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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2021

Commission File Number 001-33289



**ENSTAR GROUP LIMITED**

*(Exact name of Registrant as specified in its charter)*

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

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

(Address of principal executive offices, including zip code)

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Title of Each Class** | **Trading Symbol(s)** | **Name of Each Exchange on Which Registered** | |
| Ordinary shares, par value $1.00 per share | ESGR | The NASDAQ Stock Market | LLC |
| Depositary Shares, Each Representing a 1/1,000th Interest in a 7.00% | ESGRP | The NASDAQ Stock Market | LLC |
| Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Share, Series D, Par Value $1.00 Per Share |  |  |  |
| Depositary Shares, Each Representing a 1/1,000th Interest in a 7.00% | ESGRO | The NASDAQ Stock Market | LLC |
| Perpetual Non-Cumulative Preferred Share, Series E, Par Value $1.00 Per Share |  |  |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Large accelerated filer | ☒ |  | Accelerated filer | ¨ |  | Non-accelerated filer | ¨ |  | Smaller reporting company | ☐ |  | Emerging growth company | ☐ |

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

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

As at August 3, 2021, the registrant had outstanding 16,782,445 voting ordinary shares and 1,597,712 non-voting convertible ordinary shares, each par value $1.00 per share.

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**Enstar Group Limited**

**Quarterly Report on Form 10-Q**

**For the Period Ended June 30, 2021**

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**PART I — FINANCIAL INFORMATION**

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**ENSTAR GROUP LIMITED**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**As of June 30, 2021 (unaudited) and December 31, 2020**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | |  | **December 31, 2020** | | | | |
|  | **(expressed in thousands of U.S. dollars, except share data)** | | | | | | | | | |
| **ASSETS** |  |  | | |  |  | |  | | |
| Short-term investments, trading, at fair value |  | $ | 19,788 |  |  |  | | $ | 5,129 |  |
| Short-term investments, available-for-sale, at fair value (amortized cost: 2021 — $110,452; 2020 — $263,750; net of allowance: 2021 — $0; 2020 — $0) |  | 110,473 | |  |  |  | | 263,795 | |  |
| Fixed maturities, trading, at fair value |  | 4,088,402 | |  |  |  | | 4,594,892 | |  |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2021 — $5,443,653; 2020 — $3,312,891; net of allowance: 2021 — $7,386; 2020 — $322) |  | 5,466,038 | |  |  |  | | 3,395,100 | |  |
| Funds held - directly managed |  | 1,028,503 | |  |  |  | | 1,074,890 | |  |
| Equities, at fair value |  | 1,158,219 | |  |  |  | | 846,795 | |  |
| Other investments, at fair value |  | 1,814,593 | |  |  |  | | 4,244,034 | |  |
| Equity method investments |  | 936,430 | |  |  |  | | 832,295 | |  |
| Total investments ([*Note 4*](#Section20) *and* [*Note 10*](#Section69)*)* |  | 14,622,446 | |  |  |  | | 15,256,930 | |  |
| Cash and cash equivalents |  | 769,359 | |  |  |  | | 901,152 | |  |
| Restricted cash and cash equivalents |  | 356,899 | |  |  |  | | 471,964 | |  |
| Premiums receivable |  | 379,981 | |  |  |  | | 405,793 | |  |
| Reinsurance balances recoverable on paid and unpaid losses(net of allowance: 2021 — $140,488; 2020 — $137,122) *(*[*Note 6*](#Section43)*)* |  | 1,484,384 | |  |  |  | | 1,568,333 | |  |
| Reinsurance balances recoverable on paid and unpaid losses, at fair value ([*Note 6*](#Section43) and [*Note 10*](#Section69)) |  | 492,343 | |  |  |  | | 520,830 | |  |
| Insurance balances recoverable (net of allowance: 2021 — $5,822; 2020 — $4,824) ([*Note 9*](#Section65)) |  | 245,979 | |  |  |  | | 249,652 | |  |
| Funds held by reinsured companies |  | 2,201,958 | |  |  |  | | 635,819 | |  |
| Variable interest entity assets of the InRe Fund ([*Note 11*](#Section89)) |  | 2,913,522 | |  |  |  | | — | |  |
| Cash and restricted cash | 1,002,537 |  | | |  | — |  |  | | |
| Investments | 1,393,134 |  | | |  | — |  |  | | |
| Other assets | 517,851 |  | | |  | — |  |  | | |
| Other assets |  | 1,154,460 | |  |  |  | | 925,533 | |  |
| Assets held-for-sale [*(Note 3)*](#Section17) |  | — | |  |  |  | | 711,278 | |  |
| TOTAL ASSETS |  | $ | 24,621,331 |  |  |  | | $ | 21,647,284 |  |
|  |  |  | | |  |  | |  | | |
| **LIABILITIES** |  |  | | |  |  | |  | | |
| Losses and loss adjustment expenses *(*[*Note 8*](#Section50)*)* |  | $ | 10,803,753 |  |  |  | | $ | 8,140,362 |  |
| Losses and loss adjustment expenses, at fair value *(*[*Note 8*](#Section50) *and* [*Note 10*](#Section69)*)* |  | 2,234,105 | |  |  |  | | 2,452,920 | |  |
| Defendant asbestos and environmental liabilities ([*Note 9*](#Section65)) |  | 677,919 | |  |  |  | | 706,329 | |  |
| Insurance and reinsurance balances payable |  | 584,084 | |  |  |  | | 494,412 | |  |
| Debt obligations *(*[*Note 14*](#Section92)*)* |  | 1,364,212 | |  |  |  | | 1,373,259 | |  |
| Variable interest entity liabilities of the InRe Fund ([*Note 11*](#Section89)) |  | 693,810 | |  |  |  | | — | |  |
| Other liabilities |  | 886,056 | |  |  |  | | 942,905 | |  |
| Liabilities held-for-sale [*(Note 3)*](#Section17) |  | — | |  |  |  | | 483,657 | |  |
| TOTAL LIABILITIES |  | 17,243,939 | |  |  |  | | 14,593,844 | |  |
|  |  |  | | |  |  | |  | | |
| **COMMITMENTS AND CONTINGENCIES** *(*[*Note 21*](#Section138)*)* |  |  | | |  |  | |  | | |
|  |  |  | | |  |  | |  | | |
| **REDEEMABLE NONCONTROLLING INTEREST** *(*[*Note 15*](#Section98)*)* |  | 177,449 | |  |  |  | | 365,436 | |  |
|  |  |  | | |  |  | |  | | |
| **SHAREHOLDERS’ EQUITY** *(*[*Note 16*](#Section101)*)* |  |  | | |  |  | |  | | |
| Ordinary shares (par value $1 each, issued and outstanding 2021: 22,170,433; 2020: 22,085,232): |  |  | | |  |  | |  | | |
| Voting Ordinary shares (issued and outstanding 2021: 18,571,161; 2020: 18,575,550) |  | 18,571 | |  |  |  | | 18,576 | |  |
| Non-voting convertible ordinary Series C Shares (issued and outstanding 2021: 2,689,262; 2020: 2,599,672) |  | 2,690 | |  |  |  | | 2,600 | |  |
| Non-voting convertible ordinary Series E Shares (issued and outstanding 2021 and 2020: 910,010) |  | 910 | |  |  |  | | 910 | |  |
| Preferred Shares: |  |  | | |  |  | |  | | |
| Series C Preferred Shares (issued and held in treasury 2021 and 2020: 388,571) |  | 389 | |  |  |  | | 389 | |  |
| Series D Preferred Shares (issued and outstanding 2021 and 2020: 16,000) |  | 400,000 | |  |  |  | | 400,000 | |  |
| Series E Preferred Shares (issued and outstanding 2021 and 2020: 4,400) |  | 110,000 | |  |  |  | | 110,000 | |  |
| Treasury shares, at cost (Series C Preferred shares 2021 and 2020: 388,571) |  | (421,559) | |  |  |  | | (421,559) | |  |
| Joint Share Ownership Plan (voting ordinary shares, held in trust 2021 and 2020: 565,630) |  | (566) | |  |  |  | | (566) | |  |
| Additional paid-in capital |  | 1,835,231 | |  |  |  | | 1,836,074 | |  |
| Accumulated other comprehensive income |  | 33,077 | |  |  |  | | 80,659 | |  |
| Retained earnings |  | 5,208,565 | |  |  |  | | 4,647,312 | |  |
| Total Enstar Shareholders’ Equity |  | 7,187,308 | |  |  |  | | 6,674,395 | |  |
| Noncontrolling interest *(*[*Note 15*](#Section98)*)* |  | 12,635 | |  |  |  | | 13,609 | |  |
| TOTAL SHAREHOLDERS’ EQUITY |  | 7,199,943 | |  |  |  | | 6,688,004 | |  |
| TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS’ EQUITY |  | $ | 24,621,331 |  |  |  | | $ | 21,647,284 |  |

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)**

**For the Three and Six Months Ended June 30, 2021 and 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended**  **June 30,** | | | | | | |  | **Six Months Ended**  **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
|  | **(expressed in thousands of U.S. dollars, except share and per share data)** | | | | | | | | | | | | | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 59,644 |  |  | $ | 142,871 |  |  | $ | 152,520 |  |  | $ | 302,222 |  |
| Fees and commission income | 8,274 | |  |  | 10,010 | |  |  | 17,872 | |  |  | 17,538 | |  |
| Net investment income (1) | 76,147 | |  |  | 94,443 | |  |  | 138,236 | |  |  | 169,157 | |  |
| Net realized and unrealized gains (1) | 405,220 | |  |  | 967,608 | |  |  | 384,432 | |  |  | 338,547 | |  |
| Other income (expense) | (3,359) | |  |  | (1,087) | |  |  | (2,808) | |  |  | 19,357 | |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | 14,894 | |  |  | — | |  |
|  | 545,926 | |  |  | 1,213,845 | |  |  | 705,146 | |  |  | 846,821 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | 39,304 | |  |  | 186,692 | |  |  | (16,203) | |  |  | 229,992 | |  |
| Acquisition costs | 4,956 | |  |  | 49,067 | |  |  | 38,970 | |  |  | 95,110 | |  |
| General and administrative expenses | 92,717 | |  |  | 144,830 | |  |  | 175,717 | |  |  | 243,258 | |  |
| Interest expense | 16,301 | |  |  | 14,018 | |  |  | 32,480 | |  |  | 27,433 | |  |
| Net foreign exchange (gains) losses | (9,139) | |  |  | 5,158 | |  |  | (6,505) | |  |  | (6,781) | |  |
|  | 144,139 | |  |  | 399,765 | |  |  | 224,459 | |  |  | 589,012 | |  |
| EARNINGS BEFORE INCOME TAXES | 401,787 | |  |  | 814,080 | |  |  | 480,687 | |  |  | 257,809 | |  |
| Income tax expense | (9,422) | |  |  | (16,652) | |  |  | (3,440) | |  |  | (11,380) | |  |
| Earnings (loss) from equity method investments | (3,059) | |  |  | (8,790) | |  |  | 114,972 | |  |  | 3,660 | |  |
| NET EARNINGS FROM CONTINUING OPERATIONS | 389,306 | |  |  | 788,638 | |  |  | 592,219 | |  |  | 250,089 | |  |
| Net loss from discontinued operations, net of income taxes | — | |  |  | (1,152) | |  |  | — | |  |  | (3,221) | |  |
| NET EARNINGS | 389,306 | |  |  | 787,486 | |  |  | 592,219 | |  |  | 246,868 | |  |
| Net (earnings) loss attributable to noncontrolling interest | (3,055) | |  |  | 19,992 | |  |  | (13,846) | |  |  | 52,714 | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR | 386,251 | |  |  | 807,478 | |  |  | 578,373 | |  |  | 299,582 | |  |
| Dividends on preferred shares | (8,925) | |  |  | (8,925) | |  |  | (17,850) | |  |  | (17,850) | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS | $ | 377,326 |  |  | $ | 798,553 |  |  | $ | 560,523 |  |  | $ | 281,732 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Earnings per ordinary share attributable to Enstar: | | | | | | | |  |  | | |  |  | | |
| Basic: |  | | |  |  | | |  |  | | |  |  | | |
| Net earnings from continuing operations | $ | 17.44 |  |  | $ | 37.06 |  |  | $ | 25.95 |  |  | $ | 13.16 |  |
| Net loss from discontinued operations | — | |  |  | (0.03) | |  |  | — | |  |  | (0.09) | |  |
| Net earnings per ordinary share | $ | 17.44 |  |  | $ | 37.03 |  |  | $ | 25.95 |  |  | $ | 13.07 |  |
| Diluted: |  | | |  |  | | |  |  | | |  |  | | |
| Net earnings from continuing operations | $ | 17.28 |  |  | $ | 36.68 |  |  | $ | 25.60 |  |  | $ | 13.02 |  |
| Net loss from discontinued operations | — | |  |  | (0.03) | |  |  | — | |  |  | (0.09) | |  |
| Net earnings per ordinary share | $ | 17.28 |  |  | $ | 36.65 |  |  | $ | 25.60 |  |  | $ | 12.93 |  |
| Weighted average ordinary shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | 21,631,749 | |  |  | 21,565,240 | |  |  | 21,597,236 | |  |  | 21,557,542 | |  |
| Diluted | 21,832,218 | |  |  | 21,789,242 | |  |  | 21,892,744 | |  |  | 21,788,331 | |  |

(1) Includes amounts attributed to the InRe Fund, refer to Note 11 - "Variable Interest Entities" for additional information.

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

**For the Three and Six Months Ended June 30, 2021 and 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended**  **June 30,** | | | | | | |  | **Six Months Ended**  **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
|  | **(expressed in thousands of U.S. dollars)** | | | | | | | | | | | | | | |
| NET EARNINGS | $ | 389,306 |  |  | $ | 787,486 |  |  | $ | 592,219 |  |  | $ | 246,868 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Other comprehensive income (loss), net of income taxes: |  | | |  |  | | |  |  | | |  |  | | |
| Unrealized gains (losses) on fixed income available-for-sale investments arising during the period | 57,020 | |  |  | 112,506 | |  |  | (54,254) | |  |  | 53,771 | |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | (5,094) | |  |  | (10,762) | |  |  | 6,931 | |  |  | 2,450 | |  |
| Reclassification adjustment for net realized gains included in net earnings | (529) | |  |  | (4,222) | |  |  | (1,123) | |  |  | (4,010) | |  |
| Reclassification to earnings on disposal of subsidiary | — | |  |  | — | |  |  | 475 | |  |  | — | |  |
| Unrealized gains (losses) arising during the period, net of reclassification adjustments | 51,397 | |  |  | 97,522 | |  |  | (47,971) | |  |  | 52,211 | |  |
| Cumulative currency translation adjustment | (399) | |  |  | (1,205) | |  |  | 1,019 | |  |  | (1,891) | |  |
| Total other comprehensive income (loss) | 50,998 | |  |  | 96,317 | |  |  | (46,952) | |  |  | 50,320 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Comprehensive income | 440,304 | |  |  | 883,803 | |  |  | 545,267 | |  |  | 297,188 | |  |
| Comprehensive (income) loss attributable to noncontrolling interest | (3,260) | |  |  | 9,616 | |  |  | (14,476) | |  |  | 46,508 | |  |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR | $ | 437,044 |  |  | $ | 893,419 |  |  | $ | 530,791 |  |  | $ | 343,696 |  |

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (UNAUDITED)**

**For the Three and Six Months Ended June 30, 2021 and 2020**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended**  **June 30,** | | | | | | |  | **Six Months Ended**  **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
|  | **(expressed in thousands of U.S. dollars)** | | | | | | | | | | | | | | |
| **Share Capital — Voting Ordinary Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 18,596 |  |  | $ | 18,610 |  |  | $ | 18,576 |  |  | $ | 18,002 |  |
| Issue of shares | 5 | |  |  | 25 | |  |  | 43 | |  |  | 726 | |  |
| Shares repurchased | (30) | |  |  | — | |  |  | (48) | |  |  | (93) | |  |
| Balance, end of period | $ | 18,571 |  |  | $ | 18,635 |  |  | $ | 18,571 |  |  | $ | 18,635 |  |
| **Share Capital — Non-Voting Convertible Ordinary Series C Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 2,690 |  |  | $ | 2,600 |  |  | $ | 2,600 |  |  | $ | 2,600 |  |
| Exercise of warrants | — | |  |  | — | |  |  | 90 | |  |  | — | |  |
| Balance, end of period | $ | 2,690 |  |  | $ | 2,600 |  |  | $ | 2,690 |  |  | $ | 2,600 |  |
| **Share Capital — Non-Voting Convertible Ordinary Series E Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | $ | 910 |  |  | $ | 910 |  |  | $ | 910 |  |  | $ | 910 |  |
| **Share Capital — Series C Convertible Participating Non-Voting Preferred Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | $ | 389 |  |  | $ | 389 |  |  | $ | 389 |  |  | $ | 389 |  |
| **Share Capital — Series D Preferred Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | $ | 400,000 |  |  | $ | 400,000 |  |  | $ | 400,000 |  |  | $ | 400,000 |  |
| **Share Capital — Series E Preferred Shares** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | $ | 110,000 |  |  | $ | 110,000 |  |  | $ | 110,000 |  |  | $ | 110,000 |  |
| **Treasury Shares (Series C Preferred Shares)** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | $ | (421,559) |  |  | $ | (421,559) |  |  | $ | (421,559) |  |  | $ | (421,559) |  |
| **Joint Share Ownership Plan — Voting Ordinary Shares, Held in Trust** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | (566) |  |  | $ | (566) |  |  | $ | (566) |  |  | $ | — |  |
| Issue of shares | — | |  |  | — | |  |  | — | |  |  | (566) | |  |
| Balance, end of period | $ | (566) |  |  | $ | (566) |  |  | $ | (566) |  |  | $ | (566) |  |
| **Additional Paid-in Capital** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 1,836,792 |  |  | $ | 1,825,798 |  |  | $ | 1,836,074 |  |  | $ | 1,836,778 |  |
| Repurchase of voting ordinary shares | (311) | |  |  | (109) | |  |  | (2,563) | |  |  | (1,360) | |  |
| Exercise of warrants | — | |  |  | — | |  |  | (90) | |  |  | — | |  |
| Shares repurchased | (7,178) | |  |  | — | |  |  | (11,385) | |  |  | (12,433) | |  |
| Amortization of share-based compensation | 5,928 | |  |  | 9,426 | |  |  | 13,195 | |  |  | 12,130 | |  |
| Balance, end of period | $ | 1,835,231 |  |  | $ | 1,835,115 |  |  | $ | 1,835,231 |  |  | $ | 1,835,115 |  |
| **Accumulated Other Comprehensive Income (Loss)** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | (17,715) |  |  | $ | (34,656) |  |  | $ | 80,659 |  |  | $ | 7,171 |  |
| Cumulative currency translation adjustment |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | 8,619 | |  |  | 7,862 | |  |  | 7,876 | |  |  | 8,548 | |  |
| Change in currency translation adjustment | (565) | |  |  | (1,038) | |  |  | 178 | |  |  | (1,724) | |  |
| Balance, end of period | 8,054 | |  |  | 6,824 | |  |  | 8,054 | |  |  | 6,824 | |  |
| Defined benefit pension liability |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning and end of period | 207 | |  |  | (945) | |  |  | 207 | |  |  | (945) | |  |
| Unrealized gains (losses) on available-for-sale investments |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | (26,541) | |  |  | (41,573) | |  |  | 72,576 | |  |  | (432) | |  |
| Change in unrealized gains (losses) on available-for-sale investments | 51,357 | |  |  | 86,979 | |  |  | (47,760) | |  |  | 45,838 | |  |
| Balance, end of period | 24,816 | |  |  | 45,406 | |  |  | 24,816 | |  |  | 45,406 | |  |
| Balance, end of period | $ | 33,077 |  |  | $ | 51,285 |  |  | $ | 33,077 |  |  | $ | 51,285 |  |
| **Retained Earnings** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 4,831,239 |  |  | $ | 2,375,073 |  |  | $ | 4,647,312 |  |  | $ | 2,887,892 |  |
| Net earnings | 389,306 | |  |  | 787,486 | |  |  | 592,219 | |  |  | 246,868 | |  |
| Net (earnings) loss attributable to noncontrolling interest | (3,055) | |  |  | 19,992 | |  |  | (13,846) | |  |  | 52,714 | |  |
| Dividends on preferred shares | (8,925) | |  |  | (8,925) | |  |  | (17,850) | |  |  | (17,850) | |  |
| Change in redemption value of redeemable noncontrolling interests | — | |  |  | 16,478 | |  |  | 730 | |  |  | 26,628 | |  |
| Cumulative effect of change in accounting principle | — | |  |  | — | |  |  | — | |  |  | (6,148) | |  |
| Balance, end of period | $ | 5,208,565 |  |  | $ | 3,190,104 |  |  | $ | 5,208,565 |  |  | $ | 3,190,104 |  |
| **Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)** |  | | |  |  | | |  |  | | |  |  | | |
| Balance, beginning of period | $ | 12,655 |  |  | $ | 13,405 |  |  | $ | 13,609 |  |  | $ | 14,168 |  |
| Dividends paid | (634) | |  |  | — | |  |  | (634) | |  |  | — | |  |
| Net earnings (loss) attributable to noncontrolling interest | 614 | |  |  | 148 | |  |  | (340) | |  |  | (615) | |  |
| Balance, end of period | $ | 12,635 |  |  | $ | 13,553 |  |  | $ | 12,635 |  |  | $ | 13,553 |  |
| **Total Shareholders' Equity** | $ | 7,199,943 |  |  | $ | 5,200,466 |  |  | $ | 7,199,943 |  |  | $ | 5,200,466 |  |

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR **GROUP LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**For the Six Months Ended June 30, 2021 and 2020**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |
|  | **(expressed in thousands of U.S. dollars)** | | | | | | |
| OPERATING ACTIVITIES: |  | | |  |  | | |
| Net earnings | $ | 592,219 |  |  | $ | 246,868 |  |
| Net loss from discontinued operations, net of income taxes | — | |  |  | 3,221 | |  |
| Adjustments to reconcile net earnings to cash flows provided by operating activities: |  | | |  |  | | |
| Realized gains on sales of investments | (346,341) | |  |  | (61,406) | |  |
| Unrealized gains on investments | (38,091) | |  |  | (277,141) | |  |
| Net gain on sales of subsidiaries | (14,894) | |  |  | — | |  |
| Depreciation and other amortization | 38,005 | |  |  | 30,006 | |  |
| Earnings from equity method investments | (114,972) | |  |  | (3,660) | |  |
| Sales and maturities of trading securities | 3,267,170 | |  |  | 2,165,843 | |  |
| Purchases of trading securities | (2,031,855) | |  |  | (1,175,992) | |  |
| Payments to cover securities sold short | (685,140) | |  |  | — | |  |
| Proceeds from securities sold short | 244,829 | |  |  | — | |  |
| Net payments for derivative contracts | (77,773) | |  |  | — | |  |
| Other non-cash items | 10,274 | |  |  | 11,082 | |  |
| Changes in: |  | | |  |  | | |
| Reinsurance balances recoverable on paid and unpaid losses | 111,995 | |  |  | 84,827 | |  |
| Funds held by reinsured companies | (1,566,139) | |  |  | (990,864) | |  |
| Losses and loss adjustment expenses | 2,447,066 | |  |  | 741,100 | |  |
| Defendant asbestos and environmental liabilities | (28,410) | |  |  | (39,623) | |  |
| Insurance and reinsurance balances payable | 94,238 | |  |  | 152,886 | |  |
| Premiums receivable | 23,476 | |  |  | (49,939) | |  |
| Other operating assets and liabilities | (255,008) | |  |  | 11,953 | |  |
| Variable interest entity assets and liabilities of the InRe Fund ([*Note 11*](#Section89)) | 684,367 | |  |  | — | |  |
| Net cash flows provided by operating activities | 2,355,016 | |  |  | 849,161 | |  |
| INVESTING ACTIVITIES: |  | | |  |  | | |
| Sales of subsidiaries, net of cash sold | (232,269) | |  |  | — | |  |
| Sales and maturities of available-for-sale securities | 1,495,918 | |  |  | 1,156,786 | |  |
| Purchase of available-for-sale securities | (3,451,516) | |  |  | (1,759,023) | |  |
| Purchase of other investments | (307,429) | |  |  | (656,757) | |  |
| Proceeds from other investments | 135,734 | |  |  | 136,592 | |  |
| Purchase of equity method investments | — | |  |  | (33,000) | |  |
| Dividends from equity method investments | — | |  |  | 237 | |  |
| Other investing activities | 334 | |  |  | (974) | |  |
| Consolidation of the InRe Fund opening cash and restricted cash balances ([*Note 11*](#Section89)) | 574,081 | |  |  | — | |  |
| Net cash flows used in investing activities | (1,785,147) | |  |  | (1,156,139) | |  |
| FINANCING ACTIVITIES: |  | | |  |  | | |
| Dividends on preferred shares | (17,850) | |  |  | (17,850) | |  |
| Dividends paid to noncontrolling interest | (634) | |  |  | — | |  |
| Repurchase of shares | (11,433) | |  |  | (12,526) | |  |
| Receipt of loans | 20,000 | |  |  | 364,000 | |  |
| Repayment of loans | (30,000) | |  |  | (14,000) | |  |
| Net cash flows provided by (used in) financing activities | (39,917) | |  |  | 319,624 | |  |
| DISCONTINUED OPERATIONS CASH FLOWS: |  | | |  |  | | |
| Net cash flows provided by operating activities | — | |  |  | 95,096 | |  |
| Net cash flows used in investing activities | — | |  |  | (93,940) | |  |
| Net cash flows from discontinued operations | — | |  |  | 1,156 | |  |
| EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS | 2,527 | |  |  | 4,526 | |  |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 532,479 | |  |  | 18,328 | |  |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,373,116 | |  |  | 971,349 | |  |
| NET CHANGE IN CASH OF BUSINESSES HELD FOR SALE | 223,200 | |  |  | (1,156) | |  |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ | 2,128,795 |  |  | $ | 988,521 |  |
|  |  | | |  |  | | |
| **Supplemental Cash Flow Information:** |  | | |  |  | | |
| Income taxes paid, net of refunds | $ | 5,146 |  |  | $ | 15,450 |  |
| Interest paid | $ | 31,408 |  |  | $ | 26,783 |  |
|  |  | | |  |  | | |
| **Reconciliation to Condensed Consolidated Balance Sheets:** |  | | |  |  | | |
| Cash and cash equivalents | 769,359 | |  |  | 651,855 | |  |
| Restricted cash and cash equivalents | 356,899 | |  |  | 336,666 | |  |
| Cash and restricted cash and cash equivalents of the InRe Fund ([Note 11](#Section89)) | 1,002,537 | |  |  | — | |  |
| Cash, cash equivalents and restricted cash | $ | 2,128,795 |  |  | $ | 988,521 |  |

In addition to the cash flows presented above, for the six months ended June 30, 2021 our non-cash financing activities included distributions to redeemable noncontrolling interest ("RNCI") totaling $202.1 million, the issuance of 89,590 shares following the exercise of 175,901 warrants on a non-cash basis, and a third-party capital withdrawal from the InRe Fund totaling $61.4 million which was funded through the transfer of a trading security. For the six months ended June 30, 2021 our non-cash investing activities included: the receipt of other investments as consideration totaling $51.7 million; unsettled purchases and sales of AFS and other investments of $55.9 million and $6.4 million, respectively; and contributions of $481.3 million to other investments, fully funded through the redemption of other investments totaling $381.3 million and a $100.0 million reduction in investment fees. Refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations,", Note 15 - "Noncontrolling Interests" and Note 20 - "Related Party Transactions."

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Preparation***

These unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring items considered necessary for a fair presentation under U.S. GAAP. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2020. All significant inter-company transactions and balances have been eliminated. In these notes, the terms "we," "us," "our," "Enstar," or "the Company" refer to Enstar Group Limited and its consolidated subsidiaries.

During the first quarter of 2021, we revised our segment structure and as a result restated the prior period comparatives to conform with the current period presentation. Refer to Note 22 - "Segment Information" for further information.

***Use of Estimates***

The preparation of financial statements in accordance with U.S. GAAP requires us 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 may differ materially from these estimates. Results of changes in estimates are reflected in earnings in the period in which the change is made. 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:

1. liability for losses and loss adjustment expenses ("LAE");
2. reinsurance balances recoverable on paid and unpaid losses;
3. defendant asbestos and environmental liabilities and related insurance balances recoverable;
4. valuation allowances on reinsurance balances recoverable and deferred tax assets;
5. impairment charges, including credit allowances on investment securities classified as available-for-sale ("AFS"), and impairments on deferred charge assets;
6. gross and net premiums written and net premiums earned;
7. fair value measurements of investments;
8. fair value estimates associated with accounting for acquisitions;
9. fair value estimates associated with loss portfolio transfer reinsurance agreements for which we have elected the fair value option; and
10. redeemable noncontrolling interests.

***New Accounting Standards Adopted in 2021***

*Accounting Standards Update ("ASU") 2020-08 – Codification Improvements to Subtopic 310-20 - Receivables - Nonrefundable Fees and Other Costs*

In October 2020, the Financial Accounting Standards Board (“FASB”) issued ASU 2020-08 to clarify that an entity should re-evaluate whether a callable debt security is within the scope of Accounting Standards Codification ("ASC") 310-20-35-33 during each reporting period and accelerate amortization of the premium associated with the callable debt to the earliest call date. All entities are required to apply the amendments in this ASU on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

The adoption of ASU 2020-08 did not have a material impact on our condensed consolidated financial statements and the related disclosures.

*ASU 2020-06 – Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*

In August 2020, the FASB issued ASU 2020-06, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. For convertible instruments, the ASU eliminates two of the three accounting models in ASC 470-20 that require separate accounting for embedded conversion features. The ASU also simplifies an issuer's application of the derivatives scope exception in ASC 815-40 for contracts in its own equity and removes some of the conditions that preclude a freestanding contract from being classified in equity, thereby allowing more of such contracts to qualify for equity classification.

We early adopted the amendments in ASU 2020-06 as of January 1, 2021 and that adoption did not have an impact on our condensed consolidated financial statements and the related disclosures.

*ASU 2020-01 - Clarifying the Interactions between ASC 321, ASC 323 and ASC 815*

In January 2020, the FASB issued ASU 2020-01 to clarify the interaction of the accounting for equity securities under ASC 321 and investments accounted for under the equity method of accounting in ASC 323 and the accounting for certain forward contracts and purchased options accounted for under ASC 815. With respect to the interactions between ASC 321 and ASC 323, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting when applying the measurement alternative in ASC 321, immediately before applying or upon discontinuing the equity method of accounting. With respect to forward contracts or purchased options to purchase securities, the amendments clarify that when applying the guidance in ASC 815-10-15-141(a), an entity should not consider whether upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in ASC 323 or the fair value option in accordance with ASC 825.

The adoption of ASU 2020-01 did not have an impact on our condensed consolidated financial statements and disclosures.

*ASU 2019-12 - Simplifying the Accounting for Income Taxes*

In December 2019, the FASB issued ASU 2019-12 which removes certain exceptions for (1) recognizing deferred taxes for investments, (2) performing intraperiod tax allocation, and (3) calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating income taxes to a legal entity that is not subject to income taxes. The adoption of ASU 2019-12 did not have any impact on our condensed consolidated financial statements and disclosures.

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

Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 describes accounting pronouncements that were not adopted as of December 31, 2020. Those pronouncements have not yet been adopted unless discussed above in "New Accounting Standards Adopted in 2021." In addition, the following accounting pronouncement was issued by the FASB during the three months ended June 30, 2021 and is yet to be adopted.

*ASU 2021-04 - Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity - Classified Written Call Options*

In May 2021, the FASB issued ASU 2021-04 which requires issuers to account for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. Under the ASU, an issuer considers the facts and circumstances of a modification or exchange and accounts for the resulting change in fair value of the written call option based on whether the transaction was done to issue equity, to issue or modify debt, or for other reasons. The guidance clarifies that to the extent applicable, issuers should first reference other GAAP to account for the effect of a modification. If other GAAP is not applicable, the guidance clarifies whether to account for the modification or exchange as either (i) an adjustment to equity, or (ii) an expense.

The ASU is to be applied prospectively and is effective for all entities for annual periods beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted, but entities need to apply the guidance as of the beginning of the fiscal year in which they early adopt it.

The adoption of ASU 2021-04 is not expected to have an impact on our condensed consolidated financial statements and disclosures.

**2. SIGNIFICANT NEW BUSINESS**

We define significant new business as material transactions other than business acquisitions. Generally, our significant new business takes the form of loss portfolio transfer ("LPT") or adverse development cover ("ADC") reinsurance transactions or direct business transfers.

The table below sets forth a summary of significant new business that we have completed between January 1, 2020 and June 30, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Transaction** |  | **Date Completed** |  | **Total Assets Assumed** | | |  | **Deferred Charge Asset (1)** | | |  | **Total Assets from Transactions** | | |  | **Total Liabilities Assumed** | | |  | **Net Fair Value Adjustment (2)** | | |  | **Total Liabilities from Transactions** | | |  | **Type of Transaction and Primary Nature of Business** |
| Hiscox |  | June 3, 2021 |  | $ | 532,394 |  |  | N/A | | |  | $ | 532,394 |  |  | $ | 532,394 |  |  | N/A | | |  | $ | 532,394 |  |  | LPT of diversified legacy insurance business, including surplus lines broker business |
| Coca-Cola |  | May 24, 2021 |  | 41,928 | |  |  | 6,143 | | |  | 48,071 | |  |  | 48,071 | |  |  | N/A | | |  | 48,071 | |  |  | LPT of U.S. workers' compensation liability |
| AXA Group |  | May 3, 2021 |  | 1,395,000 | |  |  | 91,988 | | |  | 1,486,988 | |  |  | 1,486,988 | |  |  | N/A | | |  | 1,486,988 | |  |  | ADC of a diversified mix of global casualty and professional lines |
| CNA |  | February 5, 2021 |  | 651,736 | |  |  | 105,479 | | |  | 757,215 | |  |  | 757,215 | |  |  | N/A | | |  | 757,215 | |  |  | LPT of U.S. excess workers' compensation liabilities |
| Liberty Mutual (3) |  | January 8, 2021 |  | 363,159 | |  |  | 25,402 | | |  | 388,561 | |  |  | 388,561 | |  |  | N/A | | |  | 388,561 | |  |  | LPT of U.S. energy liability, construction liability and homebuilders liability |
| Total 2021 |  |  |  | $ | 2,984,217 |  |  | $ | 229,012 |  |  | $ | 3,213,229 |  |  | $ | 3,213,229 |  |  | $ | — |  |  | $ | 3,213,229 |  |  |  |
| Hannover Re |  | August 6, 2020 |  | $ | 182,498 |  |  | N/A | | |  | $ | 182,498 |  |  | $ | 209,713 |  |  | $ | (27,215) |  |  | $ | 182,498 |  |  | Novation of U.S. asbestos, environmental and workers' compensation liabilities |
| Munich Re |  | July 1, 2020 |  | 100,956 | |  |  | N/A | | |  | 100,956 | |  |  | 100,956 | |  |  | N/A | | |  | 100,956 | |  |  | Business Transfer of Australian public liability, professional liability and builders' warranty liabilities |
| AXA Group (3) |  | June 1, 2020 |  | 179,681 | |  |  | N/A | | |  | 179,681 | |  |  | 179,681 | |  |  | N/A | | |  | 179,681 | |  |  | LPT of U.S. construction general liability |
| Aspen |  | June 1, 2020 |  | 770,000 | |  |  | 11,746 | |  |  | 781,746 | |  |  | 781,746 | |  |  | N/A | | |  | 781,746 | |  |  | ADC on a diversified mix of property, liability and specialty lines of business across the U.S., U.K. and Europe |
| Lyft |  | March 31, 2020 |  | 465,000 | |  |  | N/A | | |  | 465,000 | |  |  | 465,000 | |  |  | N/A | | |  | 465,000 | |  |  | LPT of U.S. motor liabilities |
| Total 2020 |  |  |  | $ | 1,698,135 |  |  | $ | 11,746 |  |  | $ | 1,709,881 |  |  | $ | 1,737,096 |  |  | $ | (27,215) |  |  | $ | 1,709,881 |  |  |  |
| Total |  |  |  | $ | 4,682,352 |  |  | $ | 240,758 |  |  | $ | 4,923,110 |  |  | $ | 4,950,325 |  |  | $ | (27,215) |  |  | $ | 4,923,110 |  |  |  |

(1) Where the estimated ultimate losses payable exceed the premium consideration received at the inception of the agreement, a deferred charge asset is recorded.

(2) When the fair value option is elected for any retroactive reinsurance agreement, an initial net fair value adjustment is recorded at the inception of the agreement.

(3) We have ceded 10% of these transactions to Enhanzed Reinsurance Ltd. ("Enhanzed Re"), in which we have an investment, on the same terms and conditions as those received by us. Refer to Note 20 - "Related Party Transactions" for further details.

Refer to Note 23 - "Subsequent Events" for additional information related transactions not completed as of June 30, 2021.

**3. DIVESTITURES, HELD-FOR-SALE BUSINESSES AND DISCONTINUED OPERATIONS**

***Atrium Exchange Transaction***

On August 13, 2020, we announced an exchange transaction with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P. (collectively, the "Trident V Funds") managed by Stone Point Capital LLC ("Stone Point"). As part of the exchange, we entered into a recapitalization agreement with the Trident V Funds, Dowling Capital Partners I, L.P. and Capital City Partners LLC (collectively, the "Dowling Funds"), North Bay Holdings Limited ("North Bay"), and StarStone Specialty Holdings Limited ("SSHL"). On January 1, 2021, this transaction was completed.

As of December 31, 2020, Enstar owned an indirect 59.0% interest in North Bay and the Trident V Funds and the Dowling Funds owned 39.3% and 1.7%, respectively. North Bay owns 100.0% of SSHL, the holding company for the StarStone group, which previously included StarStone's U.S. operations, including StarStone U.S. Holdings, Inc. and its subsidiaries (“StarStone U.S.”) and StarStone International. North Bay also owned 92.1% of Northshore Holdings Limited ("Northshore"), the holding company that owns Atrium Underwriting Group Limited and its subsidiaries (collectively, "Atrium") and Arden Reinsurance Company Ltd. ("Arden"). The remaining share ownership of Northshore is held on behalf of certain Atrium employees.

Pursuant to the terms of the recapitalization agreement, we exchanged a portion of our indirect interest in Northshore for all of the Trident V Funds’ indirect interest in StarStone U.S., which was owned through an interest in Core Specialty Insurance Holdings, Inc. (“Core Specialty”) (the “Exchange Transaction”). Subsequent to the Exchange Transaction, the Trident V Funds no longer hold any interest in Core Specialty, and the common shares of Core Specialty received as part consideration for the sale of StarStone U.S. were distributed to Enstar and the Dowling Funds. Effective January 1, 2021, we owned 25.2% on a fully diluted basis (24.7% as of June 30, 2021) of Core Specialty, which in turn owns StarStone U.S., and 13.8% of Northshore, which continues to own Atrium and Arden. The Trident V Funds own 76.3% of Northshore, while the Dowling Funds own 0.4% of Core Specialty and 1.6% of Northshore. The Exchange Transaction had no impact on the ultimate ownership of SSHL, which continues to own StarStone International, with us, the Trident V Funds and the Dowling Funds retaining our and their ownership interests in SSHL of 59.0%, 39.3% and 1.7%, respectively.

Effective January 1, 2021, Northshore was de-consolidated and our remaining investment with a carrying value of $34.0 million as of June 30, 2021 is accounted for as a privately held equity investment and carried at its fair value. During the first quarter of 2021, we recognized a loss of $7.8 million on completion of the Exchange Transaction.

Through our wholly owned subsidiary, SGL No. 1 Limited (“SGL No. 1”), a Lloyd’s corporate member, we provided 25% of the underwriting capacity on the 2017 to 2020 underwriting years of Atrium's Syndicate 609 at Lloyd’s. Effective January 1, 2021, and in conjunction with the completion of the Exchange Transaction, SGL No.1 ceased its provision of underwriting capacity on Syndicate 609 for future underwriting years.

SGL No.1 is obligated to support underwriting capacity on Syndicate 609 through the provision of FAL, and will settle its share of the 2020 and prior underwriting years for the economic benefit of Atrium via reinsurance agreements with Arden and a Syndicate 609 Capacity Lease Agreement with Atrium 5 Limited, a UK domiciled subsidiary of Atrium.

As a result of these contractual arrangements, the net loss reserve liabilities, and the cash, investments and other assets that support those liabilities, will be settled by: i) the distribution of SGL No.1’s share of the Syndicate 609 result; ii) the settlement of the net payable or receivable position on the reinsurance agreement with Arden; and iii) the required settlement, if any, of the Syndicate 609 Capacity Lease Agreement payable, each of which will occur no earlier than December 31, 2022.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **December 31, 2020** | | |
| Distribution of SGL No.1 share of Syndicate 609 results |  |  | $ | 19,115 |  |
| Due to Arden under reinsurance agreement |  |  | (7,965) | |  |
| Due to Atrium 5 Limited under Capacity Lease Agreement |  |  | (11,150) | |  |
| Net balances with Northshore Group |  |  | — | |  |

Until these balances are settled, as at January 1, 2021, the Company recognized gross loss reserves of $254.6 million, reinsurance recoverable of $90.8 million, and $163.8 million of net assets required to support the net insurance liabilities.

Additionally, although the value of and the change in other insurance assets and liabilities are recorded gross within our Legacy Underwriting segment, there is no retention by Enstar of the net results of Atrium's 2020 and prior underwriting years as the business was contractually transferred to the Atrium entities that were divested in the Exchange Transaction. We recorded net unearned premium of $37.4 million and deferred acquisition costs of $20.3 million, included within other assets on our consolidated balance sheet, as of January 1, 2021.

Effective January 1, 2021, balances that SGL No. 1 has with Atrium and Arden are no longer eliminated in our condensed consolidated financial statements.

As of December 31, 2020, we classified the assets and liabilities of Northshore as held-for-sale, but Northshore did not qualify as a discontinued operation since the pending disposal did not represent a strategic shift that would have a major effect on our operations and financial results. The following table summarizes the components of Northshore's assets and liabilities held-for-sale on our condensed consolidated balance sheet:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **December 31, 2020** | | |
| **ASSETS** |  | | |
| Short-term investments, AFS, at fair value | $ | 1,720 |  |
| Fixed maturities, trading, at fair value | 154,026 | |  |
| Fixed maturities, AFS, at fair value | 7,483 | |  |
| Other investments, at fair value | 9,897 | |  |
| Total investments | 173,126 | |  |
| Cash and cash equivalents | 71,156 | |  |
| Restricted cash and cash equivalents | 152,044 | |  |
| Premiums receivable | 62,392 | |  |
| Reinsurance balances recoverable on paid and unpaid losses | 37,341 | |  |
| Funds held by reinsured companies | 32,226 | |  |
| Other assets | 182,993 | |  |
| TOTAL ASSETS HELD-FOR-SALE | $ | 711,278 |  |
|  |  | | |
| **LIABILITIES** |  | | |
| Losses and loss adjustment expenses | $ | 254,149 |  |
| Insurance and reinsurance balances payable | 12,393 | |  |
| Debt obligations | 39,850 | |  |
| Other liabilities | 177,265 | |  |
| TOTAL LIABILITIES HELD-FOR-SALE | $ | 483,657 |  |
|  |  | | |
| **NET ASSETS HELD-FOR-SALE** | $ | 227,621 |  |

As of December 31, 2020, included in the table above were restricted investments of $94.4 million.

***Recapitalization of StarStone U.S. and Discontinued Operations***

On November 30, 2020, we completed the sale and recapitalization of StarStone U.S. through the sale of StarStone U.S. to Core Specialty, a newly formed entity with equity backing from funds managed by SkyKnight Capital, L.P., Dragoneer Investment Group and Aquiline Capital Partners LLC. We received consideration of $282.0 million inclusive of $235.0 million of common shares of Core Specialty and cash of $47.0 million. At the closing date, the $235.0 million of common shares of Core Specialty represented a 25.2% interest in Core Specialty on a fully diluted basis (24.7% as of June 30, 2021). Our investment in Core Specialty is accounted for as an equity method investment, and we record our proportionate share of the net earnings on a quarter lag.

