriting plans.

The Lloyd's market has applied the Solvency II internal model under Lloyd's supervision, and our Lloyd's operations are required to meet Solvency II standards. Lloyd's has the approval of the PRA to use its internal model under the Solvency II regime.

### *United States*

Our U.S. non-life run-off and active underwriting insurance and reinsurance subsidiaries are subject to the insurance laws and regulations of the states in which they are domiciled, licensed and/or eligible to conduct business. These laws restrict the amount of dividends the subsidiaries can pay to us. The restrictions are generally based on statutory net income and/or certain levels of statutory surplus as determined in accordance with the relevant statutory accounting requirements of the individual domiciliary states or states in which any of the insurance or reinsurance subsidiaries are domiciled. Generally, prior regulatory approval must be obtained before an insurer may pay a dividend or make a distribution above a specified level.

The U.S. insurance and reinsurance subsidiaries are also required to maintain minimum levels of solvency and liquidity as determined by law, and to comply with Risk-Based Capital ("RBC") requirements and licensing rules as specified by the National Association of Insurance Commissioners ("NAIC"). RBC is used to evaluate the adequacy of capital and surplus maintained by our life company in relation to risks associated with: (i) asset risk; (ii) insurance risk; (iii) interest rate risk and (iv) business risk. For all of our U.S. insurance and reinsurance subsidiaries, with the exception of one subsidiary which has a permitted accounting practice to treat an adverse development cover reinsurance agreement as prospective reinsurance, there are no prescribed or permitted statutory accounting practices that differ significantly from the statutory accounting principles established by NAIC.

As of December 31, 2018, all of our U.S. non-life insurance and reinsurance subsidiaries exceeded their required levels of risk-based capital. On an aggregate basis, our U.S. non-life insurance and reinsurance subsidiaries exceeded their minimum levels of risk-based capital as of December 31, 2018 by \$359.6 million (December 31, 2017: \$385.4 million).

### *Europe*

Harper Insurance Limited, is regulated by the Swiss Financial Market Supervisory Authority ("FINMA") pursuant to the Insurance Supervisory Act 2004. This subsidiary is obligated to maintain a minimum solvency margin based on the Swiss Solvency Test regulations ("SST") as stipulated by the Insurance Supervisory Act. From January 1, 2016, Switzerland was granted full Solvency II equivalence by the European Commission. As of December 31, 2018 and 2017, this subsidiary exceeded the SST requirements by \$58.0 million (2017: \$44.0 million). The amount of dividends that this subsidiary is permitted to distribute is restricted to freely distributable reserves, which consist of retained earnings, the current year profit and legal reserves. Any dividend exceeding the current year profit requires FINMA's approval. The solvency and capital requirements must continue to be met following any distribution. With effect from January 1, 2019, Harper Insurance Limited redomesticated to Bermuda and is now regulated by the BMA.

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

Our Liechtenstein insurance subsidiary (StarStone Insurance SE) is regulated by the Liechtenstein Financial Market Authority ("FMA") pursuant to the Liechtenstein Insurance Supervisory Act. This subsidiary is obligated to maintain a minimum solvency margin based on the Solvency II regulations. As of December 31, 2018, this subsidiary exceeded the Solvency II requirements by \$133.9 million (2017: \$146.8 million). The amount of dividends that this subsidiary is permitted to distribute is restricted to freely distributable reserves, which consist of retained earnings, the current year profit and legal reserves. Any dividend exceeding the current year profit requires the FMA's approval. Solvency and capital requirements for this subsidiary are based on the Solvency II framework and must continue to be met following any distribution.

Our Belgian life insurance subsidiary files financial statements and returns with the National Bank of Belgium. This subsidiary was in compliance with its solvency and capital requirements under Solvency II.

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

**23. COMMITMENTS AND CONTINGENCIES**

***Concentration of Credit Risk***

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

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

Credit risk exists in relation to our insurance and reinsurance balances recoverable on paid and unpaid losses. We remain liable to the extent that counterparties do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our insurers and reinsurers. Amounts recoverable from reinsurers are described Note 8 - "Reinsurance Balances Recoverable on Paid and Unpaid Losses".

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

We limit the amount of credit exposure to any one counterparty and none of our counterparty credit exposures, excluding U.S. Government instruments and the counterparty noted above, exceeded 10% of shareholders' equity as of December 31, 2018. Our credit exposure to the U.S. government was \$1,136.6 million as at December 31, 2018.

***Operating Leases***

We lease office space under operating leases expiring in various years through 2028. The leases are renewable at our option under certain circumstances. The following is a schedule of future minimum rental payments on non-cancelable leases as of December 31, 2018:

2019	\$	9,510
2020		10,754
2021		9,772
2022		7,500
2023		6,592
2024 and beyond		21,276
	<u>\$</u>	<u>65,404</u>

Rent expense for the years ended December 31, 2018, 2017 and 2016 was \$11.3 million, \$9.5 million and \$9.7 million, respectively.

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

**Legal Proceedings**

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

**Unfunded Investment Commitments**

As at December 31, 2018, we had unfunded commitments of \$228.2 million and \$167.2 million to private equity funds and equity method investments, respectively.

**Guarantees**

As at December 31, 2018 and 2017, parental guarantees and capital instruments supporting subsidiaries' insurance obligations were \$614.5 million and \$630.7 million, respectively. We also have a FAL facility, which subsequent to year end, on February 12, 2019, we increased to issue up to \$375.0 million of letters of credit, and maintained the provision to increase the facility up to \$400.0 million. The FAL Facility is available to satisfy our Funds at Lloyd's requirements and expires in 2022. As at December 31, 2018 there were \$295.0 million letters of credit issued under this facility which have a parental guarantee.

**Significant New Business**

We have entered into transaction agreements that are expected to become effective subsequent to December 31, 2018. Refer to Note 4 - "Significant New Business" New Business above.

**Asbestos Personal Injury Liabilities**

We acquired DCo on December 30, 2016, as described in Note 3 - "Acquisitions". DCo continues to process asbestos personal injury claims in the normal course of business and is separately managed.

Other liabilities on our consolidated balance sheets include amounts for indemnity and defense costs for pending and future claims, determined using standard actuarial techniques for asbestos-related exposures. Other liabilities also include amounts for environmental liabilities associated with DCo's properties.

Other assets on our consolidated balance sheets include estimated insurance recoveries relating to these liabilities. The recorded asset represents our assessment of the capacity of the insurance agreements to provide for the payment of anticipated defense and indemnity costs for pending claims and projected future demands. The recognition of these recoveries is based on an assessment of the right to recover under the respective contracts and on the financial strength of the insurers. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if the accrued indemnity and defense costs were paid in full.

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

Included within other assets and other liabilities are the fair value adjustments that were initially recognized when DCo was acquired. These fair value adjustments continue to be amortized in proportion to the original expected payout patterns for the future claims and recoveries. The carrying value of the asbestos and environmental liabilities, insurance recoveries, future estimated expenses and the fair value adjustments related to DCo, as of December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Other liabilities:		
Direct asbestos liabilities	\$ 265,975	\$ 282,369
Direct environmental liabilities	2,152	2,379
Estimated future expenses	19,843	19,843
Fair value adjustments	(84,650)	(85,427)
	<u>203,320</u>	<u>219,164</u>
Other assets:		
Insurance recoveries related to direct asbestos and environmental liabilities	183,676	170,726
Fair value adjustments	(47,868)	(48,400)
	<u>135,808</u>	<u>122,326</u>
Net liabilities relating to direct asbestos and environmental exposures	<u>\$ 67,512</u>	<u>\$ 96,838</u>

***Redeemable Noncontrolling Interest***

We have the right to purchase the RNCI interests from the RNCI holders at certain times in the future (each such right, a "call right") and the RNCI holders have the right to sell their RNCI interests to us at certain times in the future (each such right, a "put right"). The RNCI rights held by Trident are described in Note 21 - "Related Party Transactions". Dowling has a right to participate if Trident exercises its put right.

**24. SEGMENT INFORMATION**

We have three reportable segments of business that are each managed, operated and separately reported: (i) Non-life Run-off; (ii) Atrium; and (iii) StarStone. Our other activities, which do not qualify as a reportable segment, include our corporate expenses, debt servicing costs, holding company income and expenses, foreign exchange, our remaining life business and other miscellaneous items. These segments are described in Note 1 - "Description of Business".

The Non-life Run-off segment comprises the operations and financial results of those insurance and reinsurance companies and portfolios in run-off that have been acquired by us.

Atrium and StarStone, our active underwriting operations, 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 our senior management, whereas our senior management and employees are involved in StarStone's day-to-day operations. Atrium employees are not involved in the management or strategy of StarStone, nor are StarStone employees involved in the management or strategy of Atrium. Atrium and StarStone are monitored and reported upon separately and distinctly and their strategies and business plans are determined independently of each other.

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

The following tables set forth selected and consolidated statement of earnings results by segment for the years ended December 31, 2018, 2017, 2016:

	2018				
	Non-Life Run-Off	Atrium	StarStone	Other	Total
Gross premiums written	\$ (8,910)	\$ 171,494	\$ 1,121,135	\$ 32,378	\$ 1,316,097
Net premiums written	\$ (9,217)	\$ 153,488	\$ 805,562	\$ 32,067	\$ 981,900
Net premiums earned	\$ 9,427	\$ 146,315	\$ 714,959	\$ 24,874	\$ 895,575
Net incurred losses and LAE	306,067	(69,810)	(673,383)	(16,899)	(454,025)
Life and Annuity Policy Benefits	—	—	—	(1,003)	(1,003)
Acquisition costs	(4,006)	(50,646)	(135,452)	(2,686)	(192,790)
Operating expenses	(158,731)	(17,777)	(156,726)	—	(333,234)
Underwriting income (loss)	152,757	8,082	(250,602)	4,286	(85,477)
Net investment income	226,287	5,686	35,973	2,725	270,671
Net realized and unrealized losses	(381,712)	(3,251)	(17,672)	(10,249)	(412,884)
Fees and commission income	16,466	18,622	—	—	35,088
Other income (losses)	35,978	162	(541)	(514)	35,085
Corporate expenses	(39,093)	(6,921)	—	(28,127)	(74,141)
Interest income (expense)	(30,616)	—	(624)	5,023	(26,217)
Net foreign exchange gains (losses)	2,534	(3,394)	(2,856)	1,048	(2,668)
EARNINGS (LOSS) BEFORE INCOME TAXES	(17,399)	18,986	(236,322)	(25,808)	(260,543)
Income tax benefit (expense)	3,581	(3,732)	6,327	(52)	6,124
Earnings from equity method investments	42,147	—	—	—	42,147
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	28,329	15,254	(229,995)	(25,860)	(212,272)
Net loss (earnings) attributable to noncontrolling interest	(3,107)	(6,257)	71,415	—	62,051
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	25,222	8,997	(158,580)	(25,860)	(150,221)
Dividends on preferred shares	—	—	—	(12,133)	(12,133)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	\$ 25,222	\$ 8,997	\$ (158,580)	\$ (37,993)	\$ (162,354)

Underwriting ratios:		
Loss ratio <sup>(1)</sup>	47.7%	94.2%
Acquisition expense ratio <sup>(1)</sup>	34.6%	18.9%
Operating expense ratio <sup>(1)</sup>	12.2%	22.0%
Combined ratio <sup>(1)</sup>	94.5%	135.1%

<sup>(1)</sup>Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

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

	2017				
	Non-Life Run-Off	Atrium	StarStone	Other	Total
Gross premiums written	\$ 14,102	\$ 153,472	\$ 895,160	\$ 5,719	\$ 1,068,453
Net premiums written	\$ 6,482	\$ 134,214	\$ 464,901	\$ 4,793	\$ 610,390
Net premiums earned	\$ 14,162	\$ 134,747	\$ 459,403	\$ 4,809	\$ 613,121
Net incurred losses and LAE	190,674	(69,419)	(314,806)	—	(193,551)
Life and Annuity Policy Benefits	—	—	—	(4,015)	(4,015)
Acquisition costs	(328)	(47,688)	(48,012)	(878)	(96,906)
Operating expenses	(132,235)	(17,444)	(135,558)	—	(285,237)
Underwriting income (loss)	72,273	196	(38,973)	(84)	33,412
Net investment income	166,678	4,218	27,706	10,187	208,789
Net realized and unrealized gains (losses)	179,545	1,117	16,613	(6,941)	190,334
Fees and commission income (expense)	43,849	22,788	632	(1,166)	66,103
Other income	21,157	230	570	648	22,605
Corporate expenses	(101,592)	(12,142)	—	(37,014)	(150,748)
Interest income (expense)	(28,970)	(559)	(1,902)	3,329	(28,102)
Net foreign exchange losses	(7,347)	(5,060)	(926)	(4,204)	(17,537)
Loss on sale of subsidiary	—	—	—	(16,349)	(16,349)
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>345,593</b>	<b>10,788</b>	<b>3,720</b>	<b>(51,594)</b>	<b>308,507</b>
Income tax benefit (expense)	6,990	(1,593)	988	10	6,395
Earnings from equity method investments	5,904	—	—	—	5,904
<b>NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS</b>	<b>358,487</b>	<b>9,195</b>	<b>4,708</b>	<b>(51,584)</b>	<b>320,806</b>
Net earnings from discontinued operations, net of income taxes	—	—	—	10,993	10,993
<b>NET EARNINGS (LOSS)</b>	<b>358,487</b>	<b>9,195</b>	<b>4,708</b>	<b>(40,591)</b>	<b>331,799</b>
Net earnings attributable to noncontrolling interest	(14,687)	(3,772)	(1,882)	—	(20,341)
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ 343,800</b>	<b>\$ 5,423</b>	<b>\$ 2,826</b>	<b>\$ (40,591)</b>	<b>\$ 311,458</b>
Underwriting ratios:					
Loss ratio <sup>(1)</sup>		51.5%	68.5%		
Acquisition expense ratio <sup>(1)</sup>		35.4%	10.5%		
Operating expense ratio <sup>(1)</sup>		13.0%	29.5%		
Combined ratio <sup>(1)</sup>		99.9%	108.5%		

<sup>(1)</sup>Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

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

	2016				
	Non-Life Run-Off	Atrium	StarStone	Other	Total
Gross premiums written	\$ 17,316	\$ 143,170	\$ 854,699	\$ 7,157	\$ 1,022,342
Net premiums written	\$ 9,202	\$ 140,437	\$ 648,036	\$ 6,261	\$ 803,936
Net premiums earned	\$ 16,755	\$ 124,416	\$ 676,608	\$ 5,735	\$ 823,514
Net incurred losses and LAE	285,881	(58,387)	(401,593)	—	(174,099)
Life and Annuity Policy Benefits	—	—	—	2,038	2,038
Acquisition costs	(4,198)	(44,670)	(138,822)	1,121	(186,569)
Operating expenses	(151,316)	(14,233)	(124,239)	—	(289,788)
Underwriting income	147,122	7,126	11,954	8,894	175,096
Net investment income	145,237	2,940	22,221	15,065	185,463
Net realized and unrealized gains (losses)	77,685	(601)	5,728	(4,994)	77,818
Fees and commission income (expense)	17,447	18,189	5,102	(1,374)	39,364
Other income	7,897	206	740	1,393	10,236
Corporate expenses	(61,583)	(10,899)	—	(61,464)	(133,946)
Interest income (expense)	(22,268)	(198)	(47)	1,871	(20,642)
Net foreign exchange gains (losses)	1,684	(3,310)	754	207	(665)
EARNINGS (LOSS) BEFORE INCOME TAXES	313,221	13,453	46,452	(40,402)	332,724
Income tax expense	(28,577)	(2,573)	(3,693)	(31)	(34,874)
Losses from equity method investments	(5,400)	—	—	—	(5,400)
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	279,244	10,880	42,759	(40,433)	292,450
Net earnings from discontinued operations, net of income taxes	—	—	—	11,963	11,963
NET EARNINGS (LOSS)	279,244	10,880	42,759	(28,470)	304,413
Net earnings attributable to noncontrolling interest	(17,600)	(4,464)	(17,542)	—	(39,606)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	\$ 261,644	\$ 6,416	\$ 25,217	\$ (28,470)	\$ 264,807

Underwriting ratios:		
Loss ratio <sup>(1)</sup>	46.9%	59.4%
Acquisition expense ratio <sup>(1)</sup>	35.9%	20.5%
Operating expense ratio <sup>(1)</sup>	11.5%	18.3%
Combined ratio <sup>(1)</sup>	94.3%	98.2%

<sup>(1)</sup>Refer to "Underwriting Ratios" for a description of how these ratios are calculated.

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

**Gross Premiums Written by Geographical Area**

The following table summarizes our gross premiums written for the year ended December 31, 2018 by geographic area. Geographic distribution in future years is subject to variation based upon market conditions and business strategies.

	Non-life Run-off		Atrium		StarStone		Other		Total	
	Total	%	Total	%	Total	%	Total	%	Total	%
(In thousands of U.S. dollars, except percentages)										
United States	\$ (1,819)	20.4 %	\$ 95,152	55.5%	\$ 708,763	63.2%	\$ 28,506	88.0%	\$ 830,602	63.1%
United Kingdom	1,134	(12.7)%	10,905	6.4%	54,057	4.8%	—	—%	66,096	5.0%
Europe	(8,225)	92.3 %	11,661	6.8%	192,156	17.1%	3,872	12.0%	199,464	15.2%
Asia	—	— %	5,113	3.0%	67,229	6.0%	—	—%	72,342	5.5%
Rest of World	—	— %	48,663	28.3%	98,930	8.8%	—	—%	147,593	11.2%
Total	\$ (8,910)	100.0 %	\$ 171,494	100.0%	\$ 1,121,135	99.9%	\$ 32,378	100.0%	\$ 1,316,097	100.0%

**Assets by Segment**

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. Our total assets as of December 31, 2018 and 2017 by segment were as follows:

	2018	2017
Assets by Segment:		
Non-life Run-off	\$ 13,362,749	\$ 10,368,105
Atrium	591,722	556,637
StarStone	3,416,132	3,128,725
Other	(814,333)	(447,045)
Total assets	\$ 16,556,270	\$ 13,606,422

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

**25. UNAUDITED CONDENSED QUARTERLY FINANCIAL DATA**

	December 31,		September 30,		June 30,		March 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>INCOME</b>								
Net premiums earned	\$ 231,947	\$ 160,627	\$ 264,597	\$ 148,025	\$ 228,812	\$ 155,571	\$ 170,219	\$ 148,898
Fees and commission income	11,455	19,627	6,950	15,895	8,352	18,667	8,331	11,914
Net investment income	68,453	58,605	69,430	52,028	66,469	49,417	66,319	48,739
Net realized and unrealized gains (losses)	(158,213)	50,637	(57,223)	29,301	(54,418)	51,877	(143,030)	58,519
Other income (losses)	34,267	13,763	8,226	1,734	(9,351)	(5,090)	1,943	12,198
	<u>187,909</u>	<u>303,259</u>	<u>291,980</u>	<u>246,983</u>	<u>239,864</u>	<u>270,442</u>	<u>103,782</u>	<u>280,268</u>
<b>EXPENSES</b>								
Net incurred losses and loss adjustment expenses	187,698	30,327	153,974	75,712	92,819	9,620	19,534	77,892
Life and annuity policy benefits	786	(1,033)	423	1,060	(160)	4,289	(46)	(301)
Acquisition costs	55,106	21,449	54,242	24,281	53,334	30,355	30,108	20,821
General and administrative expenses	106,950	126,702	102,553	100,325	102,612	106,490	95,260	102,468
Interest expense	4,644	7,251	4,640	6,410	8,922	7,573	8,011	6,868
Net foreign exchange losses (gains)	1,279	1,925	1,040	4,775	(5,519)	7,122	5,868	3,715
Loss on sale of subsidiary	—	—	—	6,740	—	9,609	—	—
	<u>356,463</u>	<u>186,621</u>	<u>316,872</u>	<u>219,303</u>	<u>252,008</u>	<u>175,058</u>	<u>158,735</u>	<u>211,463</u>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	<b>(168,554)</b>	<b>116,638</b>	<b>(24,892)</b>	<b>27,680</b>	<b>(12,144)</b>	<b>95,384</b>	<b>(54,953)</b>	<b>68,805</b>
Income tax benefit (expense)	10,688	9,629	(746)	(1,432)	(3,646)	(4,731)	(172)	2,929
Earnings (losses) from equity method investments	8,488	(4,460)	3,317	(5,582)	15,645	15,946	14,697	—
<b>NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS</b>	<b>(149,378)</b>	<b>121,807</b>	<b>(22,321)</b>	<b>20,666</b>	<b>(145)</b>	<b>106,599</b>	<b>(40,428)</b>	<b>71,734</b>
Net earnings (loss) from discontinued operations, net of income taxes	—	11,998	—	3,495	—	(4,871)	—	371
<b>NET EARNINGS (LOSS)</b>	<b>(149,378)</b>	<b>133,805</b>	<b>(22,321)</b>	<b>24,161</b>	<b>(145)</b>	<b>101,728</b>	<b>(40,428)</b>	<b>72,105</b>
Net loss (earnings) attributable to noncontrolling interest	42,955	(6,206)	11,489	14,832	8,389	(11,542)	(782)	(17,425)
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<b>(106,423)</b>	<b>127,599</b>	<b>(10,832)</b>	<b>38,993</b>	<b>8,244</b>	<b>90,186</b>	<b>(41,210)</b>	<b>54,680</b>
Dividends on preferred shares	(7,000)	—	(5,133)	—	—	—	—	—
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ (113,423)</b>	<b>\$ 127,599</b>	<b>\$ (15,965)</b>	<b>\$ 38,993</b>	<b>\$ 8,244</b>	<b>\$ 90,186</b>	<b>\$ (41,210)</b>	<b>\$ 54,680</b>
<b>Earnings per ordinary share attributable to Enstar Group Limited:</b>								
<b>Basic:</b>								
Net earnings (loss) from continuing operations	\$ (5.29)	\$ 5.96	\$ (0.74)	\$ 1.83	\$ 0.40	\$ 4.90	\$ (2.12)	\$ 2.80
Net earnings (loss) from discontinued operations, net of income taxes	—	0.62	—	0.18	—	(0.25)	—	0.02
<b>Net earnings (loss) per ordinary share</b>	<b>\$ (5.29)</b>	<b>\$ 6.58</b>	<b>\$ (0.74)</b>	<b>\$ 2.01</b>	<b>\$ 0.40</b>	<b>\$ 4.65</b>	<b>\$ (2.12)</b>	<b>\$ 2.82</b>
<b>Diluted<sup>(1)</sup>:</b>								
Net earnings (loss) from continuing operations	\$ (5.29)	\$ 5.90	\$ (0.74)	\$ 1.81	\$ 0.40	\$ 4.87	\$ (2.12)	\$ 2.78
Net earnings (loss) from discontinued operations, net of income taxes	—	0.61	—	0.18	—	(0.25)	—	0.02
<b>Net earnings (loss) per ordinary share</b>	<b>\$ (5.29)</b>	<b>\$ 6.51</b>	<b>\$ (0.74)</b>	<b>\$ 1.99</b>	<b>\$ 0.40</b>	<b>\$ 4.62</b>	<b>\$ (2.12)</b>	<b>\$ 2.80</b>

<sup>(1)</sup> During a period of loss, the basic weighted average ordinary shares outstanding is used in the denominator of the diluted loss per ordinary share computation as the effect of including potentially dilutive securities would be anti-dilutive.

## ENSTAR GROUP LIMITED

**SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES**  
**As of December 31, 2018**  
**(Expressed in thousands of U.S. Dollars)**

Type of investment	Cost <sup>(1)</sup>	Fair Value	Amount at which shown in the balance sheet <sup>(2)</sup>
Fixed maturity securities and short-term investments — Trading and fixed maturity investments within funds held - directly managed:			
U.S. government and agency	\$ 511,784	\$ 509,672	\$ 509,672
U.K. government	301,749	300,631	300,631
Other government	741,803	720,625	720,625
Corporate	4,943,483	4,764,481	4,764,481
Municipal	130,429	127,785	127,785
Residential mortgage-backed	772,445	773,545	773,545
Commercial mortgage-backed	729,232	713,063	713,063
Asset-backed	642,618	636,481	636,481
Total	8,773,543	8,546,283	8,546,283
Fixed maturity securities and short-term investments — Available-for-sale:			
U.S. government and agency	576	573	573
Other government	72,811	73,185	73,185
Corporate	75,535	75,359	75,359
Municipal	2,499	2,480	2,480
Residential mortgage-backed	12	12	12
Total	151,433	151,609	151,609
Equities <sup>(3)</sup>	108,070	109,823	109,823
Other investments, at fair value <sup>(4)</sup>	659,995	659,995	659,995
Total	\$ 9,693,041	\$ 9,467,710	\$ 9,467,710

<sup>(1)</sup> Original cost of fixed maturity securities is reduced by repayments and adjusted for amortization of premiums or accretion of discounts.

<sup>(2)</sup> The table above excludes businesses held for sale. Refer to Note 5 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" of the notes to the consolidated financial statements.

<sup>(3)</sup> The difference in the amount of equities shown at fair value and the equities shown in our consolidated balance sheet relates to the fair value of \$32.3 million as of December 31, 2018 for our investment in a registered investment company affiliated with entities owned by Trident, \$25.0 million as a co-investor alongside Stone Point and a \$200.0 million investment in AmTrust. Refer to Note 21 - "Related Party Transactions" of the notes to the consolidated financial statements.

<sup>(4)</sup> The difference in the amount of other investments shown at fair value and the other investments shown in our consolidated balance sheet relates to the fair value of \$1,297.8 million as of December 31, 2018 for our other investments in funds or companies owned by or affiliated with certain related parties. Refer to Note 21 - "Related Party Transactions" of the notes to the consolidated financial statements.

**ENSTAR GROUP LIMITED**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**
**Balance Sheets - Parent Company Only  
As of December 31, 2018 and 2017**

	2018	2017
	(in thousands of U.S. dollars, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,213	\$ 2,458
Balances due from subsidiaries	25,091	23,635
Investments in subsidiaries	4,843,913	3,917,830
Other assets	8,596	2,877
<b>TOTAL ASSETS</b>	<b>\$ 4,892,813</b>	<b>\$ 3,946,800</b>
<b>LIABILITIES</b>		
Debt obligations	\$ 861,539	\$ 646,689
Balances due to subsidiaries	120,397	148,410
Other liabilities	8,944	15,017
<b>TOTAL LIABILITIES</b>	<b>990,880</b>	<b>810,116</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary shares (par value \$1 each, issued and outstanding 2018: 21,459,997; 2017: 19,406,722):		
Voting Ordinary Shares (issued and outstanding 2018: 17,950,315; 2017: 16,402,279)	17,950	16,402
Non-voting convertible ordinary Series C Shares (issued and outstanding 2018 and 2017: 2,599,672)	2,600	2,600
Non-voting convertible ordinary Series E Shares (issued and outstanding 2018: 910,010; 2017: 404,771)	910	405
Preferred Shares:		
Series C Preferred Shares (issued and held in treasury 2018 and 2017: 388,571)	389	389
Series D Preferred Shares (issued and outstanding 2018: 16,000)	400,000	—
Series E Preferred Shares (issued and outstanding 2018: 4,400)	110,000	—
Treasury shares, at cost (Series C Preferred Shares 2018 and 2017: 388,571)	(421,559)	(421,559)
Additional paid-in capital	1,804,664	1,395,067
Accumulated other comprehensive income	10,440	10,468
Retained earnings	1,976,539	2,132,912
<b>Total Enstar Group Limited Shareholders' Equity</b>	<b>3,901,933</b>	<b>3,136,684</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 4,892,813</b>	<b>\$ 3,946,800</b>

See accompanying notes to the Condensed Financial Information of Registrant

**ENSTAR GROUP LIMITED**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT - CONTINUED**
**Statements of Earnings - Parent Company Only  
For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(in thousands of U.S. dollars)		
<b>INCOME</b>			
Net investment income	\$ 142	\$ 80	\$ 44
Other income	—	1,050	—
Dividend income from subsidiaries	—	249,055	361,675
	142	250,185	361,719
<b>EXPENSES</b>			
General and administrative expenses	68,977	87,596	59,755
Interest expense	27,353	23,138	10,109
Net foreign exchange losses (gains)	7,655	6,135	(318)
	103,985	116,869	69,546
<b>EARNINGS (LOSSES) BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES</b>			
	(103,843)	133,316	292,173
Equity in undistributed earnings (losses) of subsidiaries - continuing operations	(46,378)	167,149	(39,329)
Equity in undistributed earnings (losses) of subsidiaries - discontinued operations	—	10,993	11,963
<b>NET EARNINGS</b>	(150,221)	311,458	264,807
Dividends on preferred shares	(12,133)	—	—
<b>NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS</b>	<b>\$ (162,354)</b>	<b>\$ 311,458</b>	<b>\$ 264,807</b>

See accompanying notes to the Condensed Financial Information of Registrant

**Statements of Comprehensive Income - Parent Company Only  
For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(in thousands of U.S. dollars)		
<b>NET EARNINGS</b>	<b>\$ (150,221)</b>	<b>\$ 311,458</b>	<b>\$ 264,807</b>
OTHER COMPREHENSIVE INCOME (LOSS) RELATING TO SUBSIDIARIES, NET OF TAX	(27)	34,016	11,613
<b>COMPREHENSIVE INCOME</b>	<b>\$ (150,248)</b>	<b>\$ 345,474</b>	<b>\$ 276,420</b>

See accompanying notes to the Condensed Financial Information of Registrant

**ENSTAR GROUP LIMITED**
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT - CONTINUED**
**Statements of Cash Flows - Parent Company Only  
For the Years Ended December 31, 2018, 2017 and 2016**

	2018	2017	2016
	(in thousands of U.S. dollars)		
<b>OPERATING ACTIVITIES:</b>			
Net cash flows provided by (used in) operating activities	\$ (128,382)	\$ 97,898	\$ 39,185
<b>INVESTING ACTIVITIES:</b>			
Dividends and return of capital from subsidiaries	101,000	217,450	250,117
Contributions to subsidiaries	(660,339)	(465,650)	(295,268)
Net cash flows used in investing activities	(559,339)	(248,200)	(45,151)
<b>FINANCING ACTIVITIES:</b>			
Net proceeds from the issuance of preferred shares	495,357	—	—
Dividends on preferred shares	(12,133)	—	—
Repayment of loans	(898,633)	(696,640)	(426,750)
Receipt of loans	1,115,885	844,516	433,048
Net cash flows provided by financing activities	700,476	147,876	6,298
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>12,755</b>	<b>(2,426)</b>	<b>332</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,458</b>	<b>4,884</b>	<b>4,552</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 15,213</b>	<b>\$ 2,458</b>	<b>\$ 4,884</b>

See accompanying notes to the Condensed Financial Information of Registrant

**Notes to the Condensed Financial Information of Registrant**

The Condensed Financial Information of Registrant should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in Part II - Item 8 of this Annual Report on Form 10-K. Our wholly owned and majority owned subsidiaries are recorded based upon our proportionate share of our subsidiaries' net assets (similar to presenting them on the equity method).