The StarStone U.S. business qualified as a discontinued operation. The following table summarizes the components of net loss from discontinued operations, net of income taxes, related to StarStone U.S., on the consolidated statements of earnings:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | |  | **Six Months Ended June 30,** | | |
|  | **2020** | | |  | **2020** | | |
| INCOME |  | | |  |  | | |
| Net premiums earned | $ | 65,403 |  |  | $ | 165,949 |  |
| Net investment income | 3,699 | |  |  | 7,414 | |  |
| Net realized and unrealized gains | 6,262 | |  |  | 847 | |  |
| Other income | 24 | |  |  | 25 | |  |
|  | 75,388 | |  |  | 174,235 | |  |
| EXPENSES |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | 48,115 | |  |  | 112,709 | |  |
| Acquisition costs | 12,251 | |  |  | 32,794 | |  |
| General and administrative expenses | 15,645 | |  |  | 30,729 | |  |
| Interest expense | 591 | |  |  | 1,180 | |  |
| Net foreign exchange gains | (11) | |  |  | (2) | |  |
|  | 76,591 | |  |  | 177,410 | |  |
| LOSS BEFORE INCOME TAXES | (1,203) | |  |  | (3,175) | |  |
| Income tax benefit (expense) | 51 | |  |  | (46) | |  |
| NET LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES | (1,152) | |  |  | (3,221) | |  |
| Net loss from discontinued operations attributable to noncontrolling interest | 473 | |  |  | 1,321 | |  |
| NET LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS | $ | (679) |  |  | $ | (1,900) |  |

*Continuing Involvement Disclosures*

Following the completion of the sale of StarStone U.S. to Core Specialty on November 30, 2020, our continuing involvement with StarStone U.S. comprised of the following transactions:

LPT and ADC reinsurance agreement

In connection with the sale of StarStone U.S. to Core Specialty, one of our insurance subsidiaries entered into a loss portfolio transfer (“LPT”) and adverse development cover (“ADC”) reinsurance agreement with StarStone U.S. pursuant to which we reinsured all of the net loss reserves of StarStone U.S. in respect of premium earned prior to October 31, 2020. Under the terms of the LPT and ADC reinsurance agreement, we assumed total net loss reserves of $462.4 million from StarStone U.S. in exchange for a total reinsurance premium consideration of $478.2 million, subject to an aggregate limit of $130.0 million above the assumed total net loss reserves. Our subsidiary's obligations to StarStone U.S. under the LPT and ADC reinsurance agreement are guaranteed by us. The LPT and ADC reinsurance agreement between us and StarStone U.S. shall continue in force until such time as our liability with respect to the assumed total net loss reserves terminates.

Concurrent with the closing of the LPT and ADC reinsurance agreement, one of our wholly-owned subsidiaries entered into an Administrative Services Agreement ("ASA") with StarStone U.S., through which it was appointed as an independent contractor to provide certain administrative services covering the business we assumed from StarStone U.S. through the LPT and ADC reinsurance agreement. This ASA became effective on November 30, 2020 and shall continue in force (subject to certain limited exceptions) until such time as the LPT and ADC reinsurance agreement between us and StarStone U.S. terminates.

In addition, concurrent with the sale of StarStone U.S. to Core Specialty, which was completed on November 30, 2020, one of our wholly-owned subsidiaries entered into a Transition Services Agreement ("TSA") with Core Specialty through which our subsidiary and Core Specialty agreed to provide certain transitional services to each other relating to the StarStone U.S. businesses, for a specified period of time. This TSA became effective on November 30, 2020 and unless otherwise agreed to in writing by both Core Specialty and us, shall terminate on the earliest to occur of (a) the 2-year anniversary of the agreement, (b) the date on which all the covered transitional services have been terminated, and (c) the termination of the agreement.

*Reinsurance transactions previously eliminated on consolidation*

The table below presents a summary of the total income and expenses which have been recognized within our continuing operations relating to transactions, primarily reinsurances, between StarStone U.S. and our subsidiaries:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30, 2021** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Total income(1) | $ | (1,959) |  |  | $ | 3,650 |  |  | $ | (387) |  |  | $ | 7,363 |  |
| Total expenses (income)(1) | 3,468 | |  |  | (7,239) | |  |  | 1,068 | |  |  | (14,899) | |  |
| Net earnings (loss) | $ | (5,427) |  |  | $ | 10,889 |  |  | $ | (1,455) |  |  | $ | 22,262 |  |

(1) For the three and six months ended June 30, 2021 and 2020, negative total income was driven by a premium adjustment and negative total expenses were driven by favorable loss development on the losses and LAE reserves ceded by StarStone U.S. to our subsidiaries.

Cash flows

The cash inflows (outflows) between our subsidiaries and StarStone U.S. for the six months ended June 30, 2021 and 2020 were $7.6 million and ($9.8 million), respectively.

Equity method investment

We have applied the equity method of accounting to the common shares we acquired in Core Specialty as part-consideration for the sale of StarStone U.S. and which made up 25.2% of the total outstanding common shares in Core Specialty on a fully diluted basis as of November 30, 2020 when we completed the sale and recapitalization of StarStone U.S. (24.7% as of June 30, 2021). Our investment in the common shares of Core Specialty, which is included in equity method investments on our condensed consolidated balance sheet, was $224.3 million as of June 30, 2021 (December 31, 2020: $235.0 million). Following the completion of the Exchange Transaction on January 1, 2021 as described above, common shares in Core Specialty with a carrying value of $4.0 million were distributed to redeemable noncontrolling interests as discussed in Note 15 - "Noncontrolling Interests." During the three and six months ended June 30, 2021 our share of net loss on our investment in Core Specialty, which is included within earnings from equity method investments in our condensed consolidated statement of earnings, was $3.7 million and $6.7 million, respectively.

***Run-off of StarStone International (non-U.S.)***

On June 10, 2020, we announced that we placed StarStone International into an orderly run-off (the "StarStone International Run-Off"). The liabilities associated with the StarStone International Run-Off vary in duration, and the run-off is expected to occur over a number of years. Steps to reduce the size of StarStone International's operations have begun and will involve several phases that will occur over time. As a result, we cannot anticipate with certainty the expected completion date of the StarStone International Run-Off.

We continue to evaluate additional strategic options for StarStone International's operations and business. Consequently, such options could have the effect of mitigating costs associated with placing the business into run-off. The remaining StarStone International operations will continue to serve the needs of policyholders and ensure that the companies continue to meet all regulatory requirements. The results of StarStone International are included within continuing operations in the Run-off segment. Recent developments relating to StarStone International include:

1. On March 15, 2021, we sold StarStone Underwriting Limited ("SUL"), the Lloyd's managing agency, together with the right to operate Lloyd's Syndicate 1301, to Inigo Limited ("Inigo"). As of December 31, 2020, we had a 59.0% interest in SUL and the Trident V Funds and the Dowling Funds owned 39.3% and 1.7%, respectively. Upon closing, Enstar, the Trident V Funds and the Dowling Funds received consideration of $30.0 million in the form of Inigo shares and $0.6 million in cash. Following the completion of the sale of SUL to Inigo on March 15, 2021, we recognized a gain on the sale of $23.1 million in the first quarter of 2021. In addition, Enstar and the Trident V Funds have committed to invest up to $27.0 million and $18.0 million, respectively, into Inigo. As of June 30, 2021, Enstar had funded $16.9 million of its capital commitment to Inigo, with $10.1 million yet to be called by Inigo. As of June 30, 2021, our investment in Inigo was $34.6 million (December 31, 2020: $16.9 million) representing 6.5% of the total outstanding ordinary shares of Inigo and was accounted for as a privately held equity investment and carried at fair value. In conjunction with the transaction, Enstar, the Trident V Funds and the Dowling Funds will retain the economics of Syndicate 1301’s 2020 and prior years’ underwriting portfolios as this business runs off.
2. On February 11, 2021, we sold Arena N.V., a Belgium-based specialist accident and health managing general agent for consideration of $1.0 million. We recognized a loss on the sale of $0.3 million during the first quarter of 2021.

The following table provides a summary of the net gain on sales of subsidiaries included in the condensed consolidated statement of earnings:

|  |  |  |
| --- | --- | --- |
|  | **Six Months Ended** | |
|  | **June 30,** | |
|  | **2021** | |
| Atrium | (7,844) |  |
| SUL | 23,067 |  |
| Arena | (329) |  |
| Net gain on sales of subsidiaries | 14,894 |  |

**4. INVESTMENTS**

We hold: (i) trading portfolios of short-term and fixed maturity investments and equities, carried at fair value; (ii) AFS portfolios of short-term and fixed maturity investments, carried at fair value; (iii) other investments, carried at fair value; (iv) equity method investments; and (v) funds held - directly managed.

Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest entity liabilities of the InRe Fund” within the consolidated balance sheet as of June 30, 2021. Refer to Note 11 - "Variable Interest Entities" for additional information.

***Short-term and Fixed Maturity Investments***

*Asset Types*

The fair values of the underlying asset categories comprising our short-term and fixed maturity investments classified as trading and AFS and the fixed maturity investments included within our funds held - directly managed balance were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Short-term investments, trading** | | |  | **Short-term investments, AFS** | | |  | **Fixed maturities, trading** | | |  | **Fixed maturities, AFS** | | |  | **Fixed maturities, funds held - directly managed** | | |  | **Total** | | |
| U.S. government and agency | $ | 15,683 |  |  | $ | 88,177 |  |  | $ | 109,398 |  |  | $ | 450,424 |  |  | $ | 125,757 |  |  | $ | 789,439 |  |
| U.K. government | — | |  |  | — | |  |  | 30,110 | |  |  | 11,586 | |  |  | — | |  |  | 41,696 | |  |
| Other government | 4,105 | |  |  | — | |  |  | 334,134 | |  |  | 125,647 | |  |  | 16,393 | |  |  | 480,279 | |  |
| Corporate | — | |  |  | 22,296 | |  |  | 2,884,794 | |  |  | 3,225,992 | |  |  | 519,916 | |  |  | 6,652,998 | |  |
| Municipal | — | |  |  | — | |  |  | 86,860 | |  |  | 105,550 | |  |  | 52,049 | |  |  | 244,459 | |  |
| Residential mortgage-backed | — | |  |  | — | |  |  | 130,711 | |  |  | 397,707 | |  |  | 43,821 | |  |  | 572,239 | |  |
| Commercial mortgage-backed | — | |  |  | — | |  |  | 296,776 | |  |  | 483,990 | |  |  | 206,488 | |  |  | 987,254 | |  |
| Asset-backed | — | |  |  | — | |  |  | 215,619 | |  |  | 665,142 | |  |  | 54,832 | |  |  | 935,593 | |  |
| Total fixed maturity and short-term investments | $ | 19,788 |  |  | $ | 110,473 |  |  | $ | 4,088,402 |  |  | $ | 5,466,038 |  |  | $ | 1,019,256 |  |  | $ | 10,703,957 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Short-term investments, trading** | | |  | **Short-term investments, AFS** | | |  | **Fixed maturities, trading** | | |  | **Fixed maturities, AFS** | | |  | **Fixed maturities, funds held - directly managed** | | |  | **Total** | | |
| U.S. government and agency | $ | — |  |  | $ | 243,556 |  |  | $ | 123,874 |  |  | $ | 474,442 |  |  | $ | 109,176 |  |  | $ | 951,048 |  |
| U.K. government | — | |  |  | — | |  |  | 37,508 | |  |  | 13,574 | |  |  | — | |  |  | 51,082 | |  |
| Other government | 3,424 | |  |  | 3,213 | |  |  | 327,437 | |  |  | 146,914 | |  |  | 21,165 | |  |  | 502,153 | |  |
| Corporate | 1,705 | |  |  | 17,026 | |  |  | 3,227,726 | |  |  | 1,920,323 | |  |  | 519,952 | |  |  | 5,686,732 | |  |
| Municipal | — | |  |  | — | |  |  | 79,959 | |  |  | 30,032 | |  |  | 52,678 | |  |  | 162,669 | |  |
| Residential mortgage-backed | — | |  |  | — | |  |  | 154,471 | |  |  | 328,871 | |  |  | 70,603 | |  |  | 553,945 | |  |
| Commercial mortgage-backed | — | |  |  | — | |  |  | 347,225 | |  |  | 276,488 | |  |  | 230,377 | |  |  | 854,090 | |  |
| Asset-backed | — | |  |  | — | |  |  | 296,692 | |  |  | 204,456 | |  |  | 56,312 | |  |  | 557,460 | |  |
| Total fixed maturity and short-term investments | $ | 5,129 |  |  | $ | 263,795 |  |  | $ | 4,594,892 |  |  | $ | 3,395,100 |  |  | $ | 1,060,263 |  |  | $ | 9,319,179 |  |

Included within residential and commercial mortgage-backed securities as of June 30, 2021 were securities issued by U.S. governmental agencies with a fair value of $420.9 million (December 31, 2020: $458.1 million). There were no senior secured loans included within corporate securities as of June 30, 2021 and December 31, 2020.

*Contractual Maturities*

The contractual maturities of our short-term and fixed maturity investments, classified as trading and AFS 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.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As of June 30, 2021** |  | **Amortized**  **Cost** | | |  | **Fair Value** | | |  | **% of Total Fair Value** | |
| One year or less |  | $ | 527,076 |  |  | $ | 532,927 |  |  | 5.0 | % |
| More than one year through two years |  | 936,548 | |  |  | 953,402 | |  |  | 8.9 | % |
| More than two years through five years |  | 2,405,532 | |  |  | 2,479,482 | |  |  | 23.3 | % |
| More than five years through ten years |  | 2,355,524 | |  |  | 2,455,554 | |  |  | 22.9 | % |
| More than ten years |  | 1,664,804 | |  |  | 1,787,506 | |  |  | 16.7 | % |
| Residential mortgage-backed |  | 569,169 | |  |  | 572,239 | |  |  | 5.3 | % |
| Commercial mortgage-backed |  | 966,496 | |  |  | 987,254 | |  |  | 9.2 | % |
| Asset-backed |  | 939,474 | |  |  | 935,593 | |  |  | 8.7 | % |
|  |  | $ | 10,364,623 |  |  | $ | 10,703,957 |  |  | 100.0 | % |

*Credit Ratings*

The following table sets forth the credit ratings of our short-term and fixed maturity investments classified as trading and AFS and the fixed maturity investments included within our funds held - directly managed balance as of June 30, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Amortized**  **Cost** | | |  | **Fair Value** | | |  | **% of Total** | |  | **AAA**  **Rated** | | |  | **AA Rated** | | |  | **A Rated** | | |  | **BBB**  **Rated** | | |  | **Non-**  **Investment**  **Grade** | | |  | **Not Rated** | | |
|  |  | | |  |  | | |  |  | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. government and agency | $ | 784,054 |  |  | $ | 789,439 |  |  | 7.4 | % |  | $ | 788,822 |  |  | $ | 381 |  |  | $ | — |  |  | $ | 236 |  |  | $ | — |  |  | $ | — |  |
| U.K. government | 40,011 | |  |  | 41,696 | |  |  | 0.4 | % |  | — | |  |  | 34,379 | |  |  | 7,317 | |  |  | — | |  |  | — | |  |  | — | |  |
| Other government | 460,069 | |  |  | 480,279 | |  |  | 4.5 | % |  | 213,984 | |  |  | 168,864 | |  |  | 46,640 | |  |  | 45,889 | |  |  | 4,902 | |  |  | — | |  |
| Corporate | 6,378,115 | |  |  | 6,652,998 | |  |  | 62.2 | % |  | 166,647 | |  |  | 663,162 | |  |  | 2,964,842 | |  |  | 2,550,601 | |  |  | 291,394 | |  |  | 16,352 | |  |
| Municipal | 227,235 | |  |  | 244,459 | |  |  | 2.3 | % |  | 11,820 | |  |  | 129,533 | |  |  | 82,076 | |  |  | 20,937 | |  |  | — | |  |  | 93 | |  |
| Residential mortgage-backed | 569,169 | |  |  | 572,239 | |  |  | 5.3 | % |  | 557,182 | |  |  | 2,423 | |  |  | 2,201 | |  |  | 8,920 | |  |  | 1,413 | |  |  | 100 | |  |
| Commercial mortgage-backed | 966,496 | |  |  | 987,254 | |  |  | 9.2 | % |  | 705,402 | |  |  | 116,062 | |  |  | 85,728 | |  |  | 71,649 | |  |  | 3,831 | |  |  | 4,582 | |  |
| Asset-backed | 939,474 | |  |  | 935,593 | |  |  | 8.7 | % |  | 348,411 | |  |  | 279,778 | |  |  | 199,722 | |  |  | 82,737 | |  |  | 21,781 | |  |  | 3,164 | |  |
| Total | $ | 10,364,623 |  |  | $ | 10,703,957 |  |  | 100.0 | % |  | $ | 2,792,268 |  |  | $ | 1,394,582 |  |  | $ | 3,388,526 |  |  | $ | 2,780,969 |  |  | $ | 323,321 |  |  | $ | 24,291 |  |
| % of total fair value |  | | |  |  | | |  |  | |  | 26.1 | | % |  | 13.0 | | % |  | 31.7 | | % |  | 26.0 | | % |  | 3.0 | | % |  | 0.2 | | % |

*Unrealized Gains and Losses on AFS Short-term and Fixed Maturity Investments*

The amortized cost, unrealized gains and losses, allowance for credit losses and fair values of our short-term and fixed maturity investments classified as AFS were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | | |  |  | | |  | **Gross Unrealized Losses** | | | | | | |  |  | | |
| **As of June 30, 2021** |  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Non-Credit Related Losses** | | |  | **Allowance for Credit Losses** | | |  | **Fair Value** | | |
| U.S. government and agency |  | $ | 539,883 |  |  | $ | 1,754 |  |  | $ | (3,036) |  |  | $ | — |  |  | $ | 538,601 |  |
| U.K. government |  | 11,357 | |  |  | 289 | |  |  | (60) | |  |  | — | |  |  | 11,586 | |  |
| Other government |  | 122,336 | |  |  | 3,882 | |  |  | (530) | |  |  | (41) | |  |  | 125,647 | |  |
| Corporate |  | 3,231,801 | |  |  | 39,415 | |  |  | (15,757) | |  |  | (7,171) | |  |  | 3,248,288 | |  |
| Municipal |  | 103,993 | |  |  | 1,823 | |  |  | (266) | |  |  | — | |  |  | 105,550 | |  |
| Residential mortgage-backed |  | 398,564 | |  |  | 1,666 | |  |  | (2,506) | |  |  | (17) | |  |  | 397,707 | |  |
| Commercial mortgage-backed |  | 481,909 | |  |  | 5,277 | |  |  | (3,039) | |  |  | (157) | |  |  | 483,990 | |  |
| Asset-backed |  | 664,262 | |  |  | 1,230 | |  |  | (350) | |  |  | — | |  |  | 665,142 | |  |
|  |  | $ | 5,554,105 |  |  | $ | 55,336 |  |  | $ | (25,544) |  |  | $ | (7,386) |  |  | $ | 5,576,511 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | | |  |  | | |  | **Gross Unrealized Losses** | | | | | | |  |  | | |
| **As of December 31, 2020** |  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Non-Credit Related Losses** | | |  | **Allowance for Credit Losses** | | |  | **Fair Value** | | |
| U.S. government and agency |  | $ | 715,527 |  |  | $ | 3,305 |  |  | $ | (834) |  |  | $ | — |  |  | $ | 717,998 |  |
| U.K. government |  | 12,494 | |  |  | 1,080 | |  |  | — | |  |  | — | |  |  | 13,574 | |  |
| Other government |  | 142,459 | |  |  | 7,721 | |  |  | (53) | |  |  | — | |  |  | 150,127 | |  |
| Corporate |  | 1,873,184 | |  |  | 65,913 | |  |  | (1,567) | |  |  | (181) | |  |  | 1,937,349 | |  |
| Municipal |  | 28,881 | |  |  | 1,155 | |  |  | (4) | |  |  | — | |  |  | 30,032 | |  |
| Residential mortgage-backed |  | 326,268 | |  |  | 3,292 | |  |  | (689) | |  |  | — | |  |  | 328,871 | |  |
| Commercial mortgage-backed |  | 273,516 | |  |  | 5,202 | |  |  | (2,097) | |  |  | (133) | |  |  | 276,488 | |  |
| Asset-backed |  | 204,312 | |  |  | 846 | |  |  | (694) | |  |  | (8) | |  |  | 204,456 | |  |
|  |  | $ | 3,576,641 |  |  | $ | 88,514 |  |  | $ | (5,938) |  |  | $ | (322) |  |  | $ | 3,658,895 |  |

*Gross Unrealized Losses on AFS Short-term and Fixed Maturity Investments*

The following tables summarizes our short-term and fixed maturity investments classified as AFS that were in a gross unrealized loss position, for which an allowance for credit losses has not been recorded:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **12 Months or Greater** | | | | | | |  | **Less Than 12 Months** | | | | | | |  | **Total** | | | | | | |
| **As of June 30, 2021** |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |
| U.S. government and agency |  | $ | — |  |  | $ | — |  |  | $ | 413,863 |  |  | $ | (3,036) |  |  | $ | 413,863 |  |  | $ | (3,036) |  |
| U.K. government |  | — | |  |  | — | |  |  | 4,175 | |  |  | (60) | |  |  | 4,175 | |  |  | (60) | |  |
| Other government |  | — | |  |  | — | |  |  | 26,701 | |  |  | (257) | |  |  | 26,701 | |  |  | (257) | |  |
| Corporate |  | 2,016 | |  |  | (49) | |  |  | 1,174,039 | |  |  | (6,928) | |  |  | 1,176,055 | |  |  | (6,977) | |  |
| Municipal |  | — | |  |  | — | |  |  | 26,310 | |  |  | (266) | |  |  | 26,310 | |  |  | (266) | |  |
| Residential mortgage-backed |  | 2,372 | |  |  | (2) | |  |  | 256,022 | |  |  | (2,340) | |  |  | 258,394 | |  |  | (2,342) | |  |
| Commercial mortgage-backed |  | 2,885 | |  |  | (65) | |  |  | 265,257 | |  |  | (2,843) | |  |  | 268,142 | |  |  | (2,908) | |  |
| Asset-backed |  | — | |  |  | — | |  |  | 433,875 | |  |  | (350) | |  |  | 433,875 | |  |  | (350) | |  |
| Total short-term and fixed maturity investments |  | $ | 7,273 |  |  | $ | (116) |  |  | $ | 2,600,242 |  |  | $ | (16,080) |  |  | $ | 2,607,515 |  |  | $ | (16,196) |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **12 Months or Greater** | | | | | | |  | **Less Than 12 Months** | | | | | | |  | **Total** | | | | | | |
| **As of December 31, 2020** |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross Unrealized**  **Losses** | | |
| U.S. government and agency |  | $ | — |  |  | $ | — |  |  | $ | 55,839 |  |  | $ | (834) |  |  | $ | 55,839 |  |  | $ | (834) |  |
| Other government |  | — | |  |  | — | |  |  | 7,971 | |  |  | (53) | |  |  | 7,971 | |  |  | (53) | |  |
| Corporate |  | — | |  |  | — | |  |  | 199,048 | |  |  | (1,224) | |  |  | 199,048 | |  |  | (1,224) | |  |
| Municipal |  | — | |  |  | — | |  |  | 1,690 | |  |  | (4) | |  |  | 1,690 | |  |  | (4) | |  |
| Residential mortgage-backed |  | 4,626 | |  |  | (125) | |  |  | 79,149 | |  |  | (564) | |  |  | 83,775 | |  |  | (689) | |  |
| Commercial mortgage-backed |  | 38 | |  |  | (38) | |  |  | 67,094 | |  |  | (1,562) | |  |  | 67,132 | |  |  | (1,600) | |  |
| Asset-backed |  | — | |  |  | — | |  |  | 116,827 | |  |  | (564) | |  |  | 116,827 | |  |  | (564) | |  |
| Total short-term and fixed maturity investments |  | $ | 4,664 |  |  | $ | (163) |  |  | $ | 527,618 |  |  | $ | (4,805) |  |  | $ | 532,282 |  |  | $ | (4,968) |  |

As of June 30, 2021 and December 31, 2020, the number of securities classified as AFS in an unrealized loss position for which an allowance for credit loss is not recorded was 1,503 and 407, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 13 and 2, respectively.

The contractual terms for the majority of these investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the security. While interest rates have increased, and in certain cases credit ratings were downgraded, we currently do not expect the issuers of these fixed income securities to settle at a price less than their amortized cost basis and therefore it is expected that we will recover the entire amortized cost basis of each security. Furthermore, we do not intend to sell the securities that are currently in an unrealized loss position, and it is also not more likely than not that we will be required to sell the securities before the recovery of their amortized cost basis.

*Allowance for Credit Losses on AFS Fixed Maturity Investments*

We adopted ASU 2016-13 and the related amendments on January 1, 2020 prospectively, and recognized an allowance for credit losses of $3.1 million on initial adoption of the guidance. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details. Our allowance for credit losses is derived based on various data sources, multiple key inputs and forecast scenarios. These include default rates specific to the individual security, vintage of the security, geography of the issuer of the security, industry analyst reports, credit ratings and consensus economic forecasts.

To determine the credit losses on our AFS securities, we use the probability of default ("PD") and loss given default ("LGD") methodology through a third-party proprietary tool which calculates the expected credit losses based on a discounted cash flow method. The tool uses effective interest rates to discount the expected cash flows associated with each AFS security to determine its fair value, which is then compared with its amortized cost basis to derive the credit loss on the security.

The methodology and inputs used to determine the credit losses by security type are as follows:

1. *Corporate and Government:* Expected cashflows are derived that are specific to each security. The PD is based on a quantitative model that converts agency ratings to term structures that vary by country, industry and the state of the credit cycle. This is used along with macroeconomic forecasts to produce scenario conditioned PDs. The LGD is based on default studies provided by a third party which we use along with macroeconomic forecasts to produce scenario conditioned LGDs.
2. *Municipals*: Expected cash flows are derived that are specific to each security. The PD model produces scenario conditioned PD output over the lifetime of the municipal security. These PDs are based on key macroeconomic and instrument specific risk factors. The LGD is derived based on a model which uses assumptions specific to the municipal securities.

For corporate, government and municipal securities, we use an explicit reversion and a three year forecast period, which we consider to be a reasonable duration during which an economic forecast could continue to be reliable.

1. *Asset-backed, Commercial and Residential mortgage-backed:* Expected cash flows are derived that are specific to each security. The PD and LGD for each security is based on a quantitative model that generates scenario conditioned PD and LGD term structures based on the underlying collateral type, waterfall and other trustee information. This model also considers prepayments. For these security types, there is no explicit reversion and the forecasts are deemed reasonable and supportable over the life of the portfolio.

Due to the short-term period during which accrued investment income remains unpaid, which is typically six months or less since the coupon on our debt securities is paid semi-annually or more frequently, we elected not to establish an allowance for credit losses on our accrued investment income balances. Accrued investment income is written off through net realized investment gains (losses) at the time the issuer of the debt security defaults or is expected to default on payments.

The following tables provide a reconciliation of the beginning and ending allowance for credit losses on our AFS debt securities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2021** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Other**  **government** | | |  | **Corporate** | | |  | **Residential mortgage-backed** | | |  | **Commercial**  **mortgage**  **backed** | | |  | **Asset-backed** | | |  | **Total** | | |
| Allowance for credit losses, beginning of period | $ | (68) |  |  | $ | (12,206) |  |  | $ | — |  |  | $ | (264) |  |  | $ | — |  |  | $ | (12,538) |  |
| Allowances for credit losses on securities for which credit losses were not previously recorded | — | |  |  | (455) | |  |  | (17) | |  |  | (5) | |  |  | (39) | |  |  | (516) | |  |
| Reductions for securities sold during the period | 1 | |  |  | 61 | |  |  | — | |  |  | — | |  |  | — | |  |  | 62 | |  |
| Decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period | 26 | |  |  | 5,429 | |  |  | — | |  |  | 112 | |  |  | 39 | |  |  | 5,606 | |  |
| Allowance for credit losses, end of period | $ | (41) |  |  | $ | (7,171) |  |  | $ | (17) |  |  | $ | (157) |  |  | $ | — |  |  | $ | (7,386) |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2020** | | | | | | | | | | | | | | | | | | |
|  | **Other**  **government** | | |  | **Corporate** | | |  | **Commercial**  **mortgage**  **backed** | | |  | **Asset-backed** | | |  | **Total** | | |
| Allowance for credit losses, beginning of period | $ | — |  |  | $ | (14,323) |  |  | $ | (1) |  |  | $ | — |  |  | $ | (14,324) |  |
| Allowances for credit losses on securities for which credit losses were not previously recorded | — | |  |  | (149) | |  |  | (493) | |  |  | (89) | |  |  | (731) | |  |
| Reductions for securities sold during the period | — | |  |  | 1,388 | |  |  | — | |  |  | — | |  |  | 1,388 | |  |
| Decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period | — | |  |  | 9,994 | |  |  | — | |  |  | — | |  |  | 9,994 | |  |
| Allowance for credit losses, end of period | $ | — |  |  | $ | (3,090) |  |  | $ | (494) |  |  | $ | (89) |  |  | $ | (3,673) |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2021** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Other**  **government** | | |  | **Corporate** | | |  | **Residential mortgage-backed** | | |  | **Commercial**  **mortgage**  **backed** | | |  | **Asset-backed** | | |  | **Total** | | |
| Allowance for credit losses, beginning of period | $ | — |  |  | $ | (181) |  |  | $ | — |  |  | $ | (133) |  |  | $ | (8) |  |  | $ | (322) |  |
| Allowances for credit losses on securities for which credit losses were not previously recorded | (68) | |  |  | (12,577) | |  |  | (17) | |  |  | (237) | |  |  | (39) | |  |  | (12,938) | |  |
| Reductions for securities sold during the period | 1 | |  |  | 72 | |  |  | — | |  |  | — | |  |  | — | |  |  | 73 | |  |
| Decrease to the allowance for credit losses on securities that had an allowance recorded in the previous period | 26 | |  |  | 5,515 | |  |  | — | |  |  | 213 | |  |  | 47 | |  |  | 5,801 | |  |
| Allowance for credit losses, end of period | $ | (41) |  |  | $ | (7,171) |  |  | $ | (17) |  |  | $ | (157) |  |  | $ | — |  |  | $ | (7,386) |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2020** | | | | | | | | | | | | | | | | | | |
|  | **Other**  **government** | | |  | **Corporate** | | |  | **Commercial**  **mortgage**  **backed** | | |  | **Asset-backed** | | |  | **Total** | | |
| Allowance for credit losses, beginning of period | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |
| Cumulative effect of change in accounting principle | (22) | |  |  | (2,987) | |  |  | (50) | |  |  | — | |  |  | (3,059) | |  |
| Allowances for credit losses on securities for which credit losses were not previously recorded | — | |  |  | (1,876) | |  |  | (444) | |  |  | (89) | |  |  | (2,409) | |  |
| Reductions for securities sold during the period | — | |  |  | 1,773 | |  |  | — | |  |  | — | |  |  | 1,773 | |  |
| Reductions in the allowance for credit losses on securities we either intend to sell or more likely than not, we will be required to sell before the recovery of their amortized cost basis | 22 | |  |  | — | |  |  | — | |  |  | — | |  |  | 22 | |  |
| Allowance for credit losses, end of period | $ | — |  |  | $ | (3,090) |  |  | $ | (494) |  |  | $ | (89) |  |  | $ | (3,673) |  |

During the three and six months ended June 30, 2021 and 2020 we did not have any write-offs charged against the allowance for credit losses or any recoveries of amounts previously written-off.

***Equity Investments***

The following table summarizes our equity investments classified as trading:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Publicly traded equity investments in common and preferred stocks | $ | 304,701 |  |  | $ | 260,767 |  |
| Exchange-traded funds | 504,793 | |  |  | 311,287 | |  |
| Privately held equity investments in common and preferred stocks | 348,725 | |  |  | 274,741 | |  |
|  | $ | 1,158,219 |  |  | $ | 846,795 |  |

Equity investments include publicly traded common and preferred stocks, exchange-traded funds and privately held common and preferred stocks. Our publicly traded equity investments in common and preferred stocks predominantly trade on major exchanges. Our investments in exchange-traded funds also trade on major exchanges.

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. There is no active market for these investments. Refer to Note 20 - "Related Party Transactions" for further information on certain privately held equity investments.

***Other Investments, at fair value***

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Hedge funds (1) |  | $ | 73,130 |  |  | $ | 2,638,339 |  |
| Fixed income funds |  | 603,889 | |  |  | 552,541 | |  |
| Equity funds |  | 5,617 | |  |  | 190,767 | |  |
| Private equity funds |  | 536,368 | |  |  | 363,103 | |  |
| CLO equities |  | 145,103 | |  |  | 128,083 | |  |
| CLO equity funds |  | 190,158 | |  |  | 166,523 | |  |
| Private credit funds |  | 242,359 | |  |  | 192,319 | |  |
| Others |  | 17,969 | |  |  | 12,359 | |  |
|  |  | $ | 1,814,593 |  |  | $ | 4,244,034 |  |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest entity liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Refer to Note 11 - "Variable Interest Entities" for additional information. As of December 31, 2020, our investment in the InRe Fund was $2.4 billion.

The valuation of our other investments is described in Note 10 - "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:

1. *Hedge funds* invest in fixed income, equity and other investments. As noted above the InRe hedge fund was consolidated effective April 1, 2021.
2. *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, in both liquid and illiquid markets. The liquid fixed income funds have regularly published prices.
3. *Equity funds* invest primarily in European public equities.
4. *Private equity funds* include primary, secondary, and direct co-investment opportunities.
5. *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.
6. *CLO equity funds* invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.
7. *Private credit funds* invest primarily in direct senior or collateralized loans.
8. *Others* primarily comprise of real estate funds that invests primarily in commercial real estate equity.

As of June 30, 2021, we had unfunded commitments of $1.4 billion to other investments.

Certain of our other investments are subject to restrictions on redemptions and sales that are determined by the governing documents, which limits our ability to liquidate those investments. These restrictions may include lock-ups, redemption gates, restricted share classes or side pockets, restrictions on the frequency of redemption and notice periods. 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. Certain other investments may not have any restrictions governing their sale, but there is no active market and no guarantee that we will be able to execute a sale in a timely manner. In addition, even if certain other investments are not eligible for redemption or sales are restricted, we may still receive income distributions from those other investments.

The table below details the estimated date by which proceeds would be received if we had provided notice of our intent to redeem or initiated a sales process as of June 30, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Less than 1 Year** | | |  | **1-2 years** | | |  | **2-3 years** | | |  | **More than 3 years** | | |  | **Not Eligible/ Restricted** | | |  | **Total** | | |  | **Redemption Frequency** |
| Hedge funds | $ | 73,130 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 73,130 |  |  | Monthly to Bi-annually |
| Fixed income funds | 568,474 | |  |  | — | |  |  | — | |  |  | — | |  |  | 35,415 | |  |  | 603,889 | |  |  | Daily to Quarterly |
| Equity funds | 5,617 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 5,617 | |  |  | Daily |
| Private equity funds | — | |  |  | 50,950 | |  |  | — | |  |  | — | |  |  | 485,418 | |  |  | 536,368 | |  |  | Quarterly |
| CLO equities | 145,103 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 145,103 | |  |  | Daily to Quarterly |
| CLO equity funds | 172,776 | |  |  | 11,260 | |  |  | 5,757 | |  |  | — | |  |  | 365 | |  |  | 190,158 | |  |  | Quarterly to Bi-annually |
| Private credit funds | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 242,359 | |  |  | 242,359 | |  |  | N/A |
| Other | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 17,969 | |  |  | 17,969 | |  |  | N/A |
|  | $ | 965,100 |  |  | $ | 62,210 |  |  | $ | 5,757 |  |  | $ | — |  |  | $ | 781,526 |  |  | $ | 1,814,593 |  |  |  |

As of December 31, 2020, we had $48.2 million of hedge funds subject to gates or side-pockets.

***Equity Method Investments***

The table below shows our equity method investments:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | | | | |  | **December 31, 2020** | | | | | |
|  |  | **Ownership %** | |  | **Carrying Value** | | |  | **Ownership %** | |  | **Carrying Value** | | |
| Enhanzed Re |  | 47.4 | % |  | $ | 433,993 |  |  | 47.4 | % |  | $ | 330,289 |  |
| Citco(1) |  | 31.9 | % |  | 54,069 | |  |  | 31.9 | % |  | 53,022 | |  |
| Monument Re (2) |  | 20.0 | % |  | 204,322 | |  |  | 20.0 | % |  | 193,716 | |  |
| Core Specialty |  | 24.7 | % |  | 224,270 | |  |  | 25.2 | % |  | 235,000 | |  |
| Other |  | ~27% | |  | 19,776 | |  |  | ~27% | |  | 20,268 | |  |
|  |  |  | |  | $ | 936,430 |  |  |  | |  | $ | 832,295 |  |

(1) We own 31.9% of the common shares in HH CTCO Holdings Limited, which owns 15.4% of the convertible preferred shares of Citco III Limited ("Citco"), amounting to a 6.2% interest in the total equity of Citco.

(2) We own 20.0% of the common shares in Monument Re as well as different classes of preferred shares which have fixed dividend yields and whose balances are included in the Investment amount.

Refer to Note 20 - "Related Party Transactions" for further information regarding the investments above. As of June 30, 2021, we had unfunded commitments of $68.7 million related to Enhanzed Re.

Refer to Note 23 - "Subsequent Events" for additional information related to transactions with Enhanzed Re and Monument Re subsequent to June 30, 2021.

***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 funds held by reinsurance companies are recognized in net investment income and the investment returns on funds held -directly managed 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.

*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 condensed 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:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Short-term and fixed maturity investments, trading | $ | 1,019,256 |  |  | $ | 1,060,263 |  |
| Cash and cash equivalents | 3,895 | |  |  | 9,067 | |  |
| Other assets | 5,352 | |  |  | 5,560 | |  |
|  | $ | 1,028,503 |  |  | $ | 1,074,890 |  |

The following table summarizes the fixed maturity investment components of funds held - directly managed:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | |  | **December 31, 2020** | | | | | | | | | | |
|  | **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** | | |
| Short-term and fixed maturity investments, at amortized cost | $ | 108,654 |  |  | $ | 843,482 |  |  | $ | 952,136 |  |  | $ | 106,938 |  |  | $ | 859,403 |  |  | $ | 966,341 |  |
| Net unrealized gains: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Change in fair value - fair value option accounting | 7,212 | |  |  | — | |  |  | 7,212 | |  |  | 9,693 | |  |  | — | |  |  | 9,693 | |  |
| Change in fair value - embedded derivative accounting | — | |  |  | 59,908 | |  |  | 59,908 | |  |  | — | |  |  | 84,229 | |  |  | 84,229 | |  |
| Short-term fixed maturity investments within funds held - directly managed, at fair value | $ | 115,866 |  |  | $ | 903,390 |  |  | $ | 1,019,256 |  |  | $ | 116,631 |  |  | $ | 943,632 |  |  | $ | 1,060,263 |  |

Refer to the sections above for details of the short-term and 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 condensed consolidated balance sheets. As of June 30, 2021 and December 31, 2020, we had funds held by reinsured companies of $2.2 billion and $635.8 million, respectively. The increase from December 31, 2020 was primarily driven by the transactions with AXA Group and Hiscox as described in Note 2 - "Significant New Business."

***Net Investment Income***

Major categories of net investment income are summarized as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Fixed maturity investments | $ | 46,996 |  |  | $ | 52,837 |  |  | $ | 92,477 |  |  | $ | 106,279 |  |
| Short-term investments and cash and cash equivalents | (188) | |  |  | 752 | |  |  | (182) | |  |  | 3,377 | |  |
| Funds held by reinsured companies | 32,420 | |  |  | 24,099 | |  |  | 32,008 | |  |  | 24,369 | |  |
| Funds held - directly managed | 6,894 | |  |  | 10,685 | |  |  | 13,931 | |  |  | 19,501 | |  |
| Investment income from fixed maturities and cash and cash equivalents | 86,122 | |  |  | 88,373 | |  |  | 138,234 | |  |  | 153,526 | |  |
| Equity investments | 4,632 | |  |  | 3,762 | |  |  | 8,930 | |  |  | 9,725 | |  |
| Other investments | 8,831 | |  |  | 5,291 | |  |  | 18,125 | |  |  | 13,384 | |  |
| Investment income from equities and other investments | 13,463 | |  |  | 9,053 | |  |  | 27,055 | |  |  | 23,109 | |  |
| Gross investment income | 99,585 | |  |  | 97,426 | |  |  | 165,289 | |  |  | 176,635 | |  |
| Investment expenses | (3,267) | |  |  | (2,983) | |  |  | (6,882) | |  |  | (7,478) | |  |
| Net investment expenses of the InRe Fund (1) | (20,171) | |  |  | — | |  |  | (20,171) | |  |  | — | |  |
| Net investment income | $ | 76,147 |  |  | $ | 94,443 |  |  | $ | 138,236 |  |  | $ | 169,157 |  |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. Refer to Note 11 - "Variable Interest Entities" for additional information. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net realized and unrealized gains (losses) from other investments.

***Net Realized and Unrealized Gains (Losses)***

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Net realized gains (losses) on sales: |  | | |  |  | | |  |  | | |  |  | | |
| Gross realized gains on fixed maturity securities, AFS | $ | 3,494 |  |  | $ | 8,577 |  |  | $ | 8,265 |  |  | $ | 10,124 |  |
| Gross realized losses on fixed maturity securities, AFS | (2,864) | |  |  | (4,567) | |  |  | (6,766) | |  |  | (6,593) | |  |
| Decrease (increase) in allowance for expected credit losses on fixed maturity securities, AFS | 5,090 | |  |  | 9,002 | |  |  | (7,137) | |  |  | (2,637) | |  |
| Net realized gains on fixed maturity securities, trading | 11,275 | |  |  | 41,556 | |  |  | 29,039 | |  |  | 57,380 | |  |
| Net realized gains on funds held - directly managed | 728 | |  |  | 1,741 | |  |  | 1,252 | |  |  | 2,253 | |  |
| Net realized gains on equity investments | 1,033 | |  |  | 1,886 | |  |  | 63 | |  |  | 879 | |  |
| Net realized investment losses on investment derivatives | (259) | |  |  | — | |  |  | (80) | |  |  | — | |  |
| Net realized gains of the InRe Fund (1) | 321,705 | |  |  | — | |  |  | 321,705 | |  |  | — | |  |
| Total net realized gains on sales | $ | 340,202 |  |  | $ | 58,195 |  |  | $ | 346,341 |  |  | $ | 61,406 |  |
| Net unrealized gains (losses): |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturity securities, trading | $ | 40,011 |  |  | $ | 300,948 |  |  | $ | (128,912) |  |  | $ | 44,471 |  |
| Fixed maturity securities in funds held - directly managed | 17,530 | |  |  | 60,107 | |  |  | (26,660) | |  |  | 34,805 | |  |
| Equity investments | 52,003 | |  |  | 39,333 | |  |  | 81,964 | |  |  | (52,619) | |  |
| Other Investments (1) | 60,500 | |  |  | 143,971 | |  |  | 139,983 | |  |  | (69,712) | |  |
| Investment derivatives | (51) | |  |  | — | |  |  | 84 | |  |  | — | |  |
| Net unrealized gains (losses) of the InRe Fund (1) | (104,975) | |  |  | 365,054 | |  |  | (28,368) | |  |  | 320,196 | |  |
| Total net unrealized gains | $ | 65,018 |  |  | $ | 909,413 |  |  | $ | 38,091 |  |  | $ | 277,141 |  |
| Net realized and unrealized gains | $ | 405,220 |  |  | $ | 967,608 |  |  | $ | 384,432 |  |  | $ | 338,547 |  |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net realized and unrealized gains (losses) from other investments. Prior period amounts have been reclassified to net unrealized gains (losses) of the InRe Fund to conform to current period presentation.