Investing activities in the Condensed Statements of Cash Flows primarily represents the flow of funds to and from subsidiaries to provide cash on hand to fund acquisitions and significant new business. Net investment income relates to interest on loans to subsidiaries. For the years ended December 31, 2018, 2017, and 2016, interest paid was \$25.1 million, \$17.6 million, and \$15.0 million, respectively. During the years ended December 31, 2018, 2017, and 2016, non-cash investing activities included \$nil, \$31.6 million, and \$111.6 million, respectively, for dividends and return of capital from subsidiaries and \$414.8 million, \$148.1 million, and \$452.1 million, respectively, for contributions to subsidiaries. In 2018, these transactions represented the contribution of the acquired outstanding shares and warrants of KaylaRe Holdings, Ltd to another subsidiary company. In 2017 and 2016, these transactions were to settle intercompany balances, resulting in a net reduction in balances due from subsidiaries and an increase in investments in subsidiaries.

As of December 31, 2018, parental guarantees and capital support instruments supporting subsidiaries' insurance obligations were \$614.5 million. In addition, as of December 31, 2018 there were \$295.0 million of unsecured letters of credit for Funds at Lloyd's which have a parental guarantee.

As of December 31, 2018 and 2017, retained earnings were \$1,976.5 million and \$2,132.9 million, respectively, a decrease of \$156.4 million. This decrease was primarily attributable to the net loss of \$162.4 million.

## ENSTAR GROUP LIMITED

SUPPLEMENTARY INSURANCE INFORMATION  
(Expressed in thousands of U.S. Dollars)

	As of December 31,				Year ended December 31,						
	Deferred Acquisition Costs	Reserves for Losses and Loss Adjustment Expenses	Unearned Premiums	Policy Benefits for Life and Annuity Contracts	Net Premiums Earned	Net Investment Income	Losses and Loss Expenses and Policy Benefits	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Net Premiums Written	
<b>2018</b>											
Non-life run-off	\$ 4,378	\$ 7,540,662	\$ 136,023	\$ —	\$ 9,427	\$ 226,287	\$ (306,067)	\$ 4,006	\$ 197,824	\$ (9,217)	
Atrium	20,355	241,284	70,429	—	146,315	5,686	69,810	50,646	24,698	153,488	
StarStone	96,004	1,608,697	619,164	—	714,959	35,973	673,383	135,452	156,726	805,562	
Other	364	18,861	17,002	105,080	24,874	2,725	17,902	2,686	28,127	32,067	
<b>Total</b>	<b>\$ 121,101</b>	<b>\$ 9,409,504</b>	<b>\$ 842,618</b>	<b>\$ 105,080</b>	<b>\$ 895,575</b>	<b>\$ 270,671</b>	<b>\$ 455,028</b>	<b>\$ 192,790</b>	<b>\$ 407,375</b>	<b>\$ 981,900</b>	
<b>2017</b>											
Non-life run-off	\$ 655	\$ 5,949,472	\$ 14,275	\$ —	\$ 14,162	\$ 166,678	\$ (190,674)	\$ 328	\$ 233,827	\$ 6,482	
Atrium	18,385	240,873	64,877	—	134,747	4,218	69,419	47,688	29,586	134,214	
StarStone	45,944	1,207,743	504,045	—	459,403	27,706	314,806	48,012	135,558	464,901	
Other	—	—	—	117,207	4,809	10,187	4,015	878	37,014	4,793	
<b>Total</b>	<b>\$ 64,984</b>	<b>\$ 7,398,088</b>	<b>\$ 583,197</b>	<b>\$ 117,207</b>	<b>\$ 613,121</b>	<b>\$ 208,789</b>	<b>\$ 197,566</b>	<b>\$ 96,906</b>	<b>\$ 435,985</b>	<b>\$ 610,390</b>	
<b>2016</b>											
Non-life run-off	\$ 1,081	\$ 4,716,363	\$ 15,107	\$ —	\$ 16,755	\$ 145,237	\$ (285,881)	\$ 4,198	\$ 212,899	\$ 9,202	
Atrium	16,964	212,122	61,862	—	124,416	2,940	58,387	44,670	25,132	140,437	
StarStone	40,069	1,059,382	471,374	—	676,608	22,221	401,593	138,822	124,239	648,036	
Other	—	—	—	112,095	5,735	15,065	(2,038)	(1,121)	61,464	6,261	
<b>Total</b>	<b>\$ 58,114</b>	<b>\$ 5,987,867</b>	<b>\$ 548,343</b>	<b>\$ 112,095</b>	<b>\$ 823,514</b>	<b>\$ 185,463</b>	<b>\$ 172,061</b>	<b>\$ 186,569</b>	<b>\$ 423,734</b>	<b>\$ 803,936</b>	

## ENSTAR GROUP LIMITED

## REINSURANCE

For the Years Ended December 31, 2018, 2017 and 2016  
(Expressed in thousands of U.S. Dollars)

	Gross	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
<b>2018</b>					
Life insurance in force	\$ 855,366	\$ (84,603)	\$ —	\$ 770,763	—%
Premiums earned:					
Property and casualty	985,637	(330,110)	236,182	891,709	26.5%
Life and annuities	3,892	(26)	—	3,866	—%
Total premiums earned	<u>\$ 989,529</u>	<u>\$ (330,136)</u>	<u>\$ 236,182</u>	<u>\$ 895,575</u>	
<b>2017</b>					
Life insurance in force	\$ 979,291	\$ (100,189)	\$ —	\$ 879,102	—%
Premiums earned:					
Property and casualty	899,226	(433,075)	142,161	608,312	23.4%
Life and annuities	5,900	(1,091)	—	4,809	—%
Total premiums earned	<u>\$ 905,126</u>	<u>\$ (434,166)</u>	<u>\$ 142,161</u>	<u>\$ 613,121</u>	
<b>2016</b>					
Life insurance in force	\$ 2,317,567	\$ (585,575)	\$ —	\$ 1,731,992	—%
Premiums earned:					
Property and casualty	804,141	(178,834)	192,472	817,779	23.5%
Life and annuities	7,220	(1,485)	—	5,735	—%
Total premiums earned	<u>\$ 811,361</u>	<u>\$ (180,319)</u>	<u>\$ 192,472</u>	<u>\$ 823,514</u>	

**ENSTAR GROUP LIMITED**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2018, 2017 and 2016**  
**(Expressed in thousands of U.S. Dollars)**

	<b>Balance at Beginning of Year</b>	<b>Charged to costs and expenses</b>	<b>Charged to other accounts <sup>(1)</sup></b>	<b>Deductions <sup>(2)</sup></b>	<b>Balance at End of Year</b>
<b>December 31, 2018</b>					
Reinsurance balances recoverable on paid and unpaid losses:					
Provisions for bad debt	165,213	—	(1,837)	(6,644)	156,732
Valuation allowance for deferred tax assets	188,300	(2,492)	18,000	8,305	212,113
<b>December 31, 2017</b>					
Reinsurance balances recoverable on paid and unpaid losses:					
Provisions for bad debt	174,516	(1,536)	(4,191)	(3,576)	165,213
Valuation allowance for deferred tax assets	290,861	(16,694)	—	(85,867)	188,300
<b>December 31, 2016</b>					
Reinsurance balances recoverable on paid and unpaid losses:					
Provisions for bad debt	210,327	(13,822)	(19,255)	(2,734)	174,516
Valuation allowance for deferred tax assets	291,280	13,389	—	(13,808)	290,861

<sup>(1)</sup> These amounts are credited to net incurred losses and there is an offsetting debit within the same line, resulting in no impact on earnings. Valuation allowance for deferred tax asset charged to other accounts is related to acquisitions in 2018.

<sup>(2)</sup> Credited to the related asset account.

SCHEDULE VI

ENSTAR GROUP LIMITED

SUPPLEMENTARY INFORMATION CONCERNING PROPERTY/CASUALTY INSURANCE OPERATIONS

As of and for the years ended December 31, 2018, 2017 and 2016

(Expressed in thousands of U.S. Dollars)

Affiliation with Registrant	As of December 31,			Year ended December 31,						
	Deferred Acquisition Costs	Reserves for Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Net Losses and Loss Expenses Incurred		Net Paid Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Net Premiums Written
						Current Year	Prior Year			
<i>Consolidated Subsidiaries</i>										
2018	\$ 121,101	\$ 9,409,504	\$ 842,618	\$ 891,708	\$ 269,093	\$ 689,782	\$ (235,757)	\$ (1,384,545)	\$ 192,790	\$ 978,037
2017	64,984	7,398,088	583,197	608,312	198,602	437,853	(244,302)	(945,194)	96,028	605,597
2016	58,114	5,987,867	548,343	817,779	170,398	493,016	(318,917)	(833,057)	187,690	797,675

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that we maintained effective disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the SEC's rules and forms, and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Management does not expect that its internal control over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, has inherent limitations, and accordingly no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. As a result, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial reporting and the preparation of financial statements.

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on that evaluation, we have concluded that we maintained effective internal control over financial reporting as of December 31, 2018.

Management excluded Maiden Reinsurance North America, acquired on December 27, 2018, from its evaluation of internal controls over financial reporting as permitted under Securities and Exchange Commission guidance. The results of Maiden Re North America since the acquisition date are included in our consolidated financial statements and constituted approximately 8.9%, 6.8% and 0.5% of total assets, net assets and total income, respectively, as of and for the year ended, December 31, 2018. See Note 3 - "Acquisitions" in the notes to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for a discussion of this acquisition. We are in the process of incorporating our controls and procedures into this acquisition.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Enstar Group Limited:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Enstar Group Limited and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive loss, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and related notes and financial statement schedules I to VI (collectively, the consolidated financial statements), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Maiden Re North America on December 27, 2018, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, Maiden Reinsurance North America's internal control over financial reporting associated with total assets, net assets and total income acquired of 8.7%, 6.8% and 0.5% of total assets, net assets and total income, respectively, as of December 31, 2018. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Maiden Reinsurance North America.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Form 10-K as "Management's Annual Report on Internal Control Over Financial Reporting" under Item 9A, "Controls and Procedures". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Audit Limited

Hamilton, Bermuda

March 1, 2019

**ITEM 9B. OTHER INFORMATION**

On March 1, 2019, we entered into a Master Agreement with Maiden Holdings and Maiden Re Bermuda. Under the Master Agreement, Enstar and Maiden Re Bermuda agreed to enter into an Adverse Development Cover Reinsurance Agreement (“ADC Agreement”) pursuant to which Maiden Re Bermuda will cede and Enstar will reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda’s two existing quota share agreements with certain insurance companies owned directly or indirectly by AmTrust for losses incurred on or prior to December 31, 2018 in excess of a \$2.44 billion retention, as such figure may be adjusted based upon Maiden’s final year end reserves for the underlying business, up to a \$675 million limit. The premium payable by Maiden Re Bermuda to Enstar under the ADC Agreement is \$500 million. Completion of the transaction is subject to, among other things, regulatory approvals and satisfaction of various closing conditions. The Master Agreement contains customary representations, warranties, covenants and other closing conditions. The transaction is expected to close in the first half of 2019.

Effective immediately upon signing of the Master Agreement, the parties terminated and released each other from their respective obligations under the previously disclosed Master Agreement, entered into on November 9, 2018. The previous agreement provided for the parties to enter into a retrocession agreement pursuant to which Maiden Re Bermuda would cede and Enstar would reinsure 100% of the liability of Maiden Re Bermuda, as reinsurer, under Maiden Re Bermuda’s two existing AmTrust quota share agreements for losses incurred on or prior to June 30, 2018, for a premium payable by Maiden Re Bermuda to Enstar of \$2.675 billion.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

All information required by Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K is incorporated by reference from the definitive proxy statement for our 2019 Annual General Meeting of Shareholders that will be filed with the SEC not later than 120 days after the close of the fiscal year ended December 31, 2018 pursuant to Regulation 14A.

**ITEM 11. EXECUTIVE COMPENSATION**

See Item 10 herein.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

See Item 10 herein.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

See Item 10 herein.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

See Item 10 herein.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Financial Statement Schedules: see Item 8 in Part II of this report.

(b) Exhibits: see accompanying exhibit index that precedes the signature page of this report.

**ITEM 16. FORM 10-K SUMMARY**

Omitted at Company's option.

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">2.1s</a>	Stock Purchase Agreement, dated February 17, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on February 21, 2017).
<a href="#">2.2</a>	Amendment No. 1 to Stock Purchase Agreement, dated June 1, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q filed on November 8, 2017).
<a href="#">2.3</a>	Amendment No. 2 to Stock Purchase Agreement, dated July 31, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.2 to the Company's Form 10-Q filed on November 8, 2017).
<a href="#">2.4</a>	Amendment No. 3 to Stock Purchase Agreement, dated December 15, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.14 to the Company's Form 10-K filed on February 28, 2018).
<a href="#">2.5s</a>	Master Transaction Agreement, dated as of August 31, 2018, by and among Enstar Group Limited, Enstar Holdings (US) LLC and Maiden Holdings North America, Ltd. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on September 4, 2018).
<a href="#">3.1</a>	Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K/A filed on May 2, 2011).
<a href="#">3.2</a>	Fourth Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.2(b) of the Company's Form 10-Q filed on August 11, 2014).
<a href="#">3.3</a>	Certificate of Designations for the Series B Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on July 9, 2013).
<a href="#">3.4</a>	Certificate of Designations of Series C Participating Non-Voting Perpetual Preferred Stock of Enstar Group Limited, dated as of June 13, 2016 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on June 17, 2016).
<a href="#">3.5</a>	Certificate of Designations of Series D Perpetual Non-Cumulative Preferred Shares of Enstar Group Limited, dated as of June 27, 2018 (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on June 27, 2018).
<a href="#">3.6</a>	Certificate of Designations of Series E Perpetual Non-Cumulative Preferred Shares of Enstar Group Limited, dated as of November 21, 2018 (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on November 21, 2018).
<a href="#">4.1</a>	Senior Indenture, dated as of March 10, 2017, between Enstar Group Limited and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on March 10, 2017).
<a href="#">4.2</a>	First Supplemental Indenture, dated as of March 10, 2017, between Enstar Group Limited and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on March 10, 2017).
<a href="#">4.3</a>	Deposit Agreement, dated as of June 27, 2018, between Enstar Group Limited and American Stock Transfer (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on June 27, 2018).
<a href="#">4.4</a>	Deposit Agreement, dated as of November 21, 2018, between Enstar Group Limited and American Stock Transfer (incorporated by reference to Exhibit 4.3 to the Company's Form 8-K filed on November 21, 2018).
<a href="#">10.1</a>	Form of Warrant (incorporated by reference to Exhibit 99.2 of the Company's Form 8-K filed on April 21, 2011).
<a href="#">10.2</a>	Registration Rights Agreement, dated as of January 31, 2007, by and among Castlewood Holdings Limited, Trident II, L.P., Marsh & McLennan Capital Professionals Fund, L.P., Marsh & McLennan Employees' Securities Company, L.P., Dominic F. Silvester, J. Christopher Flowers, and other parties thereto set forth on the Schedule of Shareholders attached thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K12B filed on January 31, 2007).

- [10.3](#) Registration Rights Agreement, dated as of April 20, 2011, by and among Enstar Group Limited, GSCP VI AIV Navi, Ltd., GSCP VI Offshore Navi, Ltd., GSCP VI Parallel AIV Navi, Ltd., GSCP VI Employee Navi, Ltd., and GSCP VI GmbH Navi, L.P. (incorporated by reference to Exhibit 99.3 of the Company's Form 8-K filed on April 21, 2011).
- [10.4](#) Registration Rights Agreement, dated April 1, 2014, among Enstar Group Limited, FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P., FR Torus Co-Investment, L.P. and Corsair Specialty Investors, L.P. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 4, 2014).
- [10.5](#) Form of Waiver Agreement (incorporated herein by reference to Exhibit 4.7 of the Company's Form S-3 filed on October 10, 2017).
- [10.6](#) Shareholder Rights Agreement, dated June 3, 2015, between Enstar Group Limited and Canada Pension Plan Investment Board (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on June 3, 2015).
- [10.7+](#) Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.1 of the Company's Form S-3 (No. 333-151461) initially filed on June 5, 2008).
- [10.8+](#) Amended and Restated Employment Agreement, dated as of April 12, 2017 and effective April 17, 2017, by and between Enstar Group Limited and Dominic F. Silvester (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on May 8, 2017).
- [10.9+](#) Employment Agreement, dated as of March 28, 2017 and effective April 6, 2017, by and between Enstar Group Limited and Paul J. O'Shea (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 22, 2017).
- [10.10+](#) Employment Agreement, dated May 11, 2015, effective August 15, 2015, by and between Enstar Group Limited and Mark Smith (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 7, 2015).
- [10.11+](#) Transition Agreement, dated May 19, 2017, by and between Enstar Group Limited and Mark W. Smith (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on May 22, 2017).
- [10.12+](#) Employment Agreement, dated May 19, 2017, by and between Enstar Group Limited and Orla M. Gregory (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 22, 2017).
- [10.13+](#) Employment Agreement, dated December 28, 2017, by and between Enstar Group Limited and Guy T.A. Bowker (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 4, 2018).
- [10.14+](#) Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors, effective as of June 5, 2007 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on June 11, 2007).
- [10.15+](#) Amended and Restated Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors, effective as of January 1, 2015 (incorporated by reference to Exhibit 10.13 of the Company's Form 10-K filed on March 2, 2015).
- [10.16+](#) Form of Non-Employee Director Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.32 of the Company's Form 10-K filed on March 2, 2015).
- [10.17+](#) Castlewood Holdings Limited 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the proxy statement/prospectus that forms a part of the Company's Form S-4 declared effective December 15, 2006).
- [10.18+](#) First Amendment to Castlewood Holdings Limited 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on April 6, 2007).
- [10.19+](#) Form of Award Agreement under the Castlewood Holdings Limited 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 6, 2007).
- [10.20+](#) Form of Stock Appreciation Right Award Agreement pursuant to the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q filed on August 11, 2014).
- [10.21+](#) Form of Restricted Stock Award Agreement pursuant to the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q filed on August 11, 2014).
- [10.22+](#) Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on June 17, 2016).

<a href="#">10.23+</a>	Form of Restricted Stock Award Agreement under the Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on August 5, 2016).
<a href="#">10.24+</a>	Form of Stock Appreciation Right Award Agreement under the Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on August 5, 2016).
<a href="#">10.25+</a>	Form of Restricted Stock Unit Award Agreement under the Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q filed on November 8, 2016).
<a href="#">10.26+</a>	Form of Performance Stock Unit Award Agreement under the Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on November 8, 2016).
<a href="#">10.27+</a>	Form of Performance Stock Unit Award Agreement (2018) under the Enstar Group Limited 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 8, 2017).
<a href="#">10.28+</a>	Enstar Group Limited Amended and Restated Employee Share Purchase Plan (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on November 8, 2016).
<a href="#">10.29*+</a>	Amended and Restated Enstar Group Limited 2016-2018 Annual Incentive Program.
<a href="#">10.30*+</a>	Amended and Restated Enstar Group Limited 2019-2021 Annual Incentive Program.
<a href="#">10.31</a>	Amended and Restated Bayshore Shareholders' Agreement, dated May 8, 2014, among Bayshore Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., and Dowling Capital Partners I, L.P. (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 11, 2014).
<a href="#">10.32</a>	Voting and Shareholders' Agreement, dated as of December 23, 2015, among North Bay Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., Dowling Capital Partners I, L.P., Atrium Nominees Limited, Bayshore Holdings Limited, Northshore Holdings Limited and Enstar Group Limited (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on December 30, 2015).
<a href="#">10.33</a>	Second Amended and Restated Northshore Shareholders' Agreement, dated as of December 23, 2015, among Northshore Holdings Limited, North Bay Holdings Limited and Atrium Nominees Limited (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on December 30, 2015).
<a href="#">10.34</a>	Exchange Agreement, dated as of February 2, 2018, by and among Enstar Group Limited, KaylaRe Holdings, Ltd., HH KaylaRe Holdings, Ltd., Hillhouse Fund III, L.P., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., Souris Partners and Cavello Bay Reinsurance Limited (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 8, 2018).
<a href="#">10.35</a>	Master Agreement, dated as of November 9, 2018, by and among Maiden Holdings, Ltd., Maiden Reinsurance Ltd. and Enstar Group Limited (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on November 13, 2018).
<a href="#">10.36*</a>	Subscription Agreement, dated as of December 11, 2018, by and between Cavello Bay Reinsurance Limited and Enhanced Reinsurance Limited.
<a href="#">10.37</a>	Revolving Credit Agreement, dated as of August 16, 2018, by and among Enstar Group Limited and certain of its subsidiaries, National Australia Bank Limited, Barclays Bank PLC, Wells Fargo Securities, LLC Wells Fargo Bank, National Association and each of the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on August 21, 2018).
<a href="#">10.38*</a>	First Amendment to Revolving Credit Agreement, dated as of December 19, 2018, by and among Enstar Group Limited and certain of its subsidiaries, National Australia Bank Limited, Barclays Bank PLC, Wells Fargo Securities, LLC Wells Fargo Bank, National Association and each of the lenders party thereto.
<a href="#">10.39</a>	Term Loan Credit Agreement, dated as of December 27, 2018, by and among Enstar Group Limited and certain of its subsidiaries, Wells Fargo Bank, National Association and each of the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 2, 2019).
<a href="#">21.1*</a>	List of Subsidiaries.
<a href="#">23.1*</a>	Consent of KPMG Audit Limited.
<a href="#">31.1*</a>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2*</a>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.

<a href="#">32.1</a> **	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2</a> **	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data Files.

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\* filed herewith

\*\* furnished herewith

+ denotes management contract or compensatory arrangement

s certain of the schedules and similar attachments are not filed but Enstar Group Limited undertakes to furnish a copy of the schedules or similar attachments to the SEC upon request

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 1, 2019.

ENSTAR GROUP LIMITED

By: /s/ DOMINIC F. SILVESTER  
Dominic F. Silvester  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 1, 2019.

<u>Signature</u>	<u>Title</u>
<u>/s/ ROBERT J. CAMPBELL</u> Robert J. Campbell	Chairman and Director
<u>/s/ DOMINIC F. SILVESTER</u> Dominic F. Silvester	Chief Executive Officer and Director
<u>/s/ GUY BOWKER</u> Guy Bowker	Chief Financial Officer (signing in his capacity as principal financial officer and principal accounting officer)
<u>/s/ PAUL J. O'SHEA</u> Paul J. O'Shea	President and Director
<u>/s/ B. Frederick BECKER</u> B. Frederick Becker	Director
<u>/s/ SANDRA L. BOSS</u> Sandra L. Boss	Director
<u>/s/ JAMES D. CAREY</u> James D. Carey	Director
<u>/s/ HANS-PETER GERHARDT</u> Hans-Peter Gerhardt	Director
<u>/s/ JIE LIU</u> Jie Liu	Director
<u>/s/ HITESH PATEL</u> Hitesh Patel	Director
<u>/s/ POUL A. WINSLOW</u> Poul A. Winslow	Director

**ENSTAR GROUP LIMITED**  
**AMENDED AND RESTATED 2016-2018 ANNUAL INCENTIVE COMPENSATION PROGRAM**

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APPENDIX A

**ENSTAR GROUP LIMITED**  
**AMENDED AND RESTATED 2016-2018 ANNUAL INCENTIVE COMPENSATION PROGRAM**

**Approved by the Compensation Committee and the Board of Directors in February 2016 and 2019**

**WHEREAS**, Enstar Group Limited (the "Company") desires to establish an annual incentive compensation program for each of the 2016, 2017, and 2018 calendar years (the "Program") for the benefit of certain officers and other employees of the Company and its Related Corporations (as defined in the Plan) whereby such officers and other employees would be awarded cash, Bonus Shares, or a combination thereof, each as set forth in the Program, upon the terms and subject to the conditions set forth below.

**NOW, THEREFORE**, with effect for the fiscal year beginning January 1, 2016, the Program is hereby adopted by the Compensation Committee of the Board of Directors of the Company (the "Committee") with the following terms and conditions:

1. Purpose. The purpose of the Program is to motivate certain officers and employees of the Company to grow the Company's net book value per share by increasing profitability and meeting other corporate strategic and financial objectives within its risk-managed environment.

2. Definitions.

(a) "Award" means an award of cash and/or Bonus Shares (as defined in the Plan) to a Participant in accordance with Section 3 of the Program.

(b) "Change in Control" means "Change in Control" as such term is defined in a Participant's employment agreement or, if a Participant does not have an employment agreement with the Company or any Related Corporation, as such term is defined in the Plan.

(c) "CEO" means the Chief Executive Officer of Company.

(d) "Executive Officer" means an executive officer of the Company, as designated by the Company's Board of Directors from time to time. On the date of the Program's adoption, Executive Officers include the Chief Executive Officer, the two Executive Vice Presidents & Jt. Chief Operating Officers, the Chief Financial Officer, and the Chief Integration Officer of the Company.

(e) "Measurement Period" means each of the 2016, 2017, and 2018 calendar years. In the event of a Change in Control during any such year, the Measurement Period shall be the period beginning on the first day of such year and ending on the date of the Change in Control.

(f) "Participant" means each individual employed during the Measurement Period who serves as an Executive Officer of the Company and such other individuals as the Committee may determine, in its sole discretion, taking into consideration the recommendations of the CEO (or such other Executive Officer designated by the CEO to make recommendations to the Committee on non-Executive Officer Participants). Within 90 days after the end of any Measurement Period, the Committee shall, taking into consideration the recommendations of the CEO, identify those individuals in addition to the Executive Officers who shall be entitled to participate for such Measurement Period and shall determine the Allocable Share of the Bonus Pool to be received by each Participant for such Measurement Period. In the event a Change in Control occurs within the Measurement Period, the Committee shall make such determinations within the 60 day-period prior to the date of the Change in Control.

(g) "Plan" means the equity incentive plan approved by the Company's shareholders and in effect at the time of an Award.

(h) "Shares" means "Common Shares" as defined in the Plan.

3. Bonus Pool.

(a) For each Measurement Period, the Company shall pay to each Participant, in cash, Bonus Shares, or a combination thereof, as determined by the Committee, the Participant's Allocable Share of the Bonus Pool.

(b) The portion of a Participant's Allocable Share to be paid to the Participant in Bonus Shares (rounded down to the nearest whole number of Shares) shall be determined by dividing the portion of the Participant's Allocable Share payable to the Participant in Bonus Shares by the Share Value (based on the Share Value over the 5 trading days following the later of: (1) the last business day of the Company's first fiscal quarter of the year following the Measurement Period and (2) the release of the Company's earnings for the Measurement Period).

(c) Awards settled in Bonus Shares will be payable under the Program to the extent that Shares remain available for issuance under the Plan, including pursuant to any Plan sub-limit on Shares issued other than pursuant to minimum vesting limits (collectively, "Plan Limits"). If the total number of Bonus Shares to be awarded with respect to any Measurement Period exceeds the number of Shares available for issuance under the Plan Limits, then the number of Bonus Shares payable to each Participant will be reduced on a pro rata basis applied to Participants receiving Bonus Shares for that Measurement Period, and Participants will receive the unpaid portion of their Award as a cash payment instead.

(d) The following terms shall be defined as set forth below:

(1) "Allocable Share" means the portion of the Bonus Pool for a Measurement Period, expressed in terms of a dollar amount, which has been allocated by the Committee to a Participant. The aggregate dollar amount of Allocable Shares of all Participants for a Measurement Period may be equal to, or less than, the Bonus Pool for such Measurement Period.

(2) "Bonus Pool" means, for any Measurement Period, a percentage of the Company's Consolidated Net After-Tax Profits for such Measurement Period. The guideline for this percentage is 15% but this percentage can be varied by the Committee for any Measurement Period no later than 60 days from the end of the Measurement Period. If, for any Measurement Period, the Company does not have any Consolidated Net After-Tax Profits, the Bonus Pool for such Measurement Period shall be zero, unless otherwise determined by the Committee.

(3) "Consolidated Net After-Tax Profits" means for each year ending on December 31, the net earnings for that year as recorded in the Company's Consolidated Statements of Earnings plus any bonus expense recorded in the Company's Consolidated Statements of Earnings for such year.

(4) "Share Value" means "Fair Market Value" as defined in the Plan.

(e) Within 90 days after the end of the Measurement Period, the Committee shall notify each Participant of the Award (if any) to such Participant under the Program. If an Award is to be paid under the Program, it shall be paid to Participants no later than April 15<sup>th</sup> following the applicable Measurement Period (or, if a Change in Control occurs during a Measurement Period, within 30 days after the last day of the Measurement Period ending on the date of the Change in Control). A Participant must be employed by the Company or a Related Corporation on the date of payment unless otherwise determined by the Committee (in the case of an Executive Officer Participant) or the CEO (in the case of a non-Executive Officer Participant).

(f) The Committee shall, in its discretion, be able to establish performance objectives and targets that apply to all or a portion of a Participant's Awards, either with respect to quantitative or qualitative individual performance factors, Company or Related Corporation performance factors (including, without limitation, those example factors set forth in Appendix A), or a combination of such factors (collectively, "Performance Objectives"). These Performance Objectives may, in the discretion of the Committee, be tied to payment of varying levels of payments comprising a Participant's Award ("Target Amounts"). If used for a Measurement Period, Performance Objectives and Target Amounts for Executive Officers shall be established by the Committee no later than May 10<sup>th</sup> of the subject Measurement Period. The interpretation of whether the Performance Objectives have been met and the corresponding level of payment shall be subject to the Committee's review and final determination.