The gross realized gains and losses on AFS investments for the three months ended June 30, 2021 and 2020 included in the table above resulted from sales of $504.3 million and $678.5 million, respectively. The gross realized gains and losses on AFS investments for the six months ended June 30, 2021 and 2020 included in the table above resulted from sales of $1.2 billion and $1.0 billion, respectively.

***Reconciliation to the Consolidated Statements of Comprehensive Income***

The following table provides a reconciliation of the gross realized gains and losses and credit recoveries (losses) on our AFS fixed maturity debt securities that arose during the three and six months ended June 30, 2021 within our continuing and discontinued operations and the offsetting reclassification adjustments included within our consolidated statements of comprehensive income:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| **Included within continuing operations:** |  | | |  |  | | |  |  | | |  |  | | |
| Gross realized gains on fixed maturity securities, AFS | $ | 3,494 |  |  | $ | 8,577 |  |  | $ | 8,265 |  |  | $ | 10,124 |  |
| Gross realized losses on fixed maturity securities, AFS | (2,864) | |  |  | (4,567) | |  |  | (6,766) | |  |  | (6,593) | |  |
| Tax effect | (101) | |  |  | — | |  |  | (376) | |  |  | — | |  |
| **Included within discontinued operations:** |  | | |  |  | | |  |  | | |  |  | | |
| Gross realized gains on fixed maturity securities, AFS | — | |  |  | 269 | |  |  | — | |  |  | 536 | |  |
| Gross realized losses on fixed maturity securities, AFS | — | |  |  | (57) | |  |  | — | |  |  | (57) | |  |
| Total reclassification adjustment | $ | 529 |  |  | $ | 4,222 |  |  | $ | 1,123 |  |  | $ | 4,010 |  |
| **Included within continuing operations:** |  | | |  |  | | |  |  | | |  |  | | |
| Credit losses on fixed maturity securities, AFS | $ | 5,090 |  |  | $ | 9,002 |  |  | $ | (7,137) |  |  | $ | (2,637) |  |
| Tax effect | 4 | |  |  | — | |  |  | 206 | |  |  | — | |  |
| **Included within discontinued operations:** |  | | |  |  | | |  |  | | |  |  | | |
| Credit losses on fixed maturity securities, AFS | — | |  |  | 1,760 | |  |  | — | |  |  | 187 | |  |
| Total reclassification adjustment | $ | 5,094 |  |  | $ | 10,762 |  |  | $ | (6,931) |  |  | $ | (2,450) |  |

***Restricted Assets***

We utilize trust accounts to collateralize business with our (re)insurance counterparties. We are also required to maintain investments and cash and cash equivalents on deposit with regulatory authorities and Lloyd's to support our (re)insurance operations. The investments and cash and cash equivalents on deposit are available to settle (re)insurance 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 $356.9 million and $472.0 million, as of June 30, 2021 and December 31, 2020, respectively, was as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Collateral in trust for third party agreements |  | $ | 5,529,480 |  |  | $ | 4,924,866 |  |
| Assets on deposit with regulatory authorities |  | 230,361 | |  |  | 131,283 | |  |
| Collateral for secured letter of credit facilities |  | 98,561 | |  |  | 104,627 | |  |
| Funds at Lloyd's (1) |  | 491,171 | |  |  | 260,914 | |  |
|  |  | $ | 6,349,573 |  |  | $ | 5,421,690 |  |

(1) Our businesses include two (December 31, 2020: 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 a significant portion of our Funds at Lloyd's, as described in Note 14 - "Debt Obligations and Credit Facilities."

**5. 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. As of June 30, 2021 and December 31, 2020, we had foreign currency forward exchange rate 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 estimated fair values recorded within other assets and liabilities related to our qualifying foreign currency forward exchange rate contracts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | | | | | | | | | |  | **December 31, 2020** | | | | | | | | | | |
|  |  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |
|  |  |  | **Assets** | | |  | **Liabilities** | | |  |  | **Assets** | | |  | **Liabilities** | | |
| Foreign currency forward - AUD |  | $ | 64,543 |  |  | $ | 2,165 |  |  | $ | — |  |  | $ | 73,852 |  |  | $ | 13 |  |  | $ | 5,060 |  |
| Foreign currency forward - EUR |  | 250,592 | |  |  | 7,626 | |  |  | — | |  |  | 217,168 | |  |  | 205 | |  |  | 8,889 | |  |
| Foreign currency forward - GBP |  | 306,376 | |  |  | 7,792 | |  |  | 2 | |  |  | 312,671 | |  |  | 951 | |  |  | 14,998 | |  |
| Total qualifying hedges |  | $ | 621,511 |  |  | $ | 17,583 |  |  | $ | 2 |  |  | $ | 603,691 |  |  | $ | 1,169 |  |  | $ | 28,947 |  |

The following table presents the net gains and losses deferred in the cumulative translation adjustment ("CTA") account, which is a component of AOCI, in shareholders' equity, relating to our foreign currency forward exchange rate contracts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Amount of Gains (Losses) Deferred in AOCI** | | | | | | | | | | | | | | |
|  |  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  |  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  |  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Foreign currency forward - AUD |  | $ | 999 |  |  | $ | (7,435) |  |  | $ | 1,535 |  |  | $ | 1,036 |  |
| Foreign currency forward - EUR |  | (1,552) | |  |  | (3,111) | |  |  | 7,782 | |  |  | (476) | |  |
| Foreign currency forward - GBP |  | (502) | |  |  | 505 | |  |  | (3,690) | |  |  | 21,317 | |  |
| Net gains (losses) on qualifying derivative hedges |  | $ | (1,055) |  |  | $ | (10,041) |  |  | $ | 5,627 |  |  | $ | 21,877 |  |

***Derivatives Not Designated or Not Qualifying as Net Investments in 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 or other derivatives 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 estimated fair values recorded within other assets and other liabilities related to our non-qualifying foreign currency forward exchange rate hedging relationships:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | | | | | | | | | |  | **December 31, 2020** | | | | | | | | | | |
|  |  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |
|  |  |  | **Assets** | | |  | **Liabilities** | | |  |  | **Assets** | | |  | **Liabilities** | | |
| Foreign currency forward - AUD |  | $ | 27,436 |  |  | $ | 2,092 |  |  | $ | 831 |  |  | $ | 28,848 |  |  | $ | 882 |  |  | $ | 2,847 |  |
| Foreign currency forward - CAD |  | 47,228 | |  |  | 1,467 | |  |  | 48 | |  |  | 64,224 | |  |  | 10 | |  |  | 1,764 | |  |
| Foreign currency forward - EUR |  | 80,569 | |  |  | — | |  |  | 2,064 | |  |  | 43,531 | |  |  | 1,782 | |  |  | 41 | |  |
| Foreign currency forward - GBP |  | 62,103 | |  |  | 938 | |  |  | 59 | |  |  | 2,731 | |  |  | 161 | |  |  | 404 | |  |
| Total non-qualifying hedges |  | $ | 217,336 |  |  | $ | 4,497 |  |  | $ | 3,002 |  |  | $ | 139,334 |  |  | $ | 2,835 |  |  | $ | 5,056 |  |

The following table presents the amounts of the net gains and losses included in earnings related to our non-qualifying foreign currency forward exchange rate contracts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Gains (losses) on non-qualifying-hedges charged to net earnings** | | | | | | | | | | | | | | |
|  |  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  |  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Foreign currency forward - AUD |  | $ | 494 |  |  | $ | (2,978) |  |  | $ | 1,333 |  |  | $ | (445) |  |
| Foreign currency forward - CAD |  | (480) | |  |  | (2,225) | |  |  | (1,289) | |  |  | 2,771 | |  |
| Foreign currency forward - EUR |  | 274 | |  |  | (224) | |  |  | (2,051) | |  |  | 952 | |  |
| Foreign currency forward - GBP |  | 338 | |  |  | 924 | |  |  | 718 | |  |  | $ | 1,500 |  |
| Net gains (losses) on non-qualifying hedges |  | $ | 626 |  |  | $ | (4,503) |  |  | $ | (1,289) |  |  | $ | 4,778 |  |

*Investments in Call Options on Equities*

During the three and six months ended June 30, 2020, we recorded unrealized losses of $0 and less than $0.1 million, respectively, in net earnings, on call options on equities which we purchased in 2018 at a cost of $10.0 million and which expired without being exercised during the six months ended June 30, 2020.

*Forward Interest Rate Swaps*

In 2019, we entered into a forward interest rate swap, with a notional amount of AUD$120.0 million, to partially mitigate the risk associated with declining interest rates prior to the completion of our business transfer transaction with Munich Reinsurance Company which closed on July 1, 2020. We recorded unrealized gains in net earnings of less than $0.1 million and $0.8 million on the instrument for the three and six months ended June 30, 2020. This forward interest rate swap was terminated on April 7, 2020, for an inception-to-date net realized gain of $0.5 million.

*Credit Default Swaps, Futures and Currency Forward Contracts*

From time to time we may also utilize (i) credit default swaps to both hedge and replicate credit exposure, (ii) government bond futures contracts for interest rate management, and (iii) foreign currency forward contracts for currency hedging, to collectively manage credit and duration risk, as well as for yield enhancement on some of our fixed income portfolios.

The following tables present the gross notional amounts and estimated fair values recorded within other assets and other liabilities related to our credit default swaps, government bond futures contracts and currency forward contracts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | |  | **December 31, 2020** | | | | | | | | | | |
|  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |  | **Gross Notional Amount** | | |  | **Fair Value** | | | | | | |
|  |  | **Assets** | | |  | **Liabilities** | | |  |  | **Assets** | | |  | **Liabilities** | | |
| Futures contracts - long positions | $ | 14,699 |  |  | $ | 56 |  |  | $ | 7 |  |  | $ | 34,502 |  |  | $ | 32 |  |  | $ | 5 |  |
| Futures contracts - short positions | (14,225) | |  |  | 1 | |  |  | 54 | |  |  | (32,316) | |  |  | 6 | |  |  | 121 | |  |
| Currency forward contracts - long positions - USD | 394 | |  |  | 10 | |  |  | — | |  |  | 1,428 | |  |  | — | |  |  | 13 | |  |
| Currency forward contracts - short positions - USD | (432) | |  |  | — | |  |  | 12 | |  |  | (3,233) | |  |  | 60 | |  |  | — | |  |
| Currency forward contracts - long positions - GBP | 7,432 | |  |  | 7 | |  |  | — | |  |  | 1,278 | |  |  | 19 | |  |  | — | |  |
| Currency forward contracts - short positions - GBP | (13,811) | |  |  | — | |  |  | 54 | |  |  | (4,418) | |  |  | 12 | |  |  | — | |  |
| Total | $ | (5,943) |  |  | $ | 74 |  |  | $ | 127 |  |  | $ | (2,759) |  |  | $ | 129 |  |  | $ | 139 |  |

The following table presents the amounts of the net gains (losses) included in earnings related to our credit default swaps, government bond futures contracts and currency forward contracts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | |  | **Six Months Ended June 30,** | | | | | |
|  | **2021** | | |  | **2020** | |  | **2021** | | |  | **2020** | |
| Credit default swaps | $ | (77) |  |  | — |  |  | $ | (77) |  |  | — |  |
| Futures contracts | (230) | |  |  | (37) |  |  | 83 | |  |  | (37) |  |
| Currency forward contracts | (631) | |  |  | 166 |  |  | (1,351) | |  |  | 166 |  |
| Total net losses | $ | (938) |  |  | 129 |  |  | $ | (1,345) |  |  | 129 |  |

**6. REINSURANCE BALANCES RECOVERABLE ON PAID AND UNPAID LOSSES**

The following tables provide the total reinsurance balances recoverable on paid and unpaid losses:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | | |
|  | **Run-off (1)** | | |  | **Legacy Underwriting (1)** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Recoverable from reinsurers on unpaid: |  | | |  |  | | |  |  | | |  |  | | |
| Outstanding losses | $ | 1,179,211 |  |  | $ | 25,872 |  |  | $ | — |  |  | $ | 1,205,083 |  |
| IBNR | 563,115 | |  |  | 49,444 | |  |  | — | |  |  | 612,559 | |  |
| ULAE | 16,901 | |  |  | 954 | |  |  | — | |  |  | 17,855 | |  |
| Fair value adjustments - acquired companies | — | |  |  | — | |  |  | (14,165) | |  |  | (14,165) | |  |
| Fair value adjustments - fair value option | — | |  |  | — | |  |  | (33,607) | |  |  | (33,607) | |  |
| Total reinsurance reserves recoverable | 1,759,227 | |  |  | 76,270 | |  |  | (47,772) | |  |  | 1,787,725 | |  |
| Paid losses recoverable | 188,602 | |  |  | 400 | |  |  | — | |  |  | 189,002 | |  |
| Total | $ | 1,947,829 |  |  | $ | 76,670 |  |  | $ | (47,772) |  |  | $ | 1,976,727 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Reconciliation to Condensed Consolidated Balance Sheet: |  | | |  |  | | |  |  | | |  |  | | |
| Reinsurance balances recoverable on paid and unpaid losses | $ | 1,421,879 |  |  | $ | 76,670 |  |  | $ | (14,165) |  |  | $ | 1,484,384 |  |
| Reinsurance balances recoverable on paid and unpaid losses - fair value option | 525,950 | |  |  | — | |  |  | (33,607) | |  |  | 492,343 | |  |
| Total | $ | 1,947,829 |  |  | $ | 76,670 |  |  | $ | (47,772) |  |  | $ | 1,976,727 |  |

(1) Effective January 1, 2021, the net loss reserves of StarStone International were transferred from the Legacy Underwriting segment to the Run-off segment. Refer to Note 22 - "Segment Information" for further details.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Recoverable from reinsurers on unpaid: |  | | |  |  | | |  |  | | |  |  | | |
| Outstanding losses | $ | 938,231 |  |  | $ | 263,638 |  |  | $ | — |  |  | $ | 1,201,869 |  |
| IBNR | 508,082 | |  |  | 139,761 | |  |  | — | |  |  | 647,843 | |  |
| ULAE | 16,688 | |  |  | — | |  |  | — | |  |  | 16,688 | |  |
| Fair value adjustments - acquired companies | — | |  |  | — | |  |  | (15,353) | |  |  | (15,353) | |  |
| Fair value adjustments - fair value option | — | |  |  | — | |  |  | (21,427) | |  |  | (21,427) | |  |
| Total reinsurance reserves recoverable | 1,463,001 | |  |  | 403,399 | |  |  | (36,780) | |  |  | 1,829,620 | |  |
| Paid losses recoverable | 172,309 | |  |  | 87,234 | |  |  | — | |  |  | 259,543 | |  |
| Total | $ | 1,635,310 |  |  | $ | 490,633 |  |  | $ | (36,780) |  |  | $ | 2,089,163 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Reconciliation to Condensed Consolidated Balance Sheet: |  | | |  |  | | |  |  | | |  |  | | |
| Reinsurance balances recoverable on paid and unpaid losses | $ | 1,093,053 |  |  | $ | 490,633 |  |  | $ | (15,353) |  |  | $ | 1,568,333 |  |
| Reinsurance balances recoverable on paid and unpaid losses - fair value option | 542,257 | |  |  | — | |  |  | (21,427) | |  |  | 520,830 | |  |
| Total | $ | 1,635,310 |  |  | $ | 490,633 |  |  | $ | (36,780) |  |  | $ | 2,089,163 |  |

Our (re)insurance Run-off subsidiaries and assumed portfolios, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of (re)insurance assumed. On an annual basis, StarStone International, included within the Run-off segment from January 1, 2021, purchased a tailored outwards reinsurance program designed to manage its risk profile. The majority of StarStone International's third-party reinsurance is with highly rated reinsurers or is collateralized by pledged assets or letters of credit.

The fair value adjustments, determined on acquisition of (re)insurance subsidiaries, are based on the estimated timing of loss and LAE recoveries included in the Run-off segment 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 for credit risk, and are amortized over the estimated recovery period, as adjusted for accelerations in timing of payments as a result of commutation settlements. The determination of the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 10 - "Fair Value Measurements."

As of June 30, 2021 and December 31, 2020, we had reinsurance balances recoverable on paid and unpaid losses of $2.0 billion and $2.1 billion, respectively. The decrease of $112.4 million was primarily due to cash collections, partially offset by assumed ceded assets relating to CNA, Syndicate 609 and the Liberty Mutual retrocession to Enhanzed Re as discussed in Note 2 - "Significant New Business" and Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations."

***Top Ten Reinsurers***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |  | **% of**  **Total** | |
| Top 10 reinsurers | $ | 1,305,706 |  |  | $ | 20,978 |  |  | $ | — |  |  | $ | 1,326,684 |  |  | 67.1 | % |
| Other reinsurers > $1 million | 619,145 | |  |  | 55,083 | |  |  | (47,772) | |  |  | 626,456 | |  |  | 31.7 | % |
| Other reinsurers < $1 million | 22,978 | |  |  | 609 | |  |  | — | |  |  | 23,587 | |  |  | 1.2 | % |
| Total | $ | 1,947,829 |  |  | $ | 76,670 |  |  | $ | (47,772) |  |  | $ | 1,976,727 |  |  | 100.0 | % |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |  | **% of**  **Total** | |
| Top 10 reinsurers | $ | 1,036,676 |  |  | $ | 327,917 |  |  | $ | — |  |  | $ | 1,364,593 |  |  | 65.3 | % |
| Other reinsurers > $1 million | 574,869 | |  |  | 159,513 | |  |  | (36,780) | |  |  | 697,602 | |  |  | 33.4 | % |
| Other reinsurers < $1 million | 23,765 | |  |  | 3,203 | |  |  | — | |  |  | 26,968 | |  |  | 1.3 | % |
| Total | $ | 1,635,310 |  |  | $ | 490,633 |  |  | $ | (36,780) |  |  | $ | 2,089,163 |  |  | 100.0 | % |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Information regarding top ten reinsurers: |  | | |  |  | | |
| Number of top 10 reinsurers rated A- or better | 7 | |  |  | 7 | |  |
| Number of top 10 non-rated reinsurers (1) | 3 | |  |  | 3 | |  |
|  |  | | |  |  | | |
| Reinsurers rated A- or better in top 10 | $ | 803,312 |  |  | $ | 863,819 |  |
| Non-rated reinsurers in top 10 (1) | 523,372 | |  |  | 500,774 | |  |
| Total top 10 reinsurance recoverables | $ | 1,326,684 |  |  | $ | 1,364,593 |  |
|  |  | | |  |  | | |
| Single reinsurers that represent 10% or more of total reinsurance balance recoverables as of June 30, 2021 and December 31, 2020: |  | | |  |  | | |
|  |  | | |  |  | | |
| Lloyd's Syndicates (2) | $ | 327,940 |  |  | $ | 331,118 |  |
| Michigan Catastrophic Claims Association(3) | $ | 227,279 |  |  | $ | 229,374 |  |
| Enhanzed Re(4) | $ | 226,003 |  |  | $ | — |  |

(1) The reinsurance balances recoverable from the three non-rated top 10 reinsurers was comprised of:

1. $227.3 million and $229.4 million as of June 30, 2021 and December 31, 2020 respectively, due from Michigan Catastrophic Claims Association;
2. $70.1 million and $73.8 million as of June 30, 2021 and December 31, 2020 respectively, due from a reinsurer who has provided us with security in the form of pledged assets in trust for the full amount of the recoverable balance; and
3. $226.0 million and $208.4 million as of June 30, 2021 and December 31, 2020 respectively, due from Enhanzed Re, an equity method investee to whom some of our subsidiaries have retroceded their exposures through quota share reinsurance agreements as discussed in Note 20 - "Related Party Transactions." These quota share reinsurance agreements are written on a funds withheld basis.

(2) Lloyd's Syndicates are rated A+ by Standard & Poor's and A by A.M. Best.

(3) U.S. state backed reinsurer that is supported by assessments on active auto writers operating within the state.

(4) Enhanzed Re, an equity method investee, is a Bermuda based Class 4 and Class E reinsurer as discussed in Note 20 - "Related Party Transactions."

***Allowance for Estimated Uncollectible Reinsurance Balances Recoverable on Paid and Unpaid Losses***

We evaluate and monitor the credit risk related to our reinsurers, and an allowance for estimated uncollectible reinsurance balances recoverable on paid and unpaid losses ("allowance for estimated uncollectible reinsurance") is established for amounts considered potentially uncollectible.

The following tables show our gross and net balances recoverable from our reinsurers as well as the related allowance for estimated uncollectible reinsurance broken down by the credit ratings of our reinsurers. The majority of the allowance for estimated uncollectible reinsurance relates to the Run-off segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | |
|  | **Gross** | | |  | **Allowance for estimated uncollectible reinsurance** | | |  | **Net** | | |  | **Provisions as a**  **% of Gross** | |
| Reinsurers rated A- or above | $ | 1,385,215 |  |  | $ | 61,010 |  |  | $ | 1,324,205 |  |  | 4.4 | % |
| Reinsurers rated below A-, secured | 599,123 | |  |  | — | |  |  | 599,123 | |  |  | — | % |
| Reinsurers rated below A-, unsecured | 132,877 | |  |  | 79,478 | |  |  | 53,399 | |  |  | 59.8 | % |
| Total | $ | 2,117,215 |  |  | $ | 140,488 |  |  | $ | 1,976,727 |  |  | 6.6 | % |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | |
|  | **Gross** | | |  | **Allowance for estimated uncollectible reinsurance** | | |  | **Net** | | |  | **Provisions as a**  **% of Gross** | |
| Reinsurers rated A- or above | $ | 1,464,529 |  |  | $ | 60,801 |  |  | $ | 1,403,728 |  |  | 4.2 | % |
| Reinsurers rated below A-, secured | 608,999 | |  |  | — | |  |  | 608,999 | |  |  | — | % |
| Reinsurers rated below A-, unsecured | 152,757 | |  |  | 76,321 | |  |  | 76,436 | |  |  | 50.0 | % |
| Total | $ | 2,226,285 |  |  | $ | 137,122 |  |  | $ | 2,089,163 |  |  | 6.2 | % |

The table below provides a reconciliation of the beginning and ending allowance for estimated uncollectible reinsurance balances for the three and six months ended June 30, 2021 and 2020:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Allowance for estimated uncollectible reinsurance, beginning of period | $ | 138,765 |  |  | $ | 143,327 |  |  | $ | 137,122 |  |  | $ | 147,639 |  |
| Cumulative effect of change in accounting principle on allowance for estimated uncollectible reinsurance (1) | — | |  |  | — | |  |  | — | |  |  | (195) | |  |
| Effect of exchange rate movement | 2 | |  |  | (1,446) | |  |  | 160 | |  |  | (1,446) | |  |
| Current period change in the allowance | 1,721 | |  |  | 2,584 | |  |  | 3,738 | |  |  | (1,533) | |  |
| Write-offs charged against the allowance | — | |  |  | (600) | |  |  | — | |  |  | (600) | |  |
| Recoveries collected | — | |  |  | (212) | |  |  | (532) | |  |  | (212) | |  |
| Allowance for estimated uncollectible reinsurance, end of period | $ | 140,488 |  |  | $ | 143,653 |  |  | $ | 140,488 |  |  | $ | 143,653 |  |

(1) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

We consider a reinsurance recoverable asset to be past due when it is 90 days past due and record a credit allowance when there is reasonable uncertainty about the collectability of a disputed amount during the reporting period. We did not have significant past due balances older than one year for any of the periods presented.

**7. DEFERRED CHARGE ASSETS AND DEFERRED GAIN LIABILITIES**

For (re)insurance 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 period; whereas, a deferred gain liability is recorded for the excess, if any, of the premiums received over the estimated ultimate losses payable at the initial measurement period. In addition, for retrocessions of losses and LAE reserves that we have assumed through retroactive reinsurance contracts where the retroceded liabilities exceed the retrocession premiums paid, we record the excess as a deferred gain liability which is amortized to earnings over the estimated period during which the losses paid on the assumed retroceded liabilities are recovered from the retrocessionaire. We present the change in deferred charges assets and deferred gain liabilities within corporate and other activities.

***Deferred Charge Assets***

Deferred charge assets are included in other assets on our condensed consolidated balance sheets. The following table presents a reconciliation of the deferred charge assets:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Beginning carrying value | $ | 360,785 |  |  | $ | 257,832 |  |  | $ | 238,602 |  |  | $ | 272,462 |  |
| Recorded during the period | 98,131 | |  |  | 11,746 | |  |  | 229,012 | |  |  | 11,746 | |  |
| Amortization | (23,765) | |  |  | (11,062) | |  |  | (32,463) | |  |  | (25,692) | |  |
| Ending carrying value | $ | 435,151 |  |  | $ | 258,516 |  |  | $ | 435,151 |  |  | $ | 258,516 |  |

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 of determination. For the six months ended June 30, 2021, we completed our impairment assessment and concluded that there had been no impairment of our carried deferred charge assets.

***Deferred Gain Liabilities***

Deferred gain liabilities are included in other liabilities on our consolidated balance sheets. The following table presents a reconciliation of the deferred gain liabilities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Beginning carrying value | $ | 19,251 |  |  | $ | 12,578 |  |  | $ | 19,880 |  |  | $ | 12,875 |  |
| Recorded during the period | 1,562 | |  |  | — | |  |  | 1,562 | |  |  | — | |  |
| Amortization | (754) | |  |  | (662) | |  |  | (1,383) | |  |  | (959) | |  |
| Ending carrying value | $ | 20,059 |  |  | $ | 11,916 |  |  | $ | 20,059 |  |  | $ | 11,916 |  |

**8. 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 includes losses that have been incurred but not reported ("IBNR") 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.

Our loss reserves cover multiple lines of business, which include asbestos, environmental, general casualty, workers' compensation/personal accident, marine, aviation and transit, construction defect, professional indemnity/directors and officers, motor, property and other non-life lines of business.

The following tables summarize the liability for losses and LAE by segment and for our corporate and other activities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Outstanding losses | $ | 5,604,831 |  |  | $ | 94,652 |  |  | $ | — |  |  | $ | 5,699,483 |  |
| IBNR | 7,022,204 | |  |  | 143,890 | |  |  | — | |  |  | 7,166,094 | |  |
| ULAE | 428,626 | |  |  | 2,369 | |  |  | — | |  |  | 430,995 | |  |
| Fair value adjustments - acquired companies | — | |  |  | — | |  |  | (133,853) | |  |  | (133,853) | |  |
| Fair value adjustments - fair value option | — | |  |  | — | |  |  | (124,861) | |  |  | (124,861) | |  |
| Total | $ | 13,055,661 |  |  | $ | 240,911 |  |  | $ | (258,714) |  |  | $ | 13,037,858 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Reconciliation to Condensed Consolidated Balance Sheet: |  | | |  |  | | |  |  | | |  |  | | |
| Loss and loss adjustment expenses | $ | 10,696,695 |  |  | $ | 240,911 |  |  | $ | (133,853) |  |  | $ | 10,803,753 |  |
| Loss and loss adjustment expenses, at fair value | 2,358,966 | |  |  | — | |  |  | (124,861) | |  |  | 2,234,105 | |  |
| Total | $ | 13,055,661 |  |  | $ | 240,911 |  |  | $ | (258,714) |  |  | $ | 13,037,858 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Outstanding losses | $ | 4,440,425 |  |  | $ | 687,424 |  |  | $ | — |  |  | $ | 5,127,849 |  |
| IBNR | 4,641,500 | |  |  | 636,003 | |  |  | — | |  |  | 5,277,503 | |  |
| ULAE | 350,600 | |  |  | 35,102 | |  |  | — | |  |  | 385,702 | |  |
| Fair value adjustments - acquired companies | — | |  |  | — | |  |  | (143,183) | |  |  | (143,183) | |  |
| Fair value adjustments - fair value option | — | |  |  | — | |  |  | (54,589) | |  |  | (54,589) | |  |
| Total | $ | 9,432,525 |  |  | $ | 1,358,529 |  |  | $ | (197,772) |  |  | $ | 10,593,282 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Reconciliation to Condensed Consolidated Balance Sheet: |  | | |  |  | | |  |  | | |  |  | | |
| Loss and loss adjustment expenses | $ | 6,925,016 |  |  | $ | 1,358,529 |  |  | $ | (143,183) |  |  | $ | 8,140,362 |  |
| Loss and loss adjustment expenses, at fair value | 2,507,509 | |  |  | — | |  |  | (54,589) | |  |  | 2,452,920 | |  |
| Total | $ | 9,432,525 |  |  | $ | 1,358,529 |  |  | $ | (197,772) |  |  | $ | 10,593,282 |  |

The increase in the liability for losses and LAE from December 31, 2020 to June 30, 2021 was primarily attributable to the 2021 transactions described in Note 2 - "Significant New Business" and net incurred losses and LAE in the period, partially offset by losses paid.

The table below provides a consolidated reconciliation of the beginning and ending liability for losses and LAE:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Balance as of beginning of period | $ | 11,427,420 |  |  | $ | 9,836,797 |  |  | $ | 10,593,282 |  |  | $ | 9,868,404 |  |
| Add: losses and LAE relating to SGL No.1 (1) | — | |  |  | — | | |  | 254,561 | |  |  | — | |  |
|  | 11,427,420 | |  |  | 9,836,797 | |  |  | 10,847,843 | |  |  | 9,868,404 | |  |
| Less: |  | | |  |  | | |  |  | | |  |  | | |
| Reinsurance reserves recoverable (2) | 1,869,535 | |  |  | 1,902,749 | | |  | 1,829,620 | |  |  | 1,927,624 | |  |
| Reinsurance reserves recoverable relating to SGL No1 (1) | — | |  |  | — | | |  | 90,792 | |  |  | — | |  |
|  | 1,869,535 | |  |  | 1,902,749 | |  |  | 1,920,412 | |  |  | 1,927,624 | |  |
| Less: net deferred charge assets and deferred gain liabilities on retroactive reinsurance | 341,534 | |  |  | 245,254 | |  |  | 218,722 | |  |  | 259,587 | |  |
| Less: cumulative effect of change in accounting principle on the determination of the allowance for estimated uncollectible reinsurance balances (3) | — | |  |  | — | |  |  | — | |  |  | 643 | |  |
| Net balance as of beginning of period | 9,216,351 | |  |  | 7,688,794 | | |  | 8,708,709 | |  |  | 7,680,550 | |  |
| Net incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | 49,165 | |  |  | 119,613 | | |  | 103,225 | |  |  | 235,118 | |  |
| Prior periods | (9,861) | |  |  | 67,079 | | |  | (119,428) | |  |  | (5,126) | |  |
| Total net incurred losses and LAE | 39,304 | |  |  | 186,692 | | |  | (16,203) | |  |  | 229,992 | |  |
| Net paid losses: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | (5,892) | |  |  | (11,303) | | |  | (12,394) | |  |  | (15,110) | |  |
| Prior periods | (354,667) | |  |  | (369,984) | | |  | (690,697) | |  |  | (726,003) | |  |
| Total net paid losses | (360,559) | |  |  | (381,287) | | |  | (703,091) | |  |  | (741,113) | |  |
| Effect of exchange rate movement | 2,510 | |  |  | 40,153 | |  |  | (6,261) | |  |  | (106,227) | |  |
| Assumed business (4) | 1,965,559 | |  |  | 954,323 | |  |  | 2,880,011 | |  |  | 1,425,473 | |  |
| Ceded business | (28,124) | |  |  | — | |  |  | (28,124) | |  |  | — | |  |
| Net balance as of June 30 | 10,835,041 | |  |  | 8,488,675 | |  |  | 10,835,041 | |  |  | 8,488,675 | |  |
| Plus: reinsurance reserves recoverable (2) | 1,787,725 | |  |  | 1,858,161 | |  |  | 1,787,725 | |  |  | 1,858,161 | |  |
| Plus: net deferred charge assets and deferred gain liabilities on retroactive reinsurance (5) | 415,092 | |  |  | 246,600 | |  |  | 415,092 | |  |  | 246,600 | |  |
| Balance as of June 30 | $ | 13,037,858 |  |  | $ | 10,593,436 |  |  | $ | 13,037,858 |  |  | $ | 10,593,436 |  |

(1) This balance represents the gross up for our participation in Atrium's Syndicate 609 relating to the 2020 and prior underwriting years which is no longer eliminated on our condensed consolidated financial statements following the completion of the Exchange Transaction on January 1, 2021. Gross losses and LAE exclude $0.4 million of fair value adjustments that were a component of the losses and LAE balance included on the held-for-sale balance sheet and which were derecognized following the completion of the Exchange Transaction. Refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" for further details.

(2) Net of allowance for estimated uncollectible reinsurance.

(3) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

(4) Refer to Note 2 - "Significant New Business" for further information.

(5) Refer to Note 7 - "Deferred Charge Assets and Deferred Gain Liabilities" for further information.

The tables below provide the components of net incurred losses and LAE by segment and for our corporate and other activities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | | | | | | | | | |
|  | **June 30, 2021** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Net losses paid | $ | 357,194 |  |  | $ | 3,365 |  |  | $ | — |  |  | $ | 360,559 |  |
| Net change in case and LAE reserves (1) | (122,747) | |  |  | 5,264 | |  |  | — | |  |  | (117,483) | |  |
| Net change in IBNR reserves (2) | (235,698) | |  |  | 1,899 | |  |  | — | |  |  | (233,799) | |  |
| Increase (reduction) in estimates of net ultimate losses | (1,251) | |  |  | 10,528 | |  |  | — | |  |  | 9,277 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (15,746) | |  |  | (247) | |  |  | — | |  |  | (15,993) | |  |
| Amortization of deferred charge assets and deferred gain liabilities (4) | — | |  |  | — | |  |  | 23,011 | |  |  | 23,011 | |  |
| Amortization of fair value adjustments (5) | — | |  |  | — | |  |  | 5,296 | |  |  | 5,296 | |  |
| Changes in fair value - fair value option (6) | — | |  |  | — | |  |  | 17,713 | |  |  | 17,713 | |  |
| Net incurred losses and LAE | $ | (16,997) |  |  | $ | 10,281 |  |  | $ | 46,020 |  |  | $ | 39,304 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | | | | | | | | | |
|  | **June 30, 2020** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Net losses paid | $ | 283,402 |  |  | $ | 97,885 |  |  | $ | — |  |  | $ | 381,287 |  |
| Net change in case and LAE reserves (1) | (76,106) | |  |  | (29,359) | |  |  | — | |  |  | (105,465) | |  |
| Net change in IBNR reserves (2) | (255,120) | |  |  | (1,029) | |  |  | — | |  |  | (256,149) | |  |
| Increase (reduction) in estimates of net ultimate losses | (47,824) | |  |  | 67,497 | |  |  | — | |  |  | 19,673 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (12,425) | |  |  | 27,885 | |  |  | — | |  |  | 15,460 | |  |
| Amortization of deferred charge assets and deferred gain liabilities (4) | — | |  |  | — | |  |  | 10,400 | |  |  | 10,400 | |  |
| Amortization of fair value adjustments (5) | — | |  |  | — | |  |  | 7,116 | |  |  | 7,116 | |  |
| Changes in fair value - fair value option (6) | — | |  |  | — | |  |  | 134,043 | |  |  | 134,043 | |  |
| Net incurred losses and LAE | $ | (60,249) |  |  | $ | 95,382 |  |  | $ | 151,559 |  |  | $ | 186,692 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | | | | | | | | | | | |
|  | **June 30, 2021** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Net losses paid | $ | 687,823 |  |  | $ | 15,268 |  |  | $ | — |  |  | $ | 703,091 |  |
| Net change in case and LAE reserves (1) | (242,110) | |  |  | (2,507) | |  |  | — | |  |  | (244,617) | |  |
| Net change in IBNR reserves (2) | (429,641) | |  |  | 2,688 | |  |  | — | |  |  | (426,953) | |  |
| Increase (reduction) in estimates of net ultimate losses | 16,072 | |  |  | 15,449 | |  |  | — | |  |  | 31,521 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (28,444) | |  |  | (690) | |  |  | — | |  |  | (29,134) | |  |
| Amortization of deferred charge assets and deferred gain liabilities (4) | — | |  |  | — | |  |  | 31,080 | |  |  | 31,080 | |  |
| Amortization of fair value adjustments (5) | — | |  |  | — | |  |  | 8,089 | |  |  | 8,089 | |  |
| Changes in fair value - fair value option (6) | — | |  |  | — | |  |  | (57,759) | |  |  | (57,759) | |  |
| Net incurred losses and LAE | $ | (12,372) |  |  | $ | 14,759 |  |  | $ | (18,590) |  |  | $ | (16,203) |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | | | | | | | | | | | |
|  | **June 30, 2020** | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other** | | |  | **Total** | | |
| Net losses paid | $ | 542,368 |  |  | $ | 198,745 |  |  | $ | — |  |  | $ | 741,113 |  |
| Net change in case and LAE reserves (1) | (250,686) | |  |  | (64,547) | |  |  | — | |  |  | (315,233) | |  |
| Net change in IBNR reserves (2) | (359,220) | |  |  | 38,220 | |  |  | — | |  |  | (321,000) | |  |
| Increase (reduction) in estimates of net ultimate losses | (67,538) | |  |  | 172,418 | |  |  | — | |  |  | 104,880 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (19,904) | |  |  | 28,495 | |  |  | — | |  |  | 8,591 | |  |
| Amortization of deferred charge assets and deferred gain liabilities (4) | — | |  |  | — | |  |  | 24,733 | |  |  | 24,733 | |  |
| Amortization of fair value adjustments (5) | — | |  |  | — | |  |  | 15,982 | |  |  | 15,982 | |  |
| Changes in fair value - fair value option (6) | — | |  |  | — | |  |  | 75,806 | |  |  | 75,806 | |  |
| Net incurred losses and LAE | $ | (87,442) |  |  | $ | 200,913 |  |  | $ | 116,521 |  |  | $ | 229,992 |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

(4) Relates to the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts.

(5) Relates to the amortization of fair value adjustments associated with the acquisition of companies.

(6) Represents the changes in the fair value of liabilities related to our assumed retroactive reinsurance contracts for which we have elected the fair value option.

***Run-off Segment***

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the Run-off segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Balance as of beginning of period | $ | 11,467,367 |  |  | $ | 8,652,532 |  |  | $ | 9,432,525 |  |  | $ | 8,683,983 |  |
| Less: reinsurance reserves recoverable (1) | 1,835,796 | |  |  | 1,568,296 | |  |  | 1,463,001 | |  |  | 1,645,352 | |  |
| Plus: cumulative effect of change in accounting principal on allowance for estimated uncollectible reinsurance (2) | — | |  |  | — | |  |  | — | |  |  | 703 | |  |
| Net balance as of beginning of period | 9,631,571 | |  |  | 7,084,236 | |  |  | 7,969,524 | |  |  | 7,039,334 | |  |
| Net incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | 41,409 | |  |  | 8,086 | |  |  | 85,570 | |  |  | 15,935 | |  |
| Prior periods | (58,406) | |  |  | (68,335) | |  |  | (97,942) | |  |  | (103,377) | |  |
| Total net incurred losses and LAE | (16,997) | |  |  | (60,249) | |  |  | (12,372) | |  |  | (87,442) | |  |
| Net paid losses: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | 519 | |  |  | 202 | |  |  | (2,756) | |  |  | (1,038) | |  |
| Prior periods | (357,713) | |  |  | (283,604) | |  |  | (685,067) | |  |  | (541,330) | |  |
| Total net paid losses | (357,194) | |  |  | (283,402) | |  |  | (687,823) | |  |  | (542,368) | |  |
| Effect of exchange rate movement | 5,050 | |  |  | 30,606 | |  |  | (7,362) | |  |  | (109,483) | |  |
| Assumed business (3) | 2,063,690 | |  |  | 966,069 | |  |  | 3,109,023 | |  |  | 1,437,219 | |  |
| Ceded business | (29,686) | |  |  | — | |  |  | (29,686) | |  |  | — | |  |
| Transfer from the Legacy Underwriting segment (4) | — | |  |  | — | |  |  | 955,130 | |  |  | — | |  |
| Net balance as of June 30 | 11,296,434 | |  |  | 7,737,260 | |  |  | 11,296,434 | |  |  | 7,737,260 | |  |
| Plus: reinsurance reserves recoverable (1) | 1,759,227 | |  |  | 1,494,652 | |  |  | 1,759,227 | |  |  | 1,494,652 | |  |
| Balance as of June 30 | $ | 13,055,661 |  |  | $ | 9,231,912 |  |  | $ | 13,055,661 |  |  | $ | 9,231,912 |  |

(1) Net of allowance for estimated uncollectible reinsurance.

(2) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

(3) Refer to Note 2 - "Significant New Business" for further information.

(4) Effective January 1, 2021, the net loss reserves of StarStone International were transferred from the Legacy Underwriting segment to the Run-off segment. Refer to Note 22 - "Segment Information" for further details.

Net incurred losses and LAE in the Run-off segment were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior**  **Period** | | |  | **Current**  **Period** | | |  | **Total** | | |  | **Prior**  **Period** | | |  | **Current**  **Period** | | |  | **Total** | | |
| Net losses paid | $ | 357,713 |  |  | $ | (519) |  |  | $ | 357,194 |  |  | $ | 283,604 |  |  | $ | (202) |  |  | $ | 283,402 |  |
| Net change in case and LAE reserves (1) | (129,991) | |  |  | 7,244 | |  |  | (122,747) | |  |  | (75,276) | |  |  | (830) | |  |  | (76,106) | |  |
| Net change in IBNR reserves (2) | (269,418) | |  |  | 33,720 | |  |  | (235,698) | |  |  | (264,238) | |  |  | 9,118 | |  |  | (255,120) | |  |
| Increase (reduction) in estimates of net ultimate losses | (41,696) | |  |  | 40,445 | |  |  | (1,251) | |  |  | (55,910) | |  |  | 8,086 | |  |  | (47,824) | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (16,710) | |  |  | 964 | |  |  | (15,746) | |  |  | (12,425) | |  |  | — | |  |  | (12,425) | |  |
| Net incurred losses and LAE | $ | (58,406) |  |  | $ | 41,409 |  |  | $ | (16,997) |  |  | $ | (68,335) |  |  | $ | 8,086 |  |  | $ | (60,249) |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

*Three Months Ended June 30, 2021*

Current period net incurred losses and LAE of $41.4 million primarily relates to the run-off of StarStone International business which was transferred from the Legacy Underwriting segment on January 1, 2021. The reduction in estimates of net ultimate losses relating to prior periods of $41.7 million was primarily related to favorable development in our professional indemnity/directors & officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business. Partially offsetting this favorable development was an increase in net incurred losses of $21.6 million due to our reevaluation of our gross and net exposure on COVID-19 pandemic related losses.

*Three Months Ended June 30, 2020*

Current period net incurred losses and LAE of $8.1 million related to current period net earned premium, primarily in respect of the run-off of the AmTrust RITC transactions. The reduction in estimates of net ultimate losses relating to prior periods of $55.9 million primarily related to favorable development in our professional indemnity/directors & officers lines of businesses and favorable actual versus expected development in our workers' compensation and motor liability lines of business.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior**  **Period** | | |  | **Current**  **Period** | | |  | **Total** | | |  | **Prior**  **Period** | | |  | **Current**  **Period** | | |  | **Total** | | |
| Net losses paid | $ | 685,067 |  |  | $ | 2,756 |  |  | $ | 687,823 |  |  | $ | 541,330 |  |  | $ | 1,038 |  |  | $ | 542,368 |  |
| Net change in case and LAE reserves (1) | (247,147) | |  |  | 5,037 | |  |  | (242,110) | |  |  | (251,528) | |  |  | 842 | |  |  | (250,686) | |  |
| Net change in IBNR reserves (2) | (504,983) | |  |  | 75,342 | |  |  | (429,641) | |  |  | (373,275) | |  |  | 14,055 | |  |  | (359,220) | |  |
| Increase (reduction) in estimates of net ultimate losses | (67,063) | |  |  | 83,135 | |  |  | 16,072 | |  |  | (83,473) | |  |  | 15,935 | |  |  | (67,538) | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (30,879) | |  |  | 2,435 | |  |  | (28,444) | |  |  | (19,904) | |  |  | — | |  |  | (19,904) | |  |
| Net incurred losses and LAE | $ | (97,942) |  |  | $ | 85,570 |  |  | $ | (12,372) |  |  | $ | (103,377) |  |  | $ | 15,935 |  |  | $ | (87,442) |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

*Six Months Ended June 30, 2021*

Current period net incurred losses and LAE of $85.6 million related to current period net earned premium, primarily in respect of the run-off of StarStone International business which was transferred from the Legacy Underwriting segment on January 1, 2021. The reduction in estimates of net ultimate losses relating to prior periods of $67.1 million was primarily related to favorable development in our professional indemnity/directors & officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business. Partially offsetting this favorable development was an increase in net incurred losses of $22.0 million due to our reevaluation of our gross and net exposure on COVID-19 pandemic related losses.