(g) Notwithstanding anything to the contrary contained herein, the Committee may, in its sole discretion, cancel an Award if the Participant has engaged in or engages in any conduct or act determined to be materially injurious, detrimental or prejudicial to any interest of the Company or any of its affiliates, as determined by the Committee in its sole discretion (such conduct or act, "Detrimental Activity"). The Committee may, in its sole discretion, also require repayment of a portion or all of any Award if the Participant has engaged in or engages in Detrimental Activity or receives any amount in excess of what the Participant should have received under the terms of the Award for any reason (including, without limitation, by reason of a financial restatement, mistake in

calculations or other administrative error). Without limiting the foregoing, all Awards shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with applicable laws or any compensation recovery policy of the Company as in effect from time to time.

4. Beneficiary Designation. Each Participant may designate the person(s) or entities as the beneficiary(ies) to whom the Participant's Award may (subject to the provisions of the Program) be paid in the event of the Participant's death prior to the payment of such Award to him or her. Each beneficiary designation shall be substantially in the form determined by the Committee and shall be effective only when filed with the Committee during the Participant's lifetime. Any beneficiary designation may be changed by a Participant without the consent of any previously designated beneficiary or any other person or entity, unless otherwise required by law, by the filing of a new beneficiary designation with the Committee. The filing of a new beneficiary designation shall cancel all beneficiary designations previously filed. If any Participant fails to designate a beneficiary in the manner provided above, or if the beneficiary designated by a Participant predeceases the Participant, the Committee may direct such Participant's Award to be paid to the Participant's surviving spouse or, if the Participant has no surviving spouse, then to the Participant's estate.

5. Delivery to Guardian. If an Award is payable under this Program to a minor, a person declared incompetent or a person incapable of handling the disposition of property, the Committee may direct the payment of the Award to the guardian, legal representative or person having the care and custody of the minor, incompetent or incapable person. The Committee may require proof of incompetency, minority, incapacity or guardianship as the Committee may deem appropriate prior to the delivery. The payment shall completely discharge the Committee, the members of the Board of Directors of the Company or any Related Corporation, the Company and any Related Corporation from all liability with respect to the Award paid.

6. Unfunded Program/Source of Shares. This Program shall be unfunded and the payment of Bonus Shares shall be pursuant to the Plan. Each Participant and beneficiary shall be a general and unsecured creditor of the Company and any Related Corporation to the extent of the Award determined hereunder, and the Participant shall have no right, title or interest in any specific asset that the Company or any Related Corporation may set aside, earmark or identify as for the payment of an Award under the Program. To the extent that a Participant is approved for an Award with respect to a given Measurement Period, the obligations of the Company and any Related Corporation under the Program shall be merely that of an unfunded and unsecured promise to pay cash and Bonus Shares in the future pursuant to the terms of the Program.

7. Code Section 409A. The Program is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Program shall be interpreted and administered to be in compliance therewith. Any payments described in the Program that are due within the "short-term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable laws require otherwise. Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any additional tax or penalty on any Participant under Section 409A of the Code and neither the Company nor the Committee will have any liability to any Participant for such tax or penalty.

8. Administration. This Program shall be administered by the Committee.

9. Amendment and Termination. The Board of Directors of the Company reserves the right to amend the Program with respect to any Measurement Period, by written resolution, at any time.

10. Tax Withholding. The payment of cash and Bonus Shares to a Participant or beneficiary under this Program shall be subject to any applicable tax withholding.

11. Headings. The headings of the Sections and subsections of the Program are for reference only. In the event of a conflict between a heading and the content of a Section or subsection, the content of the Section or subsection shall control.

12. Plan. Because Bonus Shares may be awarded under the Program, the terms and conditions of the Plan are hereby incorporated by reference in connection with issuance of Bonus Shares. If any terms of the Program conflict with the terms of the Plan, the terms of the Program shall control. Nothing contained herein shall limit the ability of the Committee to issue Bonus Shares under the Plan.

## APPENDIX A

### Example Performance Objectives

The following examples are provided for reference purposes only and not for purposes of limitation. The Committee shall have full discretion to utilize this or other measures of performance in the event it elects to establish Performance Objectives.

Book value  
Book value per share (fully diluted or basic)  
Return on equity  
Earnings (total or per share)  
Total shareholder return  
Stock price  
Change in stock price  
Growth in net income or income from selected businesses (total or per share)  
Pre-tax income or growth in pre-tax income from selected businesses  
Income  
Revenues  
Premiums and fees  
Growth in premiums and fees  
Revenue growth  
Expense ratios  
Other expense management measures  
Underwriting ratios  
Underwriting ratios from selected businesses  
Measures related to ultimate losses and loss adjustment expense liabilities for the Company or from selected businesses or business units  
Various measures of operational effectiveness  
Return on assets  
Return on capital  
Growth in net earnings (total or per share)  
Investment income  
Investment returns or other investment-performance related measures  
Internal rate of return on acquisitions or acquisition-related activity, including from selected transactions  
Strategic, qualitative or other performance related measures

\*The Committee may specify any reasonable definition of the performance measures it uses, which may provide for reasonable adjustments and may include or exclude items, such as: (i) realized investment gains and losses, (ii) special items identified in the Company's reporting, (iii) extraordinary, unusual or non-recurring items, (iv) effects of accounting changes, currency fluctuations, acquisitions, divestitures, reserve strengthening or financing activities, (v) expenses for restructuring or productivity initiatives, or (vi) other non-operating items.

\*\*The performance objectives may be (i) for the Company as a whole or for one or more of its subsidiaries, business units or lines of business, or any combination thereof, (ii) absolute or comparative to that of a peer group or specified index, or any combination thereof, and (iii) different for particular performance periods or Participants.

**ENSTAR GROUP LIMITED**  
**AMENDED AND RESTATED 2019-2021 ANNUAL INCENTIVE COMPENSATION PROGRAM**

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**ENSTAR GROUP LIMITED  
AMENDED AND RESTATED 2019-2021 ANNUAL INCENTIVE COMPENSATION PROGRAM**

**Approved by the Compensation Committee and the Board of Directors  
in November 2018 and February 2019**

**WHEREAS**, Enstar Group Limited (the "Company") desires to establish an annual incentive compensation program for each of the 2019, 2020, and 2021 calendar years (the "Program") for the benefit of certain officers and other employees of the Company and its Related Corporations whereby such officers and other employees would be awarded cash upon the terms and subject to the conditions set forth below.

**NOW, THEREFORE**, with effect for the fiscal year beginning January 1, 2019, the Program is hereby adopted by the Compensation Committee of the Board of Directors of the Company (the "Committee") and the Board of Directors of the Company with the following terms and conditions:

1. Purpose. The purpose of the Program is to motivate certain officers and employees of the Company to grow the Company's net book value per share by increasing profitability and meeting other corporate strategic and financial objectives within its risk-managed environment.

2. Definitions.

(a) "Award" means an award of cash to a Participant in accordance with Section 3 of the Program.

(b) "Change in Control" means "Change in Control" as such term is defined in a Participant's employment agreement or, if a Participant does not have an employment agreement with the Company or any Related Corporation, as such term is defined in the Equity Plan.

(c) "CEO" means the Chief Executive Officer of Company.

(d) "Equity Plan" means the equity incentive plan approved by the Company's shareholders and in effect at the time of an Award.

(e) "Executive Officer" means an executive officer of the Company, as designated by the Company's Board of Directors from time to time.

(f) "Measurement Period" means each of the 2019, 2020, and 2021 calendar years. In the event of a Change in Control during any such year, the Measurement Period shall be the period beginning on the first day of such year and ending on the date of the Change in Control.

(g) "Participant" means each individual employed during the Measurement Period who serves as an Executive Officer of the Company and such other employees of the Company or Related Corporations as the Company may determine, in its sole discretion. The Company's determination of Participant status may be evidenced by provisions in statements of employment, offer letters, other human resources-related documentation, annual compensation review processes, or on a purely discretionary basis. Those individuals in addition to the Executive Officers who shall be eligible to participate for such Measurement Period shall be determined by the Company within 90 days of the end of the Measurement Period, subject to the employment criteria set forth in Section 3(e). In the event a Change in Control occurs within the Measurement Period, those individuals shall be determined by the Company within the 60-day period prior to the Change in Control.

(h) "Related Corporation" means each "subsidiary corporation" of the Company, as defined in the Internal Revenue Code §424(f), and any other affiliated company approved by the Committee.

3. Bonus Pool.

(a) For each Measurement Period, the Company shall pay to each Participant, in cash the Participant's Award granted from the funds available within the Bonus Pool. The aggregate dollar amount

of Awards of all Participants for a Measurement Period may be equal to, or less than, the Bonus Pool for such Measurement Period.

(b) The following terms shall be defined as set forth below:

(1) "Bonus Pool" means, for any Measurement Period, a percentage of the Company's Consolidated Net After-Tax Profits for such Measurement Period. The guideline for this percentage is 15% but this percentage can be varied by the Committee for any Measurement Period no later than 60 days from the end of the Measurement Period. If, for any Measurement Period, the Company does not have any Consolidated Net After-Tax Profits, the Bonus Pool for such Measurement Period shall be zero, unless otherwise determined by the Committee.

(2) "Consolidated Net After-Tax Profits" means for each year ending on December 31, the net earnings for that year as recorded in the Company's Consolidated Statements of Earnings plus any bonus expense recorded in the Company's Consolidated Statements of Earnings for such year.

(c) Within 90 days after the end of the Measurement Period, the Committee shall notify each Participant of the Award (if any) to such Participant under the Program. If an Award is to be paid under the Program, it shall be paid to Participants no later than April 30<sup>th</sup> following the applicable Measurement Period (or, if a Change in Control occurs during a Measurement Period, within 30 days after the last day of the Measurement Period ending on the date of the Change in Control). A Participant must be employed by the Company or a Related Corporation on the date of payment unless otherwise determined by the Committee (in the case of an Executive Officer Participant) or the CEO (in the case of a non-Executive Officer Participant).

(d) The Committee shall, in its discretion, be able to establish performance objectives and targets that apply to all or a portion of a Participant's Awards, either with respect to quantitative or qualitative individual performance factors, Company or Related Corporation performance factors (including, without limitation, those example factors set forth in Appendix A), or a combination of such factors (collectively, "Performance Objectives"). These Performance Objectives may, in the discretion of the Committee, be tied to payment of varying levels of payments comprising a Participant's Award ("Target Amounts"). If used for a Measurement Period, Performance Objectives and Target Amounts for Executive Officers shall be established by the Committee no later than May 10<sup>th</sup> of the subject Measurement Period, (unless an Executive Officer is newly appointed subsequent thereto, in which case it shall be established as soon as practicable following such appointment). The interpretation of whether the Performance Objectives have been met and the corresponding level of payment shall be subject to the Committee's review and final determination.

(e) Notwithstanding anything to the contrary contained herein, the Committee may, in its sole discretion, cancel an Award if the Executive Officer Participant has engaged in or engages in any conduct or act determined to be materially injurious, detrimental or prejudicial to any interest of the Company or any of its affiliates, as determined by the Committee in its sole discretion (such conduct or act, "Detrimental Activity"), and the CEO (or his delegates, as established from time to time) may, in his or their sole discretion, cancel an Award if the Non-Executive Officer Participant has engaged in or engages in Detrimental Activity. The Committee may, in its sole discretion, also require repayment of a portion or all of any Award if the Executive Officer Participant has engaged in or engages in Detrimental Activity or receives any amount in excess of what the Executive Officer Participant should have received under the terms of the Award for any reason (including, without limitation, by reason of a financial restatement, mistake in calculations or other administrative error), and the CEO (or his delegates, as established from time to time) may, in his or their sole discretion, require the same repayment with respect to non-Executive Officer Participants. Without limiting the foregoing, all Awards shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with applicable laws or any compensation recovery policy of the Company as in effect from time to time.

4. Unfunded Program. This Program shall be unfunded. Each Participant and beneficiary shall be a general and unsecured creditor of the Company and any Related Corporation to the extent of the Award determined hereunder, and the Participant shall have no right, title or interest in any specific asset that the Company or any Related Corporation may set aside, earmark or identify as for the payment of an Award under the Program. The obligations of the Company and any Related Corporation under the Program

shall be merely that of an unfunded and unsecured promise to pay cash in the future pursuant to the terms of the Program.

5. Code Section 409A. The Program is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Program shall be interpreted and administered to be in compliance therewith. Any payments described in the Program that are due within the “short- term deferral period” as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable laws require otherwise. Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any additional tax or penalty on any Participant under Section 409A of the Code and neither the Company nor the Committee will have any liability to any Participant for such tax or penalty.

6. Administration. This Program shall be administered by the Committee. It is acknowledged that several terms of this Program permit certain determinations to be made by the CEO and his delegates.

7. Amendment and Termination. The Board of Directors of the Company reserves the right to amend the Program with respect to any Measurement Period, by written resolution, at any time.

8. Tax Withholding. The payment of cash to a Participant or beneficiary under this Program shall be subject to any applicable tax withholding.

9. Headings. The headings of the Sections and subsections of the Program are for reference only. In the event of a conflict between a heading and the content of a Section or subsection, the content of the Section or subsection shall control.

APPENDIX A  
Example Performance Objectives

The following examples are provided for reference purposes only and not for purposes of limitation. The Committee shall have full discretion to utilize this or other measures of performance in the event it elects to establish Performance Objectives.

Book value  
Book value per share (fully diluted or basic)  
Return on equity (opening or average)  
Earnings (total or per share)  
Total shareholder return  
Stock price  
Change in stock price  
Growth in net income or income from selected businesses (total or per share)  
Pre-tax income or growth in pre-tax income from selected businesses  
Income  
Operating Income  
Revenues  
Premiums and fees  
Growth in premiums and fees  
Revenue growth  
Expense ratios  
Other expense management measures  
Underwriting ratios  
Underwriting ratios from selected businesses  
Measures related to ultimate losses and loss adjustment expense liabilities for the Company or from selected businesses or business units  
Various measures of operational effectiveness  
Return on assets (opening or average)  
Return on capital  
Growth in net earnings (total or per share)  
Investment income  
Investment returns or other investment-performance related measures  
Internal rate of return on acquisitions or acquisition-related activity, including from selected transactions  
Strategic, qualitative or other performance related measures

\*The Committee may specify any reasonable definition of the performance measures it uses, which may provide for reasonable adjustments and may include or exclude items, such as: (i) realized investment gains and losses, (ii) special items identified in the Company's reporting, (iii) extraordinary, unusual or non-recurring items, (iv) effects of accounting changes, currency fluctuations, acquisitions, divestitures, reserve strengthening or financing activities, (v) expenses for restructuring or productivity initiatives, or (vi) other non-operating items.

\*\*The performance objectives may be (i) for the Company as a whole or for one or more of its subsidiaries, business units or lines of business, or any combination thereof, (ii) absolute or comparative to that of a peer group or specified index, or any combination thereof, and (iii) different for particular performance periods or Participants.

## SUBSCRIPTION AGREEMENT

This SUBSCRIPTION AGREEMENT, dated as of December 11, 2018 (this "Agreement"), is between Enhanced Reinsurance Ltd., a Bermuda Class E insurer and a to-be licensed Class 4 insurer (the "Company"), and Cavello Bay Reinsurance Limited, a company formed under the laws of Bermuda (the "Investor").

WHEREAS, the Investor wishes to subscribe for and purchase Shares (as defined below) on the terms set forth herein; and

WHEREAS, the Company wishes to issue Shares to the Investor on the terms set forth herein; and

WHEREAS, the Company and the Investor wish to enter into this Agreement to set forth the terms and conditions for such subscription, purchase, sale and issuance.

THEREFORE, in consideration of the premises and mutual agreements herein contained, the sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

### Article I.

#### AUTHORIZATION; SUBSCRIPTION FOR SHARES

Section 1.1 Certain Definitions. When used herein, the following terms shall have the following meanings:

"Agreement" has the meaning assigned to it in the introductory paragraph.

"Allianz" means Allianz SE, a German company.

"BMA" means the Bermuda Monetary Authority.

"BMA Approvals" has the meaning assigned to it in Section 2.1(iii).

"Business Day" means any day other than a Saturday, Sunday or a day on which banks are generally authorized or obligated by law or regulation to close or remain closed in Bermuda.

"Bye-laws" means the Amended and Restated Bye-laws of the Company, as may be amended from time to time in accordance with the terms thereof.

"Closing" has the meaning assigned to it in Section 2.1(ii).

"Closings" has the meaning assigned to it in Article II.

"Closing Date" has the meaning assigned to it in Section 2.1(ii)

"Company" has the meaning assigned to it in the introductory paragraph.

"Company Organizational Documents" means the Memorandum of Association and the Bye-laws.

"Covered Individual" has the meaning assigned to it in Section 3.7(ii).

"First Closing" has the meaning assigned to it in Section 2.1(i).

"First Closing Date" has the meaning assigned to it in Section 2.1(i).

“First Closing Purchase Price” has the meaning assigned to it in Section 2.1(i).

“First Closing Shares” has the meaning assigned to it in Section 2.1(i).

“Investor” has the meaning assigned to it in the introductory paragraph.

“Memorandum of Association” means the Memorandum of Association of the Company, as the same may be amended from time to time in accordance with the terms thereof.

“OFAC” has the meaning assigned to it in Section 3.10.

“Offering” means the offering in the form of a private placement of up to 4,130,650 Shares.

“Ownership Percentage” has the meaning assigned to it in the Shareholders Agreement.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Share Price” has the meaning assigned to it in Section 2.1(i).

“Shares” means the authorized share capital of the Company consisting of shares, par value USD \$1.00 per share.

“Shareholders Agreement” means the Shareholders Agreement by and among the Company and the shareholders of the Company party thereto, as the same may be amended or supplemented from time to time in accordance with the terms thereof.

“Subsequent Closing” has the meaning assigned to it in Section 2.1(ii).

“Subsequent Closing Date” has the meaning assigned to it in Section 2.1(ii).

“Subsequent Closing Purchase Price” has the meaning assigned to it in Section 2.1(ii).

“Subsequent Closing Shares” has the meaning assigned to it in Section 2.1(ii).

Section 1.2 Subscription for Shares Pursuant to this Agreement. Subject to the terms and conditions of this Agreement, the Investor hereby irrevocably subscribes for and agrees to purchase the total number of Shares set forth below the Investor’s name on the signature page hereto for the purchase price per Share specified in Article II, in accordance with the provisions of this Agreement; provided, that if, after the date of this Agreement, the Shares held by the Investor convert to a different class of shares than the class of shares set forth below the Investor’s name on the signature page hereto, then the Investor’s subscription after the date of such conversion shall be for the class of shares held by the Investor after such conversion.

## Article II.

### CLOSINGS

The closings of the purchases and sales of the Shares contemplated by this Agreement (the “Closings”) shall take place as set forth below.

#### Section 2.1 Closing Dates.

(i) On the basis of the representations and warranties hereinafter set forth, the Company will sell to the Investor, and the Investor will purchase from the Company, at the closing (the “First Closing”) on the date hereof (the “First Closing Date”), 485,973 Shares at the purchase price of U.S. \$107.29 per share (the “Share Price”) (such Shares, the “First Closing Shares” and the aggregate purchase price paid by the Investor for such First Closing Shares, the “First Closing Purchase Price”).

(ii) On the basis of the representations and warranties hereinafter set forth and subject to applicable law, the Company will sell to the Investor, and the Investor will purchase from the Company, at

one or more closings following the First Closing (each, a “Subsequent Closing” and each, together with the First Closing, a “Closing”) on dates specified by the Board of Directors of the Company on at least fifteen (15) Business Days’ prior written notice to the Investor (each, a “Subsequent Closing Date” and each, together with the First Closing Date, a “Closing Date”), its pro rata portion, based on its Ownership Percentage, of the additional Shares to be issued by the Company to all investors at such Subsequent Closing, at the Share Price (the Shares issued to the Investor at Subsequent Closings are collectively referred to as the “Subsequent Closing Shares” and the aggregate purchase price paid by the Investor for such Subsequent Closing Shares at any Subsequent Closing is referred to as the “Subsequent Closing Purchase Price”); provided, that in no event will the Investor be required to purchase such number of Shares as shall cause its aggregate equity capital contribution to the Company to exceed the amount set forth as its “Equity Commitment Amount” below the Investor’s name on the signature page hereto. Subsequent Closings will be held as approved by the Board of Directors of the Company. Unless otherwise agreed by each of the holders of Shares of the Company, (a) no Closing may occur after the earlier of (1) the 5-year anniversary of the First Closing Date and (2) the occurrence of a Subordinated Notes Commitment Termination Event (as defined in the Shareholders Agreement), and the Investor shall have no obligation to fund any undrawn portion of its Investor’s Equity Commitment Amount thereafter; and (b) the aggregate capital contribution by the Investor in connection with the Subsequent Closings occurring after the 36-month anniversary of the First Closing Date but on or prior to the 5-year anniversary of the First Closing Date shall not exceed 25% of the Investor’s Equity Commitment Amount.

(iii) Notwithstanding the provisions of Sections 2.1(i) and 2.1(ii) above, no Closing shall take place until the Company has obtained the relevant approvals from the BMA pursuant to the Exchange Control Act 1972 (and the regulations made thereunder) and the Insurance Act 1978 (and the regulations made thereunder) (the “BMA Approvals”), all documentation necessary to verify the Investor’s identity and source of funds in compliance with applicable anti-money laundering laws and regulations and any other consents or approvals of governmental authorities that may be required by applicable law.

(iv) Each Closing will take place at the offices of Conyers Dill & Pearman, at 10:00 a.m., Atlantic Standard Time, on the corresponding Closing Date, or at such other location specified by the Company and acceptable to the Investor.

#### Section 2.2 Payment and Delivery.

(i) At the First Closing, subject to the terms and conditions of this Agreement and on the basis of the representations and warranties hereinafter set forth, (a) the Investor will deliver to the Company full payment of the First Closing Purchase Price for the Investor’s First Closing Shares by wire transfer of immediately available funds and (b) the Company will enter the Investor’s name and the number of First Closing Shares so issued in the register of members.

(ii) At each Subsequent Closing, subject to the terms and conditions of this Agreement and on the basis of the representations and warranties hereinafter set forth, (a) the Investor will deliver to the Company full payment of the Subsequent Closing Purchase Price for those Subsequent Closing Shares to be issued to the Investor at such Subsequent Closing by wire transfer of immediately available funds and (b) the Company will enter the number of Subsequent Closing Shares issued to the Investor at such Subsequent Closing in the register of members.

### Article III.

#### REPRESENTATIONS AND WARRANTIES OF THE INVESTOR

The Investor hereby represents and warrants to the Company, as of the date of this Agreement and as of each Closing Date, as follows:

Section 3.1 Organization and Standing. The Investor is an entity, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization.

Section 3.2 Authorization. This Agreement has been duly authorized, executed and delivered by the Investor and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of the Investor enforceable against the Investor in accordance with its terms,

except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws relating to or affecting enforcement of creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

Section 3.3 No Conflict with Other Instruments; No Approvals Required Except as Have Been Obtained. The execution and delivery of this Agreement and the compliance by the Investor with the terms and conditions hereof will not violate, with or without the giving of notice or the lapse of time, or both, or require any registration, qualification, approval or filing under, any provision of law, statute, ordinance or regulation applicable to the Investor other than the relevant BMA Approvals, and will not conflict with, or require any consent or approval under, or result in the breach or termination of any provision of, or constitute a default under, or result in the acceleration of the performance of the obligations of the Investor under, or result in the creation of any claim, lien, charge or encumbrance upon any of the properties, assets or businesses of the Investor pursuant to the articles of incorporation or by-laws of the Investor (if the Investor is a corporation) or equivalent organizational documents, if applicable (if the Investor is not a corporation), or any order, judgment, decree, law, statute, ordinance or regulation applicable to the Investor or any material contract, instrument, agreement or restriction to which the Investor is a party or by which the Investor or any of its assets or properties is bound, in each case as would prevent the Investor from entering into this Agreement or from consummating the transactions contemplated hereby in accordance with the terms hereof. Neither the Investor nor any of its assets or properties is subject to any charter, by-law, contract or other instrument or agreement, order, judgment, decree, law, statute, ordinance or regulation or any other restriction of any kind or character that would prevent the Investor from entering into this Agreement or from consummating the transactions contemplated hereby in accordance with the terms hereof.

Section 3.4 Investor Awareness. The Investor acknowledges, agrees to and is aware of all of the following:

- (i) An investment in the Shares involves a high degree of risk, and the Investor may lose the entire amount of its investment.
- (ii) The Investor's agreement to subscribe for the Shares is and shall be irrevocable.
- (iii) No Bermuda or United States federal or state or any other regulatory agency has passed upon the accuracy, validity or completeness of this Agreement or the Bye-laws, or made any finding or determination as to the fairness of an investment in the Shares.
- (iv) The Bye-laws, this Agreement and the Shareholders Agreement contain substantial restrictions on the transferability of the Shares to be issued hereunder and provide that, in the event that the conditions relating to the transfer of any such Shares in such documents have not been satisfied, the Investor shall not transfer any such Shares. If a purported transfer is prohibited under the terms of such documents, the Company will not transfer any such Shares on its register of members or issue any certificates representing any such Shares and such purported transfer will be void. There is no existing public or other market for the Shares, and it is not expected that any such market will develop in the near term. There can be no assurance that the Investor will be able to sell or dispose of the Shares to be issued hereunder.
- (v) The Shares to be issued hereunder have not been registered under the Securities Act or under the securities laws of any other country or jurisdiction and the Company is under no obligation to, and currently does not intend to, register or qualify such Shares for resale by the Investor or assist the Investor in complying with any exemption under the Securities Act or the securities laws of any such jurisdiction or any other jurisdiction. The Company shall indemnify its directors, officers and certain other persons as provided for in its Bye-laws.
- (vi) Generally, as provided in the Bye-laws, the Investor shall hold the Shares to be issued hereunder subject to, and shall have the voting rights with respect to such Shares as specified in, the Bye-laws from time to time in effect.

Section 3.5 No View Towards Distribution. The Investor represents that the Investor is purchasing the Shares to be issued hereunder without a view to distribution thereof within the meaning of the Securities Act and agrees not to reoffer or resell such Shares except pursuant to an exemption from registration

under the Securities Act or pursuant to an effective registration statement thereunder and in any case in compliance with all applicable Bermuda laws and regulations and all applicable U.S. state securities or blue sky laws.

Section 3.6 Receipt of Information; Access to Information. The Investor represents that it:

(i) has been furnished with copies of the Company Organizational Documents and the Shareholders Agreement, and the Investor has carefully reviewed such documents and understands and has evaluated the types of risks involved with a purchase of the Shares;

(ii) has had a full opportunity to ask questions of, and receive answers from, the Company or any person acting on behalf of the Company concerning the terms and conditions of the Offering and to ask questions of, and receive answers from, the Company or any person acting on behalf of the Company concerning other matters pertaining to an investment in the Shares, has been given the opportunity to obtain such additional information necessary to evaluate the merits and risks of a purchase of Shares to the extent the Company or any person acting on behalf of the Company possesses such information, and has received all documents and information that it has requested relating to an investment in the Shares;

(iii) has not relied upon any statements, representations or warranties (whether oral or written) from the Company, any other investor in the Company, or their respective directors, officers or affiliates, or from any other persons other than those contained in the Company Organizational Documents, the Shareholders Agreement, and Article IV of this Agreement;

(iv) has carefully considered and has, to the extent the Investor believes such discussion necessary, discussed with the Investor's professional legal, financial, accounting and tax advisers, the suitability of an investment in the Shares for the Investor's particular situation, and has determined that the Shares to be issued hereunder are a suitable investment for the Investor;

(v) confirms that at no time was it presented with or solicited through any leaflet, public promotional meeting, television advertisement or any other form of general solicitation or advertising in connection and concurrently with such communicated offer; and

(vi) acknowledges and agrees that it has relied solely upon its independent investigation, that is not relying on the Company or for advice with respect to a potential investment in the Shares, including, without limitation, tax advice, legal advice or investment advice, and that, except as set forth in Article IV, the Company makes no representation or warranty regarding any materials furnished to Investor in connection with its evaluation of its potential investment.

Section 3.7 Independent Decision; Waiver of Claims Against Directors and Officers, and their Affiliates.

(i) The Investor acknowledges and agrees that it is a sophisticated investor and is aware of the matters described in Section 3.4 and has received and evaluated the information described in Section 3.6 and is making an independent decision to invest in the Shares to be issued hereunder based, among other things, upon the Investor's independent knowledge and/or investigation of the risks of engaging in the business that the Company proposes to conduct.

(ii) Other than as provided in this Section 3.7, the Investor further acknowledges and agrees that each and every past, present and future director (whether provisional or otherwise) or officer of (A) the Company, (B) Allianz or (C) affiliates of Allianz (each, a "Covered Individual") shall not be liable in any way to the Investor for any losses suffered by the Investor in connection with its investment in the Shares to be issued hereunder or arising out of any actions or omissions of any such Covered Individual on or prior to the First Closing, including, but not limited to, negligent actions or omissions, actions or omissions in connection with the preparation of any written materials and the sale of the such Shares and the Investor's purchase of such Shares, including, but not limited to, loss of the Investor's entire investment, other than losses in connection with the fraud or dishonesty of any such Covered Individual. The Investor hereby releases and discharges each and every Covered Individual from any and all claims and waives any and all rights it may have had or has against any such Covered Individual by virtue of actions or omissions (including, but not limited to those resulting from negligence) of such Covered Individual on or prior to the First Closing, other than rights, claims

or causes of action based on fraud or dishonesty of any such Covered Individual. For purposes of this Section 3.7, "affiliate" means, with respect to any person, a person that directly or indirectly controls, is controlled by or is under common control with such person. For the avoidance of doubt, the foregoing shall not in any way affect the Investor's right to indemnification from Allianz pursuant to Section 9.6 of the Shareholders Agreement.

(iii) To the extent this Section 3.7 might otherwise be construed to provide for waiver or release not permitted by applicable law, it shall be construed to provide for such waiver or release to the extent but only to the extent permitted by such law.

Section 3.8 Brokers or Finders. The Investor has not incurred, nor will it incur, directly or indirectly, as a result of any action taken by the Investor, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement and the transactions contemplated hereby.

Section 3.9 No Voting Arrangements. Except as provided in the Bye-laws and the Shareholders Agreement, the Investor has not entered into an agreement of any kind whatsoever regarding the voting of the Shares to be purchased by it pursuant to this Agreement, including, without limitation, the voting for the election of the Board of Directors of the Company.