*Six Months Ended June 30, 2020*

Current period net incurred losses and LAE of $15.9 million related to current period net earned premium, primarily in respect of the run-off of the AmTrust RITC transactions. The reduction in estimates of net ultimate losses relating to prior periods of $83.5 million primarily related to favorable development in our professional indemnity/directors & officers lines of businesses and favorable actual versus expected development in our workers compensation and motor liability lines of business.

***Legacy Underwriting Segment***

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for our Legacy Underwriting segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Balance as of beginning of period | $ | 249,096 |  |  | $ | 1,616,527 |  |  | $ | 1,358,529 |  |  | $ | 1,569,865 |  |
| Add: losses and LAE relating to SGL No.1 (1) | — | |  |  | — | |  |  | 254,561 | |  |  | — | |  |
|  | 249,096 | |  |  | 1,616,527 | |  |  | 1,613,090 | |  |  | 1,569,865 | |  |
| Less: |  | | |  |  | | |  |  | | |  |  | | |
| Reinsurance reserves recoverable (2) | 88,957 | |  |  | 442,905 | |  |  | 403,399 | |  |  | 385,613 | |  |
| Reinsurance recoverable relating to SGL No.1 (1) | — | |  |  | — | |  |  | 90,792 | |  |  | — | |  |
|  | 88,957 | |  |  | 442,905 | |  |  | 494,191 | |  |  | 385,613 | |  |
| Less: cumulative effect of change in accounting principal on allowance for estimated uncollectible reinsurance (3) | — | |  |  | — | |  |  | — | |  |  | 1,346 | |  |
| Net balance as of beginning of period | 160,139 | |  |  | 1,173,622 | |  |  | 1,118,899 | |  |  | 1,182,906 | |  |
| Net incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | 7,756 | |  |  | 111,527 | |  |  | 17,655 | |  |  | 219,183 | |  |
| Prior periods | 2,525 | |  |  | (16,145) | |  |  | (2,896) | |  |  | (18,270) | |  |
| Total net incurred losses and LAE | 10,281 | |  |  | 95,382 | |  |  | 14,759 | |  |  | 200,913 | |  |
| Net paid losses: |  | | |  |  | | |  |  | | |  |  | | |
| Current period | (6,411) | |  |  | (11,505) | |  |  | (9,638) | |  |  | (14,072) | |  |
| Prior periods | 3,046 | |  |  | (86,380) | |  |  | (5,630) | |  |  | (184,673) | |  |
| Total net paid losses | (3,365) | |  |  | (97,885) | |  |  | (15,268) | |  |  | (198,745) | |  |
| Effect of exchange rate movement | (2,414) | |  |  | 9,990 | |  |  | 1,381 | |  |  | (3,965) | |  |
| Transfer to Run-off segment (4) | — | |  |  | — | |  |  | (955,130) | |  |  | — | |  |
| Net balance as of June 30 | 164,641 | |  |  | 1,181,109 | |  |  | 164,641 | |  |  | 1,181,109 | |  |
| Plus: reinsurance reserves recoverable (1) | 76,270 | |  |  | 429,847 | |  |  | 76,270 | |  |  | 429,847 | |  |
| Balance as of June 30 | $ | 240,911 |  |  | $ | 1,610,956 |  |  | $ | 240,911 |  |  | $ | 1,610,956 |  |

(1) This balance represents the gross up for our participation in Atrium's Syndicate 609 relating to the 2020 and prior underwriting years which is no longer eliminated on our condensed consolidated financial statements following the completion of the Exchange Transaction on January 1, 2021. Refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" for further details.

(2) Net of allowance for estimated uncollectible reinsurance.

(3) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

(4) Effective January 1, 2021, the net loss reserves of StarStone International were transferred from the Legacy Underwriting segment to the Run-off segment. Refer to Note 22 - "Segment Information" for further details.

Net incurred losses and LAE in the Legacy Underwriting segment were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |
| Net losses paid | $ | (3,046) |  |  | $ | 6,411 |  |  | $ | 3,365 |  |  | $ | 86,380 |  |  | $ | 11,505 |  |  | $ | 97,885 |  |
| Net change in case and LAE reserves (1) | 7,838 | |  |  | (2,574) | |  |  | 5,264 | |  |  | (29,802) | |  |  | 443 | |  |  | (29,359) | |  |
| Net change in IBNR reserves (2) | (1,954) | |  |  | 3,853 | |  |  | 1,899 | |  |  | (72,997) | |  |  | 71,968 | |  |  | (1,029) | |  |
| Increase (reduction) in estimates of net ultimate losses | 2,838 | |  |  | 7,690 | |  |  | 10,528 | |  |  | (16,419) | |  |  | 83,916 | |  |  | 67,497 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (313) | |  |  | 66 | |  |  | (247) | |  |  | 274 | |  |  | 27,611 | |  |  | 27,885 | |  |
| Net incurred losses and LAE | $ | 2,525 |  |  | $ | 7,756 |  |  | $ | 10,281 |  |  | $ | (16,145) |  |  | $ | 111,527 |  |  | $ | 95,382 |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

*Three Months Ended June 30, 2021*

Current period net incurred losses and LAE of $7.8 million related to current period net earned premium. The increase in net incurred losses and LAE liabilities relating to prior periods was $2.5 million and was attributable to an increase in estimates of net ultimate losses of $2.8 million.

*Three Months Ended June 30, 2020*

Current period net incurred losses and LAE of $111.5 million related to current period net earned premium and included losses related to the COVID-19 pandemic of $1.2 million. The decrease in net incurred losses and LAE liabilities relating to prior periods was $16.1 million and was attributable to an decrease in estimates of net ultimate losses of $16.4 million.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |
| Net losses paid | $ | 5,630 |  |  | $ | 9,638 |  |  | $ | 15,268 |  |  | $ | 184,673 |  |  | $ | 14,072 |  |  | $ | 198,745 |  |
| Net change in case and LAE reserves(1) | (4,692) | |  |  | 2,185 | |  |  | (2,507) | |  |  | (73,340) | |  |  | 8,793 | |  |  | (64,547) | |  |
| Net change in IBNR reserves(2) | (3,304) | |  |  | 5,992 | |  |  | 2,688 | |  |  | (129,786) | |  |  | 168,006 | |  |  | 38,220 | |  |
| Increase (reduction) in estimates of net ultimate losses | (2,366) | |  |  | 17,815 | |  |  | 15,449 | |  |  | (18,453) | |  |  | 190,871 | |  |  | 172,418 | |  |
| Increase (reduction) in provisions for unallocated LAE(3) | (530) | |  |  | (160) | |  |  | (690) | |  |  | 183 | |  |  | 28,312 | |  |  | 28,495 | |  |
| Net incurred losses and LAE | $ | (2,896) |  |  | $ | 17,655 |  |  | $ | 14,759 |  |  | $ | (18,270) |  |  | $ | 219,183 |  |  | $ | 200,913 |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

*Six Months Ended June 30, 2021*

Current period net incurred losses and LAE of $17.7 million related to current period net earned premium. The reduction in net incurred losses and LAE liabilities relating to prior periods was $2.9 million and was attributable to a reduction in estimates of net ultimate losses of $2.4 million.

*Six Months Ended June 30, 2020*

Current period net incurred losses and LAE of $219.2 million related to current period net earned premium and included losses related to the COVID-19 pandemic of $34.3 million. The reduction in net incurred losses and LAE liabilities relating to prior periods was $18.3 million and was attributable to a reduction in estimates of net ultimate losses of $18.5 million.

**9. DEFENDANT ASBESTOS AND ENVIRONMENTAL LIABILITIES**

We acquired DCo LLC ("DCo") on December 30, 2016, and Morse TEC on October 30, 2019. These companies hold liabilities associated with personal injury asbestos claims and environmental claims arising from their legacy manufacturing operations. Defendant asbestos liabilities on our condensed consolidated balance sheets include amounts for loss payments and defense costs for pending and future asbestos-related claims, determined using standard actuarial techniques for asbestos exposures. Defendant environmental liabilities include estimated clean-up costs associated with the acquired companies' former operations based on engineering reports.

Insurance balances recoverable on our condensed 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 indemnify our subsidiaries for the anticipated defense and loss payments for pending claims and projected future claims. 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 and projected loss and defense costs were paid in full.

Included within insurance balances recoverable and defendant asbestos and environmental liabilities are the fair value adjustments that were initially recognized upon acquisition. These fair value adjustments are amortized in proportion to the actual payout of 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 and Morse TEC were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Defendant asbestos and environmental liabilities: |  | | |  |  | | |
| Defendant asbestos liabilities | $ | 877,894 |  |  | $ | 913,276 |  |
| Defendant environmental liabilities | 12,074 | |  |  | 12,572 | |  |
| Estimated future expenses | 39,002 | |  |  | 42,510 | |  |
| Fair value adjustments | (251,051) | |  |  | (262,029) | |  |
| Defendant asbestos and environmental liabilities | 677,919 | |  |  | 706,329 | |  |
|  |  | | |  |  | | |
| Insurance balances recoverable: |  | | |  |  | | |
| Insurance recoveries related to defendant asbestos liabilities (net of allowance: 2021 - $5,822; 2020 - $4,824) | 305,948 | |  |  | 310,602 | |  |
| Fair value adjustments | (59,969) | |  |  | (60,950) | |  |
| Insurance balances recoverable | 245,979 | |  |  | 249,652 | |  |
|  |  | | |  |  | | |
| Net liabilities relating to defendant asbestos and environmental exposures | $ | 431,940 |  |  | $ | 456,677 |  |

The table below provides a consolidated reconciliation of the beginning and ending liability for defendant asbestos and environmental exposures:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Balance as of beginning of period | $ | 691,557 |  |  | $ | 822,716 |  |  | $ | 706,329 |  |  | $ | 847,685 |  |
| Less: Insurance balances recoverable | 248,010 | |  |  | 435,613 | |  |  | 249,652 | |  |  | 448,855 | |  |
| Plus: Cumulative effect of change in accounting principle on the determination of the allowance for estimated uncollectible insurance balances (1) | — | |  |  | — | |  |  | — | |  |  | 3,167 | |  |
| Net balance as of beginning of period | 443,547 | |  |  | 387,103 | |  |  | 456,677 | |  |  | 401,997 | |  |
| Total net paid claims | (10,916) | |  |  | (7,495) | |  |  | (17,224) | |  |  | (914) | |  |
| Amounts recorded in other income: |  | | |  |  | | |  |  | | |  |  | | |
| Reduction in estimates of ultimate net liabilities | (4,450) | |  |  | (1,978) | |  |  | (14,002) | |  |  | (26,893) | |  |
| Reduction in estimated future expenses | (745) | |  |  | (975) | |  |  | (3,508) | |  |  | (3,003) | |  |
| Amortization of fair value adjustments | 4,504 | |  |  | 3,130 | |  |  | 9,997 | |  |  | 8,598 | |  |
| Total other income | (691) | |  |  | 177 | |  |  | (7,513) | |  |  | (21,298) | |  |
| Net balance as at June 30 | 431,940 | |  |  | 379,785 | |  |  | 431,940 | |  |  | 379,785 | |  |
| Plus: Insurance balances recoverable (2) | 245,979 | |  |  | 428,277 | |  |  | 245,979 | |  |  | 428,277 | |  |
| Balance as at June 30 | $ | 677,919 |  |  | $ | 808,062 |  |  | $ | 677,919 |  |  | $ | 808,062 |  |

(1) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

(2) Net of allowance for estimated uncollectible insurance balances.

***Allowance for Estimated Uncollectible Insurance Balances Recoverable on Defendant Asbestos Liabilities***

We evaluate and monitor the credit risk related to our insurers and an allowance for estimated uncollectible insurance balances recoverable on our defendant asbestos liabilities ("allowance for estimated uncollectible insurance") is established for amounts considered potentially uncollectible.

The table below provides a reconciliation of the beginning and ending allowance for estimated uncollectible insurance balances related to our defendant asbestos liabilities.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Allowance for estimated uncollectible insurance balances, beginning of period | $ | 5,272 |  |  | $ | 6,985 |  |  | $ | 4,824 |  |  | $ | 3,818 |  |
| Cumulative effect of change in accounting principle | — | |  |  | — | |  |  | — | |  |  | 3,167 | |  |
| Current period change in the allowance | 550 | |  |  | 1,361 | |  |  | 998 | |  |  | 1,361 | |  |
| Allowance for estimated uncollectible insurance balances, end of period | $ | 5,822 |  |  | $ | 8,346 |  |  | $ | 5,822 |  |  | $ | 8,346 |  |

During the three and six months ended June 30, 2021 and 2020, we did not record any write-offs charged against the allowance for estimated uncollectible insurance or any recoveries of amounts previously written off.

We did not have significant non-disputed past due balances receivable from our insurers related to our defendant asbestos liabilities, that were older than one year for any of the periods presented. Any balances that are part of ongoing legal activity are estimated to be recovered at the level of our recorded asset, which is consistent with our legal advice and past collection experience.

**10. 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:

1. 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.
2. 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.
3. 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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | | | | | | | | | | | | | | | | | |
|  |  | **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** | | |
| **Investments:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short-term and fixed maturity investments: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. government and agency |  | $ | — |  |  | $ | 789,439 |  |  | $ | — |  |  | $ | — |  |  | $ | 789,439 |  |
| U.K. government |  | — | |  |  | 41,696 | |  |  | — | |  |  | — | |  |  | 41,696 | |  |
| Other government |  | — | |  |  | 480,279 | |  |  | — | |  |  | — | |  |  | 480,279 | |  |
| Corporate |  | — | |  |  | 6,652,998 | |  |  | — | |  |  | — | |  |  | 6,652,998 | |  |
| Municipal |  | — | |  |  | 244,459 | |  |  | — | |  |  | — | |  |  | 244,459 | |  |
| Residential mortgage-backed |  | — | |  |  | 572,239 | |  |  | — | |  |  | — | |  |  | 572,239 | |  |
| Commercial mortgage-backed |  | — | |  |  | 987,254 | |  |  | — | |  |  | — | |  |  | 987,254 | |  |
| Asset-backed |  | — | |  |  | 935,593 | |  |  | — | |  |  | — | |  |  | 935,593 | |  |
|  |  | $ | — |  |  | $ | 10,703,957 |  |  | $ | — |  |  | $ | — |  |  | $ | 10,703,957 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other assets included within funds held - directly managed |  | $ | — |  |  | $ | 9,247 |  |  | $ | — |  |  | $ | — |  |  | $ | 9,247 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Equities: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Publicly traded equity investments |  | $ | 263,046 |  |  | $ | 41,655 |  |  | $ | — |  |  | $ | — |  |  | $ | 304,701 |  |
| Exchange-traded funds |  | 504,793 | |  |  | — | |  |  | — | |  |  | — | |  |  | 504,793 | |  |
| Privately held equity investments |  | — | |  |  | — | |  |  | 348,725 | |  |  | — | |  |  | 348,725 | |  |
|  |  | $ | 767,839 |  |  | $ | 41,655 |  |  | $ | 348,725 |  |  | $ | — |  |  | $ | 1,158,219 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other investments: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Hedge funds (1) |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 73,130 |  |  | $ | 73,130 |  |
| Fixed income funds |  | — | |  |  | 266,889 | |  |  | — | |  |  | 337,000 | |  |  | 603,889 | |  |
| Equity funds |  | — | |  |  | 5,617 | |  |  | — | |  |  | — | |  |  | 5,617 | |  |
| Private equity funds |  | — | |  |  | — | |  |  | — | |  |  | 536,368 | |  |  | 536,368 | |  |
| CLO equities |  | — | |  |  | 145,103 | |  |  | — | |  |  | — | |  |  | 145,103 | |  |
| CLO equity funds |  | — | |  |  | — | |  |  | — | |  |  | 190,158 | |  |  | 190,158 | |  |
| Private credit funds |  | — | |  |  | — | |  |  | — | |  |  | 242,359 | |  |  | 242,359 | |  |
| Other |  | — | |  |  | — | |  |  | 314 | |  |  | 17,655 | |  |  | 17,969 | |  |
|  |  | $ | — |  |  | $ | 417,609 |  |  | $ | 314 |  |  | $ | 1,396,670 |  |  | $ | 1,814,593 |  |
| Total Investments |  | $ | 767,839 |  |  | $ | 11,172,468 |  |  | $ | 349,039 |  |  | $ | 1,396,670 |  |  | $ | 13,686,016 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Cash and cash equivalents** |  | $ | 414,623 |  |  | $ | 33,005 |  |  | $ | — |  |  | $ | — |  |  | $ | 447,628 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Reinsurance balances recoverable on paid and unpaid losses:** |  | $ | — |  |  | $ | — |  |  | $ | 492,343 |  |  | $ | — |  |  | $ | 492,343 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Other Assets:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivatives qualifying as hedging |  | $ | — |  |  | $ | 17,583 |  |  | $ | — |  |  | $ | — |  |  | $ | 17,583 |  |
| Derivatives not qualifying as hedging |  | — | |  |  | 4,571 | |  |  | — | |  |  | — | |  |  | 4,571 | |  |
| Derivative instruments |  | $ | — |  |  | $ | 22,154 |  |  | $ | — |  |  | $ | — |  |  | $ | 22,154 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Losses and LAE:** |  | $ | — |  |  | $ | — |  |  | $ | 2,234,105 |  |  | $ | — |  |  | $ | 2,234,105 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Other Liabilities:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivatives qualifying as hedging |  | $ | — |  |  | $ | 2 |  |  | $ | — |  |  | $ | — |  |  | $ | 2 |  |
| Derivatives not qualifying as hedging |  | — | |  |  | 3,129 | |  |  | — | |  |  | — | |  |  | 3,129 | |  |
| Derivative instruments |  | $ | — |  |  | $ | 3,131 |  |  | $ | — |  |  | $ | — |  |  | $ | 3,131 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **December 31, 2020** | | | | | | | | | | | | | | | | | | |
|  |  | **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** | | |
| **Investments:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short-term and fixed maturity investments: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. government and agency |  | $ | — |  |  | $ | 951,048 |  |  | $ | — |  |  | $ | — |  |  | $ | 951,048 |  |
| U.K government |  | — | |  |  | 51,082 | |  |  | — | |  |  | — | |  |  | 51,082 | |  |
| Other government |  | — | |  |  | 502,153 | |  |  | — | |  |  | — | |  |  | 502,153 | |  |
| Corporate |  | — | |  |  | 5,686,732 | |  |  | — | |  |  | — | |  |  | 5,686,732 | |  |
| Municipal |  | — | |  |  | 162,669 | |  |  | — | |  |  | — | |  |  | 162,669 | |  |
| Residential mortgage-backed |  | — | |  |  | 553,945 | |  |  | — | |  |  | — | |  |  | 553,945 | |  |
| Commercial mortgage-backed |  | — | |  |  | 854,090 | |  |  | — | |  |  | — | |  |  | 854,090 | |  |
| Asset-backed |  | — | |  |  | 557,460 | |  |  | — | |  |  | — | |  |  | 557,460 | |  |
|  |  | $ | — |  |  | $ | 9,319,179 |  |  | $ | — |  |  | $ | — |  |  | $ | 9,319,179 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other assets included within funds held - directly managed |  | $ | — |  |  | $ | 14,627 |  |  | $ | — |  |  | $ | — |  |  | $ | 14,627 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Equities: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Publicly traded equity investments |  | $ | 229,167 |  |  | $ | 31,600 |  |  | $ | — |  |  | $ | — |  |  | $ | 260,767 |  |
| Exchange-traded funds |  | 311,287 | |  |  | — | |  |  | — | |  |  | — | |  |  | 311,287 | |  |
| Privately held equity investments |  | — | |  |  | — | |  |  | 274,741 | |  |  | — | |  |  | 274,741 | |  |
|  |  | $ | 540,454 |  |  | $ | 31,600 |  |  | $ | 274,741 |  |  | $ | — |  |  | $ | 846,795 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other investments: |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Hedge funds (1) |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 2,638,339 |  |  | $ | 2,638,339 |  |
| Fixed income funds |  | — | |  |  | 285,837 | |  |  | — | |  |  | 266,704 | |  |  | 552,541 | |  |
| Equity funds |  | — | |  |  | 5,073 | |  |  | — | |  |  | 185,694 | |  |  | 190,767 | |  |
| Private equity funds |  | — | |  |  | — | |  |  | — | |  |  | 363,103 | |  |  | 363,103 | |  |
| CLO equities |  | — | |  |  | 128,083 | |  |  | — | |  |  | — | |  |  | 128,083 | |  |
| CLO equity funds |  | — | |  |  | — | |  |  | — | |  |  | 166,523 | |  |  | 166,523 | |  |
| Private credit funds |  | — | |  |  | — | |  |  | 9,250 | |  |  | 183,069 | |  |  | 192,319 | |  |
| Other |  | — | |  |  | — | |  |  | 314 | |  |  | 12,045 | |  |  | 12,359 | |  |
|  |  | $ | — |  |  | $ | 418,993 |  |  | $ | 9,564 |  |  | $ | 3,815,477 |  |  | $ | 4,244,034 |  |
| Total Investments |  | $ | 540,454 |  |  | $ | 9,784,399 |  |  | $ | 284,305 |  |  | $ | 3,815,477 |  |  | $ | 14,424,635 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Cash and cash equivalents** |  | $ | 385,790 |  |  | $ | 208,272 |  |  | $ | — |  |  | $ | — |  |  | $ | 594,062 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Reinsurance balances recoverable on paid and unpaid losses:** |  | $ | — |  |  | $ | — |  |  | $ | 520,830 |  |  | $ | — |  |  | $ | 520,830 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Other Assets:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivatives qualifying as hedging |  | $ | — |  |  | $ | 1,169 |  |  | $ | — |  |  | $ | — |  |  | $ | 1,169 |  |
| Derivatives not qualifying as hedging |  | — | |  |  | 2,964 | |  |  | — | |  |  | — | |  |  | 2,964 | |  |
| Derivative instruments |  | $ | — |  |  | $ | 4,133 |  |  | $ | — |  |  | $ | — |  |  | $ | 4,133 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Losses and LAE:** |  | $ | — |  |  | $ | — |  |  | $ | 2,452,920 |  |  | $ | — |  |  | $ | 2,452,920 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Other Liabilities:** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivatives qualifying as hedging |  | $ | — |  |  | $ | 28,947 |  |  | $ | — |  |  | $ | — |  |  | $ | 28,947 |  |
| Derivatives not qualifying as hedging |  | — | |  |  | 5,195 | |  |  | — | |  |  | — | |  |  | 5,195 | |  |
| Derivative instruments |  | $ | — |  |  | $ | 34,142 |  |  | $ | — |  |  | $ | — |  |  | $ | 34,142 |  |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “Variable interest entity assets of the InRe Fund” and “Variable interest entity liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Refer to Note 11 - "Variable Interest Entities" for additional information. As of December 31, 2020, our investment in the InRe Fund was $2.4 billion.

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

*Short-term and Fixed Maturity Investments*

The fair values for all securities in the short-term and 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.

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

1. 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.
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.
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.
4. 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. 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. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

*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 major exchanges and are managed by our external advisors. Our exchange-traded funds also trade on major exchanges. 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 and exchange-traded funds. We have categorized the majority of our publicly traded equity investments, other than preferred stock, and our exchange-traded funds as Level 1 investments because the fair values of these investments are based on unadjusted quoted prices in active markets for identical assets. We have two equity securities trading in an inactive market and, as a result have 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. We use 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.

*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, including active discussions with managers of the investments. 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 review the audited results relative to the net asset values provided by the managers, 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.

1. 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.
2. 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.
3. 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.
4. We measure the fair value of our direct investment in CLO equities based on valuations provided by independent pricing services. The fair values measured using prices provided by independent pricing services have been classified as Level 2.
5. For our investments in the 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 value of these investments is measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
6. Our investments in private credit funds are primarily valued 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. Also included within private credit funds was a loan which was valued at cost less distributions and was classified as Level 3; this has been fully paid down this quarter.
7. Included within other is an investment in a real estate debt fund, for 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.

*Cash and Cash Equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are very close to maturity. As such, they present insignificant risk of changes in value due to changes in interest rates. Included within cash and cash equivalents are money market funds, fixed interest deposits and highly liquid fixed maturity investments purchased with an original maturity of three months or less.

The majority of our cash and cash equivalents included within the fair value hierarchy are comprised of money market and liquid reserve funds which have been categorized as Level 1. Fixed interest deposits and highly liquid fixed maturity investments with an original maturity of three months or less have been categorized as Level 2. Operating cash balances are not subject to the recurring fair value measurement guidance and are therefore excluded from the fair value hierarchy.

*Insurance Contracts - Fair Value Option*

The Company uses an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and reinsurance balances recoverable on paid and unpaid losses for certain retroactive reinsurance contracts where we have elected the fair value option. The fair value is 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 yield 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 is 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 derivative instruments, as described in Note 5 - "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 tables present a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2021** | | | | | | | | | | |  | **Three Months Ended June 30, 2020** | | | | | | | | | | |
|  | **Privately-held Equities** | | |  | **Other Investments** | | |  | **Total** | | |  | **Privately-held Equities** | | |  | **Other Investments** | | |  | **Total** | | |
|  |  |  |  |  |  |
| Beginning fair value | $ | 330,404 |  |  | $ | 9,564 |  |  | $ | 339,968 |  |  | $ | 267,012 |  |  | $ | 314 |  |  | $ | 267,326 |  |
| Purchases | 19,652 | |  |  | — | |  |  | 19,652 | |  |  | 34 | |  |  | — | |  |  | 34 | |  |
| Sales and paydowns | — | |  |  | (9,250) | |  |  | (9,250) | |  |  | — | |  |  | — | |  |  | — | |  |
| Total realized and unrealized gains (losses) | (1,331) | |  |  | — | |  |  | (1,331) | |  |  | 3,954 | |  |  | — | |  |  | 3,954 | |  |
| Transfer out of Level 3 into Level 2 | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| Ending fair value | $ | 348,725 |  |  | $ | 314 |  |  | $ | 349,039 |  |  | $ | 271,000 |  |  | $ | 314 |  |  | $ | 271,314 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six months ended June 30, 2021** | | | | | | | | | | |  | **Six months ended June 30, 2020** | | | | | | | | | | |
|  |  | **Privately-held Equities** | | |  | **Other Investments** | | |  | **Total** | | |  | **Privately-held Equities** | | |  | **Other Investments** | | |  | **Total** | | |
|  |  |  |  |  |  |  |
| Beginning fair value |  | $ | 274,741 |  |  | $ | 9,564 |  |  | $ | 284,305 |  |  | $ | 265,799 |  |  | $ | 87,869 |  |  | $ | 353,668 |  |
| Purchases |  | 76,844 | |  |  | — | |  |  | 76,844 | |  |  | 1,392 | |  |  | 37,092 | |  |  | 38,484 | |  |
| Sales and paydowns |  | — | |  |  | (9,250) | |  |  | (9,250) | |  |  | — | |  |  | (539) | |  |  | (539) | |  |
| Total realized and unrealized losses |  | (2,860) | |  |  | — | |  |  | (2,860) | |  |  | 3,809 | |  |  | (40,368) | |  |  | (36,559) | |  |
| Transfer out of Level 3 into Level 2 |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (83,740) | |  |  | (83,740) | |  |
| Ending fair value |  | $ | 348,725 |  |  | $ | 314 |  |  | $ | 349,039 |  |  | $ | 271,000 |  |  | $ | 314 |  |  | $ | 271,314 |  |

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

The securities transferred from Level 3 to Level 2 were based upon obtaining market observable information regarding the valuations of the specific assets.

*Valuations Techniques and Inputs*

The table below presents the qualitative information related to the fair value measurements for our privately held equity investments measured at fair value on a recurring basis using Level 3 inputs:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Qualitative Information about Level 3 Fair Value Measurements** | | | | | | | | |
| **Fair Value as of June 30, 2021** | | |  | **Valuation Techniques** |  | **Unobservable Input** |  | **Range (Average) (1)** |
| **(in millions of U.S. dollars)** | | |  |  |  |  |  |  |
| $ | 227.4 |  |  | Guideline company methodology |  | Distribution waterfall |  | 12.8 |
| 41.0 | |  |  | Cost as approximation of fair value |  | Cost as approximation of fair value |  |  |
| 68.5 | |  |  | Transaction price approximates fair value |  | Discount rate  Exit multiple |  | 10% - 12.5% (11.3%)  1.2x - 1.3x (1.3x) |
| 12.1 | |  |  | Net Asset Value (2) |  | NAV at recent transaction |  | 19.9 |
| $ | 349.0 |  |  |  |  |  |  |  |

(1) The average represents the arithmetic average of the inputs and is not weighted by the relative fair value.

(2) This relates to our direct investment in the equity of a privately held business development company ("BDC") which follows the Investment Company accounting guidance in ASC 946 and therefore values its underlying investments using NAV as a practical expedient as permitted by ASC 946. Our valuation of our equity interest in this BDC is therefore based on the NAV provided by the BDC, subject to our own independent validation procedures.

*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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Liability for losses and LAE** | | |  | **Reinsurance balances recoverable** | | |  | **Net** | | |  | **Liability for losses and LAE** | | |  | **Reinsurance balances recoverable** | | |  | **Net** | | |
| Beginning fair value | $ | 2,277,382 |  |  | $ | 490,814 |  |  | $ | 1,786,568 |  |  | $ | 2,345,543 |  |  | $ | 653,396 |  |  | $ | 1,692,147 |  |
| Assumed business | — | |  |  | — | |  |  | — | |  |  | (4,975) | |  |  | — | |  |  | (4,975) | |  |
| Incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Increase (reduction) in estimates of ultimate losses | (4,277) | |  |  | 6,258 | |  |  | (10,535) | |  |  | (21,075) | |  |  | (4,951) | |  |  | (16,124) | |  |
| Reduction in unallocated LAE | (3,264) | |  |  | — | |  |  | (3,264) | |  |  | (3,299) | |  |  | — | |  |  | (3,299) | |  |
| Change in fair value | 24,174 | |  |  | 6,461 | |  |  | 17,713 | |  |  | 175,787 | |  |  | 41,744 | |  |  | 134,043 | |  |
| Total incurred losses and LAE | 16,633 | |  |  | 12,719 | |  |  | 3,914 | |  |  | 151,413 | |  |  | 36,793 | |  |  | 114,620 | |  |
| Paid losses | (60,637) | |  |  | (11,306) | |  |  | (49,331) | |  |  | (62,279) | |  |  | (22,321) | |  |  | (39,958) | |  |
| Effect of exchange rate movements | 727 | |  |  | 116 | |  |  | 611 | |  |  | 24,837 | |  |  | 3,516 | |  |  | 21,321 | |  |
| Ending fair value | $ | 2,234,105 |  |  | $ | 492,343 |  |  | $ | 1,741,762 |  |  | $ | 2,454,539 |  |  | $ | 671,384 |  |  | $ | 1,783,155 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Liability for losses and LAE** | | |  | **Reinsurance balances recoverable** | | |  | **Net** | | |  | **Liability for losses and LAE** | | |  | **Reinsurance balances recoverable** | | |  | **Net** | | |
| Beginning fair value | $ | 2,452,920 |  |  | $ | 520,830 |  |  | $ | 1,932,090 |  |  | $ | 2,621,122 |  |  | $ | 695,518 |  |  | $ | 1,925,604 |  |
| Incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reduction in estimates of ultimate losses | (12,500) | |  |  | 6,967 | |  |  | (19,467) | |  |  | (35,514) | |  |  | (8,122) | |  |  | (27,392) | |  |
| Reduction in unallocated LAE | (7,659) | |  |  | — | |  |  | (7,659) | |  |  | (9,712) | |  |  | — | |  |  | (9,712) | |  |
| Change in fair value | (69,909) | |  |  | (12,150) | |  |  | (57,759) | |  |  | 110,983 | |  |  | 35,177 | |  |  | 75,806 | |  |
| Total incurred losses and LAE | (90,068) | |  |  | (5,183) | |  |  | (84,885) | |  |  | 65,757 | |  |  | 27,055 | |  |  | 38,702 | |  |
| Paid losses | (134,587) | |  |  | (23,289) | |  |  | (111,298) | |  |  | (143,442) | |  |  | (38,435) | |  |  | (105,007) | |  |
| Effect of exchange rate movements | 5,840 | |  |  | (15) | |  |  | 5,855 | |  |  | (88,898) | |  |  | (12,754) | |  |  | (76,144) | |  |
| Ending fair value | $ | 2,234,105 |  |  | $ | 492,343 |  |  | $ | 1,741,762 |  |  | $ | 2,454,539 |  |  | $ | 671,384 |  |  | $ | 1,783,155 |  |

The following table presents the components of the net change in fair value:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Changes in fair value due to changes in: |  | | |  |  | | |  |  | | |  |  | | |
| Duration | $ | 4,005 |  |  | $ | 3,702 |  |  | $ | 5,571 |  |  | $ | 7,850 |  |
| Corporate bond yield | 13,708 | |  |  | 130,341 | |  |  | (63,330) | |  |  | 66,249 | |  |
| Weighted cost of capital | — | |  |  | — | |  |  | — | |  |  | (5,048) | |  |
| Risk cost of capital | — | |  |  | — | |  |  | — | |  |  | 6,755 | |  |
| Change in fair value | $ | 17,713 |  |  | $ | 134,043 |  |  | $ | (57,759) |  |  | $ | 75,806 |  |

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:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **June 30, 2021** |  | **December 31, 2020** |
| **Valuation Technique** | **Unobservable (U) and Observable (O) Inputs** |  | **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 (U) |  | 5.1% |  | 5.1% |
| Internal model | Weighted average cost of capital (U) |  | 8.25% |  | 8.25% |
| Internal model | Duration - liability (U) |  | 8.21 years |  | 8.17 years |
| Internal model | Duration - reinsurance balances recoverable on paid and unpaid losses (U) |  | 7.88 years |  | 8.23 years |

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:

1. 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.
2. 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.
3. 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.
4. 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***

*Senior Notes*

As of June 30, 2021, our 4.50% Senior Notes due 2022 (the "2022 Senior Notes") and our 4.95% Senior Notes due 2029 (the "2029 Senior Notes" and, together with the 2022 Senior Notes, the "Senior Notes") were carried at amortized cost of $349.5 million and $494.8 million, respectively, while the fair value based on observable market pricing from a third party pricing service was $357.3 million and $574.1 million, respectively. The Senior Notes are classified as Level 2.

*Junior Subordinated Notes*

As of June 30, 2021, our 5.75% Fixed-Rate Reset Junior Subordinated Notes due 2040 (the “Junior Subordinated Notes”) were carried at amortized cost of $344.9 million, while the fair value based on observable market pricing from a third party pricing service was $371.5 million. The Junior Subordinated Notes are 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 June 30, 2021 and December 31, 2020.

**11. VARIABLE INTEREST ENTITIES**

We consolidate all variable interest entities ("VIEs") in which we are considered to be the primary beneficiary.

***Consolidated VIE***

*InRe Fund*

On April 1, 2021, we obtained control of the InRe Fund following redemption by the general partner, an affiliate of Hillhouse Group, of all of its outstanding ownership interests and termination of its investment management activities. As such, on that date we had full ownership of the InRe Fund and the power to direct its activities, which led to our determination to consolidate the InRe Fund. Prior to consolidation, our investment in the InRe Fund was recorded at fair value using the NAV as a practical expedient and thus, there was no gain or loss upon consolidation. The carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest entity liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Net investment income and changes in the fair value of assets and liabilities of the InRe Fund are presented in “net investment income” and “net realized and unrealized gains,” respectively, in the consolidated statement of earnings for the three and six months ended June 30, 2021.

Our subsidiary, which now serves as the general partner of the InRe Fund, has exposure to risk of loss that is not limited to the amount of its investment in accordance with the limited partnership agreement. We cannot predict the amount of loss, if any, which may occur as a result of this exposure; however, we believe the likelihood is remote that a material loss will occur. We have not committed to provide any financial support to the general partner of the InRe Fund. In addition, we have not committed to provide any additional financial support to the InRe Fund in excess of previously funded capital commitments.

The InRe Fund utilizes prime brokerage borrowing facilities and has also securitized certain letters of credit relating to intragroup reinsurances. Funds that employ leverage through borrowings and derivatives can generate outsized returns but can also experience greater levels of volatility.

The assets of Enstar are not available to the creditors of the InRe Fund.

The following table presents the assets and liabilities associated with the InRe Fund, as presented within the condensed consolidated balance sheet:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2021** | | |
| **ASSETS** |  | | |
| Cash and cash equivalents | $ | 122,701 |  |
| Restricted cash held at brokers (1) | 879,836 | |  |
| Total cash, cash equivalents and restricted cash | 1,002,537 | |  |
| Securities owned, at fair value | 1,393,134 | |  |
| Other assets: |  | | |
| Derivative assets, at fair value | 477,645 | |  |
| Due from brokers | 34,835 | |  |
| Receivable from investments sold | 4,571 | |  |
| Other assets | 800 | |  |
| Total other assets | 517,851 | |  |
| Total variable interest entity assets of the InRe Fund | $ | 2,913,522 |  |
|  |  | | |
| **LIABILITIES** |  | | |
| Derivative liabilities, at fair value | $ | 302,100 |  |
| Due to brokers | 172,821 | |  |
| Securities sold, but not yet purchased, at fair value | 135,950 | |  |
| Payable for investments purchased | 61,439 | |  |
| Other liabilities | 21,500 | |  |
| Total variable interest entity liabilities of the InRe Fund | $ | 693,810 |  |

(1) Includes margin posted as collateral which is considered to be restricted cash.

The InRe Fund's cash flows are classified as operating cash flows in the consolidated statements of cash flows as the InRe Fund is accounted for under investment company accounting standards. The following table presents the net cash flows of the InRe Fund for the three and six months ended June 30, 2021, following its consolidation on April 1, 2021 (the cash flows prior to April 1, 2021 are not presented as the InRe Fund was not consolidated):

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three and Six Months Ended** | | |
|  | **June 30, 2021** | | |
| OPERATING ACTIVITIES |  | | |
| Net earnings | $ | 196,558 |  |
| Adjustments to reconcile net earnings to cash flows: |  | | |
| Realized gains on sales of investments and derivatives | (321,705) | |  |
| Unrealized losses on investments and derivatives | 104,975 | |  |
| Sales of trading securities | 2,029,295 | |  |
| Purchases of trading securities | (946,950) | |  |
| Payments to cover securities sold short | (685,140) | |  |
| Proceeds from securities sold short | 244,829 | |  |
| Net payment for derivative contracts | (77,773) | |  |
| Changes in: |  | | |
| Due from brokers, excluding restricted cash | 641,839 | |  |
| Receivable from investments sold | 456,996 | |  |
| Due to brokers | (353,574) | |  |
| Payable for investments purchased | (79,729) | |  |
| Performance fee payable | 19,250 | |  |
| Other | (415) | |  |
| Subtotal | 684,367 | |  |
| Net operating cash flows from the InRe fund | 1,228,456 | |  |
| INVESTING ACTIVITIES |  | | |
| Consolidation of the InRe Fund opening cash and restricted cash balances | 574,081 | |  |
| Net investing cash flows from the InRe fund | 574,081 | |  |
| FINANCING ACTIVITIES |  | | |
| Enstar capital withdrawals (1) | (800,000) | |  |
| Net cash used in financing activities (2) | (800,000) | |  |
| NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | 1,002,537 | |  |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD | — | |  |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD | $ | 1,002,537 |  |

(1) Eliminated in the condensed consolidated statement of cash flows.

(2) In addition to the cash flows presented above, for the six months ended June 30, 2021 the InRe Fund's non-cash financing activities included a third-party capital withdrawal from the InRe Fund totaling $61.4 million which was funded through the transfer of a trading security.

***Fixed Maturity Investments***

*Asset Types*

The fair value of the underlying asset categories comprising the InRe Fund's securities owned classified as trading were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2021** | | |
| Convertible bonds | $ | 194,275 |  |
| Corporate bonds | 4,518 | |  |
| Total fixed maturity investments | $ | 198,793 |  |

*Credit Ratings*

The following table sets forth the credit ratings of the InRe Fund's fixed maturity investments classified as trading as of June 30, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Amortized Cost** | | |  | **Fair Value** | | |  | **% of Total** | |  | **AAA Rated** | | |  | **AA Rated** | | |  | **A Rated** | | |  | **BBB Rated** | | |  | **Non-Investment Grade** | | |  | **Non-Rated** | | |
| Convertible bonds | $ | 144,683 |  |  | $ | 194,275 |  |  | 98 | % |  | — | |  |  | $ | 4,466 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 189,809 |  |
| Corporate bonds | 4,435 | |  |  | 4,518 | |  |  | 2 | % |  | — | |  |  | — | |  |  | 1,942 | |  |  | — | |  |  | 2,576 | |  |  | — | |  |
| Total | 149,118 | |  |  | 198,793 | |  |  | 100 | % |  | $ | — |  |  | $ | 4,466 |  |  | $ | 1,942 |  |  | $ | — |  |  | $ | 2,576 |  |  | $ | 189,809 |  |
| $ of total fair value |  | | |  |  | | |  |  | |  | — | | % |  | 2.2 | | % |  | 1.0 | | % |  | — | | % |  | 1.3 | | % |  | 95.5 | | % |

***Equity Investments***

The following table summarizes the InRe Fund's equity investments classified as trading:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2021** | | |
| Publicly traded equity investments in common and preferred stocks | $ | 1,079,679 |  |
| Exchange-traded funds | 55,655 | |  |
|  | $ | 1,135,334 |  |

Equity investments include publicly traded common stocks and exchange-traded funds. The InRe Fund's publicly traded equity investments in common stocks predominantly trade on major exchanges. The InRe Fund's investments in exchange-traded funds also trade on major exchanges.

***Other Investments***

The InRe Fund's investments classified as trading included warrants and rights of $59.0 million as of June 30, 2021.

***Investment Income***

Major categories of net investment income (expense) for the InRe Fund are summarized as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three and Six Months Ended** | | |
|  | **June 30, 2021** | | |
| Fixed maturity investments | $ | 456 |  |
| Equity and other investments | 2,139 | |  |
| Investment income | 2,595 | |  |
| Investment expenses | (22,766) | |  |
| Net investment expenses | $ | (20,171) |  |

***Net Realized and Unrealized Gains (Losses)***

Components of net realized and unrealized gains (losses) for the InRe Fund were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Net realized gains on sale: |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturity securities | $ | 54,683 |  |  | $ | — |  |  | $ | 54,683 |  |  | $ | — |  |
| Equity investments | 105,777 | |  |  | — | |  |  | 105,777 | |  |  | — | |  |
| Derivatives | 161,245 | |  |  | — | |  |  | 161,245 | |  |  | — | |  |
| Total net realized gains | $ | 321,705 |  |  | $ | — |  |  | $ | 321,705 |  |  | $ | — |  |
| Net unrealized gains (losses): |  | | |  |  | | |  |  | | |  |  | | |
| Fixed maturity securities | $ | (19,803) |  |  | $ | — |  |  | $ | (19,803) |  |  | $ | — |  |
| Equity investments | 66,620 | |  |  | — | |  |  | 66,620 | |  |  | — | |  |
| Other investments | 2,211 | |  |  | — | |  |  | 2,211 | |  |  | — | |  |
| Derivatives | (154,003) | |  |  | — | |  |  | (154,003) | |  |  | — | |  |
| Change in net asset value of the investment in the InRe Fund (1) | — | |  |  | 365,054 | |  |  | 76,607 | |  |  | 320,196 | |  |
| Total net unrealized gains (losses) | (104,975) | |  |  | 365,054 | |  |  | (28,368) | |  |  | 320,196 | |  |
| Net realized and unrealized gains | $ | 216,730 |  |  | $ | 365,054 |  |  | $ | 293,337 |  |  | $ | 320,196 |  |

(1) Prior to the consolidation of the InRe Fund on April 1, 2021, all income or (loss) from the InRe Fund was determined by the change in NAV of our holdings in the fund, which was included within net unrealized gains (losses) from other investments.