Section 3.10 OFAC. Neither the Investor, nor any of its consolidated affiliates (i) appears on the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC"), nor are they otherwise a party with which any entity is prohibited to deal under the laws of the United States, or (ii) is a person identified as a terrorist organization on any other relevant lists maintained by governmental authorities. To the knowledge of the Investor, none of the monies used to fund the investment in the Shares to be issued hereunder are derived from, invested for the benefit of, or related in any way to, the governments of, or persons within, any country (a) under a U.S. embargo enforced by OFAC, (b) that has been designated as a "non-cooperative country or territory" by the Financial Action Task Force on Money Laundering or (c) that has been designated by the U.S. Secretary of the Treasury as a "primary money laundering concern."

Section 3.11 Money Laundering or Other Illegal Activities. Pursuant to compliance with applicable anti-money laundering laws and regulations, the Company may be required to collect documentation verifying the Investor's identity and the source of funds used to acquire the Shares to be issued hereunder before, and from time to time after, acceptance by the Company of this Agreement. The Investor does not know or have any reason to suspect that (a) the monies used to fund the Investor's investment in such Shares have been or will be derived from or related to any illegal activities, including, but not limited to, money laundering activities, and (b) the proceeds from the Investor's investment in such Shares will be used to finance any illegal activities.

#### Article IV.

#### REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Investor, as of the date of this Agreement and as of each Closing Date, as follows:

Section 4.1 Organization and Standing. The Company is a Bermuda Class E insurer and a to-be licensed Class 4 insurer with limited liability, duly incorporated, validly existing and in good standing under the laws of Bermuda.

Section 4.2 Authorization. This Agreement has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery by the Investor, constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws relating to or affecting enforcement of creditors' rights generally and except as enforcement thereof is subject to general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law).

Section 4.3 No Conflict with Other Instruments; No Approvals Required Except as Have Been Obtained. Other than with respect to the BMA Approvals, the execution and delivery of this Agreement and the compliance by the Company with the terms and conditions hereof will not violate, with or without the giving

of notice or the lapse of time, or both, or require any registration, qualification, approval or filing under, any provision of law, statute, ordinance or regulation applicable to the Company, and will not conflict with, or require any consent or approval under, or result in the breach or termination of any provision of, or constitute a default under, or result in the acceleration of the performance of the obligations of the Company under, or result in the creation of any claim, lien, charge or encumbrance upon any of the properties, assets or businesses of the Company pursuant to the Memorandum of Association or the Bye-laws of the Company, or any order, judgment, decree, law, statute, ordinance or regulation applicable to the Company or any material contract, instrument, agreement or restriction to which the Company is a party or by which the Company or any of its assets or properties is bound, in each case as would prevent the Company from entering into this Agreement or from consummating the transactions contemplated hereby in accordance with the terms hereof. Other than with respect to the requirement to obtain the BMA Approvals, neither the Company nor any of its assets or properties is subject to any charter, bye-law, contract or other instrument or agreement, order, judgment, decree, law, statute, ordinance or regulation or any other restriction of any kind or character that would prohibit the Company from entering into this Agreement or from consummating the transactions contemplated hereby in accordance with the terms hereof.

Section 4.4 Issuance of the Interests. The Shares to be issued hereunder will be duly authorized, validly issued, fully paid and nonassessable, and free and clear of all liens, preemptive rights, rights of first refusal, subscription and similar rights (other than those arising under the Shareholders Agreement).

Section 4.5 Capitalization. Except for 250,000 Shares held by Allianz, there are, on the date hereof, no other shares of the Company or other securities convertible or exchangeable for or exercisable into such shares issued and outstanding. Immediately following and after giving effect to the First Closing, there will be issued and outstanding no shares of the Company or other securities convertible or exchangeable for or exercisable into such shares other than the shares held by Allianz on the date hereof and the Shares issued to the Investor and other investors (who have entered into subscription agreements in substantially the form hereof) at such First Closing, in the amounts set forth in Schedule 1 to the Shareholders' Agreement. As of the date hereof and except as set forth in the Shareholders Agreement, there are no outstanding obligations of the Company to repurchase, redeem or otherwise acquire any such shares or other securities. As of the date hereof and except for the Shareholders Agreement and the Company Organizational Documents, there are no voting agreements, shareholder agreements, voting trusts, proxies or similar agreements, arrangements or commitments to which the Company is a party with respect to the voting of any shares or other equity interest of the Company.

#### Article V.

### COVENANTS OF THE PARTIES

Section 5.1 Indemnification. The Investor hereby agrees to indemnify and hold harmless the Company and its affiliates from and against any and all loss, expense, damages or liability (other than any consequential, punitive or exemplary loss, damages or liability unless actually awarded to a third-party) due to or arising out of a breach of any representation or warranty of the Investor contained in this Agreement. The Company hereby agrees to indemnify and hold harmless the Investor and its affiliates from and against any and all loss, expense, damages or liability (other than any consequential, punitive or exemplary loss, damages or liability unless actually awarded to a third-party) due to or arising out of a breach of any representation or warranty of the Company contained in this Agreement.

#### Article VI.

### MISCELLANEOUS

Section 6.1 Survival of Representations, Warranties and Agreements. The representations and warranties of the parties contained in this Agreement and in any document delivered or to be delivered pursuant to this Agreement and in connection with the Closings hereunder shall survive the Closings. The parties have made no representations or warranties other than those that are expressly set forth in this Agreement and in the Shareholders Agreement.

Section 6.2 Termination of Agreement. The Company and the Investor may terminate this Agreement and the transactions contemplated herein by mutual written agreement. The provisions of this Agreement relating to the Subsequent Closings shall immediately terminate and have no further force or effect upon the resolution of the Board of Directors that additional funding of the Company contemplated by the

Subsequent Closings is not desired, it being understood and agreed that if the parties hereto terminate the provisions of this Agreement relating to the Subsequent Closings, the provisions of this Agreement relating to the First Closing or any Subsequent Closing that occurred prior to the date of such termination shall continue to have full force and effect pursuant to the terms hereof. Except as expressly provided in this Agreement, each party to this Agreement shall be responsible for its own fees and expenses incurred in connection with the transactions contemplated by this Agreement and neither party will be reimbursed or indemnified by any other party for any fees or expenses incurred in connection with the transactions contemplated by this Agreement.

Section 6.3 Entire Agreement. This Agreement (including any schedules, exhibits and annexes hereto) and the Shareholders Agreement constitute the full and entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

Section 6.4 Severability. Any provision of this Agreement that is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or lack of authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

Section 6.5 Binding Effect; Benefit. This Agreement shall inure to the benefit of and be binding upon the parties hereto, and their respective successors, legal representatives and permitted assigns. Nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto, and their respective successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

Section 6.6 Assignability. This Agreement shall not be assignable by any party without the prior written consent of the other party.

Section 6.7 Amendment; Waiver.

(a) No provision of this Agreement may be waived except by an instrument in writing executed by the party against whom the waiver is to be effective.

(b) No provision of this Agreement may be amended or otherwise modified except by an instrument in writing executed by the parties hereto.

Section 6.8 Headings. The headings contained in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.

Section 6.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

Section 6.10 Applicable Law. This Agreement, the rights and obligations of the parties under this Agreement, and any claim or controversy directly or indirectly based upon or arising out of this Agreement (whether based on contract, tort or any other theory), including its negotiation, execution, construction, validity, interpretation, performance and enforcement, shall be governed by, and construed in accordance with, the laws of Bermuda, without reference to any principles of conflicts of laws thereof.

Section 6.11 Jurisdiction and Service of Process. Each party to this Agreement, by its execution hereof, hereby (a) irrevocably submits to the exclusive jurisdiction of the courts of Bermuda for the purpose of any claim, litigation or proceeding between and among the parties hereto arising in whole or in part under or in connection with this Agreement, (b) waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such litigation or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such litigation or proceeding brought in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred or removed to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by such court and (c) agrees not to commence any such claim, litigation or proceeding other than

before one of the above-named courts. Notwithstanding the previous sentence, a party may commence any litigation or proceeding in a court other than the above-named courts solely for the purpose of enforcing an order, judgment or writ issued by one of the above-named courts. Any final and non-appealable judgment against a party hereto in connection with any action, suit or other proceeding shall be conclusive and binding on such party and that such award or judgment may be enforced in any court of competent jurisdiction, either within or outside the United States or Bermuda. A certified or exemplified copy of such award or judgment shall be conclusive evidence of the fact and amount of such award or judgment. Each party agrees that for any litigation or proceeding between or among the parties hereto arising in whole or in part under or in connection with this Agreement, such party will bring litigation or a proceeding only in Bermuda. Each party hereto further waives any claim and will not assert that venue should properly lie in any other location within the selected jurisdiction. Each party hereto hereby (i) agrees that service of process made by registered or certified mail, return receipt requested, at its address specified pursuant to Section 6.13 hereof, will constitute good and valid service of process in any such litigation or proceeding and (ii) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such claim, litigation or proceeding any claim that service of process made in accordance with clause (i) above does not constitute good and valid service of process.

Section 6.12 Waiver of Jury Trial. **EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

Section 6.13 Expenses. Except as otherwise set forth herein, each of the Company and the Investor shall be responsible for and shall bear all of its own costs and expenses (including any legal or professional advisor's fees) incurred at any time in connection with evaluating, negotiating, preparing documents or consummating the transactions contemplated by this Agreement.

Section 6.14 Notices.

All notices, requests, demands and other communications to any party made under or by reason of the provisions of this Agreement shall be in writing and shall be delivered in person or sent by certified or registered mail, return receipt requested, facsimile transmission, electronic mail or internationally recognized courier, if to the Company to:

Enhanced Reinsurance Ltd.  
5 Reid Street  
3<sup>rd</sup> Floor North Office  
Hamilton, Bermuda HM11  
Attention: Chief Executive Officer  
Email: [seamus.macloughlin@enhancedre.com](mailto:seamus.macloughlin@enhancedre.com)

with a copy to:

Conyers Dill & Pearman  
Clarendon House, 2 Church Street  
Hamilton, Bermuda HM11  
Attention: Charles Collis  
Email: [charles.collis@conyersdill.com](mailto:charles.collis@conyersdill.com)

and if to the Investor, at such Investor's address, facsimile number or electronic mail address as set forth in the Register of Members maintained by the Company.

All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be deemed to have been given (a) if personally delivered, on the date of delivery, (b) if delivered by express courier service of national standing (with charges prepaid), on the Business Day following the date of delivery to such courier service, (c) if deposited in the United States mail, first-class postage prepaid, on the fifth Business Day following the date of such deposit or (d) if delivered by telecopy or electronic mail, upon confirmation of successful transmission other than an automatically generated reply message, (i) on the date of such transmission, if such transmission is completed at or prior to 5:00 p.m., local time, of the recipient party, on the date of such transmission, and (ii) on the next day following the date of transmission, if such transmission is completed after 5:00 p.m., local time, of the recipient party, on the date of such transmission. All notices, demands and other communications hereunder

shall be delivered as set forth herein, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

*[Signature page follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**ENHANZED REINSURANCE LTD.**

By: /s/ Seamus MacLoughlin  
Name: Seamus MacLoughlin  
Title: Chief Executive Officer

**INVESTOR:**

**Cavello Bay Reinsurance Limited**

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

Total Number of Shares  
Subscribed For Pursuant to This Agreement: 2,076,428

Equity Commitment Amount: \$222,779,960.12

## FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

This First Amendment to Revolving Credit Agreement (this "Amendment") is entered into as of December 19, 2018 by and among ENSTAR GROUP LIMITED, KENMARE HOLDINGS LTD., ENSTAR (US ASIA-PAC) HOLDINGS LIMITED and ENSTAR HOLDINGS (US) LLC as Borrowers and as Guarantors, the LENDERS party hereto, and NATIONAL AUSTRALIA BANK LIMITED, as Administrative Agent.

### RECITALS

A. The Borrowers, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Revolving Credit Agreement, dated as of August 16, 2018 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lenders have extended a revolving credit facility to the Borrowers. Each capitalized term used herein, that is not defined herein, shall have the meaning ascribed thereto in the Credit Agreement.

B. The Loan Parties have notified the Administrative Agent and the Lenders of their request to amend the Credit Agreement as set forth below, but otherwise have the Credit Agreement remain in full force and effect.

C. In accordance with Section 10.02(b) of the Credit Agreement, the Loan Parties, the Administrative Agent and the Required Lenders have agreed to amend the Credit Agreement, in accordance with the terms, and subject to the conditions, set forth herein.

### AGREEMENT

The parties to this Amendment, intending to be legally bound, hereby agree as follows:

1. Amendments to Credit Agreement. Subject to satisfaction of the conditions precedent set forth in Section 4 below:

a. Section 1.01 of the Credit Agreement is hereby amended by inserting the following definitions therein in proper alphabetical order:

"First Amendment" means the First Amendment to Revolving Credit Agreement, dated as of December 19, 2018, in respect of this Agreement by and among the Loan Parties, the Administrative Agent and the Lenders party thereto.

"First Amendment Effective Date" has the meaning assigned to the term "Effective Date" in the First Amendment.

"Term Loan Credit Agreement" means that certain Term Loan Credit Agreement, dated on or about the First Amendment Effective Date, by and among the Parent, Kenmare Holdings Ltd., Enstar (US Asia-Pac) Holdings Limited and Enstar Holdings (US) LLC, the lenders party thereto, Wells Fargo Bank, National Association and the other parties party thereto, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Term Loan Credit Documents" means the Term Loan Credit Agreement and any other document, instrument, certificate and agreement entered into in connection therewith, including any fee letters, promissory notes and guarantor joinder agreements.

b. Section 6.08 of the Credit Agreement is hereby amended and restated in its entirety to read as set forth below:

SECTION 6.08 Certain Restrictive Agreements. Except for limitations imposed by the Loan Documents and the Term Loan Credit Documents or pursuant to any applicable laws, rules or regulations of any Governmental Authority or other insurance regulatory body, each Loan Party will not, and will not permit

any Subsidiary to, enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that, directly or indirectly, limits the ability of (a) any Subsidiary to make Restricted Payments to a Loan Party or to otherwise transfer property to a Loan Party, (b) any Subsidiary to Guarantee Indebtedness of a Loan Party or (c) a Loan Party or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person to secure the Obligations; provided that this clause (c) shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under Section 6.01 solely to the extent that any such negative pledge relates to the property financed by or the subject of such Indebtedness; provided, further, that this clause (c) shall not prohibit any provision in a joint venture agreement limiting Liens on equity interests in such joint venture so long as (i) such provision applies only to such joint venture and the equity interests in such joint venture, and (ii) with respect to any joint venture subject to such a covenant limiting Liens on the equity interests in such joint venture and entered into by a Loan Party or Subsidiary after August 16, 2018 (a "Prospective JV"), (1) the aggregate amount of Investments in such Prospective JV by the Loan Parties and Subsidiaries after August 16, 2018 does not exceed 10.0% of the Consolidated Net Worth of the Parent, and (2) the aggregate amount of Investments in all Prospective JVs by the Loan Parties and Subsidiaries does not exceed 20.0% of the Consolidated Net Worth of the Parent (it being understood and agreed that (x) clause (1) above shall be tested each time a Loan Party or Subsidiary makes an Investment in a Prospective JV after August 16, 2018 on a pro forma basis after giving effect to such Investment, (y) clause (2) above shall be tested each time a Loan Party or Subsidiary makes an Investment in a Prospective JV after August 16, 2018 on a pro forma basis after giving effect to such Investment, and (z) the amount of any Investment in a Prospective JV will be determined immediately following the most recent Investment in such joint venture by any Loan Party or Subsidiary and shall equal the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment and net of any dividends, distributions or other returns of capital or repayments of principal received in respect of such Investment or the proceeds of any Dispositions received in respect of such Investment. For purposes of the foregoing, any joint venture separately named in a writing delivered by the Parent to the Administrative Agent shall not be deemed to be a Prospective JV upon the written consent of the Required Lenders.

c. Section 9.07 of the Credit Agreement is hereby amended and restated in its entirety to read as set forth below:

SECTION 9.07 Subordination of Other Obligations. Any Indebtedness of any Loan Party or any Guarantor now or hereafter held by any Guarantor is hereby subordinated in right of payment to the Guaranteed Obligations.