***Derivatives Not Designated or Not Qualifying as Net Investments in Hedging Instruments***

The InRe Fund’s activities include the purchase and sale of a variety of derivative financial instruments. These derivatives are used for trading purposes and / or managing risk (including market, credit and interest rate risk) associated with the portfolio of investments within the fund.

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be traded on an exchange or they may be privately negotiated contracts. Derivative contracts, including options, swaps, contracts for differences, forwards and futures, may result in off-balance sheet risk as the InRe Fund’s obligations under these contracts may exceed the amounts recognized in the condensed consolidated balance sheets. All positions are reported in the condensed consolidated balance sheets at fair value and any change in fair value is reflected in the consolidated statements of earnings as a gain or loss in the period in which such change in fair value occurs.

The derivatives involve varying degrees of market, credit and interest rate risks as described below.

*Market Risks*

Market risks may arise from the InRe Fund's investments in equity options, contract for differences or futures (which could have unfavorable results due to changes in interest rates, foreign exchange rates, or the fair values of the instruments underlying the contracts). The InRe Fund's exposure to market risks is managed through monitoring of open positions, diversification of the portfolio and balancing the risk of movements in equity prices by entering positions designed to protect against market downturns. The InRe Fund is exposed to market risk equal to the notional value of derivative contracts purchased and is exposed to market risk in excess of the amount recognized in the consolidated balance sheets on certain derivative contracts that are sold short (which represent obligations of the InRe Fund to deliver the specified security at the contracted price at a future point in time, and thereby create a liability to repurchase the security in the market at the prevailing prices). The liability for securities sold short is marked to market based on the current fair value of the underlying security at the reporting date with changes in fair value recorded as unrealized gains or losses in the accompanying consolidated statements of earnings. These transactions may involve market risk in excess of the amount currently reflected in the accompanying condensed consolidated balance sheets.

*Credit Risk*

Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of a contract (see “Counterparty Credit Risk” section below).

*Interest Rate Risk*

Interest rate risk arises due to changes in various interest rates and the related impact on valuation of investments within the InRe Fund.

The InRe Fund’s investments in instruments whose values vary with the level or volatility of interest rates exposes it to interest rate risk. These instruments include, but are not limited to, corporate bonds, convertible bonds, certain trading-related assets and liabilities and derivatives.

***Financial Statement Presentation***

The following table presents the notional values and estimated fair value by instrument as disclosed within the condensed consolidated balance sheet, before counterparty netting, as of June 30, 2021:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | |
|  | **Fair Value** | | |  | **Notional Value** | | |
| Derivatives Not Designated as Hedging Instruments |  | | |  |  | | |
| Derivative Assets |  | | |  |  | | |
| Option contracts | $ | 431,211 |  |  | $ | 1,345,380 |  |
| Forward contracts | 46,434 | |  |  | 292,882 | |  |
| Total derivative assets of the InRe Fund | $ | 477,645 |  |  | $ | 1,638,262 |  |
| Derivative Liabilities |  | | |  |  | | |
| Option contracts | $ | 256,801 |  |  | $ | 2,140,967 |  |
| Forward contracts | 45,299 | |  |  | 1,233,086 | |  |
| Total derivative liabilities of the InRe Fund | $ | 302,100 |  |  | $ | 3,374,053 |  |

The following table presents the income from derivative instruments included within the consolidated statements of earnings for the three and six months ended June 30, 2021 (following consolidation of the InRe Fund on April 1, 2021):

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three and Six Months Ended** | | |
|  | **June 30, 2021** | | |
| Derivatives Not Designated as Hedging Instruments |  | | |
| Option contracts | $ | 82 |  |
| Forward contracts | 7,160 | |  |
| Total net gain from derivative instruments, presented as a component of net realized and unrealized gains | $ | 7,242 |  |

***Counterparty Credit Risk***

Credit risk is the risk of the potential inability of counterparties to perform under the terms of contracts. The InRe Fund is exposed to the credit risk relating to whether the counterparty will meet its obligations when they come due. The InRe Fund’s exposure to credit risk at any point in time is limited to amounts recorded as assets in the condensed consolidated balance sheets. The InRe Fund seeks to reduce its credit risk by dealing with reputable counterparties that are high credit quality institutions, and by seeking to negotiate master agreements with inputs that include netting provisions that incorporate the right of “set off” (assets less liabilities) across OTC contracts with such counterparties.

The following disclosure enables users of the financial statements to evaluate the effect or potential effect of netting arrangements on the InRe Fund's financial position for recognized assets and liabilities. These recognized assets and liabilities are financial instruments and derivative instruments that are either subject to an enforceable master netting arrangement or similar agreement or meet the following right of set off criteria: (1) the amounts owed by the InRe Fund to another party are determinable; (2) the InRe Fund has the right to set off the amounts owed with the amounts owed by the other party; (3) the InRe Fund intends to set off; and (4) the InRe Fund’s right of set off is enforceable at law.

As of June 30, 2021, the InRe Fund holds financial instruments and derivative instruments that are eligible for offset in the condensed consolidated balance sheet and are subject to a master netting arrangement. The master netting arrangement allows the counterparty to net applicable collateral held on behalf of the InRe Fund against applicable liabilities or payment obligations of the InRe Fund to the counterparty. These arrangements also allow the counterparty to net any of its applicable liabilities or payment obligations they have to the InRe Fund against any collateral sent to the InRe Fund.

The following table provides disclosure regarding the potential effect of offsetting of recognized assets presented in the condensed consolidated balance sheet:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As of June 30, 2021** |  | **Gross Amounts of Recognized Derivative Assets** | | |  | **Gross Derivative Liability Amounts Offset in the Balance Sheet** | | |  | **Net Amounts of Derivative Assets Presented in the Balance Sheet** | | |  | **Gross Amounts of Derivative Liabilities Not Offset in the Balance Sheet** | | |  | **Cash Collateral Received** | | |  | **Net Asset Amount** | | |
| UBS AG |  | $ | 197,794 |  |  | $ | — |  |  | $ | 197,794 |  |  | $ | (129,558) |  |  | $ | — |  |  | $ | 68,236 |  |
| Morgan Stanley |  | 54,285 | |  |  | — | |  |  | 54,285 | |  |  | (43,092) | |  |  | — | |  |  | 11,193 | |  |
| Goldman Sachs |  | 34,319 | |  |  | — | |  |  | 34,319 | |  |  | (15,999) | |  |  | — | |  |  | 18,320 | |  |
| Merrill Lynch |  | 168,882 | |  |  | — | |  |  | 168,882 | |  |  | (94,345) | |  |  | — | |  |  | 74,537 | |  |
| JP Morgan |  | 22,305 | |  |  | — | |  |  | 22,305 | |  |  | (17,041) | |  |  | — | |  |  | 5,264 | |  |
| Other |  | 60 | |  |  | — | |  |  | 60 | |  |  | (60) | |  |  | — | |  |  | — | |  |
| Total |  | $ | 477,645 |  |  | $ | — |  |  | $ | 477,645 |  |  | $ | (300,095) |  |  | $ | — |  |  | $ | 177,550 |  |

The following table provides disclosure regarding the potential effect of offsetting of recognized liabilities presented in the condensed consolidated balance sheet:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As of June 30, 2021** |  | **Gross Amounts of Recognized Derivative Liabilities** | | |  | **Gross Derivative Asset Amounts Offset in the Balance Sheet** | | |  | **Net Amounts of Derivative Liabilities Presented in the Balance Sheet** | | |  | **Gross Amounts of Derivative Assets Not Offset in the Balance Sheet** | | |  | **Cash Collateral Pledged (1)** | | |  | **Net Amount** | | |
| UBS AG |  | $ | (129,558) |  |  | $ | — |  |  | $ | (129,558) |  |  | $ | 129,558 |  |  | $ | — |  |  | $ | — |  |
| Morgan Stanley |  | (43,092) | |  |  | — | |  |  | (43,092) | |  |  | 43,092 | |  |  | — | |  |  | — | |  |
| Goldman Sachs |  | (15,999) | |  |  | — | |  |  | (15,999) | |  |  | 15,999 | |  |  | — | |  |  | — | |  |
| Merrill Lynch |  | (94,345) | |  |  | — | |  |  | (94,345) | |  |  | 94,345 | |  |  | — | |  |  | — | |  |
| JP Morgan |  | (17,041) | |  |  | — | |  |  | (17,041) | |  |  | 17,041 | |  |  | — | |  |  | — | |  |
| Other |  | (2,065) | |  |  | — | |  |  | (2,065) | |  |  | 985 | |  |  | 1,080 | |  |  | — | |  |
| Total |  | $ | (302,100) |  |  | $ | — |  |  | $ | (302,100) |  |  | $ | 301,020 |  |  | $ | 1,080 |  |  | $ | — |  |

(1) Collateral amounts presented, if any, are limited to the derivative balances and, accordingly, do not include any excess collateral received or pledged. Total collateral pledged not presented above was $68.6 million with Barclays Bank Plc, $520.0 million with Goldman Sachs, $1.0 million with HSBC Bank Plc, $96.9 million with Merrill Lynch International, $121.4 million with Morgan Stanley and $70.7 million with UBS AG.

***Fair Value Hierarchy***

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | | | | | |
| **(in thousands)** | **Quoted Prices in Active Markets for Identical Assets**  **(Level 1)** | | |  | **Significant Other Observable Inputs**  **(Level 2)** | | |  | **Significant Unobservable Inputs**  **(Level 3)** | | |  | **Total Fair Value** | | |
| **Securities owned:** |  | | |  |  | | |  |  | | |  |  | | |
| Equities | $ | 1,135,334 |  |  | $ | — |  |  | $ | — |  |  | $ | 1,135,334 |  |
| Warrants and rights | — | |  |  | 59,007 | |  |  | — | |  |  | 59,007 | |  |
| Convertible bonds | — | |  |  | 147,348 | |  |  | 46,927 | |  |  | 194,275 | |  |
| Corporate bonds | — | |  |  | 4,518 | |  |  | — | |  |  | 4,518 | |  |
| Total securities owned | 1,135,334 | |  |  | 210,873 | |  |  | 46,927 | |  |  | 1,393,134 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Derivatives assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Option contracts | — | |  |  | 431,211 | |  |  | — | |  |  | 431,211 | |  |
| Forward contracts | — | |  |  | 46,434 | |  |  | — | |  |  | 46,434 | |  |
| Total derivative assets | — | |  |  | 477,645 | |  |  | — | |  |  | 477,645 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Securities sold, not yet purchased:** |  | | |  |  | | |  |  | | |  |  | | |
| Equities | 89,427 | |  |  | — | |  |  | — | |  |  | 89,427 | |  |
| Corporate bonds | — | |  |  | 46,523 | |  |  | — | |  |  | 46,523 | |  |
| Total securities sold, but not yet purchased | 89,427 | |  |  | 46,523 | |  |  | — | |  |  | 135,950 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Derivative liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Option contracts | — | |  |  | 256,801 | |  |  | — | |  |  | 256,801 | |  |
| Forward contracts | 7,003 | |  |  | 38,296 | |  |  | — | |  |  | 45,299 | |  |
| Total Derivatives liabilities | $ | 7,003 |  |  | $ | 295,097 |  |  | $ | — |  |  | $ | 302,100 |  |

***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. There were no securities transferred to or from Level 3 by the InRe Fund during the three and six months ended June 30, 2021.

The InRe Fund purchased a convertible bond during the three and six months ended June 30, 2021 that is the only Level 3 investment measured at fair value on a recurring basis using unobservable inputs as of June 30, 2021. There were no other purchases, issuances, sales or settlements of Level 3 investments by the InRe Fund during the current period.

Net unrealized gains related to Level 3 assets were $16.9 million and are included in net realized and unrealized gains (losses) in the consolidated statements of earnings.

*Valuation Techniques and Inputs*

The table below presents the qualitative information related to the fair value measurements for convertible bond investment measured at fair value on a recurring basis using Level 3 inputs:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Qualitative Information about Level 3 Fair Value Measurements** | | | | | | | | | | | | |
| **Fair Value as of June 30, 2021** | | |  | **Valuation Techniques** |  | **Unobservable Input** |  | **Range (Average)** |  | **Unrealized Gain** | | |
| $ | 46,927 |  |  | Broker Pricing |  | (1) |  | (1) |  | $ | 16,927 |  |

(1) Where quoted market prices in active markets are not available to estimate fair values for recognition and disclosure purposes, the InRe Fund uses Broker Pricing, a technique that relies on unobservable inputs for the determination of fair value and involves a level of judgement and uncertainty. Changes in the broker price that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value.

***Nonconsolidated VIEs***

We have investments in certain limited partnership funds which are deemed to be VIEs. The activities of these VIEs are generally limited to holding investments and our involvement in these entities is passive in nature. Our maximum exposure to these VIEs is limited to the fair value of our investment and unfunded commitments at any given time. We do not have the power to direct the activities which most significantly impact the VIEs economic performance. As a result, we are not the primary beneficiary of these VIEs and are therefore not required to consolidate them.

The table below presents the fair value of our investments in nonconsolidated VIEs as well as our maximum exposure to loss associated with these VIEs:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As of June 30, 2021** |  | **Fair Value** | | |  | **Unfunded Commitments** | | |  | **Maximum Exposure to Loss** | | |
| **Equities** |  |  | | |  |  | | |  |  | | |
| Publicly traded equity investment in common stock |  | $ | 60,911 |  |  | $ | — |  |  | $ | 60,911 |  |
|  |  |  | | |  |  | | |  |  | | |
| **Other investments** |  |  | | |  |  | | |  |  | | |
| Hedge funds |  | $ | 73,130 |  |  | $ | — |  |  | $ | 73,130 |  |
| Fixed income funds |  | 132,229 | |  |  | 44,263 | |  |  | 176,492 | |  |
| Private equity funds |  | 479,470 | |  |  | 781,162 | |  |  | 1,260,632 | |  |
| CLO equity funds |  | 190,158 | |  |  | — | |  |  | 190,158 | |  |
| Private credit funds |  | 242,359 | |  |  | 72,289 | |  |  | 314,648 | |  |
| Other |  | 17,971 | |  |  | 38,544 | |  |  | 56,515 | |  |
| Total |  | $ | 1,135,317 |  |  | $ | 936,258 |  |  | $ | 2,071,575 |  |
|  |  |  | | |  |  | | |  |  | | |
| **Total investments in nonconsolidated VIEs** |  | $ | 1,196,228 |  |  | $ | 936,258 |  |  | $ | 2,132,486 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As of December 31, 2020** |  | **Fair Value** | | |  | **Unfunded Commitments** | | |  | **Maximum Exposure to Loss** | | |
| **Equities** |  |  | | |  |  | | |  |  | | |
| Publicly traded equity investment in common stock |  | $ | 54,248 |  |  | $ | — |  |  | $ | 54,248 |  |
|  |  |  | | |  |  | | |  |  | | |
| **Other investments** |  |  | | |  |  | | |  |  | | |
| Hedge fund |  | $ | 2,638,339 |  |  | $ | — |  |  | $ | 2,638,339 |  |
| Fixed income funds |  | 98,874 | |  |  | 16,538 | |  |  | 115,412 | |  |
| Private equity funds |  | 361,691 | |  |  | 761,969 | |  |  | 1,123,660 | |  |
| CLO equity funds |  | 166,524 | |  |  | — | |  |  | 166,524 | |  |
| Private credit funds |  | 183,069 | |  |  | 126,455 | |  |  | 309,524 | |  |
| Other |  | 12,358 | |  |  | 17,674 | |  |  | 30,032 | |  |
| Total |  | $ | 3,460,855 |  |  | $ | 922,636 |  |  | $ | 4,383,491 |  |
|  |  |  | | |  |  | | |  |  | | |
| **Total investments in nonconsolidated VIEs** |  | $ | 3,515,103 |  |  | $ | 922,636 |  |  | $ | 4,437,739 |  |

**12. PREMIUMS WRITTEN AND EARNED**

The following table provides a summary of premiums written and earned by segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | |  | **Six Months Ended June 30,** | | | | | | | | | | | | | | |
|  | **2021** | | | | | | |  | **2020** | | | | | | |  | **2021** | | | | | | |  | **2020** | | | | | | |
|  | **Premiums**  **Written** | | |  | **Premiums**  **Earned** | | |  | **Premiums**  **Written** | | |  | **Premiums**  **Earned** | | |  | **Premiums Written** | | |  | **Premiums Earned** | | |  | **Premiums Written** | | |  | **Premiums Earned** | | |
| *Run-off* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Gross | $ | 8,001 |  |  | $ | 61,564 |  |  | $ | (2,155) |  |  | $ | 14,395 |  |  | $ | 30,184 |  |  | $ | 155,770 |  |  | $ | (1,828) |  |  | $ | 32,473 |  |
| Ceded | 2,160 | |  |  | (19,160) | |  |  | (1,048) | |  |  | (3,878) | |  |  | (15,525) | |  |  | (40,530) | |  |  | 801 | |  |  | (5,926) | |  |
| Net | $ | 10,161 |  |  | $ | 42,404 |  |  | $ | (3,203) |  |  | $ | 10,517 |  |  | $ | 14,659 |  |  | $ | 115,240 |  |  | $ | (1,027) |  |  | $ | 26,547 |  |
| *Legacy Underwriting* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Gross | $ | 13,515 |  |  | $ | 38,060 |  |  | $ | 141,547 |  |  | $ | 167,235 |  |  | $ | 41,089 |  |  | $ | 86,119 |  |  | $ | 350,981 |  |  | $ | 344,278 |  |
| Ceded | (6,501) | |  |  | (20,820) | |  |  | (17,568) | |  |  | (34,881) | |  |  | (22,608) | |  |  | (48,839) | |  |  | (74,719) | |  |  | (68,603) | |  |
| Net | $ | 7,014 |  |  | $ | 17,240 |  |  | $ | 123,979 |  |  | $ | 132,354 |  |  | $ | 18,481 |  |  | $ | 37,280 |  |  | $ | 276,262 |  |  | $ | 275,675 |  |
| *Total* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Gross | $ | 21,516 |  |  | $ | 99,624 |  |  | $ | 139,392 |  |  | $ | 181,630 |  |  | $ | 71,273 |  |  | $ | 241,889 |  |  | $ | 349,153 |  |  | $ | 376,751 |  |
| Ceded | (4,341) | |  |  | (39,980) | |  |  | (18,616) | |  |  | (38,759) | |  |  | (38,133) | |  |  | (89,369) | |  |  | (73,918) | |  |  | (74,529) | |  |
| Total | $ | 17,175 |  |  | $ | 59,644 |  |  | $ | 120,776 |  |  | $ | 142,871 |  |  | $ | 33,140 |  |  | $ | 152,520 |  |  | $ | 275,235 |  |  | $ | 302,222 |  |

Gross premiums written for the three and six months ended June 30, 2021 decreased by $117.9 million and $277.9 million, respectively, primarily due to StarStone International being placed into an orderly run-off in the second quarter of 2020 and the sale of Atrium in the first quarter of 2021. Refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" for further information.

**13. GOODWILL AND INTANGIBLE ASSETS**

As of June 30, 2021 and December 31, 2020, goodwill, included within other assets in the condensed consolidated balance sheets, was $63.0 million and related to the Run-off segment. Goodwill relating to the Legacy Underwriting segment of $8.0 million was impaired in the second quarter of 2020 following the decision to place StarStone International into run-off.

The amortization recorded on the intangible assets of the Legacy Underwriting segment, prior to the reclassification of Atrium to held-for-sale, for the three and six months ended June 30, 2020 was $0.5 million and $1.0 million, respectively.

**14. DEBT OBLIGATIONS AND CREDIT FACILITIES**

We utilize debt financing and credit facilities primarily for funding acquisitions and significant new business, investment activities and, from time to time, for general corporate purposes. Our debt obligations were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Facility** |  | **Origination Date** |  | **Term** |  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| 4.50% Senior Notes due 2022 |  | March 10, 2017 |  | 5 years |  | $ | 349,492 |  |  | $ | 349,253 |  |
| 4.95% Senior Notes due 2029 |  | May 28, 2019 |  | 10 years |  | 494,777 | |  |  | 494,194 | |  |
| Total Senior Notes |  |  |  |  |  | 844,269 | |  |  | 843,447 | |  |
| 5.75% Junior Subordinated Notes due 2040 |  | August 26, 2020 |  | 20 years |  | 344,943 | |  |  | 344,812 | |  |
| EGL Revolving Credit Facility |  | August 16, 2018 |  | 5 years |  | 175,000 | |  |  | 185,000 | |  |
| Total debt obligations |  |  | | |  | $ | 1,364,212 |  |  | $ | 1,373,259 |  |

The table below provides a summary of the total interest expense:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Interest expense on debt obligations | $ | 15,896 |  |  | $ | 13,675 |  |  | $ | 31,803 |  |  | $ | 26,870 |  |
| Amortization of debt issuance costs | 349 | |  |  | 343 | |  |  | 605 | |  |  | 563 | |  |
| Funds withheld balances and other | 56 | |  |  | — | |  |  | 72 | |  |  | — | |  |
| Total interest expense | $ | 16,301 |  |  | $ | 14,018 |  |  | $ | 32,480 |  |  | $ | 27,433 |  |

***Debt Obligations***

*Senior Notes*

We have issued two series of Senior Notes as shown in the table above. The 2022 Senior Notes and the 2029 Senior Notes bear interest at a fixed rate per annum, equal to 4.50% and 4.95%, respectively.

We incurred costs of $2.9 million and $6.8 million in issuing the 2022 and 2029 Senior Notes, respectively. The unamortized costs as of June 30, 2021 were $0.5 million and $5.2 million, respectively (December 31, 2020: $0.7 million and $5.8 million, respectively).

*Junior Subordinated Notes*

Our wholly-owned subsidiary, Enstar Finance LLC ("Enstar Finance") issued the Junior Subordinated Notes as shown in the table above, which are fully and unconditionally guaranteed by us on an unsecured and junior subordinated basis. The Junior Subordinated Notes bear interest (i) during the initial five-year period ending August 31, 2025, at a fixed rate per annum of 5.75% and (ii) during each five-year reset period thereafter beginning September 1, 2025, at a fixed rate per annum equal to the five-year U.S. treasury rate calculated as of two business days prior to the beginning of such five-year period plus 5.468%.

We incurred costs of $5.2 million in issuing the Junior Subordinated Notes. The unamortized costs as of June 30, 2021 and December 31, 2020 were $5.1 million and $5.2 million, respectively.

*EGL Revolving Credit Facility*

As of June 30, 2021, we were permitted to borrow up to an aggregate of $600.0 million under the revolving credit facility. We may request additional commitments under the facility up to an additional $400.0 million, which the existing lenders in their discretion or new lenders may provide, in each case subject to the terms of the agreement. To date, we have not requested any additional commitments under the facility.

As of June 30, 2021, there was $425.0 million of available unutilized capacity under the facility. Refer to Note 23 - "Subsequent Events" for additional information related to borrowings subsequent to June 30, 2021.

We pay interest on loans borrowed under the facility at a per annum rate comprising a reference rate determined based on the type of loan we borrow plus a margin based on the Company's long term senior unsecured debt ratings. The applicable reference rate is adjusted base rate for base rate loans and adjusted LIBOR for LIBOR loans. The applicable margin varies based upon changes to our long term senior unsecured debt ratings assigned by S&P or Fitch. We pay interest quarterly for base rate loans and as frequently as monthly for LIBOR loans, depending on the applicable interest period. We also pay a commitment fee based on the average daily unutilized capacity under the facility.

***Maturities***

As of June 30, 2021, the amount of outstanding debt obligations that will become due in each of the next five years and thereafter was as follows: 2021, $0; 2022, $350.0 million; 2023, $175.0 million; 2024, $0; 2025 $0; and thereafter, $850.0 million.

***Credit and Deposit Facilities***

We utilize unsecured and secured letters of credit and a deposit facility to support certain of our (re)insurance performance obligations.

*$275.0 million Funds at Lloyd's Letter of Credit Facility*

We use letters of credit under this facility to satisfy a portion of our Funds at Lloyd's requirements. We may request additional commitments under the facility in an aggregate amount not to exceed $75.0 million and letters of credit issued under the facility will expire at the end of 2025. As of June 30, 2021 and December 31, 2020, our combined Funds at Lloyd's comprised cash and investments of $581.0 million (including $89.8 million provided under the Funds at Lloyd's Deposit Facility discussed below) and $260.9 million, respectively, and unsecured letters of credit of $210.0 million as of both dates.

*$90.0 million Funds at Lloyd’s Deposit Facility*

On May 6, 2021, we entered into a $90.0 million Funds at Lloyd's Deposit Facility. We use this facility to satisfy a portion of our Funds at Lloyd’s requirements. Under this facility, a third-party lender deposits a requested market valuation amount of eligible securities into Lloyd’s on behalf of our Lloyd’s corporate member. We may request additional commitments under the facility in an aggregate amount not to exceed $10.0 million, and the facility is scheduled to expire on May 6, 2023. As of June 30, 2021 the aggregate amount requested as deposits under the facility was $90.0 million.

*$250.0 million Letter of Credit Facility*

On June 3, 2021, we entered into an uncommitted letter of credit facility, and on June 4, 2021, we procured the issuance of a $250.0 million letter of credit thereunder. We use the letter of credit issued under this facility to provide collateral support for certain reinsurance obligations of our subsidiaries. As of June 30, 2021, the aggregate amount of letters of credit issued under the facility was $250.0 million.

*$100.0 million Letter of Credit Facility*

On May 24, 2021, we entered into an uncommitted letter of credit facility and procured the issuance of a $100.0 million letter of credit thereunder. We use the letter of credit issued under this facility to provide collateral support for certain reinsurance obligations of our subsidiaries. As of June 30, 2021, the aggregate amount of letters of credit issued under the facility was $100.0 million.

*$120.0 million Letter of Credit Facility*

We use this facility to provide collateral support for certain reinsurance obligations of our subsidiaries. We may request additional commitments under the facility in an aggregate amount not to exceed $60.0 million, which the existing lender in its discretion or new lenders may provide, in each case subject to the terms of the agreement. As of June 30, 2021 and December 31, 2020, the aggregate amount of letters of credit issued under the facility was $115.7 million as of both dates.

*$800.0 million Syndicated Letter of Credit Facility*

We use this facility to collateralize certain reinsurance obligations. As of June 30, 2021 and December 31, 2020, the aggregate amount of letters of credit issued under the facility was $566.6 million and $587.1 million, respectively. The December 31, 2020 amount has been corrected from $424.1 million that was previously disclosed in our 2020 Annual Report on Form-K. This correction has no impact on our condensed consolidated financial statements and is not considered material to previously issued financial statements.

*$65.0 million Letter of Credit Facility*

We use this facility to collateralize a portion of our reinsurance obligations relating to our novation transaction with Hannover Re, which we completed on August 6, 2020, as discussed in Note 2 - "Significant New Business." As of June 30, 2021 and December 31, 2020, the aggregate amount of letters of credit issued under the facility was $61.0 million as of both dates.

***Subsidiary Capital Letters of Credit***

We also utilize unsecured letters of credit to support the regulatory capital requirements of certain of our subsidiaries.

*$100.0 million Bermuda Letter of Credit Facility*

The letter of credit issued under this facility qualifies as eligible capital for one of our Bermuda regulated subsidiaries. As of June 30, 2021 and December 31, 2020, the aggregate face amount of letters of credit under the facility was $100.0 million as of both dates.

*GBP £32.0 million United Kingdom Letter of Credit Facility*

The letter of credit issued under this facility qualifies as Ancillary Own Funds capital for one of our U.K. regulated subsidiaries. As of June 30, 2021 and December 31, 2020, the aggregate face amount of letters of credit under the facility was $44.2 million and $43.7 million, respectively.

Refer to Note 15 - "Debt Obligations and Credit Facilities" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further information on the terms of our letter of credit facilities.

**15. NONCONTROLLING INTERESTS**

We have both redeemable noncontrolling interest ("RNCI") and noncontrolling interest ("NCI") on our condensed consolidated balance sheets. RNCI with redemption features that are not solely within our control are classified within temporary equity in the condensed 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 NCI, which is carried at book value, does not have redemption features and is classified within equity in the condensed consolidated balance sheets.

***Redeemable Noncontrolling Interest***

As of December 31, 2020, the RNCI comprised the ownership interests held by the Trident V Funds (39.3%) and the Dowling Funds (1.7%) in our subsidiary North Bay. As discussed in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations," North Bay owned our investment in Northshore, the holding company that owns Atrium and Arden and SSHL, the holding company for the StarStone group, which includes StarStone International and which also owned StarStone U.S. prior to its sale to Core Specialty which was completed on November 30, 2020. Following the completion of the Exchange Transaction on January 1, 2021, there is no RNCI in respect of Northshore and the remaining RNCI as of June 30, 2021 relates only to StarStone International.

The following is a reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Balance at beginning of period | $ | 174,803 |  |  | $ | 392,773 |  |  | $ | 365,436 |  |  | $ | 438,791 |  |
| Distributions paid | — | |  |  | — | |  |  | (202,073) | |  |  | — | |  |
| Net earnings (losses) attributable to RNCI | 2,441 | |  |  | (20,140) | |  |  | 14,186 | |  |  | (52,099) | |  |
| Change in unrealized losses on AFS investments attributable to RNCI | 40 | |  |  | 10,543 | |  |  | (211) | |  |  | 6,373 | |  |
| Change in currency translation adjustments attributable to RNCI | 165 | |  |  | (165) | |  |  | 841 | |  |  | (165) | |  |
| Change in redemption value of RNCI | — | |  |  | (16,478) | |  |  | (730) | |  |  | (26,628) | |  |
| Cumulative effect of change in accounting principle attributable to RNCI (1) | — | |  |  | — | |  |  | — | |  |  | 261 | |  |
| Balance at end of period | $ | 177,449 |  |  | $ | 366,533 |  |  | $ | 177,449 |  |  | $ | 366,533 |  |

(1) The Company adopted ASU 2016-13 and the related amendments on January 1, 2020. Refer to Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further details.

We carried the RNCI at its estimated redemption value, which is fair value, as of June 30, 2021 and December 31, 2020. The decrease in the six months ended June 30, 2021 was primarily driven by the Exchange Transaction, which was completed on January 1, 2021, whereas the decrease in the six months ended June 30, 2020 was primarily attributable to net losses related to StarStone during that period.

Refer toNote 21 - "Commitments and Contingencies" for additional information regarding RNCI.

***Noncontrolling Interest***

As of June 30, 2021 and December 31, 2020, we had $12.6 million and $13.6 million, respectively, of NCI primarily related to external interests in three of our 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 shareholder's equity.

**16. SHAREHOLDERS' EQUITY**

***Voting Ordinary Shares***

*Share Repurchases*

On February 25, 2021, our Board of Directors approved an extension of the duration of our previously announced ordinary share repurchase program (the “Repurchase Program”) through March 1, 2022. The Repurchase Program was previously set to expire on March 1, 2021. Pursuant to the Repurchase Program, the Company was able to repurchase a limited number of its ordinary shares, not to exceed $150.0 million in aggregate, including shares repurchased prior to the extension of the Repurchase Program.

Pursuant to the Repurchase Program during the three and six months ended June 30, 2021, we repurchased 30,364 and 48,367 ordinary shares, at an average price of $237.39 and $236.39, respectively, and for an aggregate price of $7.2 million and $11.4 million, respectively. As of June 30, 2021, the remaining capacity under the Repurchase Program was $112.6 million.

Refer to Note 23 - "Subsequent Events" for additional information related to ordinary share repurchases subsequent to June 30, 2021 and the termination of the Repurchase Program on July 15, 2021.

***Non-Voting Ordinary Shares***

*Series C*

Warrants to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of $115.00 per share were exercised on a non-cash basis during the six months ended June 30, 2021, which resulted in a total of 89,590 Series C Non-Voting Ordinary Shares being issued in the period.

***Dividends on Preferred Shares***

During the three months ended June 30, 2021 and 2020, we declared and paid dividends on Series D Preferred Shares of $7.0 million and on Series E Preferred Shares of $1.9 million for both periods. During the six months ended June 30, 2021 and 2020, we declared and paid dividends on Series D Preferred Shares of $14.0 million and on Series E Preferred Shares of $3.9 million for both periods.

Refer to Note 23 - "Subsequent Events" for additional information related to preferred share dividends declared subsequent to June 30, 2021.

***Accumulated Other Comprehensive Income***

The following tables present a roll forward of accumulated other comprehensive income (loss):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Unrealized gains (losses) arising during the year** | | |  | **Cumulative Currency Translation Adjustment** | | |  | **Defined Benefit Pension Liability** | | |  | **Total** | | |
| **Balance, March 31, 2021, net of tax** | $ | (26,541) |  |  | $ | 8,619 |  |  | $ | 207 |  |  | $ | (17,715) |  |
| Unrealized gains on fixed income available-for-sale investments arising during the year | 57,020 | |  |  | — | |  |  | — | |  |  | 57,020 | |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | (5,094) | |  |  | — | |  |  | — | |  |  | (5,094) | |  |
| Reclassification adjustment for net realized gains included in net earnings | (529) | |  |  | — | |  |  | — | |  |  | (529) | |  |
| Change in currency translation adjustment | — | |  |  | (399) | |  |  | — | |  |  | (399) | |  |
| Total other comprehensive income (loss) | 51,397 | |  |  | (399) | |  |  | — | |  |  | 50,998 | |  |
| Other comprehensive (income) loss attributable to RNCI | (40) | |  |  | (166) | |  |  | — | |  |  | (206) | |  |
| **Balance, June 30, 2021, net of tax** | $ | 24,816 |  |  | $ | 8,054 |  |  | $ | 207 |  |  | $ | 33,077 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Unrealized gains (losses) arising during the year** | | |  | **Cumulative Currency Translation Adjustment** | | |  | **Defined Benefit Pension Liability** | | |  | **Total** | | |
| **Balance, March 31, 2020, net of tax** | $ | (41,573) |  |  | $ | 7,862 |  |  | $ | (945) |  |  | $ | (34,656) |  |
| Unrealized gains on fixed income available-for-sale investments arising during the year | 112,506 | |  |  | — | |  |  | — | |  |  | 112,506 | |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | (10,762) | |  |  | — | |  |  | — | |  |  | (10,762) | |  |
| Reclassification adjustment for net realized gains included in net earnings | (4,222) | |  |  | — | |  |  | — | |  |  | (4,222) | |  |
| Change in currency translation adjustment | — | |  |  | (1,205) | |  |  | — | |  |  | (1,205) | |  |
| Total other comprehensive income (loss) | 97,522 | |  |  | (1,205) | |  |  | — | |  |  | 96,317 | |  |
| Other comprehensive (income) loss attributable to RNCI | (10,543) | |  |  | 167 | |  |  | — | |  |  | (10,376) | |  |
| **Balance, June 30, 2020, net of tax** | $ | 45,406 |  |  | $ | 6,824 |  |  | $ | (945) |  |  | $ | 51,285 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Unrealized gains (losses) arising during the year** | | |  | **Cumulative Currency Translation Adjustment** | | |  | **Defined Benefit Pension Liability** | | |  | **Total** | | |
| **Balance, December 31, 2020, net of tax** | $ | 72,576 |  |  | $ | 7,876 |  |  | $ | 207 |  |  | $ | 80,659 |  |
| Unrealized losses on fixed income available-for-sale investments arising during the year | (54,254) | |  |  | — | |  |  | — | |  |  | (54,254) | |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | 6,931 | |  |  | — | |  |  | — | |  |  | 6,931 | |  |
| Reclassification adjustment for net realized gains included in net earnings | (1,123) | |  |  | — | |  |  | — | |  |  | (1,123) | |  |
| Reclassification to earnings on disposal of subsidiary | 475 | |  |  | — | |  |  | — | |  |  | 475 | |  |
| Change in currency translation adjustment | — | |  |  | 1,019 | |  |  | — | |  |  | 1,019 | |  |
| Total other comprehensive income (loss) | (47,971) | |  |  | 1,019 | |  |  | — | |  |  | (46,952) | |  |
| Other comprehensive (income) loss attributable to RNCI | 211 | |  |  | (841) | |  |  | — | |  |  | (630) | |  |
| **Balance, June 30, 2021, net of tax** | $ | 24,816 |  |  | $ | 8,054 |  |  | $ | 207 |  |  | $ | 33,077 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Unrealized gains (losses) arising during the year** | | |  | **Cumulative Currency Translation Adjustment** | | |  | **Defined Benefit Pension Liability** | | |  | **Total** | | |
| **Balance, December 31, 2019, net of tax** | $ | (432) |  |  | $ | 8,548 |  |  | $ | (945) |  |  | $ | 7,171 |  |
| Unrealized gains on fixed income available-for-sale investments arising during the year | 53,771 | |  |  | — | |  |  | — | |  |  | 53,771 | |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | 2,450 | |  |  | — | |  |  | — | |  |  | 2,450 | |  |
| Reclassification adjustment for net realized gains included in net earnings | (4,010) | |  |  | — | |  |  | — | |  |  | (4,010) | |  |
| Change in currency translation adjustment | — | |  |  | (1,891) | |  |  | — | |  |  | (1,891) | |  |
| Total other comprehensive income (loss) | 52,211 | |  |  | (1,891) | |  |  | — | |  |  | 50,320 | |  |
| Other comprehensive (income) loss attributable to RNCI | (6,373) | |  |  | 167 | |  |  | — | |  |  | (6,206) | |  |
| **Balance, June 30, 2020, net of tax** | $ | 45,406 |  |  | $ | 6,824 |  |  | $ | (945) |  |  | $ | 51,285 |  |

The following table presents details about the tax effects allocated to each component of other comprehensive income (loss):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | | | | | | | | | | | | | | | | | |
|  | **June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Before Tax Amount** | | |  | **Tax (Expense) Benefit** | | |  | **Net of Tax Amount** | | |  | **Before Tax Amount** | | |  | **Tax (Expense) Benefit** | | |  | **Net of Tax Amount** | | |
| Unrealized gains (losses) on fixed income available-for-sale investments arising during the year | $ | 59,178 |  |  | $ | (2,158) |  |  | $ | 57,020 |  |  | $ | 112,506 |  |  | $ | — |  |  | $ | 112,506 |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | (5,090) | |  |  | (4) | |  |  | (5,094) | |  |  | (10,762) | |  |  | — | |  |  | (10,762) | |  |
| Reclassification adjustment for net realized (gains) losses included in net earnings | (630) | |  |  | 101 | |  |  | (529) | |  |  | (4,222) | |  |  | — | |  |  | (4,222) | |  |
| Change in currency translation adjustment | (399) | |  |  | — | |  |  | (399) | |  |  | (1,205) | |  |  | — | |  |  | (1,205) | |  |
| Other comprehensive income (loss) | $ | 53,059 |  |  | $ | (2,061) |  |  | $ | 50,998 |  |  | $ | 96,317 |  |  | $ | — |  |  | $ | 96,317 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | | | | | | | | | | | | | | | | | | | |
|  | **June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Before Tax Amount** | | |  | **Tax (Expense) Benefit** | | |  | **Net of Tax Amount** | | |  | **Before Tax Amount** | | |  | **Tax (Expense) Benefit** | | |  | **Net of Tax Amount** | | |
| Unrealized gains (losses) on fixed income available-for-sale investments arising during the year | $ | (57,089) |  |  | $ | 2,835 |  |  | $ | (54,254) |  |  | $ | 53,771 |  |  | $ | — |  |  | $ | 53,771 |  |
| Reclassification adjustment for change in allowance for credit losses recognized in net earnings | 7,137 | |  |  | (206) | |  |  | 6,931 | |  |  | 2,450 | |  |  | — | |  |  | 2,450 | |  |
| Reclassification adjustment for net realized (gains) losses included in net earnings | (1,499) | |  |  | 376 | |  |  | (1,123) | |  |  | (4,010) | |  |  | — | |  |  | (4,010) | |  |
| Reclassification to earnings on disposal of subsidiary | 586 | |  |  | (111) | |  |  | 475 | |  |  | — | |  |  | — | |  |  | — | |  |
| Change in currency translation adjustment | 1,019 | |  |  | — | |  |  | 1,019 | |  |  | (1,891) | |  |  | — | |  |  | (1,891) | |  |
| Other comprehensive income (loss) | $ | (49,846) |  |  | $ | 2,894 |  |  | $ | (46,952) |  |  | $ | 50,320 |  |  | $ | — |  |  | $ | 50,320 |  |

The following table presents details of amounts reclassified from accumulated other comprehensive income:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | |  |
| **Details about AOCI components** | **June 30, 2021** | |  | **June 30, 2020** | | **Affected Line Item in Statement where Net Earnings are presented** |
| Unrealized gains on fixed income available-for-sale investments | 5,720 |  |  | 13,012 |  | Net realized and unrealized gains |
|  | — |  |  | 1,972 |  | Net loss from discontinued operations |
|  | 5,720 |  |  | 14,984 |  | Total before tax |
|  | (97) |  |  | — |  | Income tax benefit |
| Total reclassifications for the period, net of tax | 5,623 |  |  | 14,984 |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | |  |
| **Details about AOCI components** | **June 30, 2021** | |  | **June 30, 2020** | | **Affected Line Item in Statement where Net Earnings are presented** |
| Unrealized gains (losses) on fixed income available-for-sale investments | (6,224) |  |  | 894 |  | Net realized and unrealized gains |
|  | — |  |  | 666 |  | Net loss from discontinued operations |
|  | (6,224) |  |  | 1,560 |  | Total before tax |
|  | (59) |  |  | — |  | Income tax benefit |
| Total reclassifications for the period, net of tax | (6,283) |  |  | 1,560 |  |  |

**17. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted net earnings per ordinary share:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| **Numerator:** |  | | |  |  | | |  |  | | |  |  | | |
| **Earnings per share attributable to Enstar ordinary shareholders:** |  | | |  |  | | |  |  | | |  |  | | |
| Net earnings from continuing operations (1) | $ | 377,326 |  |  | $ | 799,232 |  |  | $ | 560,523 |  |  | $ | 283,632 |  |
| Net loss from discontinued operations (2) | — | |  |  | (679) | |  |  | — | |  |  | (1,900) | |  |
| Net earnings attributable to Enstar ordinary shareholders: | $ | 377,326 |  |  | $ | 798,553 |  |  | $ | 560,523 |  |  | $ | 281,732 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Denominator:** |  | | |  |  | | |  |  | | |  |  | | |
| Weighted-average ordinary shares outstanding — basic (3) | 21,631,749 | |  |  | 21,565,240 | |  |  | 21,597,236 | |  |  | 21,557,542 | |  |
| Effect of dilutive securities: |  | | |  |  | | |  |  | | |  |  | | |
| Share-based compensation plans (4) | 200,469 | |  |  | 185,300 | | |  | 214,849 | |  |  | 177,264 | | |
| Warrants (5) | — | |  |  | 38,702 | | |  | 80,659 | | |  | 53,525 | | |
| Weighted-average ordinary shares outstanding — diluted | 21,832,218 | |  |  | 21,789,242 | |  |  | 21,892,744 | |  |  | 21,788,331 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Earnings per share attributable to Enstar ordinary shareholders:** |  | | |  |  | | |  |  | | |  |  | | |
| Basic: |  | | |  |  | | |  |  | | |  |  | | |
| Net earnings from continuing operations | $ | 17.44 |  |  | $ | 37.06 |  |  | $ | 25.95 |  |  | $ | 13.16 |  |
| Net loss from discontinued operations | — | |  |  | (0.03) | |  |  | — | |  |  | (0.09) | |  |
| Net earnings per ordinary share | $ | 17.44 |  |  | $ | 37.03 |  |  | $ | 25.95 |  |  | $ | 13.07 |  |
| Diluted: |  | | |  |  | | |  |  | | |  |  | | |
| Net earnings from continuing operations | $ | 17.28 |  |  | $ | 36.68 |  |  | $ | 25.60 |  |  | $ | 13.02 |  |
| Net loss from discontinued operations | — | |  |  | (0.03) | |  |  | — | |  |  | (0.09) | |  |
| Net earnings per ordinary share | $ | 17.28 |  |  | $ | 36.65 |  |  | $ | 25.60 |  |  | $ | 12.93 |  |

(1) Net earnings from continuing operations attributable to Enstar ordinary shareholders equals net earnings from continuing operations, plus net loss (earnings) from continuing operations attributable to noncontrolling interest, less dividends on preferred shares.

(2) Net loss from discontinued operations attributable to Enstar ordinary shareholders equals net loss from discontinued operations, net of income tax benefit (expense), plus net loss from discontinued operations attributable to noncontrolling interest; refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" for a breakdown by period.

(3) Weighted-average ordinary shares for basic earnings per share includes ordinary shares (voting and non-voting) but excludes ordinary shares held in the Enstar Group Limited Employee Benefit Trust (the "EB Trust") in respect of Joint Share Ownership Plan ("JSOP") awards.

(4) Share-based dilutive securities include restricted shares, restricted share units, and performance share units. Certain share-based compensation awards, including the ordinary shares held in the EB Trust in respect of JSOP awards, were excluded from the calculation for the three and six months ended June 30, 2021 and 2020 because they were anti-dilutive.

(5) Warrants to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of $115.00 per share were exercised on a non-cash basis during the six months ended June 30, 2021, which resulted in a total of 89,590 Series C Non-Voting Ordinary Shares being issued in the period. As of June 30, 2021, there were no warrants outstanding following the exercise described. The warrants presented in the table above are a weighted-average of the warrants outstanding for the period.

**18. SHARE-BASED COMPENSATION**

We provide various employee benefits including share-based compensation, an employee share purchase plan and an annual incentive compensation program. These are described in Note 19 - "Share-Based Compensation and Pensions" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020.

The table below provides a summary of the compensation costs for all of our share-based compensation plans:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Share-based compensation plans: |  | | |  |  | | |  |  | | |  |  | | |
| Restricted shares and restricted share units | $ | 1,714 |  |  | $ | 2,330 |  |  | $ | 3,009 |  |  | $ | 3,929 |  |
| Performance share units | 2,995 | |  |  | 5,855 | |  |  | 6,890 | |  |  | 5,188 | |  |
| Cash-settled stock appreciation rights | 245 | |  |  | (316) | |  |  | 3,013 | |  |  | (3,475) | |  |
| Joint share ownership plan expense | 1,133 | |  |  | 1,133 | |  |  | 2,254 | |  |  | 2,005 | |  |
| Other share-based compensation plans: |  | | |  |  | | |  |  | | |  |  | | |
| Northshore incentive plan | — | |  |  | (25) | |  |  | — | |  |  | 447 | |  |
| StarStone incentive plan | — | |  |  | — | |  |  | — | |  |  | (223) | |  |
| Deferred compensation and ordinary share plan for non-employee directors | 108 | |  |  | 93 | |  |  | 979 | |  |  | 959 | |  |
| Employee share purchase plan | 81 | |  |  | 104 | |  |  | 166 | |  |  | 208 | |  |
| Total share-based compensation | $ | 6,276 |  |  | $ | 9,174 |  |  | $ | 16,311 |  |  | $ | 9,038 |  |

The associated tax benefit recorded to income tax benefit in the consolidated statement of earnings was $0.5 million and $0.4 million for the three months ended June 30, 2021, and 2020, respectively and $1.4 million and $1.3 million for the six months ended June 30, 2021, and 2020, respectively.

**19. INCOME TAXATION**

***Interim Tax Calculation Method***

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

***Interim Tax Expense***

The effective tax rates on income for the three months ended June 30, 2021 and 2020 were 2.4% and 2.1%, respectively, and for the six months ended June 30, 2021 and 2020 were 0.6% and 4.4%, respectively. The effective tax rate on income differs from the statutory rate of 0% due to tax on foreign operations, primarily the U.S. and the U.K.

We have foreign operating subsidiaries and branch operations principally located in the U.S., U.K., Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. The undistributed earnings from our foreign subsidiaries will be indefinitely reinvested in those jurisdictions where the undistributed earnings were earned.

Deferred tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. Generally, when earnings are distributed as dividends, 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 because, solely for U.S. Federal income tax purposes, there are no accumulated positive earnings and profits that could be subject to U.S. dividend withholding tax. For our United Kingdom subsidiaries, there are no withholding taxes imposed as a matter of UK domestic tax law. For our other foreign subsidiaries, an insignificant amount of earnings is indefinitely reinvested; however, it would not be practicable to compute the related amounts of withholding taxes 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.

***Assessment of Valuation Allowance on Deferred Tax Assets***

We have estimated the future taxable income of our foreign subsidiaries and have provided a valuation allowance in respect of loss carryforwards where we do not expect to realize a tax benefit. We have considered all available evidence using a "more likely than not" standard in determining the amount of the valuation allowance. During the three and six months ended June 30, 2021, we have maintained a valuation allowance for deferred tax assets which management does not believe meet the "more likely than not" criteria.

***Unrecognized Tax Benefits***

There were no unrecognized tax benefits as of June 30, 2021 and December 31, 2020.

***Tax Examinations***

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, our major subsidiaries that operate in the U.S., U.K. and Australia are no longer subject to tax examinations for years before 2016.

**20. 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 constitutes 8.8% 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.

On November 30, 2020, we completed the sale and recapitalization of StarStone U.S. to Core Specialty in a transaction described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations".

Pursuant to the terms of a Recapitalization Agreement entered into on August 13, 2020 among us, the Trident V Funds, which are advised by Stone Point, and the Dowling Funds (the "Recapitalization Agreement"), we agreed to exchange a portion of our indirect interest in Northshore, the holding company that owns Atrium and Arden, for all of the Trident V Funds’ indirect interest in StarStone U.S. (the “Exchange Transaction”), which is described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations".

Our interests in StarStone and Atrium were held through North Bay, which was a joint venture between us, the Trident V Funds and the Dowling Funds. As of December 31, 2020, we had an indirect 59.0% interest in North Bay and the Trident V Funds and the Dowling Funds owned 39.3% and 1.7%, respectively. North Bay owned 100% of StarStone Specialty Holdings Limited ("SSHL"), the holding company for the StarStone group, which included StarStone U.S. and StarStone International. North Bay also owned 92% of Northshore, the holding company for Atrium and Arden. North Bay also owned the preferred equity of three segregated cells within our wholly-owned subsidiary Fitzwilliam Insurance Limited (the “Fitzwilliam Cells”) that have provided reinsurance to StarStone and are considered part of StarStone International. Following the completion of the sale and recapitalization of StarStone U.S. and the Exchange Transaction, we owned 25.2% on a fully diluted basis (24.7% as of June 30, 2021) of Core Specialty, which owns StarStone U.S., and 13.8% of Northshore, which continues to own Atrium and Arden. The Trident V Funds owned 76.3% of Northshore, and the Dowling Funds owned 0.4% of Core Specialty and 1.6% of Northshore. Additional information relating to our remaining interest in Northshore is set forth under the heading "Northshore" below. The Exchange Transaction had no impact on the ultimate ownership of SSHL, which continues to own StarStone International, with us, the Trident V Funds and the Dowling Funds retaining our and their ownership interests in SSHL of 59.0%, 39.3% and 1.7%, respectively.

In connection with the closing of the Exchange Transaction, we entered into amended and restated shareholders’ agreements with the Trident V Funds and the Dowling Funds with respect to our investment in SSHL and Northshore. With respect to SSHL, we have the right to designate three of five members of the SSHL board of directors and the Trident V Funds have the right to designate the other two members. The Trident V Funds also have certain customary rights as a minority shareholder to approve certain material matters and transactions. Each shareholder of SSHL must provide us and the Trident V Funds with a right of first offer to acquire its shares in SSHL if such shareholder wishes to sell them. Each shareholder will also have certain rights to participate in sales of SSHL shares by the other shareholders, and we have certain rights to cause the Trident V Funds and the Dowling Funds to sell their SSHL shares if we wish to sell control of SSHL or the StarStone International business.

Also pursuant to the terms of the shareholders’ agreement for SSHL, at any time after December 31, 2022, the Trident V Funds have the right to cause us to purchase their shares in SSHL at their fair market value, and the Dowling Funds have the right to participate in any such sale transaction initiated by the Trident V Funds. We would be entitled to pay the purchase price for such SSHL shares in cash or in unrestricted ordinary shares of Enstar that are then listed or admitted to trading on a national securities exchange. At any time after March 31, 2023, we will have the right to cause the Trident V Funds and the Dowling Funds to sell their shares in SSHL to us at their fair market value. We would be obligated to pay the purchase price for such SSHL shares in cash.

Pursuant to the terms of the shareholders’ agreement for Northshore, for so long as we own 50% or more of the Northshore shares we held upon the closing of the Exchange Transaction, we have the right to designate one member to the board of directors of Northshore and each of its material subsidiaries. Our shares in Northshore are subject to an 18-month restriction on transfer following the closing of the Exchange Transaction, after which the Trident V Funds have a right of first offer to acquire our shares in Northshore if we wish to sell them. We have certain rights to participate in sales of Northshore shares by the Trident V Funds, and the Trident V Funds have certain rights to cause us to sell our Northshore shares if the Trident V Funds wish to sell control of Northshore or the Atrium business.

We, in partnership with StarStone's other shareholders, have previously completed transactions to provide capital support to StarStone in the form of:

(i) a contribution to its contributed surplus account and a loss portfolio transfer, effective October 1, 2018. 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 was reimbursed in the first quarter of 2019; and

(ii) a loss portfolio transfer, effective April 1, 2019, for which shareholders agreed to contribute an aggregate amount of $48.0 million.

In addition, Enstar has separately entered into a loss portfolio transfer and adverse development cover with StarStone effective October 1, 2019, whereby StarStone transferred $189.4 million in loss reserves and unearned premium to a wholly-owned Enstar subsidiary in exchange for premium of $189.4 million. Enstar also provided an additional $59.0 million adverse development cover in excess of the $189.4 million.

As of June 30, 2021 and December 31, 2020, the RNCI on our balance sheet relating to these Trident co-investment transactions was $170.1 million and $350.2 million, respectively.

As of June 30, 2021, we had the following additional relationships with Stone Point and its affiliates:

1. Investments in funds (carried within other investments) managed by Stone Point, with respect to which we recognized net unrealized gains (losses);
2. Investments in registered investment companies affiliated with entities owned by Trident or otherwise affiliated with Stone Point, with respect to which we recognized net unrealized gains (losses) and interest income;
3. Separate accounts managed by Eagle Point Credit Management, PRIMA Capital Advisors and SKY Harbor Capital Management, which are affiliates of entities owned by Trident, with respect to which we incurred management fees;
4. 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 (losses);
5. Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO debt and equity securities, with respect to which we recognized net unrealized gains (losses) and interest income;
6. Marble Point Capital, which is an affiliate of an entity owned by Trident, has acted as collateral manager for certain of our direct investments in CLO debt and equity securities, with respect to which we recognized net unrealized gains (losses) and interest income;
7. In the fourth quarter of 2018, we invested $25.0 million in Mitchell TopCo Holdings, the parent company of Mitchell International ("Mitchell") and Genex Services, as a co-investor alongside certain Trident funds. Mitchell provides third-party outsourcing managed care services to one of our subsidiaries in the ordinary course of its business; and
8. In the second quarter of 2020, we invested $10.0 million in a 2-year senior secured unrated floating rate term loan facility with an extension option which was arranged and managed by Sound Point Capital. The facility's borrower, Amplify U.S. Inc., is a subsidiary of Evergreen (as defined below) and has used the proceeds to purchase AmTrust's preferred stock. The facility ranks senior to all other claims of the borrower, the purchased preferred stock and cash flows therefrom serve as collateral, and AmTrust has provided an unsecured guarantee for the facility. The term loan facility was fully repaid in June 2021. For further information on our relationships with Evergreen and AmTrust, refer to the AmTrust section below.

The following table presents the amounts included in our condensed consolidated balance sheet related to our related party transactions with Stone Point and its affiliated entities:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Short-term investments, AFS, at fair value | $ | — |  |  | $ | 878 |  |
| Fixed maturities, trading, at fair value | 142,736 | |  |  | 196,086 | |  |
| Fixed maturities, AFS, at fair value | 291,924 | |  |  | 227,397 | |  |
| Equities, at fair value | 134,178 | |  |  | 103,914 | |  |
| Other investments, at fair value: |  | | |  |  | | |
| Hedge funds | — | |  |  | 19,844 | |  |
| Fixed income funds | 230,341 | |  |  | 210,017 | |  |
| Private equity funds | 52,811 | |  |  | 37,262 | |  |
| CLO equities | 36,032 | |  |  | 38,658 | |  |
| CLO equity funds | 189,793 | |  |  | 166,523 | |  |
| Private Debt | 18,950 | |  |  | 27,016 | |  |
| Real estate fund | 29,855 | |  |  | 27,278 | |  |
| Total investments | 1,126,620 | |  |  | 1,054,873 | |  |
| Cash and cash equivalents | 13,635 | |  |  | 23,933 | |  |
| Other assets | 1,971 | |  |  | 403 | |  |
| Other liabilities | 1,515 | |  |  | 745 | |  |
| Net investment | $ | 1,140,711 |  |  | $ | 1,078,464 |  |

As of June 30, 2021, we had unfunded commitments of $203.2 million to other investments, $38.0 million to privately held equity and $21.0 million to fixed maturity investments managed by Stone Point and its affiliated entities.

The following table presents the amounts included in net earnings related to our related party transactions with Stone Point and its affiliated entities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Net investment income | $ | 4,416 |  |  | $ | 4,793 |  |  | $ | 4,878 |  |  | $ | 8,877 |  |
| Net realized and unrealized gains (losses) | 22,318 | |  |  | 29,729 | |  |  | 47,232 | |  |  | (72,787) | |  |
| Total net earnings (losses) | $ | 26,734 |  |  | $ | 34,522 |  |  | $ | 52,110 |  |  | $ | (63,910) |  |

***Hillhouse***

Investment funds managed by Hillhouse Group (defined below) collectively owned 9.4% of Enstar’s voting ordinary shares as of June 30, 2021. These funds also owned non-voting ordinary shares, which together with their voting ordinary shares, represented 16.9% economic interest in Enstar as of June 30, 2021. During the six months ended June 30, 2021, Hillhouse Group exercised warrants on a non-cash basis to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of $115.00 per share, which resulted in a total of 89,590 Series C Non-Voting Ordinary Shares being issued to Hillhouse Group in the period. From February 2017 to February 2021, Jie Liu, a partner of AnglePoint HK (defined below), served on our Board.

We have historically made significant direct investments in funds (the "Hillhouse Funds") managed by Hillhouse Capital Management, Ltd. and Hillhouse Capital Advisors, Ltd. (together, "Hillhouse Group") and AnglePoint Asset Management Ltd., an affiliate of Hillhouse Group ("AnglePoint Cayman").

On February 21, 2021, we entered into a Termination and Release Agreement (the "TRA") with the InRe Fund, Hillhouse Group, AnglePoint Cayman, AnglePoint Asset Management Limited (“AnglePoint HK”), and InRe Fund GP, Ltd. (“InRe GP”) pursuant to which we agreed to terminate certain relationships with Hillhouse and its affiliates, primarily with respect to the InRe Fund. In connection with AnglePoint Cayman ceasing to serve as investment manager of the InRe Fund, affiliates of Hillhouse Group agreed to a deduction of $100.0 million from amounts due to them from the InRe Fund and to waive their right to receive any performance fees that could have been earned for 2021. We also redeemed our investments in the other Hillhouse Funds at their carrying value plus an implied interim return and received $381.3 million in the form of additional interest in the InRe Fund.

AnglePoint Cayman previously received sub-advisory services with respect to InRe Fund from its affiliate, AnglePoint HK, an investment advisory company licensed by the Securities and Futures Commission in Hong Kong. Pursuant to the TRA, we acquired an option to buy AnglePoint HK, which we also had the right to assign to a third-party. On April 1, 2021, we entered into a Designation Agreement with Jie Liu (the "Designation Agreement"), pursuant to which we designated Mr. Liu, an AnglePoint HK partner, as the purchaser of AnglePoint HK, and he acquired the company from an affiliate of Hillhouse Group on the same day. AnglePoint Cayman simultaneously assigned its investment management agreement with InRe Fund to AnglePoint HK. The Designation Agreement requires us and AnglePoint HK to amend the InRe Fund investment management agreement and limited partnership agreement to incorporate a revised fee structure for AnglePoint HK and certain other agreed changes.

The InRe Fund, qualifies as a variable interest entity and was consolidated effective April 1, 2021, refer to Note 11 - "Variable Interest Entities" for additional information. As a result, the InRe Fund ceased to be a related party on the same date.

As of December 31, 2020, the carrying value (i.e., the net asset value) of our direct investment in the InRe Fund, which was then managed by AnglePoint Cayman, was $2.4 billion. Hillhouse Group and AnglePoint Cayman charged investment management and performance fees to funds they manage, which are deducted from the Hillhouse Funds’ reported net asset values. For the full year ended December 31, 2020, we incurred management and performance fees of $489.0 million. This amount has been revised from $394.0 million disclosed in our 2020 Annual Report on Form 10-K to correct management and performance fees for full year 2020. This correction has no impact on our consolidated financial statements and is not considered material to previously issued financial statements.

As of June 30, 2021, our equity method investee, Enhanzed Re, had investments in a fund managed by AnglePoint Cayman, as set forth in the table below. Our condensed consolidated balance sheet included the following balances related to transactions with Hillhouse Group and its affiliates (as applicable):

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Investments in funds managed by AnglePoint Cayman, held by Enhanzed Re | $ | 12,954 |  |  | $ | 851,435 |  |
| Our ownership percentage of Enhanzed Re | 47.4 | | % |  | 47.4 | | % |
| Our share of Enhanzed Re's investment in funds managed by AnglePoint Cayman held by Enhanzed Re (through our equity method investment ownership) | $ | 6,140 |  |  | $ | 403,580 |  |
|  |  | | |  |  | | |
| Investment in other funds managed by Hillhouse Group and its affiliates: |  | | |  |  | | |
| InRe Fund (1) |  | | |  | $ | 2,365,158 |  |
| Other funds | $ | — |  |  | 369,508 | |  |
|  | $ | — |  |  | $ | 2,734,666 |  |

(1) Effective April 1, 2021, AnglePoint HK assumed the role of manager of the InRe Fund as described above, refer to AnglePoint HK disclosures below.

During the second quarter of 2021, Enhanzed Re redeemed $902.2 million of their investments in funds managed by AnglePoint Cayman.

The following table presents the amounts included in net earnings related to our related party transactions with Hillhouse Group and its affiliates:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  |  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| InRe Fund (1) (2) |  | $ | — |  |  | $ | 365,054 |  |  | $ | 76,607 |  |  | $ | 320,196 |  |
| Other Funds |  | — | |  |  | 55,230 | |  |  | 20,871 | |  |  | 35,184 | |  |
| Net realized and unrealized gains |  | $ | — |  |  | $ | 420,284 |  |  | $ | 97,478 |  |  | $ | 355,380 |  |

(1) Effective April 1, 2021, AnglePoint HK assumed the role of manager of the InRe Fund as described above, refer to AnglePoint HK disclosures below.

(2) The six months ended June 30, 2021, includes the impact of a deduction of $100.0 million from amounts due to affiliates of Hillhouse Group from the InRe Fund, which had the effect of increasing our NAV in the InRe Fund on February 21, 2021.

Refer to Note 23 - "Subsequent Events" for additional information related to transactions with Hillhouse Group subsequent to June 30, 2021.

***AnglePoint HK***

As of June 30, 2021, the carrying value (i.e., the net asset value) of our direct investment in the InRe Fund, L.P. (the "InRe Fund"), which is managed by AnglePoint HK (defined and discussed above), was $2.2 billion.

The following table presents the amounts included in net earnings related to our related party transactions with AnglePoint HK (as applicable):

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Three and Six Months Ended June 30,** | | |
|  | **2021** | | |
| Net investment expenses (1) | $ | (20,171) |  |
| Net realized and unrealized gains | 216,730 | |  |
|  | $ | 196,559 |  |

(1) The InRe Fund net investment expenses primarily include management and performance fee accruals which were previously included in the change in NAV and included within net realized and unrealized gains prior to consolidation of the fund.

***Northshore***

Following the completion of the Exchange Transaction with the Stone Point managed Trident V Funds on January 1, 2021 as described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations", our equity interest in Northshore, the holding company that owns Atrium and Arden was reduced to 13.8% from 54.1% while the Trident V Funds' total equity interest in Northshore increased from 36.0% to 76.3%. We have accounted for our residual equity interest in Northshore as an investment in a privately held equity security at fair value. The carrying value of our investment in Northshore was $34.0 million as of June 30, 2021.

Concurrent with the closing of the Exchange Transaction on January 1, 2021, one of our wholly-owned subsidiaries and Northshore entered into a TSA through which our wholly-owned subsidiary agreed to provide certain transitional services to Northshore over a transition period of up to 18 months.

In addition, concurrent with the completion of the Exchange Transaction on January 1, 2021, Arden also entered into an LPT Retrocession Agreement with one of our majority owned subsidiaries, through which Arden fully reinsured its non-life run-off portfolio with total liabilities of $19.0 million to our majority owned subsidiary, in exchange for a retrocession premium consideration of an equal amount. Arden retained the premium under a funds held arrangement, to secure the payment obligations of our majority owned subsidiary.

Our condensed consolidated balance sheet included the following balances between us and Arden:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2021** | | |
| Balances under LPT Retrocession Agreement: |  | | |
| Premiums Receivable | $ | 13,185 |  |
| Loss and loss adjustment expenses | 12,921 | |  |

Our condensed consolidated statement of earnings included the following amounts between us and Arden:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | |  | **Six Months Ended** | | |
|  | **June 30,** | | |  | **June 30,** | | |
|  | **2021** | | |  | **2021** | | |
| Transactions under LPT Retrocession Agreement: |  | | |  |  | | |
| Net incurred losses and LAE | $ | 28 |  |  | $ | 346 |  |
| Interest expense | (83) | |  |  | (83) | |  |
| Total net earnings (loss) | $ | (55) |  |  | $ | 263 |  |

Furthermore, as described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations", through our wholly-owned subsidiary SGL No.1, a Lloyd’s corporate member, we provided 25% of the underwriting capacity on the 2017 to 2020 underwriting years of Atrium's Syndicate 609 at Lloyd’s. Effective January 1, 2021, and in conjunction with the completion of the Exchange Transaction, SGL No.1 ceased its provision of underwriting capacity on Syndicate 609. Accordingly, the 2020 underwriting year was the last underwriting year that SGL No. 1 participated in with respect to the Atrium business. We will continue to report SGL No. 1's 25% gross share of the 2020 and prior underwriting years of Syndicate 609 until the 2020 underwriting year completes an RITC into a successor year, which will be no earlier than December 31, 2022.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **December 31, 2020** | |
| Distributions of SGL No.1 Share of Syndicate 609 results |  |  | 19,115 |  |
| Due to Arden under reinsurance agreement |  |  | (7,965) |  |
| Due to Atrium 5 limited under capacity lease agreement |  |  | (11,150) |  |
| Net balances with Northshore Group |  |  | — |  |

There is no net retention for Enstar on Atrium's 2020 and prior underwriting years as the business was contractually transferred to the Atrium entities that were divested in the Exchange Transaction. Effective January 1, 2021, all balances that SGL No. 1 has with Atrium and Arden are no longer eliminated in our condensed consolidated financial statements.

Our condensed consolidated balance sheet includes the following balances related to our participation in Atrium's Syndicate 609 through our wholly-owned subsidiary SGL 1. The balances are disclosed on a gross basis and therefore include the reinsurance balances recoverable from Arden under a quota share reinsurance agreement as well as the net results arising from our participation which is payable by SGL 1 to Atrium under a capacity lease tenancy agreement as described further below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30, 2021** | | |
| Balances under quota share agreement |  | | |
| Short-term investments, trading, at fair value | $ | — |  |
| Fixed maturities, trading, at fair value | 165,717 | |  |
| Fixed maturities, available-for-sale, at fair value | 1,102 | |  |
| Other investments, at fair value | 12,153 | |  |
| Cash and cash equivalents | 24,654 | |  |
| Restricted cash and cash equivalents | 4,626 | |  |
| Premiums receivable | 18,408 | |  |
| Reinsurance balances recoverable on paid and unpaid losses | 76,670 | |  |
| Funds held by reinsured companies | 31,555 | |  |
| Other assets | 41,657 | |  |
| Losses and loss adjustment expenses | 240,910 | |  |
| Insurance and reinsurance balances payable | 87,240 | |  |
| Other liabilities | 48,286 | |  |
|  |  | | |
| Balances under lease capacity agreement |  | | |
| Other liabilities | 12,782 | | |

Our condensed consolidated statement of earnings included the following amounts related to our participation in Atrium's Syndicate 609 through our wholly-owned subsidiary SGL 1. These amounts reflect the impact of cessions by SGL 1 to Arden under a quota share reinsurance agreement with the net results arising from our participation being payable by SGL 1 to Atrium under a capacity lease tenancy agreement as described further below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | |  | **Six Months Ended** | | |
|  | **June 30,** | | |  | **June 30,** | | |
|  | **2021** | | |  | **2021** | | |
| Transactions under quota share agreement |  | | |  |  | | |
| Net premiums earned | $ | 17,240 |  |  | $ | 37,280 |  |
| Net investment income | 288 | |  |  | 1,046 | |  |
| Net realized and unrealized gains (losses) | 210 | |  |  | (1,099) | |  |
| Other income | 1,282 | |  |  | 1,282 | |  |
| Net incurred losses and loss adjustment expenses | (10,281) | |  |  | (14,759) | |  |
| Acquisition costs | (4,922) | |  |  | (9,899) | |  |
| General and administrative expenses | (1,418) | |  |  | (3,502) | |  |
|  |  | | |  |  | | |
| Transactions under lease capacity agreement |  | | |  |  | | |
| Other expense | $ | (3,831) |  |  | $ | (10,349) |  |
| Total net earnings | $ | (1,432) |  |  | $ | — |  |

As discussed above, Enstar does not retain any of the economics related to its participation in Atrium's 2020 and prior underwriting years through its wholly-owned subsidiary SGL 1 since this business is contractually transferred to the Atrium entities that were divested in the Exchange Transaction, through a quota share reinsurance agreement with Arden covering 65% of the business written by Atrium's Syndicate 609 and a capacity lease tenancy agreement covering the net results arising from the residual business written but not covered by the 65% quota share reinsurance agreement with Arden.

***Monument Re***

Monument Insurance Group Limited ("Monument Re") was established in October 2016 and Enstar has invested a total of $59.6 million in the common and preferred shares of Monument Re as of June 30, 2021 (December 31, 2020: $59.6 million). We own 20% of the common shares of Monument Re, as well as different classes of preferred shares which have fixed dividend yields, and which collectively represented a total economic interest of 22.5% as at June 30, 2021 (December 31, 2020: 23.0%). In connection with our investment in Monument Re, we entered into a Shareholders Agreement with the other shareholders and have accounted for our equity interest in Monument Re as an equity method investment since we have significant influence over its operating and financial policies.

Our investment in the common and preferred shares of Monument Re, which is included in equity method investments on our condensed consolidated balance sheet, as of June 30, 2021 and December 31, 2020 was $204.3 million and $193.7 million, respectively.

During the three months ended June 30, 2021 and 2020 our share of net earnings (loss) on our investment in Monument Re was $1.9 million and $(0.1) million, respectively. During the six months ended June 30, 2021 and 2020 our share of net earnings (loss) on our investment in Monument Re was $16.7 million and $(1.5) million, respectively. In addition, one of our representatives serves on Monument Re's board of directors. During the three and six months ended June 30, 2021 and 2020 we received director fees from Monument of $0.1 million (three and six months ended June 30, 2020: $0).

Refer to Note 23 - "Subsequent Events" for additional information related to transactions with Monument Re subsequent to June 30, 2021.

***Clear Spring (formerly SeaBright)***

Effective January 1, 2017, we sold SeaBright Insurance Company (“SeaBright Insurance”) to Clear Spring PC Acquisition Corp., a subsidiary of Delaware Life Insurance Company ("Delaware Life"). Following the sale, SeaBright Insurance was capitalized with $56.0 million of equity, with Enstar retaining a 20% indirect equity interest in SeaBright Insurance. Subsequently, SeaBright Insurance was renamed Clear Spring Property and Casualty Company ("Clear Spring").

Effective December 30, 2020, we sold our remaining interest in Clear Spring to Delaware Life for $12.2 million and recorded a gain on sale of $0.6 million in the fourth quarter of 2020. As a result, Clear Spring was not a related party as of December 31, 2020. Prior to the sale, we accounted for our equity interest in Clear Spring as an equity method investment as we had significant influence over its operating and financial policies.

During the three and six months ended June 30, 2020 our share of net losses on our investment in Clear Spring was $0.6 million and $0.2 million.

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.

Our consolidated statement of earnings included the following amounts between us and Clear Spring:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | |  | **Six Months Ended** | | |
|  | **June 30,** | | |  | **June 30,** | | |
|  | **2020** | | |  | **2020** | | |
| Transactions under StarStone ceding quota share, included in net loss from discontinued operations: |  | | |  |  | | |
| Ceded premium earned | $ | 682 |  |  | $ | 1 |  |
| Net incurred losses and LAE | (2,043) | |  |  | (1,289) | |  |
| Acquisition costs | (99) | |  |  | (27) | |  |
|  |  | | |  |  | | |
| Transactions under assuming quota share: |  | | |  |  | | |
| Premium earned | (170) | |  |  | — | |  |
| Net incurred losses and LAE | 510 | |  |  | 882 | |  |
| Acquisition costs | 20 | |  |  | 7 | |  |
|  |  | | |  |  | | |
| Total net earnings | $ | (1,100) |  |  | $ | (426) |  |

***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 45% of the issued and outstanding shares of common stock of 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 equity securities issued at the same price and in the same proportion as the equity interest purchased by Trident Pine. In a second transaction in December 2019, Enstar acquired an additional $25.9 million of Evergreen securities from another investor.

Following the closing of the second transaction, Enstar owns 8.4% of the equity interest in Evergreen and Trident Pine owns 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 $3.3 million, half of which was received upon closing, and the other half was received on the first anniversary of the closing. The fee was recorded in full in other income within our consolidated statements of earnings for the year ended December 31, 2018.

Our indirect investment in the shares of AmTrust, carried in equities on our condensed consolidated balance sheet, as of June 30, 2021 and December 31, 2020 was $227.4 million and $230.3 million, respectively.

The following table presents the amounts included in net earnings related to our related party transactions with AmTrust (excluding withholding taxes):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Net investment income | $ | 1,493 |  |  | $ | 1,896 |  |  | $ | 2,986 |  |  | $ | 4,367 |  |
| Net realized and unrealized gains (losses) | (1,453) | |  |  | 3,954 | |  |  | (2,945) | |  |  | 3,809 | |  |
| Total net earnings | $ | 40 |  |  | $ | 5,850 |  |  | $ | 41 |  |  | $ | 8,176 |  |

***Citco***

In June 2018, we made a $50.0 million indirect investment in the shares of Citco III Limited ("Citco"), a fund administrator with global operations. As of June 30, 2021 and December 31, 2020, we owned 31.9% of the common shares in HH CTCO Holdings Limited, which in turn owns 15.4% of the convertible preferred shares, amounting to a 6.2% interest in the total equity of Citco. Pursuant to an investment agreement and in consideration for participation therein, a related party of Hillhouse Group provided us with investment support. 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 June 30, 2021 and December 31, 2020, Trident owned 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, which is included in equity method investments on our condensed consolidated balance sheet, as of June 30, 2021 and December 31, 2020 was $54.1 million and $53.0 million, respectively.

During the three months ended June 30, 2021 and 2020 our share of net earnings on our indirect investment in Citco was $0.7 million and $0.5 million, respectively. During the six months ended June 30, 2021 and 2020 our share of net earnings on our indirect investment in Citco was $1.4 million and $0.3 million, respectively.

***Enhanzed Re***

Enhanzed Re is a joint venture between Enstar, Allianz SE ("Allianz") and Hillhouse Group that was capitalized in December 2018. Enhanzed Re is a Bermuda-based Class 4 and Class E reinsurer that reinsures life, non-life run-off, and property and casualty insurance business, initially sourced from Allianz and Enstar. Enstar, Allianz and Hillhouse Group affiliates have made equity investment commitments in the aggregate of $470.0 million to Enhanzed Re. Enstar owns 47.4% of the entity, Allianz owns 24.9%, and an affiliate of Hillhouse Group owns 27.7%. As of June 30, 2021, Enstar contributed $154.1 million of its total capital commitment to Enhanzed Re and had an uncalled amount of $68.7 million. We have accounted for our equity interest in Enhanzed Re as an equity method investment as we have significant influence over its operating and financial policies.

Enstar acts as the (re)insurance manager for Enhanzed Re, for which it receives fee income recorded within fees and commission income, AnglePoint Cayman previously acted as the primary investment manager, and an affiliate of Allianz provides investment management services. Enhanzed Re writes business from affiliates of its operating sponsors, Allianz SE and Enstar.

Our investment in the common shares of Enhanzed Re, which is included in equity method investments on our condensed consolidated balance sheet, as of June 30, 2021 and December 31, 2020 was $434.0 million and $330.3 million, respectively.

During the three months ended June 30, 2021 and 2020 our share of net loss on our investment in Enhanzed Re was $1.9 million and $8.3 million, respectively. During the six months ended June 30, 2021 and 2020 our share of net earnings on our investment in Enhanzed Re was $103.7 million and $5.9 million, respectively.

We have ceded 10% of the 2019 Zurich transaction, the 2020 AXA Group transaction and the 2021 Liberty Mutual and CNA transactions, which are described in Note 2 - "Significant New Business," to Enhanzed Re on the same terms and conditions as those received by Enstar.

During the fourth quarter of 2020, one of our UK-based Run-off subsidiaries entered into a 50% Quota Share reinsurance agreement with Enhanzed Re. The reinsurance is on a funds held basis with fixed crediting rates.

.

Our condensed consolidated balance sheet included the following balances between us and Enhanzed Re:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Balances under ceding quota share: |  | | |  |  | | |
| Reinsurance balances recoverable | $ | 226,003 |  |  | $ | 208,379 |  |
| Funds held | 242,483 | |  |  | 193,981 | |  |
| Insurance balances payables | 1,560 | |  |  | 1,276 | |  |
|  |  | | |  |  | | |
| Other assets | 7,767 | |  |  | 730 | |  |

Our condensed consolidated statement of earnings included the following amounts between us and Enhanzed Re:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Amounts under ceding quota share: |  | | |  |  | | |  |  | | |  |  | | |
| Ceded premium earned | $ | (1,510) |  |  | $ | — |  |  | $ | (1,641) |  |  | $ | — |  |
| Fees and commission income | 117 | |  |  | — | |  |  | 233 | |  |  | — | |  |
| Net investment expense | (1,280) | |  |  | — | |  |  | (2,437) | |  |  | — | |  |
| Net realized and unrealized gains | 149 | |  |  | — | |  |  | 132 | |  |  | — | |  |
| Other income (expense) | 735 | |  |  | (3,172) | |  |  | 1,462 | |  |  | (2,881) | |  |
| Net incurred losses and LAE | 1,319 | |  |  | (13) | |  |  | 1,054 | |  |  | (13) | |  |
| Acquisition costs | 368 | |  |  | — | |  |  | 373 | |  |  | 23 | |  |
| Total net loss | $ | (102) |  |  | $ | (3,185) |  |  | $ | (824) |  |  | $ | (2,871) |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Change in unrealized losses on AFS investments | (665) | |  |  | — | |  |  | (1,288) | |  |  | — | |  |

Refer to Note 23 - "Subsequent Events" for additional information related to transactions with Enhanzed Re subsequent to June 30, 2021.

***Core Specialty***

Following the sale and recapitalization of StarStone U.S. as described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations," our investment in the common shares of Core Specialty, which is included in equity method investments on our condensed consolidated balance sheet, was $224.3 million as of June 30, 2021 (December 31, 2020: $235.0 million). As a result of the completion of the Exchange Transaction on January 1, 2021, as discussed in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations", as well as in Note 15 - "Noncontrolling Interests", our investment in Core Specialty was reduced by $4.0 million as of June 30, 2021. During the three and six months ended June 30, 2021 our share of net loss on our investment in Core Specialty was $3.7 million and $6.7 million, respectively. We account for our equity method investment in Core Specialty on a one quarter lag.

In connection with the sale and recapitalization of StarStone U.S. we entered into an LPT and ADC reinsurance agreement with respect to StarStone U.S.’ legacy reserves. Concurrent with the closing of the LPT and ADC reinsurance agreement, we entered into an ASA with StarStone U.S., through which one of our wholly-owned subsidiaries was appointed as an independent contractor to provide certain administrative services covering the business we assumed from StarStone U.S. through the LPT and ADC reinsurance agreement.

In addition, concurrent with the sale of StarStone U.S. to Core Specialty, one of our wholly-owned subsidiaries entered into a TSA with Core Specialty through which our subsidiary and Core Specialty agreed to provide certain transitional services to each other relating to the StarStone U.S. businesses, for a specified period of time.

On completion of the sale and recapitalization of StarStone U.S. on November 30, 2020, we received $235.0 million of Core Specialty shares and $51.5 million of cash. Subsequently, the cash component of the consideration was determined to be $47.0 million with the surplus cash received of $4.5 million being repaid to Core Specialty during the six months ended June 30, 2021.

Furthermore, there are existing reinsurance agreements whereby (i) certain of our subsidiaries provide reinsurance protection to StarStone U.S. ("the assuming reinsurances") and (ii) StarStone U.S. provides reinsurance protection to certain of our subsidiaries ("the ceding reinsurances"). These arrangements remain in place.

Our condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020 included the following balances between us and Core Specialty:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Balances under assuming quota share, LPT and ADC reinsurances: |  | | |  |  | | |
| Funds held by reinsured companies | $ | 50,426 |  |  | $ | 58,086 |  |
| Other assets | 2,764 | |  |  | 38,846 | |  |
| Losses and loss adjustment expenses | 597,390 | |  |  | 682,637 | |  |
| Insurance and reinsurance balances payable | 60,840 | |  |  | 24,806 | |  |
| Other liabilities | 175 | |  |  | 5,003 | |  |
|  |  | | |  |  | | |
| Balances under ceding reinsurances: |  | | |  |  | | |
| Reinsurance balances recoverable on paid and unpaid losses | 1,691 | |  |  | 1,736 | |  |
|  |  | | |  |  | | |
| Balances under service agreements: |  | | |  |  | | |
| Other assets | 5,231 | |  |  | 6,727 | |  |
| Other liabilities | 53 | |  |  | 328 | |  |
|  |  | | |  |  | | |
| Balances under sale and recapitalization agreement: |  | | |  |  | | |
| Other liabilities | — | |  |  | 4,512 | |  |

Our consolidated statement of earnings included the following amounts between us and Core Specialty:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | |  | **Six Months Ended** | | |
|  | **June 30, 2021** | | |  | **June 30, 2021** | | |
| Transactions under assuming quota share, LPT and ADC reinsurances: |  | | |  |  | | |
| Net premiums earned | $ | (1,310) |  |  | $ | 2,935 |  |
| Net incurred losses and loss adjustment expenses | 1,369 | |  |  | 9,221 | |  |
| Acquisition costs | 1,893 | |  |  | 3,217 | |  |
| Net investment income | — | |  |  | 121 | |  |
| Other expense | (15) | |  |  | (15) | |  |
|  |  | | |  |  | | |
| Transactions under service agreements: |  | | |  |  | | |
| Fees and commission income | 3,801 | |  |  | 7,499 | |  |
|  |  | | |  |  | | |
| Transactions under sale and recapitalization agreement: |  | | |  |  | | |
| Other Income | — | |  |  | 567 | |  |
| Interest expense | — | |  |  | (15) | |  |
|  |  | | |  |  | | |
| Total net earnings | $ | 5,738 |  |  | $ | 23,530 |  |

**21. 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. Our cash and investments are managed pursuant to guidelines that follow prudent standards of diversification and liquidity, and limit the allowable holdings of a single issue and issuers. 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 (re)insurance 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 (re)insurers.

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. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us. As of June 30, 2021, we had a significant funds held concentration of $909.5 million (December 31, 2020: $955.0 million) 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 June 30, 2021. Our credit exposure to the U.S. government was $1.2 billion as of June 30, 2021 (December 31, 2020: $1.4 billion).

For additional information relating to credit risk for the InRe Fund, refer to Note 11 - "Variable Interest Entities."

***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 condensed 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 or bad faith, 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 (re)insurance 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 of June 30, 2021, we had unfunded commitments of $1.4 billion to other investments, $68.7 million to equity method investments, $48.1 million to privately held equity and $21.0 million to fixed maturity investments.

***Guarantees***

As of June 30, 2021 and December 31, 2020, parental guarantees and capital instruments supporting subsidiaries' (re)insurance obligations were $2.1 billion and $1.7 billion, respectively. We also guarantee the Junior Subordinated Notes, which are described in Note 14 - "Debt Obligations and Credit Facilities."

***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"). Following the closing of the Exchange Transaction, we have a call right over the portion of SSHL owned by the Trident V Funds and the Dowling Funds, and they have put rights to transfer those interests to us.

***Leases***

We have recognized a right-of-use asset and an offsetting lease liability on our condensed consolidated balance sheets, relating primarily to office space and facilities that we have leased to conduct our business operations. On an ongoing basis we determine whether an arrangement is a lease or contains a lease at inception and also complete an assessment to determine the classification of each lease as either a finance lease or an operating lease. Our leases are all currently classified as operating leases.

Our leases have remaining lease terms of one year to 36 years; some of which include options to extend the lease term for up to five years, and some of which include options to terminate the lease within one year. We consider these options in determining the lease term used to establish our right-of-use assets and lease liabilities. Renewal options that we believe we are likely to exercise are considered when determining lease terms. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Since a majority of our leases do not provide an implicit discount rate, we use our collateralized incremental borrowing rate in determining the present value of lease payments.

The table below provides the lease cost and other information relating to our operating leases:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| **Lease cost:** |  | | |  |  | | |  |  | | |  |  | | |
| Operating lease cost | $ | 2,022 |  |  | $ | 3,202 |  |  | $ | 4,134 |  |  | $ | 6,524 |  |
| Short-term lease cost(1) | — | |  |  | 61 | |  |  | 4 | |  |  | 119 | |  |
| Total lease cost | 2,022 | |  |  | 3,263 | |  |  | 4,138 | |  |  | 6,643 | |  |
| Sub-lease income(2) | (473) | |  |  | (138) | |  |  | (1,027) | |  |  | (276) | |  |
| Total net lease cost | $ | 1,549 |  |  | $ | 3,125 |  |  | $ | 3,111 |  |  | $ | 6,367 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| **Other information:** |  | | |  |  | | |  |  | | |  |  | | |
| Operating cash paid for amounts included in the measurement of lease liabilities | $ | 1,937 |  |  | $ | 4,145 |  |  | $ | 4,047 |  |  | $ | 7,328 |  |
| Non-cash activity: right-of-use assets relating to leases | (139) | |  |  | 191 | |  |  | (504) | |  |  | 263 | |  |
| Weighted-average remaining lease term |  | | |  |  | | |  | 6.4 years | | |  | 6.2 years | | |
| Weighted-average discount rate |  | | |  |  | | |  | 6.8 | | % |  | 6.3 | | % |

(1) Leases with an initial lease term of twelve months or less are not recognized within our condensed consolidated balance sheets.

(2) Sub-lease income consists of rental income received from third parties to whom we have sub-leased some of our leased office spaces and is included within other income in our consolidated statements of earnings.