2. Representations and Warranties. Each Loan Party hereby represents and warrants, as of the date of this Amendment, that:

a. The representations and warranties in each Loan Document to which it is a party are true and correct in all material respects with the same effect as though made on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date, in which case they shall be true and correct in all material respects on and as of such earlier date; provided that, in each case, such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality or Material Adverse Effect in the text thereof;

b. The execution and delivery of this Amendment has been duly authorized by all necessary organizational action of such Loan Party; this Amendment has been duly executed and delivered by such Loan Party and is a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally and to general principles of equity;

c. The transactions contemplated by this Amendment (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any Law applicable to such Loan Party, (c) will not violate or result in a default under any other material Contractual Obligation binding upon such Loan Party or affecting its assets, and (d) will not result in the creation or imposition of any Lien on any asset of such Loan Party; and

d. No Default has occurred and is continuing or would result after giving effect to this Amendment.

3. Ratification and Confirmation of Loan Documents.

a. Except as expressly set forth herein, the execution, delivery and performance of this Amendment shall not alter, modify, amend, or in any way affect any of the terms, conditions, obligations, covenants, guarantees or agreements contained in the Credit Agreement or any other Loan Document, and shall not operate as a waiver of any right, power, or remedy of the Administrative Agent or any Lender under the Credit Agreement or any other Loan Document.

b. Each Loan Party hereby acknowledges that it has read this Amendment and consents to the terms hereof, and hereby confirms and agrees that notwithstanding the effectiveness of this Amendment, the obligations of such Loan Party under the Loan Documents to which it is a party shall not be impaired or affected and such Loan Documents and all promissory notes and all other instruments, documents and agreements entered into by such Loan Party in connection with such Loan Documents are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

c. Each Loan Party further agrees that nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Loan Party to any future amendment to the Credit Agreement, except to the extent that the consent of such Loan Party to such amendment is expressly required under the Credit Agreement.

d. Upon the effectiveness of this Amendment, each Lender shall continue to be a party to the Credit Agreement as a Lender.

4. Effectiveness. This Amendment shall become effective on the date first written above (the "Effective Date") only upon satisfaction of the following conditions precedent on or prior to such date unless otherwise waived in writing by the Required Lenders and the Administrative Agent:

a. The Administrative Agent shall have acknowledged receipt of a counterpart of this Amendment signed on behalf of each Loan Party and the Required Lenders.

b. Each Loan Party shall have paid all reasonable and documented costs and expenses of the Administrative Agent (including the legal fees and expenses of Ashurst LLP) in connection with the preparation, execution, delivery and administration of this Amendment.

5. Miscellaneous.

a. The Loan Parties acknowledge and agree that the representations and warranties set forth herein are material inducements to the Administrative Agent and the Lenders to deliver this Amendment.

b. This Amendment shall be binding upon and inure to the benefit of and be enforceable by the parties hereto, and their respective permitted successors and assigns.

c. This Amendment is a Loan Document. Henceforth, this Amendment and the Credit Agreement shall be read together as one document and the Credit Agreement shall be modified accordingly. No course of dealing on the part of the Administrative Agent, the Lenders or any of their respective officers, nor any failure or delay in the exercise of any right by the Administrative Agent or the Lenders, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. The failure at any time to require strict performance by the Loan Parties of any provision of the Loan Documents shall not affect any right of the Administrative Agent or the Lenders thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of the Administrative Agent and/or the Lenders, as applicable, pursuant to and in accordance with the Loan Documents, including, without limitation, Section 10.02 of the Credit Agreement. No other person or entity, other than the Administrative Agent and the Lenders, shall be entitled to claim any right or benefit hereunder, including, without limitation, the status of a third party beneficiary hereunder.

d. This Amendment shall be governed by and construed in accordance with the laws of the State of New York without reference to conflicts of law rules. The provisions of Section 10.09 and Section 10.10 of the Credit Agreement apply to this Amendment *mutatis mutandis* as if they were incorporated herein.

e. If any provision of this Amendment or any of the other Loan Documents shall be determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that portion shall be deemed severed therefrom, and the remaining parts shall remain in full force as though the invalid, illegal or unenforceable portion had never been a part thereof.

f. This Amendment may be executed in any number of counterparts, including by electronic or facsimile transmission, each of which when so delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Loan Parties, the Administrative Agent and the Required Lenders have caused this Amendment to be executed as of the date first written above.

ENSTAR GROUP LIMITED  
as a Borrower and as a Guarantor

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

KENMARE HOLDINGS LTD.  
as a Borrower and as a Guarantor

By /s/ Duncan Scott  
Name: Duncan Scott  
Title: Director

ENSTAR (US ASIA-PAC) HOLDINGS LIMITED  
as a Borrower and as a Guarantor

By /s/ C. Paul Thomas  
Name: C. Paul Thomas  
Title: Director

ENSTAR HOLDINGS (US) LLC  
as a Borrower and as a Guarantor

By /s/ Jennifer Miu  
Name: Jennifer Miu  
Title: CFO

NATIONAL AUSTRALIA BANK LIMITED  
(ABN 12 004 044 937),  
as a Lender

By /s/ Matthew Waters  
Name: Matthew Waters  
Title: Associate Director

BARCLAYS BANK PLC,  
as a Lender

By /s/ Eoin Naughton  
Name: Eoin Naughton  
Title: Director

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as a Lender

By /s/ William R. Goley  
Name: William R. Goley  
Title: Managing Director

SUNTRUST BANK,  
as a Lender

By /s/ Doug Kennedy  
Name: Doug Kennedy  
Title: Director

JPMORGAN CHASE BANK, N.A.,  
as a Lender

By /s/ Hector J. Varona  
Name: Hector J. Varona  
Title: Executive Director

HSBC BANK USA, NATIONAL ASSOCIATION,  
as a Lender

By /s/ Sarah Salih  
Name: Sarah Salih  
Title: Managing Director, Financial Institutions Group

ING BANK N.V., London Branch  
as a Lender

By /s/ M. Groen  
Name: M. Groen  
Title: Director

By /s/ M.E. Sharman  
Name: M.E. Sharman  
Title: Managing Director

LLOYDS BANK PLC,  
as a Lender

By /s/ Sarah Chant  
Name: Sarah Chant  
Title: Associate Director

NATIONAL AUSTRALIA BANK LIMITED  
(ABN 12 004 044 937),  
as Administrative Agent

By /s/ Marie P. Healey,  
Name: Marie P. Healey  
Title: Associate Director

**ENSTAR GROUP LIMITED**  
**LISTING OF SUBSIDIARIES<sup>(1)</sup>**  
**As of December 31, 2018**

<b>Name</b>	<b>Jurisdiction of Incorporation</b>
609 Capital Limited*	United Kingdom
Aerie Income LLC	Delaware
AG Australia Holdings Limited	Australia
Alopuc Limited*	United Kingdom
Alpha Insurance SA	Belgium
Arden Reinsurance Company Ltd.*	Bermuda
Arena SA*	Belgium
Atrium 1 Limited*	United Kingdom
Atrium 10 Limited*	United Kingdom
Atrium 2 Limited*	United Kingdom
Atrium 3 Limited*	United Kingdom
Atrium 4 Limited*	United Kingdom
Atrium 5 Limited*	United Kingdom
Atrium 6 Limited*	United Kingdom
Atrium 7 Limited*	United Kingdom
Atrium 8 Limited*	United Kingdom
Atrium 9 Limited*	United Kingdom
Atrium Group Services Limited*	United Kingdom
Atrium Insurance Agency (Asia) Pte. Ltd.*	Singapore
Atrium Insurance Agency Limited*	United Kingdom
Atrium Nominees Limited*	United Kingdom
Atrium Risk Management Services (British Columbia) Ltd.*	Canada
Atrium Risk Management Services (Washington) Ltd.*	Washington
Atrium Underwriters Limited*	United Kingdom
Atrium Underwriting Group Limited*	United Kingdom
Atrium Underwriting Holdings Limited*	United Kingdom
B.H. Acquisition Limited	Bermuda
Belmont Run-Off Limited	United Kingdom
Brake Systems, Inc.	Delaware
BWDAC, Inc.	Delaware
Cavell Holdings Limited	United Kingdom
Cavello Bay Reinsurance Limited	Bermuda
Chatsworth Limited	Bermuda
Clarendon National Insurance Company	Illinois
Copper Coast Funds ICAV	Ireland
CP Product, LLC	Virginia
Cranmore (UK) Limited	United Kingdom
Cranmore (US) Inc.	Delaware
Cranmore Asia Pte. Limited	Singapore
Cranmore Australia Pty Limited	Australia
Cranmore Europe BVBA	Belgium
Cranmore Insurance & Reinsurance Services Europe Limited	Ireland
DCo LLC	Virginia
DLCM No. 1 Limited	United Kingdom

DLCM No. 2 Limited	United Kingdom
DLCM No. 3 Limited	United Kingdom
Dunmore LLLP	Delaware
East Point Reinsurance Company of Hong Kong Limited	Hong Kong
Echlin Argentina S.A.*	Argentina
EFMG LLC	Virginia
Enstar (EU) Finance Limited	United Kingdom
Enstar (EU) Holdings Limited	United Kingdom
Enstar (EU) Limited	United Kingdom
Enstar (US Asia-Pac) Holdings Limited	United Kingdom
Enstar (US) Inc.	Delaware
Enstar Acquisitions Limited	United Kingdom
Enstar Asia Pacific Pty Ltd	Australia
Enstar Australia Holdings Pty Limited	Australia
Enstar Australia Limited	Australia
Enstar Financial Services, Inc.	Florida
Enstar Holdings (US) LLC	Delaware
Enstar Insurance Management Services Ireland Limited	Ireland
Enstar Limited	Bermuda
Enstar Malta Limited	Malta
Enstar USA, Inc.	Georgia
EPE, Inc.	California
Fitzwilliam Insurance Limited	Bermuda
Flight Operations, Inc.	Delaware
Friction Inc.	Delaware
Friction Materials, Inc.	Massachusetts
Global Legacy Acquisition L.P.*	Bermuda
Gordian Runoff Limited	Australia
Goshawk Dedicated Limited*	United Kingdom
Goshawk Insurance Holdings Limited*	United Kingdom
Guillamene Holdings Limited	Ireland
Harper Holding, S.à r.l.	Luxembourg
Harper Insurance Limited	Switzerland
Hong Kong Reinsurance Company Limited	Hong Kong
Inter-Ocean Reinsurance (Ireland) Limited	Ireland
KaylaRe Holdings Ltd.	Bermuda
KaylaRe Ltd.	Bermuda
Kenmare Holdings Ltd.	Bermuda
Kinsale Brokers Limited	United Kingdom
Knapton Holdings Limited	United Kingdom
Laguna Life Holdings Limited	Bermuda
Laguna Life Holdings S.à r.l.	Luxembourg
Lipe Corporation	Delaware
Lipe Rollway Mexicana S.A. de C.V.*	Mexico
Maiden Reinsurance North America, Inc.	Missouri
Malakite Underwriting Partners Limited*	Dubai
Mercantile Indemnity Company Limited	United Kingdom
Midland Brake, Inc.	Delaware
North Bay Holdings Limited*	Bermuda
Northshore Holdings Limited*	Bermuda

Paladin Managed Care Services, Inc.	California
Pavonia Life Insurance Company of New York	New York
Prattville Mfg., Inc.	Delaware
Providence Washington Insurance Company	Rhode Island
Regis Agencies Limited	United Kingdom
Reinz Wisconsin Gasket LLC	Delaware
River Thames Insurance Company Limited	United Kingdom
Rombalds Run-Off Limited	United Kingdom
SGL No.1 Limited	United Kingdom
SGL No.3 Limited	United Kingdom
Shelbourne Group Limited	United Kingdom
StarStone Bermuda Intermediaries Ltd.*	Bermuda
StarStone Corporate Capital 1 Limited*	United Kingdom
StarStone Corporate Capital 2 Limited*	United Kingdom
StarStone Corporate Capital Limited*	Ireland
StarStone Finance Limited*	United Kingdom
StarStone Insurance Bermuda Limited*	Bermuda
StarStone Insurance SE*	Liechtenstein
StarStone Insurance Services Limited*	United Kingdom
StarStone National Insurance Company*	Delaware
StarStone Specialty Holdings Limited*	Bermuda
StarStone Specialty Insurance Company*	Delaware
StarStone Specialty Insurance Company - Escritório de Representação no Brasil Ltda.*	Brazil
StarStone Underwriting Australia Pty Ltd*	Australia
StarStone Underwriting Limited*	United Kingdom
StarStone US Holdings, Inc.*	Delaware
StarStone US Intermediaries, Inc.*	New Jersey
StarStone US Services, Inc.*	New Jersey
Torus Business Solutions Private Ltd.*	India
United Brake Systems Inc.	Delaware
Vander Haeghen & Co SA*	Belgium
Woodstown LLLP	Delaware
Yosemite Insurance Company	Oklahoma

**Notes:**

(1) The subsidiary listing excludes noncontrolled entities and branches of subsidiaries. Subsidiaries marked with an asterisk are not wholly owned, directly or indirectly, by Enstar Group Limited.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Enstar Group Limited:

We consent to the incorporation by reference in the registration statements No. 333-149551, 333-148863, 333-148862, 333-141793 and 333-212131 on Form S-8 and registration statements No. 333-195562, 333-198718, 333-215144, 333-220885 and 333-220889 on Form S-3 of Enstar Group Limited of our reports dated March 1, 2019, with respect to the consolidated balance sheets of Enstar Group Limited as of December 31, 2018 and 2017, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement Schedules I, II, III, IV, V and VI (collectively the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2018, which reports appear in the December 31, 2018 annual report on Form 10-K of Enstar Group Limited.

/s/ KPMG Audit Limited

Hamilton, Bermuda  
March 1, 2019

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

I, Dominic F. Silvester, certify that:

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

Dated: March 1, 2019

/S/ DOMINIC F. SILVESTER

Dominic F. Silvester

Chief Executive Officer

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

I, Guy Bowker, certify that:

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

Dated: March 1, 2019

/S/ GUY BOWKER

Guy Bowker  
Chief Financial Officer

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

In connection with the Annual Report of Enstar Group Limited (the "Company") on Form 10-K for fiscal year ended ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dominic F. Silvester, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: March 1, 2019

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

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

In connection with the Annual Report of Enstar Group Limited (the "Company") on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guy Bowker, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Dated: March 1, 2019

/S/ GUY BOWKER

Guy Bowker

Chief Financial Officer