The table below provides a summary of the operating leases recorded on our condensed consolidated balance sheets:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Balance sheet classification** |  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| Right-of-use assets (1) | Other assets |  | $ | 22,219 |  |  | $ | 32,297 |  |
| Current lease liabilities (1) | Other liabilities |  | 6,047 | |  |  | 7,959 | |  |
| Non-current lease liabilities (1) | Other liabilities |  | 19,122 | |  |  | 27,064 | |  |

(1) The December 31, 2020 right-of-use assets and the total lease liability balances exclude balances of $1.0 million related to Atrium which were reclassified to held-for-sale balances on our condensed consolidated balance sheet as of December 31, 2020.

The table below provides a summary of the contractual maturities of our operating lease liabilities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **2021** | | |  | **2022** | |  | **2023** | |  | **2024** | |  | **2025** | |  | **2026 and beyond** | |  | **Total lease payments** | |  | **Less: Imputed interest** | |  | **Present value of lease liabilities** | | |
| Contractual maturities |  | $ | 4,230 |  |  | 6,580 |  |  | 5,703 |  |  | 4,047 |  |  | 3,165 |  |  | 8,651 |  |  | 32,376 |  |  | (7,207) |  |  | $ | 25,169 |  |

**22. SEGMENT INFORMATION**

During the first quarter of 2021, we revised our segment structure to align with how our chief operating decision maker ("CODM"), who was determined to be our Chief Executive Officer, views our business, assesses performance and allocates resources to our business components. Effective January 1, 2021, our business is organized into three reportable segments:

(i) Run-off: consists of our acquired property and casualty and other (re)insurance business and StarStone International (from January 1, 2021) following our decision to place it into an orderly run-off. This segment also includes our consulting and management business, which manages the run-off portfolios of third parties through our service companies. Management’s primary objective with respect to the Run-off segment is to generate reserve/claims savings over time by settling claims in a timely, cost efficient manner using our claims management expertise including settling claims for lower than outstanding ultimate loss estimates and implementation of reinsurance and commutation strategies;

(ii) Investments: consists of our investment activities and the performance of our investment portfolio, excluding those investable assets attributable to our Legacy Underwriting segment. Management’s primary objective of the Investments segment is to obtain the highest possible risk and capital adjusted returns while maintaining prudent diversification of assets and operating within the constraints of a global regulated (re)insurance company. We additionally consider the liquidity requirements and duration of our claims and contract liabilities; and

(iii) Legacy Underwriting: consists of businesses that we have either, in the case of Atrium, exited via the sale of the majority of our interest in or, in the case of StarStone International (included in the Legacy Underwriting Segment through December 31, 2020), placed into run-off. Prior to January 1, 2021, this segment comprised SGL No. 1's 25% net share of Atrium's Syndicate 609 business at Lloyd's and StarStone International (through December 31, 2020). From January 1, 2021, this segment comprises SGL No.1's 25% gross share of the 2020 and prior underwriting years of Atrium's Syndicate 609 at Lloyd's, offset by the contractual transfer of the results of that business to the Atrium entities that were divested in the Exchange Transaction. There is no net retention for Enstar on Atrium's 2020 and prior underwriting years. For further information on the Exchange Transaction and the StarStone International Run-off, refer to Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations."

In addition, our corporate and other activities, which do not qualify as an operating segment, includes income and expense items that are not directly attributable to our reportable segments. These include, (a) holding company income and expenses, (b) the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts, (c) the amortization of fair value adjustments associated with the acquisition of companies, (d) changes in the fair value of assets and liabilities related to our assumed retroactive reinsurance contracts for which we have elected the fair value option, (e) corporate expenses not allocated to our reportable segments, (f) debt servicing costs, (g) net foreign exchange (gains) losses, (h) gains (losses) arising on sales of subsidiaries (if any), (i) income tax benefit (expense), (j) net earnings (losses) from discontinued operations, net of income tax (if any), (k) net (earnings) loss attributable to noncontrolling interest, and (l) preferred share dividends.

Items (b), (c) and (d) highlighted above are included within corporate and other activities since the CODM evaluates the performance of the Run off and Legacy Underwriting segments without consideration of these amounts. Refer to "(p) Acquisitions, Goodwill and Intangible Assets" and "(q) Retroactive Reinsurance" within Note 2 - "Significant Accounting Policies" to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2020 for further information.

Our assets are reviewed on a consolidated basis by management for decision making purposes since they support business operations across all of our three reportable segments as well as our corporate & other activities. We do not allocate assets and liabilities to our reportable segments with the exception of liabilities for losses and loss adjustment expenses, reinsurance balances recoverable on paid and unpaid losses and goodwill that are directly attributable to our reportable segments.

Expenses that are directly attributable to our three reportable segments are disclosed under those segments while non-direct expenses, as well as costs related to shared services that are not directly attributable to our reportable segments, are allocated to our reportable segments as well as to our corporate and other activities, on the basis of the actual or proportion of benefit derived from the services provided.

Following the re-organization of our reportable segments during the first quarter of 2021 as detailed above, we restated the prior period comparatives to conform to the current period presentation.

The following tables set forth selected and unaudited condensed consolidated statement of earnings results by segment and for our corporate and other activities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | | | | | | | | | | | | | |
|  | **June 30, 2021** | | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other (1)** | | |  | **Total** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 42,404 |  |  | $ | — |  |  | $ | 17,240 |  |  | $ | — |  |  | $ | 59,644 |  |
| Fees and commission income | 8,274 | |  |  | — | |  |  | — | |  |  | — | |  |  | 8,274 | |  |
| Net investment income | — | |  |  | 75,859 | |  |  | 288 | |  |  | — | |  |  | 76,147 | |  |
| Net realized and unrealized gains | — | |  |  | 405,010 | |  |  | 210 | |  |  | — | |  |  | 405,220 | |  |
| Other income (expense) | 5,196 | |  |  | — | |  |  | (2,549) | |  |  | (6,006) | |  |  | (3,359) | |  |
|  | 55,874 | |  |  | 480,869 | |  |  | 15,189 | |  |  | (6,006) | |  |  | 545,926 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | (16,997) | |  |  | — | |  |  | 10,281 | |  |  | 46,020 | |  |  | 39,304 | |  |
| Acquisition costs | 34 | |  |  | — | |  |  | 4,922 | |  |  | — | |  |  | 4,956 | |  |
| General and administrative expenses (2) | 64,138 | |  |  | 12,303 | |  |  | 1,418 | |  |  | 14,858 | |  |  | 92,717 | |  |
|  | 47,175 | |  |  | 12,303 | |  |  | 16,621 | |  |  | 60,878 | |  |  | 136,977 | |  |
| EARNINGS (LOSS) BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | 8,699 | |  |  | 468,566 | |  |  | (1,432) | |  |  | (66,884) | |  |  | 408,949 | |  |
| Loss from equity method investments | — | |  |  | (3,059) | |  |  | — | |  |  | — | |  |  | (3,059) | |  |
| SEGMENT INCOME (LOSS) | 8,699 | |  |  | 465,507 | |  |  | (1,432) | |  |  | (66,884) | |  |  | 405,890 | |  |
| Interest expense |  | | |  |  | | |  |  | | |  | (16,301) | |  |  | (16,301) | |  |
| Net foreign exchange gains |  | | |  |  | | |  |  | | |  | 9,139 | |  |  | 9,139 | |  |
| Income tax expense |  | | |  |  | | |  |  | | |  | (9,422) | |  |  | (9,422) | |  |
| NET EARNINGS |  | | |  |  | | |  |  | | |  |  | | |  | 389,306 | |  |
| Net earnings attributable to noncontrolling interest |  | | |  |  | | |  |  | | |  | (3,055) | |  |  | (3,055) | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR |  | | |  |  | | |  |  | | |  |  | | |  | 386,251 | |  |
| Dividends on preferred shares |  | | |  |  | | |  |  | | |  | (8,925) | |  |  | (8,925) | |  |
| NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS |  | | |  |  | | |  |  | | |  | $ | (95,448) |  |  | $ | 377,326 |  |

(1) Other income (expense) for corporate and other activities includes the amortization of fair value adjustments associated with the acquisition of DCo and Morse TEC. Net incurred losses and loss adjustment expenses for corporate and other activities includes the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts and fair value adjustments associated with the acquisition of companies and the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

(2) Includes refinement of first quarter 2021 general and administrative expense allocations which increased/(decreased) general and administrative expenses of the Run-off and Investments segments by $16.3 million and $2.6 million, respectively, as well as corporate and other activities by $(18.9) million.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | | | | | | | | | | | | | |
|  | **June 30, 2020** | | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other (1)** | | |  | **Total** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 10,517 |  |  | $ | — |  |  | $ | 132,354 |  |  | $ | — |  |  | $ | 142,871 |  |
| Fees and commission income | 3,966 | |  |  | — | |  |  | 6,044 | |  |  | — | |  |  | 10,010 | |  |
| Net investment income | — | |  |  | 86,263 | |  |  | 8,180 | |  |  | — | |  |  | 94,443 | |  |
| Net realized and unrealized gains | — | |  |  | 926,494 | |  |  | 41,114 | |  |  | — | |  |  | 967,608 | |  |
| Other income (expense) | 899 | |  |  | — | |  |  | 30 | |  |  | (2,016) | |  |  | (1,087) | |  |
|  | 15,382 | |  |  | 1,012,757 | |  |  | 187,722 | |  |  | (2,016) | |  |  | 1,213,845 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | (60,249) | |  |  | — | |  |  | 95,382 | |  |  | 151,559 | |  |  | 186,692 | |  |
| Acquisition costs | 3,589 | |  |  | — | |  |  | 45,478 | |  |  | — | |  |  | 49,067 | |  |
| General and administrative expenses (2) | 52,466 | |  |  | 10,704 | |  |  | 70,062 | |  |  | 11,598 | |  |  | 144,830 | |  |
|  | (4,194) | |  |  | 10,704 | |  |  | 210,922 | |  |  | 163,157 | |  |  | 380,589 | |  |
| EARNINGS (LOSS) BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | 19,576 | |  |  | 1,002,053 | |  |  | (23,200) | |  |  | (165,173) | |  |  | 833,256 | |  |
| Loss from equity method investments | — | |  |  | (8,790) | |  |  | — | |  |  | — | |  |  | (8,790) | |  |
| SEGMENT INCOME (LOSS) | 19,576 | |  |  | 993,263 | |  |  | (23,200) | |  |  | (165,173) | |  |  | 824,466 | |  |
| Interest expense |  | | |  |  | | |  |  | | |  | (14,018) | |  |  | (14,018) | |  |
| Net foreign exchange losses |  | | |  |  | | |  |  | | |  | (5,158) | |  |  | (5,158) | |  |
| Income tax expense |  | | |  |  | | |  |  | | |  | (16,652) | |  |  | (16,652) | |  |
| NET EARNINGS FROM CONTINUING OPERATIONS |  | | |  |  | | |  |  | | |  |  | | |  | 788,638 | |  |
| Net loss from discontinued operations, net of income taxes |  | | |  |  | | |  |  | | |  | (1,152) | |  |  | (1,152) | |  |
| NET EARNINGS |  | | |  |  | | |  |  | | |  |  | | |  | 787,486 | |  |
| Net loss attributable to noncontrolling interest |  | | |  |  | | |  |  | | |  | 19,992 | |  |  | 19,992 | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR |  | | |  |  | | |  |  | | |  |  | | |  | 807,478 | |  |
| Dividends on preferred shares |  | | |  |  | | |  |  | | |  | (8,925) | |  |  | (8,925) | |  |
| NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS |  | | |  |  | | |  |  | | |  | $ | (191,086) |  |  | $ | 798,553 |  |

(1) Other income (expense) for corporate and other activities includes the amortization of fair value adjustments associated with the acquisition of DCo and Morse TEC. Net incurred losses and loss adjustment expenses for corporate and other activities includes the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts and fair value adjustments associated with the acquisition of companies and the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

(2) Includes refinement of first quarter 2020 general and administrative expense allocations which increased/(decreased) general and administrative expenses of the Run-off and Investments segments by $13.6 million and $2.5 million, respectively, as well as corporate and other activities by $(16.1) million.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | | | | | | | | | | | | | | | |
|  | **June 30, 2021** | | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other (1)** | | |  | **Total** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 115,240 |  |  | $ | — |  |  | $ | 37,280 |  |  | $ | — |  |  | $ | 152,520 |  |
| Fees and commission income | 17,872 | |  |  | — | |  |  | — | |  |  | — | |  |  | 17,872 | |  |
| Net investment income | — | |  |  | 137,190 | |  |  | 1,046 | |  |  | — | |  |  | 138,236 | |  |
| Net realized and unrealized gains (losses) | — | |  |  | 385,531 | |  |  | (1,099) | |  |  | — | |  |  | 384,432 | |  |
| Other income (expense) | 17,511 | |  |  | — | |  |  | (9,067) | |  |  | (11,252) | |  |  | (2,808) | |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | — | |  |  | 14,894 | |  |  | 14,894 | |  |
|  | 150,623 | |  |  | 522,721 | |  |  | 28,160 | |  |  | 3,642 | |  |  | 705,146 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | (12,372) | |  |  | — | |  |  | 14,759 | |  |  | (18,590) | |  |  | (16,203) | |  |
| Acquisition costs | 29,071 | |  |  | — | |  |  | 9,899 | |  |  | — | |  |  | 38,970 | |  |
| General and administrative expenses | 91,729 | |  |  | 15,843 | |  |  | 3,502 | |  |  | 64,643 | |  |  | 175,717 | |  |
|  | 108,428 | |  |  | 15,843 | |  |  | 28,160 | |  |  | 46,053 | |  |  | 198,484 | |  |
| EARNINGS (LOSS) BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | 42,195 | |  |  | 506,878 | |  |  | — | |  |  | (42,411) | |  |  | 506,662 | |  |
| Earnings from equity method investments | — | |  |  | 114,972 | |  |  | — | |  |  | — | |  |  | 114,972 | |  |
| SEGMENT INCOME (LOSS) | 42,195 | |  |  | 621,850 | |  |  | — | |  |  | (42,411) | |  |  | 621,634 | |  |
| Interest expense |  | | |  |  | | |  |  | | |  | (32,480) | |  |  | (32,480) | |  |
| Net foreign exchange gains |  | | |  |  | | |  |  | | |  | 6,505 | |  |  | 6,505 | |  |
| Income tax expense |  | | |  |  | | |  |  | | |  | (3,440) | |  |  | (3,440) | |  |
| NET EARNINGS |  | | |  |  | | |  |  | | |  |  | | |  | 592,219 | |  |
| Net earnings attributable to noncontrolling interest |  | | |  |  | | |  |  | | |  | (13,846) | |  |  | (13,846) | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR |  | | |  |  | | |  |  | | |  |  | | |  | 578,373 | |  |
| Dividends on preferred shares |  | | |  |  | | |  |  | | |  | (17,850) | |  |  | (17,850) | |  |
| NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS |  | | |  |  | | |  |  | | |  | $ | (103,522) |  |  | $ | 560,523 |  |

(1) Other income (expense) for corporate and other activities includes the amortization of fair value adjustments associated with the acquisition of DCo and Morse TEC. Net incurred losses and loss adjustment expenses for corporate and other activities includes the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts and fair value adjustments associated with the acquisition of companies and the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended** | | | | | | | | | | | | | | | | | | |
|  | **June 30, 2020** | | | | | | | | | | | | | | | | | | |
|  | **Run-off** | | |  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Corporate & Other (1)** | | |  | **Total** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 26,547 |  |  | $ | — |  |  | $ | 275,675 |  |  | $ | — |  |  | $ | 302,222 |  |
| Fees and commission income | 8,951 | |  |  | — | |  |  | 8,587 | |  |  | — | |  |  | 17,538 | |  |
| Net investment income | — | |  |  | 151,226 | |  |  | 17,931 | |  |  | — | |  |  | 169,157 | |  |
| Net realized and unrealized gains (losses) | — | |  |  | 351,812 | |  |  | (13,265) | |  |  | — | |  |  | 338,547 | |  |
| Other income (expense) | 28,662 | |  |  | — | |  |  | 150 | |  |  | (9,455) | |  |  | 19,357 | |  |
|  | 64,160 | |  |  | 503,038 | |  |  | 289,078 | |  |  | (9,455) | |  |  | 846,821 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and loss adjustment expenses | (87,442) | |  |  | — | |  |  | 200,913 | |  |  | 116,521 | |  |  | 229,992 | |  |
| Acquisition costs | 10,496 | |  |  | — | |  |  | 84,614 | |  |  | — | |  |  | 95,110 | |  |
| General and administrative expenses | 75,853 | |  |  | 14,268 | |  |  | 96,120 | |  |  | 57,017 | |  |  | 243,258 | |  |
|  | (1,093) | |  |  | 14,268 | |  |  | 381,647 | |  |  | 173,538 | |  |  | 568,360 | |  |
| EARNINGS (LOSS) BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | 65,253 | |  |  | 488,770 | |  |  | (92,569) | |  |  | (182,993) | |  |  | 278,461 | |  |
| Earnings from equity method investments | — | |  |  | 3,660 | |  |  | — | |  |  | — | |  |  | 3,660 | |  |
| SEGMENT INCOME (LOSS) | 65,253 | |  |  | 492,430 | |  |  | (92,569) | |  |  | (182,993) | |  |  | 282,121 | |  |
| Interest expense |  | | |  |  | | |  |  | | |  | (27,433) | |  |  | (27,433) | |  |
| Net foreign exchange gains |  | | |  |  | | |  |  | | |  | 6,781 | |  |  | 6,781 | |  |
| Income tax expense |  | | |  |  | | |  |  | | |  | (11,380) | |  |  | (11,380) | |  |
| NET EARNINGS FROM CONTINUING OPERATIONS |  | | |  |  | | |  |  | | |  |  | | |  | 250,089 | |  |
| Net loss from discontinued operations, net of income taxes |  | | |  |  | | |  |  | | |  | (3,221) | |  |  | (3,221) | |  |
| NET EARNINGS |  | | |  |  | | |  |  | | |  |  | | |  | 246,868 | |  |
| Net loss attributable to noncontrolling interest |  | | |  |  | | |  |  | | |  | 52,714 | |  |  | 52,714 | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR |  | | |  |  | | |  |  | | |  |  | | |  | 299,582 | |  |
| Dividends on preferred shares |  | | |  |  | | |  |  | | |  | (17,850) | |  |  | (17,850) | |  |
| NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS |  | | |  |  | | |  |  | | |  | $ | (183,382) |  |  | $ | 281,732 |  |

(1) Other income (expense) for corporate and other activities includes the amortization of fair value adjustments associated with the acquisition of DCo and Morse TEC. Net incurred losses and loss adjustment expenses for corporate and other activities includes the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts and fair value adjustments associated with the acquisition of companies and the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

**23. SUBSEQUENT EVENTS**

***Acquisitions***

*Enhanzed Re*

On July 15, 2021, we entered into an agreement to purchase a Hillhouse Group affiliate's entire 27.7% interest in Enhanzed Re for an estimated purchase price of $228.7 million. The transaction is subject to certain closing adjustments and customary closing conditions, including regulatory approval, and is expected to close in the fourth quarter of 2021. Following the completion of the purchase transaction, our equity interests in Enhanzed Re will increase from 47.4% to 75.1%, with joint venture partner Allianz SE continuing to own the remaining 24.9% and our subsidiary assuming the Hillhouse Group affiliate's remaining outstanding capital commitment of $40.2 million. Following the closing of the purchase, we expect to consolidate Enhanzed Re.

***Significant New Business***

The table below sets forth a summary of significant new business that was announced or completed subsequent to June 30, 2021:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Transaction** |  | **Date Transaction Announced or Completed** |  | **Initial Estimate of Liabilities Assumed** | | |  | **Type of Transaction and Primary Nature of Business** |
| ProSight |  | Completed on August 4, 2021 |  | $ | 500,000 |  |  | LPT of U.S. discontinued workers' compensation and excess workers' compensation lines of business and ADC on a diversified mix of general liability classes of business |
| RSA |  | Announced on July 27, 2021 |  | 97,222 | |  |  | ADC on a diversified mix of commercial and personal insurance lines across the U.K. and Ireland |
| Total |  |  |  | $ | 597,222 |  |  |  |

In addition, on July 1, 2021, and effective February 5, 2021, we ceded 10% of CNA transaction, as described in Note 2 - "Significant New Business," to Enhanzed Re, in which we have an investment, on the same terms and conditions as those received by us.

***Variable Interest Entities***

*InRe Fund*

In July 2021, we submitted a notice to redeem $700.0 million of our investment in the InRe Fund, which is managed by AnglePoint Asset Management Limited (“AnglePoint HK”). The InRe Fund has available liquidity to meet the redemption request, and we expect to receive the proceeds from this redemption in August 2021. Including the July 2021 redemption, we have redeemed an aggregate of $1.5 billion from the InRe Fund since April 1, 2021, and we continue to evaluate our overall exposure to hedge funds, including the InRe Fund, in the context of our overall investment portfolio.

***Shareholders' Equity***

*Share Repurchases*

Subsequent to June 30, 2021, we repurchased 45,311 voting ordinary shares for $10.7 million under the Repurchase Program. On July 15, 2021, we terminated the Repurchase Program.

On July 22, 2021, Enstar repurchased 3,749,400 ordinary shares of Enstar held by funds managed by Hillhouse Group for a price of $234.52 per share, totaling $879.3 million in aggregate. The shares represented the Hillhouse funds' entire interest in Enstar, which constituted 16.9% of total ordinary shares and 9.4% of voting ordinary shares.

***EGL Revolving Credit Facility***

Subsequent to June 30, 2021, we borrowed an additional $300.0 million under the EGL Revolving Credit Facility, decreasing the unutilized capacity under the facility to $125.0 million. The proceeds were used to fund in part the repurchase of our shares from funds managed by Hillhouse Group and pay associated costs and expenses.

***Dividends on Preferred Shares***

On August 4, 2021, we declared $7.0 million and $1.9 million of dividends on the Series D and E Preferred Shares, respectively, to be paid on September 1, 2021 to shareholders of record as of August 15, 2021.

***Related Party Transactions***

*Monument Re*

On July 27, 2021, we entered into a subscription agreement with Monument Re and Monument Re’s other common shareholders to subscribe to a newly issued class of Monument Re preferred stock. As part of this agreement, our existing classes of preferred shares in Monument Re (including any accrued unpaid dividends thereon) will be exchanged for the new class of preferred shares. In connection with the transaction we will continue to own 20.0% of the common shares of Monument Re and 13.2% of the new class of preferred shares upon closing on a committed capital basis. The subscription agreement is subject to customary closing conditions including regulatory approvals and amending the existing shareholders’ agreement and bye-laws of Monument Re. A fund managed by Stone Point Capital has agreed to acquire 11.4% of the new class of preferred shares. The transaction is expected to close before the end of the first quarter of 2022.

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

The following discussion and analysis of our financial condition as of June 30, 2021 and our results of operations for the three and six months ended June 30, 2021 and 2020 should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2020 and the related filings with the SEC subsequent thereto. Some of the information contained in this discussion and analysis or included elsewhere in this quarterly report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" included in item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

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**Business Overview**

We are a leading global insurance group that offers innovative capital release solutions 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 (re)insurance companies and portfolios of (re)insurance business in run-off. Since the formation of our Bermuda-based holding company in 2001, we have completed or announced over 100 acquisitions or portfolio transfers. The substantial majority of our transactions have been in our run-off business, which generally includes property and casualty, workers’ compensation, asbestos and environmental, construction defect, marine, aviation and transit, and other closed and discontinued blocks of business.

Our primary corporate objective is growing our book value per share. We strive to achieve this primarily through growth in net earnings derived from both organic and accretive sources, such as the completion of new transactions, the generation of reserve/claims savings and investment income through the effective management of companies and portfolios in run-off and returns on strategic investments.

As a result of the sale and recapitalization of StarStone U.S., the sale of the majority of our interest in Atrium and the placing of StarStone's business outside the United States into run-off, we have largely exited our previously controlled active underwriting platforms. While we maintain strategic minority interests in these businesses, our primary focus is on our core business of acquiring and managing (re)insurance companies or portfolios of (re)insurance business in run-off.

***Key Performance Indicator***

As noted above, our primary corporate objective is growing our book value per share, and we believe that long-term growth in fully diluted book value per share is the most appropriate measure of our financial performance.

During the six months ended June 30, 2021, our fully diluted book value per ordinary share increased by 8.3% to $304.59. The table below summarizes the calculation of our fully diluted book value per ordinary share:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |  | **Change** | | |
|  | **(In thousands of U.S. dollars, except share and per share data)** | | | | | | | | | | |
| **Numerator:** |  | | |  |  | | |  |  | | |
| Total Enstar shareholder's equity | $ | 7,187,308 |  |  | $ | 6,674,395 |  |  | $ | 512,913 |  |
| Less: Series D and E preferred shares | 510,000 | |  |  | 510,000 | |  |  | — | |  |
| Total Enstar ordinary shareholders' equity (A) | 6,677,308 | |  |  | 6,164,395 | |  |  | 512,913 | |  |
| Proceeds from assumed conversion of warrants(1) | — | |  |  | 20,229 | |  |  | (20,229) | |  |
| Numerator for fully diluted book value per ordinary share calculations (B) | $ | 6,677,308 |  |  | $ | 6,184,624 |  |  | $ | 492,684 |  |
|  |  | | |  |  | | |  |  | | |
| **Denominator:** |  | | |  |  | | |  |  | | |
| Ordinary shares outstanding (C) (2) | 21,604,803 | |  |  | 21,519,602 | |  |  | 85,201 | |  |
| Effect of dilutive securities: |  | | |  |  | | |  |  | | |
| Share-based compensation plans (3) | 317,380 | | |  | 298,095 | | |  | 19,285 | |  |
| Warrants(1) | — | | |  | 175,901 | | |  | (175,901) | |  |
| Fully diluted ordinary shares outstanding (D) | 21,922,183 | |  |  | 21,993,598 | |  |  | (71,415) | |  |
|  |  | | |  |  | | |  |  | | |
| **Book value per ordinary share:** |  | | |  |  | | |  |  | | |
| Basic book value per ordinary share = (A) / (C) | $ | 309.07 |  |  | $ | 286.45 |  |  | $ | 22.62 |  |
| Fully diluted book value per ordinary share = (B) / (D) | $ | 304.59 |  |  | $ | 281.20 |  |  | $ | 23.39 |  |

(1) Warrants to acquire 175,901 Series C Non-Voting Ordinary Shares for an exercise price of $115.00 per share were exercised on a non-cash basis during the six months ended June 30, 2021, which resulted in a total of 89,590 Series C Non-Voting Ordinary Shares being issued in the period.

(2) Ordinary shares outstanding includes voting and non-voting shares but excludes ordinary shares held in the Enstar Group Limited Employee Benefit Trust (the "EB Trust") in respect of awards made under our JSOP.

(3) Share-based dilutive securities include restricted shares, restricted share units, and performance share units ("PSUs"). The amounts for PSUs and ordinary shares held in the EB Trust in respect of the JSOP are adjusted at the end of each period end to reflect the latest estimated performance multipliers for the respective awards. The JSOP shares did not have a dilutive effect as of June 30, 2021.

***Non-GAAP Financial Measures***

Our non-GAAP measures shown below, as defined in Item 10(e) of Regulation S-K, enable readers of the condensed consolidated financial statements to analyze our results in a way that is more aligned with the manner in which our management measures 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***

In addition to presenting net earnings (losses) attributable to Enstar 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 ordinary shareholders and non-GAAP diluted operating income (loss) per ordinary share provides investors with valuable measures of our performance.

Non-GAAP operating income (loss) attributable to Enstar 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 ordinary shareholders, the most directly comparable GAAP financial measure, as illustrated in the table below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  | **Six Months Ended** | | | | | | |
|  | **June 30,** | | | | | | |  | **June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
|  | **(expressed in thousands of U.S. dollars, except share and per share data)** | | | | | | | | | | | | | | |
| Net earnings attributable to Enstar ordinary shareholders | $ | 377,326 |  |  | $ | 798,553 |  |  | $ | 560,523 |  |  | $ | 281,732 |  |
| Adjustments: |  | | |  |  | | |  |  | | |  |  | | |
| Net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed (1) | (110,145) | |  |  | (417,364) | |  |  | 96,039 | |  |  | (139,803) | |  |
| Change in fair value of insurance contracts for which we have elected the fair value option | 17,713 | |  |  | 134,043 | |  |  | (57,759) | |  |  | 75,806 | |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | (14,894) | |  |  | — | |  |
| Net loss from discontinued operations | — | |  |  | 1,152 | |  |  | — | |  |  | 3,221 | |  |
| Tax effects of adjustments (2) | 4,869 | |  |  | 39,264 | |  |  | (11,279) | |  |  | 13,299 | |  |
| Adjustments attributable to noncontrolling interest (3) | 777 | |  |  | 11,994 | |  |  | 1,641 | |  |  | (4,417) | |  |
| Non-GAAP operating income attributable to Enstar ordinary shareholders (4) | $ | 290,540 |  |  | $ | 567,642 |  |  | $ | 574,271 |  |  | $ | 229,838 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Diluted net earnings per ordinary share | $ | 17.28 |  |  | $ | 36.65 |  |  | $ | 25.60 |  |  | $ | 12.93 |  |
| Adjustments: |  | | |  |  | | |  |  | | |  |  | | |
| Net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed (1) | (5.04) | |  |  | (19.15) | |  |  | 4.40 | |  |  | (6.42) | |  |
| Change in fair value of insurance contracts for which we have elected the fair value option | 0.81 | |  |  | 6.15 | |  |  | (2.64) | |  |  | 3.48 | |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | (0.68) | |  |  | — | |  |
| Net loss from discontinued operations | — | |  |  | 0.05 | |  |  | — | |  |  | 0.15 | |  |
| Tax effects of adjustments (2) | 0.22 | |  |  | 1.80 | |  |  | (0.52) | |  |  | 0.61 | |  |
| Adjustments attributable to noncontrolling interest (3) | 0.04 | |  |  | 0.55 | |  |  | 0.07 | |  |  | (0.20) | |  |
| Diluted non-GAAP operating income per ordinary share (4) | $ | 13.31 |  |  | $ | 26.05 |  |  | $ | 26.23 |  |  | $ | 10.55 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
| Weighted average ordinary shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | 21,631,749 | |  |  | 21,565,240 | |  |  | 21,597,236 | |  |  | 21,557,542 | |  |
| Diluted | 21,832,218 | |  |  | 21,789,242 | |  |  | 21,892,744 | |  |  | 21,788,331 | |  |

(1) Represents the net realized and unrealized gains and losses related to fixed maturity securities recognized in net earnings (loss). Our fixed maturity securities are held directly on our balance sheet and also within the "Funds held - directly managed" balance. Refer to Note 4 - "Investments" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for further details on our net realized and unrealized gains and losses.

(2) 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.

(3) 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.

(4) Non-GAAP financial measure.

Non-GAAP operating income (loss) is net earnings attributable to Enstar ordinary shareholders excluding: (i) net realized and unrealized (gains) losses on fixed maturity investments and funds held - directly managed included in net earnings (loss); (ii) change in fair value of insurance contracts for which we have elected the fair value option; (iii) gain (loss) on sales of subsidiaries, if any; (iv) net earnings (loss) from discontinued operations, if any; (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 sales of subsidiaries and net earnings (loss) on discontinued operations because these are not reflective of the performance of our core operations. Diluted Non-GAAP operating income (loss) per ordinary share is diluted net earnings per ordinary share excluding the per diluted share amounts of each of the adjustments used to calculate non-GAAP operating income.

***Reserve/Claims Savings***

Reserve/Claims Savings is a non-GAAP measure calculated using components of amounts determined in accordance with U.S. GAAP for our Run-off segment. Reserve/Claims Savings is calculated by adding (i) the reduction (increase) in estimates of net ultimate losses relating to prior periods, included in net incurred losses and LAE, and (ii) the reduction (increase) in estimates of ultimate net defendant asbestos and environmental (“Defendant A&E”) liabilities relating to prior periods, included in other income (expense). Because the reduction (increase) in estimates of ultimate Defendant A&E liabilities for prior periods is presented as a component of other income (expense) in our consolidated statement of earnings, there is not a U.S. GAAP measure that is directly comparable to Reserve/Claims Savings presented on a non-GAAP basis. However, we believe Reserve/Claims Savings provides investors with a meaningful measure of claims management performance within our Run-off segment that is consistent with management’s view of the business because it combines the reduction (increase) in estimates of net ultimate losses related to our direct exposure to certain acquired asbestos and environmental liabilities with the reduction (increase) in estimates of net ultimate losses related to liabilities that we have insured. For a reconciliation showing the calculation of Reserve/Claims Savings using the applicable components of amounts determined in accordance with U.S. GAAP for our Run-off segment, refer to "Results of Operations by Segment - Run-off Segment" below.

***Current Outlook***

As with others in our industry, we are subject to economic factors such as interest rates, inflationary pressures, market volatility, foreign exchange rates, underwriting events, regulation, tax policy changes, political risks and other market risks that can impact our strategy and operations. For additional information on these risks, refer to "Item 1A. Risk Factors - Risks Relating to our Run-off Business" in our Annual Report on Form 10-K for the year ended December 31, 2020.

*COVID-19*

The evolving COVID-19 pandemic, which began to affect the Company late in the first quarter of 2020, has caused significant disruption in global financial markets and economies worldwide.

Although the overall financial and operational impact to us has been minimal to-date, with virtually all of our employees working remotely, the scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are highly uncertain and difficult or impossible to anticipate.

We remain focused on implementing our active investment management strategies to deliver meaningful returns across our diversified investment portfolio. However, we anticipate continued volatility in the global investment markets as a result of the economic conditions and uncertainty stemming from the COVID-19 pandemic, which could have a significant impact on the return profile of our other investments. Our other investments (which include equities, the InRe Fund, investments accounted for under equity method accounting and other non-fixed income investments) carry higher expected returns, have a longer investment time horizon, and provide diversification from our core fixed income portfolio. Given the higher risk and return profile of these investments, their returns can be more volatile over the short term relative to our core fixed income investments.

In addition, investments that are accounted for under equity method typically report their financial statement information to the Company three months following the end of the reporting period. Accordingly, the potential effects of volatility across global financial markets, including the impact of the COVID-19 pandemic, on our equity method investments is generally reflected in our financial statements on a quarter lag basis.

During the six months ended June 30, 2021, our Legacy Underwriting and Run-off segments incurred COVID-19 related net underwriting losses of $0.3 million and $19.5 million[[1]](#footnote-2), respectively. We experienced an increase in net incurred losses due to our reevaluation of our gross and net exposure to COVID-19 pandemic related losses.

As of June 30, 2021, our Legacy Underwriting segment had COVID-19 related net loss reserves of $4.6 million and the Run-off segment had COVID-19 related net loss reserves of $84.8 million, including $10.0 million that was assumed from the loss portfolio transfer and adverse development cover reinsurance agreement with StarStone U.S. described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

As a result of the wide-ranging uncertainty and volatility of the COVID-19 pandemic, we are unable to predict its overall impact on our results for the remainder of 2021.

*Transactions*

We have signed or completed seven run-off deals to date in 2021—with RSA, Hiscox, Coca-Cola, AXA Group, ProSight, CNA, and Liberty Mutual. Collectively, these transactions represent an estimated $3.8 billion of assets (which includes the recognition of deferred charge assets totaling $229.0 million) and $3.8 billion of liabilities (based upon initial estimates of assumed assets and liabilities). Refer to Note 2 - "Significant New Business" and Note 23 - "Subsequent Events" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for further details on these transactions.

We continue to evaluate transactions in our active pipeline including loss portfolio transfers, adverse development covers, and other transaction types including acquisitions and seek opportunities to execute on creative and accretive transactions by offering innovative capital solutions that enable our clients to meet their capital and risk management objectives.

Subsequent to June 30, 2021, we executed two strategic transactions with affiliates of Hillhouse Group. On July 22, 2021, we repurchased 3,749,400 of our ordinary shares held by funds managed by Hillhouse Group for a price of $234.52 per share, totaling $879.3 million in aggregate, a discount to book value. The repurchased shares represented all of the ordinary shares of Enstar owned by funds managed by Hillhouse Group. We also entered into an agreement to purchase a Hillhouse Group affiliate's entire 27.7% interest in Enhanzed Re for an estimated purchase price of $228.7 million. The transaction is subject to certain closing adjustments and customary closing conditions, including regulatory approval, and is expected to close in the fourth quarter of 2021. Following the completion of the transaction, our equity interests in Enhanzed Re will increase from 47.4% to 75.1%, with joint venture partner Allianz continuing to own the remaining 24.9% and our subsidiary assuming the Hillhouse Group affiliate's remaining outstanding capital commitment of $40.2 million. Following the closing of the purchase, we expect to consolidate Enhanzed Re in our financial statements. As a result, this transaction is expected to add closed block life annuity exposures and other closed block life insurance business to our consolidated business going forward, which will increase our exposure to interest rate movements, longevity and morbidity risks and other risks associated with closed block life insurance. Allianz retains operational and claims management responsibility in respect of such ceded business and we expect that any future cessions by Allianz to Enhanzed Re will be structured in a similar manner.

In July 2021, we submitted a notice to redeem $700.0 million of our investment in the InRe Fund, which is managed by AnglePoint Asset Management Limited (“AnglePoint HK”). The InRe Fund has available liquidity to meet the redemption request, and we expect to receive the proceeds from this redemption in August 2021. Including the July 2021 redemption, we have redeemed an aggregate of $1.5 billion from the InRe Fund since April 1, 2021, and we continue to evaluate our overall exposure to hedge funds, including the InRe Fund, in the context of our overall investment portfolio.

**Consolidated Results of Operations - For the Three and Six Months Ended June 30, 2021 and 2020**

The following table sets forth our unaudited condensed consolidated statements of earnings for each of the periods indicated. For a discussion of the critical accounting estimates that affect the results of operations, see "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2020, and within this Quarterly Report on Form 10-Q.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 59,644 |  |  | $ | 142,871 |  |  | $ | (83,227) |  |  | $ | 152,520 |  |  | $ | 302,222 |  |  | $ | (149,702) |  |
| Fees and commission income | 8,274 | |  |  | 10,010 | |  |  | (1,736) | |  |  | 17,872 | |  |  | 17,538 | |  |  | 334 | |  |
| Net investment income (1) | 76,147 | |  |  | 94,443 | |  |  | (18,296) | |  |  | 138,236 | |  |  | 169,157 | |  |  | (30,921) | |  |
| Net realized and unrealized gains (1) | 405,220 | |  |  | 967,608 | |  |  | (562,388) | |  |  | 384,432 | |  |  | 338,547 | |  |  | 45,885 | |  |
| Other income (expense) | (3,359) | |  |  | (1,087) | |  |  | (2,272) | |  |  | (2,808) | |  |  | 19,357 | |  |  | (22,165) | |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | — | |  |  | 14,894 | |  |  | — | |  |  | 14,894 | |  |
|  | 545,926 | |  |  | 1,213,845 | |  |  | (667,919) | |  |  | 705,146 | |  |  | 846,821 | |  |  | (141,675) | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and LAE | 39,304 | |  |  | 186,692 | |  |  | (147,388) | |  |  | (16,203) | |  |  | 229,992 | |  |  | (246,195) | |  |
| Acquisition costs | 4,956 | |  |  | 49,067 | |  |  | (44,111) | |  |  | 38,970 | |  |  | 95,110 | |  |  | (56,140) | |  |
| General and administrative expenses | 92,717 | |  |  | 144,830 | |  |  | (52,113) | |  |  | 175,717 | |  |  | 243,258 | |  |  | (67,541) | |  |
| Interest expense | 16,301 | |  |  | 14,018 | |  |  | 2,283 | |  |  | 32,480 | |  |  | 27,433 | |  |  | 5,047 | |  |
| Net foreign exchange (gains) losses | (9,139) | |  |  | 5,158 | |  |  | (14,297) | |  |  | (6,505) | |  |  | (6,781) | |  |  | 276 | |  |
|  | 144,139 | |  |  | 399,765 | |  |  | (255,626) | |  |  | 224,459 | |  |  | 589,012 | |  |  | (364,553) | |  |
| EARNINGS BEFORE INCOME TAXES | 401,787 | |  |  | 814,080 | |  |  | (412,293) | |  |  | 480,687 | |  |  | 257,809 | |  |  | 222,878 | |  |
| Income tax expense | (9,422) | |  |  | (16,652) | |  |  | 7,230 | |  |  | (3,440) | |  |  | (11,380) | |  |  | 7,940 | |  |
| Earnings (loss) from equity method investments | (3,059) | |  |  | (8,790) | |  |  | 5,731 | |  |  | 114,972 | |  |  | 3,660 | |  |  | 111,312 | |  |
| NET EARNINGS FROM CONTINUING OPERATIONS | 389,306 | |  |  | 788,638 | |  |  | (399,332) | |  |  | 592,219 | |  |  | 250,089 | |  |  | 342,130 | |  |
| Net loss from discontinued operations, net of income taxes | — | |  |  | (1,152) | |  |  | 1,152 | |  |  | — | |  |  | (3,221) | |  |  | 3,221 | |  |
| NET EARNINGS | 389,306 | |  |  | 787,486 | |  |  | (398,180) | |  |  | 592,219 | |  |  | 246,868 | |  |  | 345,351 | |  |
| Net (earnings) loss attributable to noncontrolling interest | (3,055) | |  |  | 19,992 | |  |  | (23,047) | |  |  | (13,846) | |  |  | 52,714 | |  |  | (66,560) | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR | 386,251 | |  |  | 807,478 | |  |  | (421,227) | |  |  | 578,373 | |  |  | 299,582 | |  |  | 278,791 | |  |
| Dividends on preferred shares | (8,925) | |  |  | (8,925) | |  |  | — | |  |  | (17,850) | |  |  | (17,850) | |  |  | — | |  |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS | $ | 377,326 |  |  | $ | 798,553 |  |  | $ | (421,227) |  |  | $ | 560,523 |  |  | $ | 281,732 |  |  | $ | 278,791 |  |

(1) Includes amounts attributed to the InRe Fund, refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for additional information.

***Highlights***

*Consolidated Results of Operations for the Three Months Ended June 30, 2021:*

1. Consolidated net earnings attributable to Enstar ordinary shareholders of $377.3 million and basic and diluted net earnings per ordinary share of $17.44 and $17.28, respectively.
2. Non-GAAP operating income attributable to Enstar ordinary shareholders of $290.5 million and diluted non-GAAP operating income per ordinary share of $13.31.

*Consolidated Results of Operations for the Six Months Ended June 30, 2021:*

1. Consolidated net earnings attributable to Enstar ordinary shareholders of $560.5 million and basic and diluted net earnings per ordinary share of $25.95 and $25.60, respectively.
2. Non-GAAP operating income attributable to Enstar ordinary shareholders of $574.3 million and diluted non-GAAP operating income per ordinary share of $26.23.

*Consolidated Financial Condition as of June 30, 2021:*

1. Total investable assets of $20.2 billion, an increase of 16.8% from December 31, 2020.
2. Total reinsurance balances recoverable on paid and unpaid losses of $2.0 billion.
3. Total assets of $24.6 billion compared to $21.6 billion at December 31, 2020.
4. Total gross and net reserves for losses and LAE of $13.0 billion and $10.8 billion, respectively. During the six months ended June 30, 2021, our Run-off segment assumed net reserves of $3.1 billion.
5. Total capital of $8.7 billion, including common equity of $6.7 billion, preferred equity of $510.0 million, noncontrolling interests of $190.1 million and debt of $1.4 billion.
6. Fully diluted book value per ordinary share of $304.59, an increase of 8.3% since December 31, 2020.

***Consolidated Overview for the Three Months Ended June 30, 2021 and 2020***

Consolidated net earnings attributable to Enstar ordinary shareholders was $377.3 million for the three months ended June 30, 2021 compared to $798.6 million for the same period in 2020, a decrease of $421.2 million. The most significant drivers of the change in our financial performance included:

1. Net realized and unrealized gains decreased by $562.4 million. The gains for the three months ended June 30, 2021 were primarily driven by gains on fixed income securities due to lower interest rates and strong performance in the InRe Fund, equities, and other non-fixed income investments, driven by a rally in risk assets and global equity markets as economies continued to re-open following the shut-downs related to the COVID-19 pandemic. The gains for the three months ended June 30, 2020 were primarily driven by gains on fixed income securities due to a significant tightening in credit spreads as markets normalized after the COVID pandemic-related dislocation and a strong performance in the InRe Fund, fixed income funds, equity funds, CLO equities, and CLO equity funds, driven by recovery of the equity markets, which reversed the losses associated with the COVID-19 pandemic during the first quarter of 2020.
2. Net premiums earned decreased by $83.2 million, primarily driven by the decision to place StarStone International into run-off and partially offset by premiums earned from new business transactions that included unearned premium executed in this and recent periods.
3. Net incurred losses and LAE decreased by $147.4 million. The favorable change was driven by changes in the fair value of liabilities for which we have elected the fair value option as a result of increases in corporate bond yields in 2021, the decision to place StarStone International into run-off reducing current year losses, favorable development in our professional indemnity/directors & officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business. Partially offsetting this favorable development was an increase in net incurred losses of $21.6 million due to our reevaluation of gross and net exposure on COVID-19 pandemic related losses.
4. General and administrative expenses decreased by $52.1 million. The favorable change was driven by the decision to place StarStone International into run-off, which included the recognition of $34.0 million of exit costs in 2020, and the sale of Atrium effective January 1, 2021.

Non-GAAP operating income attributable to Enstar ordinary shareholders was $290.5 million for the three months ended June 30, 2021 compared to $567.6 million for the same period in 2020, an unfavorable change of $277.1 million. This was primarily attributable to lower net realized and unrealized gains on the InRe Fund, other investments and equities of $330.0 million for the three months ended June 30, 2021 compared to $550.2 million for the same period in 2020.

*Consolidated Overview - for the Six Months Ended June 30, 2021 and 2020*

We reported consolidated net earnings attributable to Enstar ordinary shareholders of $560.5 million for the six months ended June 30, 2021, an increase of $278.8 million from net earnings of $281.7 million for the six months ended June 30, 2020. The most significant drivers of our consolidated financial performance during the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 included:

1. Net incurred losses and LAE decreased by $246.2 million. The favorable change was driven by a reduction in current period losses as a result of the decision to place StarStone International into run-off, in addition to favorable development in our professional indemnity/directors & officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business, partially offset by net incurred losses of $22.0 million due to our reevaluation of our gross and net exposure on COVID-19 pandemic related losses. Also contributing to the decrease were favorable changes in the fair value of liabilities for which we have elected the fair value option as a result of increases in corporate bond yields in 2021.
2. Earnings from equity method investments increased by $111.3 million driven primarily by our investments in Enhanzed Re and Monument Re, which are recorded on a one quarter lag.
3. General and administrative expenses decreased by $67.5 million driven primarily by the decision to place StarStone International into run-off and the sale of Atrium effective January 1, 2021. Further fluctuations in general and administrative expenses were a result of reductions in performance-based salaries and benefits costs, licensing and project-based computer expenses and travel expenses, offset by increases in other professional fees relating to outsourcing arrangements in 2021.
4. Net earned premiums decreased by $149.7 million, primarily due to the decision to place StarStone International into run-off, partially offset by premiums earned from new business transactions that included unearned premium executed in this and recent periods.

Non-GAAP operating income attributable to Enstar ordinary shareholders was $574.3 million for the six months ended June 30, 2021, an increase of $344.4 million from non-GAAP operating income of $229.8 million for the six months ended June 30, 2020. The increase was primarily attributable to higher net realized and unrealized gains on the InRe Fund, other investments and equities of $515.4 million for the six months ended June 30, 2021 compared to $198.7 million for the same period in 2020. Earnings from equity method investments of $115.0 million in 2021 also contributed to the increase.

**Results of Operations by Segment - For the Three and Six Months Ended June 30, 2021 and 2020**

Following the completion of our strategic transactions related to both Atrium and StarStone, our segment structure was revised effective January 1, 2021.

Our business is organized into three reportable segments: (i) Run-off; (ii) Investments; and (iii) Legacy Underwriting. In addition, our corporate and other activities, which do not qualify as an operating segment, include income and expense items that are not directly attributable to our reportable segments.

For a description of our segments and corporate and other activities, see Note 22 - "Segment Information" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The below table provides our results by segment and for our corporate and other activities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Results by segment: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Run-off | $ | 8,699 |  |  | $ | 19,576 |  |  | $ | (10,877) |  |  | $ | 42,195 |  |  | $ | 65,253 |  |  | $ | (23,058) |  |
| Investments | 465,507 | |  |  | 993,263 | |  |  | (527,756) | |  |  | 621,850 | |  |  | 492,430 | |  |  | 129,420 | |  |
| Legacy Underwriting | (1,432) | |  |  | (23,200) | |  |  | 21,768 | |  |  | — | |  |  | (92,569) | |  |  | 92,569 | |  |
| Corporate and other | (95,448) | |  |  | (191,086) | |  |  | 95,638 | |  |  | (103,522) | |  |  | (183,382) | |  |  | 79,860 | |  |
| Net earnings attributable to Enstar ordinary shareholders | $ | 377,326 |  |  | $ | 798,553 |  |  | $ | (421,227) |  |  | $ | 560,523 |  |  | $ | 281,732 |  |  | $ | 278,791 |  |

The results for the three months ended June 30, 2021 and 2020 include refinements to first quarter general and administrative expense allocations that increased/(decreased) general and administrative expenses of the Run-off and Investments segments by $16.3 million and $13.6 million, respectively, and $2.6 million and $2.5 million, respectively, as well as corporate and other activities by $(18.9) million and $(16.1) million, respectively.

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

***Run-off Segment***

The following is a discussion and analysis of the results of operations for our Run-off segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 42,404 |  |  | $ | 10,517 |  |  | $ | 31,887 |  |  | $ | 115,240 |  |  | $ | 26,547 |  |  | $ | 88,693 |  |
| Fees and commission income | 8,274 | |  |  | 3,966 | |  |  | 4,308 | |  |  | 17,872 | |  |  | 8,951 | |  |  | 8,921 | |  |
| Other income | 5,196 | |  |  | 899 | |  |  | 4,297 | |  |  | 17,511 | |  |  | 28,662 | |  |  | (11,151) | |  |
|  | 55,874 | |  |  | 15,382 | |  |  | 40,492 | |  |  | 150,623 | |  |  | 64,160 | |  |  | 86,463 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and LAE | (16,997) | |  |  | (60,249) | |  |  | 43,252 | |  |  | (12,372) | |  |  | (87,442) | |  |  | 75,070 | |  |
| Acquisition costs | 34 | |  |  | 3,589 | |  |  | (3,555) | |  |  | 29,071 | |  |  | 10,496 | |  |  | 18,575 | |  |
| General and administrative expenses (1) | 64,138 | |  |  | 52,466 | |  |  | 11,672 | |  |  | 91,729 | |  |  | 75,853 | |  |  | 15,876 | |  |
|  | 47,175 | |  |  | (4,194) | |  |  | 51,369 | |  |  | 108,428 | |  |  | (1,093) | |  |  | 109,521 | |  |
| SEGMENT INCOME | $ | 8,699 |  |  | $ | 19,576 |  |  | $ | (10,877) |  |  | $ | 42,195 |  |  | $ | 65,253 |  |  | $ | (23,058) |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Supplemental information: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reconciliation of reserve/claims savings to GAAP line items in the Run-off segment: | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and LAE: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reduction in estimates of net ultimate losses - prior periods (A) | $ | 41,696 |  |  | $ | 55,910 |  |  | $ | (14,214) |  |  | $ | 67,063 |  |  | $ | 83,473 |  |  | $ | (16,410) |  |
| Increase in estimates of net ultimate losses - current period | (40,445) | |  |  | (8,086) | |  |  | (32,359) | |  |  | (83,135) | |  |  | (15,935) | |  |  | (67,200) | |  |
| Reduction in provisions for unallocated LAE | 15,746 | |  |  | 12,425 | |  |  | 3,321 | |  |  | 28,444 | |  |  | 19,904 | |  |  | 8,540 | |  |
| Net incurred losses and LAE | 16,997 | |  |  | 60,249 | |  |  | (43,252) | |  |  | 12,372 | |  |  | 87,442 | |  |  | (75,070) | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other income: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reduction in estimates of net ultimate defendant A&E liabilities - prior periods (B) | 4,450 | |  |  | 1,978 | |  |  | 2,472 | |  |  | 14,002 | |  |  | 26,893 | |  |  | (12,891) | |  |
| Reduction in estimated future defendant A&E expenses | 745 | |  |  | 975 | |  |  | (230) | |  |  | 3,508 | |  |  | 3,003 | |  |  | 505 | |  |
| All other income | 1 | |  |  | (2,054) | |  |  | 2,055 | |  |  | 1 | |  |  | (1,234) | |  |  | 1,235 | |  |
| Other income | 5,196 | |  |  | 899 | |  |  | 4,297 | |  |  | 17,511 | |  |  | 28,662 | |  |  | (11,151) | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Reserve/claims savings: total reduction in net ultimate losses (2) = (A) + (B) | $ | 46,146 |  |  | $ | 57,888 |  |  | $ | (11,742) |  |  | $ | 81,065 |  |  | $ | 110,366 |  |  | $ | (29,301) |  |

(1) The results for the three months ended June 30, 2021 and 2020 include refinements to first quarter general and administrative expense allocations that increased general and administrative expenses by $16.3 million and $13.6 million, respectively.

(2) Non-GAAP financial measure. Refer to "Business Overview - Non-GAAP Financial Measures" for further details.

*Overall Results*

**Three and Six Months Ended June 30, 2021 versus 2020:** Segment income from our Run-off segment decreased by $10.9 million and $23.1 million for the three and six months ended June 30, 2021 compared to the same periods in 2020, respectively. The decrease in segment income was primarily due to increases in current period net incurred losses and LAE and general and administrative expenses relating to the run-off of StarStone International business, which was transferred from the Legacy Underwriting segment on January 1, 2021. These decreases were partially offset by premiums earned from StarStone International business and new business transactions executed in this and recent periods and higher favorable development on our Lloyd's syndicates relative to 2021.

*Net Premium Earned*

The following table shows the gross and net premiums written and earned for the Run-off segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Gross premiums written | $ | 8,001 |  |  | $ | (2,155) |  |  | $ | 10,156 |  |  | $ | 30,184 |  |  | $ | (1,828) |  |  | $ | 32,012 |  |
| Ceded premiums written | 2,160 | |  |  | (1,048) | |  |  | 3,208 | |  |  | (15,525) | |  |  | 801 | |  |  | (16,326) | |  |
| Net premiums written | 10,161 | |  |  | (3,203) | |  |  | 13,364 | |  |  | 14,659 | |  |  | (1,027) | |  |  | 15,686 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Gross premiums earned | $ | 61,564 |  |  | $ | 14,395 |  |  | 47,169 | |  |  | $ | 155,770 |  |  | $ | 32,473 |  |  | 123,297 | |  |
| Ceded premiums earned | (19,160) | |  |  | (3,878) | |  |  | (15,282) | |  |  | (40,530) | |  |  | (5,926) | |  |  | (34,604) | |  |
| Net premiums earned | $ | 42,404 |  |  | $ | 10,517 |  |  | 31,887 | |  |  | $ | 115,240 |  |  | $ | 26,547 |  |  | 88,693 | |  |

Since 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 transactions during the year and the run-off of unearned premiums from transactions completed in recent years. Premiums earned in this segment are generally offset by net incurred losses and LAE related to the premiums. Premiums earned may be higher than premiums written as we may acquire or assume unearned premium without the writing of gross premiums.

**Three Months Ended June 30, 2021 versus 2020:** Net premiums earned of $42.4 million in 2021 included $20.4 million of premiums from StarStone International whereas net premiums earned in 2020 were primarily related to the AmTrust RITC transactions assumed in 2019.

**Six Months Ended June 30, 2021 versus 2020:** Net premiums earned of $115.2 million in 2021 included $72.8 million of premiums from StarStone International whereas net premiums earned in 2020 were primarily related to the AmTrust RITC transactions assumed in 2019.

*Net Incurred Losses and LAE:*

The following tables show the components of net incurred losses and LAE for the Run-off segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior**  **Periods** | | |  | **Current**  **Period** | | |  | **Total** | | |  | **Prior**  **Periods** | | |  | **Current**  **Period** | | |  | **Total** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Net losses paid | $ | 357,713 |  |  | $ | (519) |  |  | $ | 357,194 |  |  | $ | 283,604 |  |  | $ | (202) |  |  | $ | 283,402 |  |
| Net change in case and LAE reserves (1) | (129,991) | |  |  | 7,244 | |  |  | (122,747) | |  |  | (75,276) | |  |  | (830) | |  |  | (76,106) | |  |
| Net change in IBNR reserves (2) | (269,418) | |  |  | 33,720 | |  |  | (235,698) | |  |  | (264,238) | |  |  | 9,118 | |  |  | (255,120) | |  |
| Increase (reduction) in estimates of net ultimate losses | (41,696) | |  |  | 40,445 | |  |  | (1,251) | |  |  | (55,910) | |  |  | 8,086 | |  |  | (47,824) | |  |
| Increase (reduction) in provisions for unallocated LAE(3) | (16,710) | |  |  | 964 | |  |  | (15,746) | |  |  | (12,425) | |  |  | — | |  |  | (12,425) | |  |
| Net incurred losses and LAE | $ | (58,406) |  |  | $ | 41,409 |  |  | $ | (16,997) |  |  | $ | (68,335) |  |  | $ | 8,086 |  |  | $ | (60,249) |  |

(1) 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.

(2) Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

**Three Months Ended June 30, 2021:** Current period net incurred losses and LAE of $41.4 million primarily relates to the run-off of StarStone International business which was transferred from the Legacy Underwriting segment on January 1, 2021. The reduction in estimates of net ultimate losses relating to prior periods of $41.7 million was primarily related to favorable development in our professional indemnity/directors & officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business. Partially offsetting this favorable development was an increase in net incurred losses of $21.6 million due to our reevaluation of our gross and net exposure on COVID-19 pandemic related losses.

**Three Months Ended June 30, 2020:** Current period net incurred losses and LAE of $8.1 million primarily related to the run-off of the AmTrust RITC transactions. The reduction in estimates of net ultimate losses of $55.9 million primarily related to favorable development in our professional indemnity/directors & officers lines of businesses and favorable actual experience versus expected losses in our workers' compensation and motor liability lines of business.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior**  **Periods** | | |  | **Current**  **Period** | | |  | **Total** | | |  | **Prior**  **Periods** | | |  | **Current**  **Period** | | |  | **Total** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Net losses paid | $ | 685,067 |  |  | $ | 2,756 |  |  | $ | 687,823 |  |  | $ | 541,330 |  |  | $ | 1,038 |  |  | $ | 542,368 |  |
| Net change in case and LAE reserves (1) | (247,147) | |  |  | 5,037 | |  |  | (242,110) | |  |  | (251,528) | |  |  | 842 | |  |  | (250,686) | |  |
| Net change in IBNR reserves (2) | (504,983) | |  |  | 75,342 | |  |  | (429,641) | |  |  | (373,275) | |  |  | 14,055 | |  |  | (359,220) | |  |
| Increase (reduction) in estimates of net ultimate losses | (67,063) | |  |  | 83,135 | |  |  | 16,072 | |  |  | (83,473) | |  |  | 15,935 | |  |  | (67,538) | |  |
| Increase (reduction) in provisions for unallocated LAE(3) | (30,879) | |  |  | 2,435 | |  |  | (28,444) | |  |  | (19,904) | |  |  | — | |  |  | (19,904) | |  |
| Net incurred losses and LAE | $ | (97,942) |  |  | $ | 85,570 |  |  | $ | (12,372) |  |  | $ | (103,377) |  |  | $ | 15,935 |  |  | $ | (87,442) |  |

(1) 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.

(2) Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

**Six Months Ended June 30, 2021:** Current period net incurred losses and LAE of $85.6 million primarily related to the run-off of StarStone International business which was transferred from the Legacy Underwriting segment on January 1, 2021. The reduction in estimates of net ultimate losses relating to prior periods of $67.1 million was primarily related to favorable development in the professional indemnity/directors and officers line of business across our Lloyd's portfolios arising from a change in ultimates and reductions in case reserve estimates for large claims, continued favorable actual experience versus expected losses in our workers' compensation and general casualty lines of business as well as favorable actual experience versus expected losses across multiple StarStone International books of business. Partially offsetting this favorable development was an increase in net incurred losses of $22.0 million due to our reevaluation of our gross and net exposure on COVID-19 pandemic related losses.

**Six Months Ended June 30, 2020:** Current period net incurred losses and LAE of $15.9 million primarily related to the run-off of the AmTrust RITC transactions. The reduction in estimates of net ultimate losses of $83.5 million primarily related to favorable development in our professional indemnity/directors & officers lines of businesses and favorable actual experience versus expected losses in our workers' compensation and motor liability lines of business.

*Other Items*

**Three Months Ended June 30, 2021 versus 2020:**

1. Fees and commission income in our Run-off segment represents amounts earned under consulting arrangements with third parties. The increase of $4.3 million was driven by fees from service agreements with Core Specialty.
2. Other income increased by $4.3 million primarily from favorable movements in actual versus expected development on a portion of our Defendant A&E business in 2021 relative to 2020.
3. General and administrative expenses increased by $11.7 million primarily due to increases in salaries and benefits expenses as a result of the transfer of the StarStone International business into the Run-off segment, partially offset by reductions in licensing and project-based computer expenses.

**Six Months Ended June 30, 2021 versus 2020:**

1. The increase in fees and commission income of $8.9 million was driven by fees from service agreements with Core Specialty.
2. Other income decreased by $11.2 million primarily due to an $18.9 million insurance recovery on a Defendant A&E claim in 2020, partially offset by higher favorable actual versus expected on our Defendant A&E business in 2021 relative to 2020.
3. Acquisition costs increased by $18.6 million primarily due to the transfer of StarStone International from the Legacy Underwriting segment on January 1, 2021.
4. General and administrative expenses increased by $15.9 million primarily due to the transfer of the StarStone International business into the Run-off segment, partially offset by decreases in travel expenses as a result of travel restrictions imposed by the COVID-19 pandemic.

***Investments Segment***

The following is a discussion and analysis of the results of operations for our Investments segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (1) | $ | 75,859 |  |  | $ | 86,263 |  |  | $ | (10,404) |  |  | $ | 137,190 |  |  | $ | 151,226 |  |  | $ | (14,036) |  |
| Net realized and unrealized gains (1) | 405,010 | |  |  | 926,494 | |  |  | (521,484) | |  |  | 385,531 | |  |  | 351,812 | |  |  | 33,719 | |  |
|  | 480,869 | |  |  | 1,012,757 | |  |  | (531,888) | |  |  | 522,721 | |  |  | 503,038 | |  |  | 19,683 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| General and administrative expenses (2) | 12,303 | |  |  | 10,704 | |  |  | 1,599 | |  |  | 15,843 | |  |  | 14,268 | |  |  | 1,575 | |  |
|  | 12,303 | |  |  | 10,704 | |  |  | 1,599 | |  |  | 15,843 | |  |  | 14,268 | |  |  | 1,575 | |  |
| EARNINGS BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | 468,566 | |  |  | 1,002,053 | |  |  | (533,487) | |  |  | 506,878 | |  |  | 488,770 | |  |  | 18,108 | |  |
| Earnings (loss) from equity method investments | (3,059) | |  |  | (8,790) | |  |  | 5,731 | |  |  | 114,972 | |  |  | 3,660 | |  |  | 111,312 | |  |
| SEGMENT INCOME | $ | 465,507 |  |  | $ | 993,263 |  |  | $ | (527,756) |  |  | $ | 621,850 |  |  | $ | 492,430 |  |  | $ | 129,420 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Supplemental information: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net investment income (1) | $ | 75,859 |  |  | $ | 86,263 |  |  | $ | (10,404) |  |  | $ | 137,190 |  |  | $ | 151,226 |  |  | $ | (14,036) |  |
| Net realized and unrealized gains (1) | 405,010 | |  |  | 926,494 | |  |  | (521,484) | |  |  | 385,531 | |  |  | 351,812 | |  |  | 33,719 | |  |
| Total investment return included in net earnings | 480,869 | |  |  | 1,012,757 | |  |  | $ | (531,888) |  |  | $ | 522,721 |  |  | $ | 503,038 |  |  | $ | 19,683 |  |

(1) Includes amounts attributable to the InRe Fund, refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for additional information.

(2) The results for the three months ended June 30, 2021 and 2020 include refinements to first quarter general and administrative expense allocations that increased general and administrative expenses by $2.6 million and $2.5 million, respectively.

*Overall Results*

**Three Months Ended June 30, 2021 versus 2020:** Segment income from our Investments segment decreased by $527.8 million primarily due to a reduction in net realized and unrealized gains on investments of $521.5 million. The gains for the three months ended June 30, 2021 were primarily driven by gains on fixed income securities due to lower interest rates and strong performance in the InRe Fund, equities, and other non-fixed income investments, driven by a rally in risk assets and global equity markets as economies continued to re-open following the shut-downs related to the COVID-19 pandemic. The gains for the three months ended June 30, 2020 were primarily driven by gains on fixed income securities due to a significant tightening in credit spreads as markets normalized after the COVID-related dislocation and a strong performance in the InRe Fund, fixed income funds, equity funds, CLO equities, and CLO equity funds, driven by recovery of the equity markets, which reversed the losses associated with the COVID-19 pandemic during the first quarter of 2020.

**Six Months Ended June 30, 2021 versus 2020:** Segment income from our Investments segment increased by $129.4 million primarily due an increase in earnings from equity method investments of $111.3 million driven primarily by our investments in Enhanzed Re and Monument Re, which are recorded on a one quarter lag.

Refer to "Investments Results - Consolidated" below for further details and discussion.

***Legacy Underwriting Segment***

The following is a discussion and analysis of the results of operations for our Legacy Underwriting segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net premiums earned | $ | 17,240 |  |  | $ | 132,354 |  |  | $ | (115,114) |  |  | $ | 37,280 |  |  | $ | 275,675 |  |  | $ | (238,395) |  |
| Fees and commission income | — | |  |  | 6,044 | |  |  | (6,044) | |  |  | — | |  |  | 8,587 | |  |  | (8,587) | |  |
| Net investment income | 288 | |  |  | 8,180 | |  |  | (7,892) | |  |  | 1,046 | |  |  | 17,931 | |  |  | (16,885) | |  |
| Net realized and unrealized gains (losses) | 210 | |  |  | 41,114 | |  |  | (40,904) | |  |  | (1,099) | |  |  | (13,265) | |  |  | 12,166 | |  |
| Other income (expense) | (2,549) | |  |  | 30 | |  |  | (2,579) | |  |  | (9,067) | |  |  | 150 | |  |  | (9,217) | |  |
|  | 15,189 | |  |  | 187,722 | |  |  | (172,533) | |  |  | 28,160 | |  |  | 289,078 | |  |  | (260,918) | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and LAE | 10,281 | |  |  | 95,382 | |  |  | (85,101) | |  |  | 14,759 | |  |  | 200,913 | |  |  | (186,154) | |  |
| Acquisition costs | 4,922 | |  |  | 45,478 | |  |  | (40,556) | |  |  | 9,899 | |  |  | 84,614 | |  |  | (74,715) | |  |
| General and administrative expenses | 1,418 | |  |  | 70,062 | |  |  | (68,644) | |  |  | 3,502 | |  |  | 96,120 | |  |  | (92,618) | |  |
|  | 16,621 | |  |  | 210,922 | |  |  | (194,301) | |  |  | 28,160 | |  |  | 381,647 | |  |  | (353,487) | |  |
| SEGMENT INCOME (LOSS) | $ | (1,432) |  |  | $ | (23,200) |  |  | $ | 21,768 |  |  | $ | — |  |  | $ | (92,569) |  |  | $ | 92,569 |  |

*Overall Results*

**Three and Six Months Ended June 30, 2021 versus 2020:** Segment loss from our Legacy Underwriting segment decreased by $21.8 million and $92.6 million for the three and six months ended June 30, respectively, primarily driven by the decision to place StarStone International into run-off and the related subsequent transfer of StarStone International to the Run-off segment, as well as the sale of Atrium on January 1, 2021.

The results for 2021 comprise SGL No.1's 25% gross share of the 2020 and prior underwriting years of Atrium's syndicate 609 whereas the results for 2020 comprise SGL No.1's 25% net share of Atrium's syndicate 609 and StarStone International.

As of January 1, 2021, SGL No.1 settles its share of the 2020 and prior underwriting years for the economic benefit of Atrium, and there is no net retention by Enstar. For further information, see Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Investment results are separately discussed below in "Investments Results - Consolidated."

*Net Premiums Earned:*

The following table provides gross and net premiums written and earned by line of business for the Legacy Underwriting segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Gross premiums written | $ | 13,515 |  |  | $ | 141,547 |  |  | $ | (128,032) |  |  | $ | 41,089 |  |  | $ | 350,981 |  |  | $ | (309,892) |  |
| Ceded premiums written | (6,501) | |  |  | (17,568) | |  |  | 11,067 | |  |  | (22,608) | |  |  | (74,719) | |  |  | 52,111 | |  |
| Net premiums written | 7,014 | |  |  | 123,979 | |  |  | (116,965) | |  |  | 18,481 | |  |  | 276,262 | |  |  | (257,781) | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Gross premiums earned | $ | 38,060 |  |  | $ | 167,235 |  |  | $ | (129,175) |  |  | $ | 86,119 |  |  | $ | 344,278 |  |  | $ | (258,159) |  |
| Ceded premiums earned | (20,820) | |  |  | (34,881) | |  |  | 14,061 | |  |  | (48,839) | |  |  | (68,603) | |  |  | 19,764 | |  |
| Net premiums earned | $ | 17,240 |  |  | $ | 132,354 |  |  | $ | (115,114) |  |  | $ | 37,280 |  |  | $ | 275,675 |  |  | $ | (238,395) |  |

**Three and Six Months Ended June 30, 2021 versus 2020:** Gross premiums written and net premiums earned each decreased in the 2021 periods primarily due to the transfer of StarStone International to the Run-off segment in 2021.

*Net Incurred Losses and LAE:*

The following table shows the components of net incurred losses and LAE for the Legacy Underwriting segment.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |
| Net losses paid | $ | (3,046) |  |  | $ | 6,411 |  |  | $ | 3,365 |  |  | $ | 86,380 |  |  | $ | 11,505 |  |  | $ | 97,885 |  |
| Net change in case and LAE reserves (1) | 7,838 | |  |  | (2,574) | |  |  | 5,264 | |  |  | (29,802) | |  |  | 443 | |  |  | (29,359) | |  |
| Net change in IBNR reserves (2) | (1,954) | |  |  | 3,853 | |  |  | 1,899 | |  |  | (72,997) | |  |  | 71,968 | |  |  | (1,029) | |  |
| Increase (reduction) in estimates of net ultimate losses | 2,838 | |  |  | 7,690 | |  |  | 10,528 | |  |  | (16,419) | |  |  | 83,916 | |  |  | 67,497 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (313) | |  |  | 66 | |  |  | (247) | |  |  | 274 | |  |  | 27,611 | |  |  | 27,885 | |  |
| Net incurred losses and LAE | $ | 2,525 |  |  | $ | 7,756 |  |  | $ | 10,281 |  |  | $ | (16,145) |  |  | $ | 111,527 |  |  | $ | 95,382 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2021** | | | | | | | | | | |  | **2020** | | | | | | | | | | |
|  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |  | **Prior Period** | | |  | **Current Period** | | |  | **Total** | | |
| Net losses paid | $ | 5,630 |  |  | $ | 9,638 |  |  | $ | 15,268 |  |  | $ | 184,673 |  |  | $ | 14,072 |  |  | $ | 198,745 |  |
| Net change in case and LAE reserves (1) | (4,692) | |  |  | 2,185 | |  |  | (2,507) | |  |  | (73,340) | |  |  | 8,793 | |  |  | (64,547) | |  |
| Net change in IBNR reserves (2) | (3,304) | |  |  | 5,992 | |  |  | 2,688 | |  |  | (129,786) | |  |  | 168,006 | |  |  | 38,220 | |  |
| Increase (reduction) in estimates of net ultimate losses | (2,366) | |  |  | 17,815 | |  |  | 15,449 | |  |  | (18,453) | |  |  | 190,871 | |  |  | 172,418 | |  |
| Increase (reduction) in provisions for unallocated LAE (3) | (530) | |  |  | (160) | |  |  | (690) | |  |  | 183 | |  |  | 28,312 | |  |  | 28,495 | |  |
| Net incurred losses and LAE | $ | (2,896) |  |  | $ | 17,655 |  |  | $ | 14,759 |  |  | $ | (18,270) |  |  | $ | 219,183 |  |  | $ | 200,913 |  |

1. 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.
2. Represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

(3) Represents the change in the estimate of the total future costs to administer the claims.

**Three and Six Months Ended June 30, 2021 versus 2020:** Net incurred losses and LAE decreased by $85.1 million and $186.2 million for the three and six months ended June 30, 2021 compared to 2020, respectively, primarily due to the transfer of StarStone International to the Run-off segment in 2021. Net incurred losses for the three and six months ended June 30, 2020 included $1.2 million and $34.3 million, respectively, of losses related to the COVID-19 pandemic.

*Other Items*

**Three and Six Months Ended June 30, 2021 versus 2020:**

1. The decrease in acquisition costs of $40.6 million and $74.7 million, respectively, and general and administrative expenses of $68.6 million and $92.6 million, respectively, was primarily driven by the decision to place StarStone International into run-off and the related subsequent transfer of StarStone International to the Run-off segment.

***Corporate and Other***

The following is a discussion and analysis of our results of operations for our corporate and other activities.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | | | | |  |  | | |  | **Six Months Ended** | | | | | | |  |  | | |
|  | **June 30,** | | | | | | |  |  | | |  | **June 30,** | | | | | | |  |  | | |
|  | **2021** | | |  | **2020** | | |  | **Change** | | |  | **2021** | | |  | **2020** | | |  | **Change** | | |
| INCOME |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other income (expense) (1) | $ | (6,006) |  |  | $ | (2,016) |  |  | $ | (3,990) |  |  | $ | (11,252) |  |  | $ | (9,455) |  |  | $ | (1,797) |  |
| Net gain on sales of subsidiaries | — | |  |  | — | |  |  | — | |  |  | 14,894 | |  |  | — | |  |  | 14,894 | |  |
|  | (6,006) | |  |  | (2,016) | |  |  | (3,990) | |  |  | 3,642 | |  |  | (9,455) | |  |  | 13,097 | |  |
| EXPENSES |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net incurred losses and LAE (2) | 46,020 | |  |  | 151,559 | |  |  | (105,539) | |  |  | (18,590) | |  |  | 116,521 | |  |  | (135,111) | |  |
| General and administrative expenses (3) | 14,858 | |  |  | 11,598 | |  |  | 3,260 | |  |  | 64,643 | |  |  | 57,017 | |  |  | 7,626 | |  |
|  | 60,878 | |  |  | 163,157 | |  |  | (102,279) | |  |  | 46,053 | |  |  | 173,538 | |  |  | (127,485) | |  |
| LOSS BEFORE INTEREST EXPENSE, FOREIGN EXCHANGE AND INCOME TAXES | (66,884) | |  |  | (165,173) | |  |  | 98,289 | |  |  | (42,411) | |  |  | (182,993) | |  |  | 140,582 | |  |
| Interest expense | (16,301) | |  |  | (14,018) | |  |  | (2,283) | |  |  | (32,480) | |  |  | (27,433) | |  |  | (5,047) | |  |
| Net foreign exchange gains (losses) | 9,139 | |  |  | (5,158) | |  |  | 14,297 | |  |  | 6,505 | |  |  | 6,781 | |  |  | (276) | |  |
| Income tax expense | (9,422) | |  |  | (16,652) | |  |  | 7,230 | |  |  | (3,440) | |  |  | (11,380) | |  |  | 7,940 | |  |
| Net loss from discontinued operations, net of income taxes | — | |  |  | (1,152) | |  |  | 1,152 | |  |  | — | |  |  | (3,221) | |  |  | 3,221 | |  |
| Net (earnings) loss attributable to noncontrolling interest | (3,055) | |  |  | 19,992 | |  |  | (23,047) | |  |  | (13,846) | |  |  | 52,714 | |  |  | (66,560) | |  |
| Dividends on preferred shares | (8,925) | |  |  | (8,925) | |  |  | — | |  |  | (17,850) | |  |  | (17,850) | |  |  | — | |  |
| NET LOSS ATTRIBUTABLE TO ENSTAR ORDINARY SHAREHOLDERS | $ | (95,448) |  |  | $ | (191,086) |  |  | $ | 95,638 |  |  | $ | (103,522) |  |  | $ | (183,382) |  |  | $ | 79,860 |  |

(1) Includes the amortization of fair value adjustments associated with the acquisition of DCo and Morse TEC.

(2) Includes the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts and fair value adjustments associated with the acquisition of companies and the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

(3) The results for the three months ended June 30, 2021 and 2020 include refinements to first quarter general and administrative expense allocations that decreased general and administrative expenses by $18.9 million and $16.1 million, respectively.

*Overall Results*

**Three Months Ended June 30, 2021 versus 2020:**

Net loss from our corporate and other activities decreased by $95.6 million primarily as a result of the change in the value of the fair value option related to liabilities on our assumed retroactive reinsurance agreements for which we have elected the fair value option and the favorable change in net foreign exchange gains (losses), partially offset by an unfavorable change in net earnings (loss) attributable to noncontrolling interest.

**Six Months Ended June 30, 2021 versus 2020:**

Net loss from our corporate and other activities decreased by $79.9 million primarily due to the favorable change in net incurred losses and LAE of $135.1 million and the net gain on sales of subsidiaries, partially offset by an unfavorable change in net earnings (loss) attributable to noncontrolling interest.

*Net Incurred Losses and LAE*

The following table shows the components of net incurred losses and LAE for corporate and other activities.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | | |  | **Six Months Ended June 30,** | | | | | | |
|  | **2021** | | |  | **2020** | | |  | **2021** | | |  | **2020** | | |
| Amortization of deferred charges and gains (1) | $ | 23,011 |  |  | $ | 10,400 |  |  | $ | 31,080 |  |  | $ | 24,733 |  |
| Amortization of fair value adjustments (2) | 5,296 | |  |  | 7,116 | |  |  | 8,089 | |  |  | 15,982 | |  |
| Changes in fair value - fair value option (3) | 17,713 | |  |  | 134,043 | |  |  | (57,759) | |  |  | 75,806 | |  |
| Net incurred losses and LAE | $ | 46,020 |  |  | $ | 151,559 |  |  | $ | (18,590) |  |  | $ | 116,521 |  |

(1) Relates to the amortization of deferred charge assets and deferred gain liabilities on retroactive reinsurance contracts.

(2) Relates to the amortization of fair value adjustments associated with the acquisition of companies.

(3) Represents the changes in the fair value of liabilities related to our assumed retroactive reinsurance agreements for which we have elected the fair value option.

**Three and Six Months Ended June 30, 2021 versus 2020:** The reduction in net incurred losses and LAE of $105.5 million and $135.1 million, respectively was primarily driven by the change in the fair value of liabilities for which we have elected the fair value option due to higher increases in corporate bond yields in 2021 and narrowing credit spreads in 2020.

*Other Items*

**Three Months Ended June 30, 2021 versus 2020:**

1. The favorable change in net foreign exchange gains (losses) of $14.3 million was primarily the result of increased volatility in foreign exchange markets associated with the COVID-19 pandemic and the resulting impact on non-U.S. dollar denominated investments and technical balances in 2020.
2. The favorable change in income tax expense of $7.2 million was driven by tax benefits arising from a reduction to deferred tax liabilities as a result of the change in the tax status of a U.K.-based entity and the revaluation of U.K. deferred tax assets as a result of an increase in the U.K. corporate tax rate.
3. The unfavorable change in net earnings (loss) attributable to noncontrolling interest of $23.0 million was due to higher earnings in 2021 for those companies where there is a noncontrolling interest.

**Six Months Ended June 30, 2021 versus 2020:**

1. The net gain on sales of subsidiaries of $14.9 million was primarily driven by a gain on the sale of SUL of $23.1 million, partially offset by a loss on the sale of Atrium of $7.8 million as described in Note 3 - "Divestitures, Held-for-Sale Businesses and Discontinued Operations" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.
2. The favorable change in income tax expense of $7.9 million was driven by tax benefits arising from a reduction to deferred tax liabilities as a result of the change in the tax status of a U.K.-based entity and the revaluation of U.K. deferred tax assets as a result of an increase in the U.K. corporate tax rate.
3. The unfavorable change in net earnings (loss) attributable to noncontrolling interest of $66.6 million was due to higher earnings in 2021 for those companies where there is a noncontrolling interest.

*Discontinued Operations (StarStone U.S.):*

**Three Months Ended June 30, 2020:** The sale of StarStone U.S. was completed on November 30, 2020. The StarStone U.S. business, included in discontinued operations, includes the results of intra-group reinsurance cessions which were non-renewed as of January 1, 2018. The effect of these intra-group reinsurance cessions on net earnings, net of income taxes for the StarStone U.S. business was as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | |  | **Six Months Ended** | | |
|  |  | **June 30, 2020** | | |  | **June 30, 2020** | | |
| StarStone U.S. Group net earnings (loss) before Intra-Group Cessions |  | $ | 8,870 |  |  | $ | 18,194 |  |
| Intra-Group Cessions |  | (10,022) | |  |  | (21,415) | |  |
| StarStone U.S. net loss, net of income taxes |  | $ | (1,152) |  |  | $ | (3,221) |  |

**Investable Assets**

We define investable assets as the sum of total investments, cash and cash equivalents, restricted cash and cash equivalents, funds held and the net variable interest entity assets of the InRe Fund. Investments consist primarily of investment grade, liquid, fixed maturity securities of short-to-medium duration, equities and other investments. Cash and cash equivalents and restricted cash and cash equivalents are comprised mainly of cash, 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 consist of investment grade, liquid, fixed maturity securities of short-to-medium duration.

Investable assets were $20.2 billion as of June 30, 2021 as compared to $17.3 billion as of December 31, 2020, an increase of 16.8% primarily attributable to the 2021 transactions described in Note 2 - "Significant New Business" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

A description of our investment strategies is included in "Item 1. Business - Investments" in our Annual Report on Form 10-K for the year ended December 31, 2020.

***Composition of Investable Assets***

Across all of our segments, we strive to structure our investment holdings and the duration of our investments in a manner that recognizes our liquidity needs, including our obligation to pay losses. We consider the duration characteristics of our liabilities in determining our selection of asset durations 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. Schedules of contractual maturities for our short-term and fixed maturity securities are included in Note 4 - "Investments" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The following tables summarize the composition of total investable assets by segment:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | |
| Short-term investments, trading, at fair value | $ | 19,788 |  |  | $ | — |  |  | $ | 19,788 |  |
| Short-term investments, AFS, at fair value | 110,473 | |  |  | — | |  |  | 110,473 | |  |
| Fixed maturities, trading, at fair value | 3,922,685 | |  |  | 165,717 | |  |  | 4,088,402 | |  |
| Fixed maturities, AFS, at fair value | 5,464,936 | |  |  | 1,102 | |  |  | 5,466,038 | |  |
| Funds held - directly managed | 1,028,503 | |  |  | — | |  |  | 1,028,503 | |  |
| Equities, at fair value | 1,158,219 | |  |  | — | |  |  | 1,158,219 | |  |
| Other investments, at fair value | 1,802,442 | |  |  | 12,151 | |  |  | 1,814,593 | |  |
| Equity method investments | 936,430 | |  |  | — | |  |  | 936,430 | |  |
| Total investments | 14,443,476 | |  |  | 178,970 | |  |  | 14,622,446 | |  |
| Cash and cash equivalents (including restricted cash) | 1,096,978 | |  |  | 29,280 | |  |  | 1,126,258 | |  |
| Funds held by reinsured companies | 2,170,402 | |  |  | 31,556 | |  |  | 2,201,958 | |  |
| Net variable interest entity assets of the InRe Fund (1) | 2,219,712 | |  |  | — | |  |  | 2,219,712 | |  |
| Total investable assets | $ | 19,930,568 |  |  | $ | 239,806 |  |  | $ | 20,170,374 |  |
|  |  | | |  |  | | |  |  | | |
| Duration (in years) (2) | 4.73 | | |  | 2.20 | | |  | 4.69 | | |
| Average credit rating (3) | A+ | | |  | AA- | | |  | A+ | | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
|  | **(in thousands of U.S. dollars)** | | | | | | | | | | |
| Short-term investments, trading, at fair value | $ | 5,129 |  |  | $ | — |  |  | $ | 5,129 |  |
| Short-term investments, AFS, at fair value | 263,795 | |  |  | — | |  |  | 263,795 | |  |
| Fixed maturities, trading, at fair value | 4,145,956 | |  |  | 448,936 | |  |  | 4,594,892 | |  |
| Fixed maturities, AFS, at fair value | 3,194,327 | |  |  | 200,773 | |  |  | 3,395,100 | |  |
| Funds held - directly managed | 1,074,890 | |  |  | — | |  |  | 1,074,890 | |  |
| Equities, at fair value | 773,744 | |  |  | 73,051 | |  |  | 846,795 | |  |
| Other investments, at fair value (1) | 4,146,271 | |  |  | 97,763 | |  |  | 4,244,034 | |  |
| Equity method investments | 597,295 | |  |  | 235,000 | |  |  | 832,295 | |  |
| Total investments | 14,201,407 | |  |  | 1,055,523 | |  |  | 15,256,930 | |  |
| Cash and cash equivalents (including restricted cash) | 1,112,273 | |  |  | 260,843 | |  |  | 1,373,116 | |  |
| Funds held by reinsured companies | 553,973 | |  |  | 81,846 | |  |  | 635,819 | |  |
| Total investable assets | $ | 15,867,653 |  |  | $ | 1,398,212 |  |  | $ | 17,265,865 |  |
|  |  | | |  |  | | |  |  | | |
| Duration (in years) (2) | 5.09 | | |  | 1.96 | | |  | 4.82 | | |
| Average credit rating (3) | A+ | | |  | AA- | | |  | A+ | | |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for further information.

(2) 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 June 30, 2021 and December 31, 2020.

(3) 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 June 30, 2021 and December 31, 2020.

As of both June 30, 2021 and December 31, 2020, our fixed income investment portfolio, including funds held - directly managed, had an average credit quality rating of A+. As of June 30, 2021 and December 31, 2020, our fixed maturity investments (classified as trading and AFS 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 3.2% and 3.7%, respectively, of our total fixed maturity investment portfolio. A detailed schedule of average credit ratings by asset class as of June 30, 2021 is included in Note 4 - "Investments" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

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

The following tables summarize the composition of our investment portfolio by asset class:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | **AAA Rated** | | |  | **AA Rated** | | |  | **A Rated** | | |  | **BBB Rated** | | |  | **Non-investment Grade** | | |  | **Not Rated** | | |  | **Total** | | |  | **%** | |
|  |  | **(in thousands of U.S. dollars, except percentages)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Fixed maturity and short-term investments, trading and AFS and funds held - directly managed** | | | | | | | | | | | | | | | | | | | | | | | | |  |  | | |  |  | |
| U.S. government & agency |  | $ | 788,822 |  |  | $ | 381 |  |  | $ | — |  |  | $ | 236 |  |  | $ | — |  |  | $ | — |  |  | $ | 789,439 |  |  | 4.9 | % |
| U.K. government |  | — | |  |  | 34,379 | |  |  | 7,317 | |  |  | — | |  |  | — | |  |  | — | |  |  | 41,696 | |  |  | 0.3 | % |
| Other government |  | 213,984 | |  |  | 168,864 | |  |  | 46,640 | |  |  | 45,889 | |  |  | 4,902 | |  |  | — | |  |  | 480,279 | |  |  | 3.0 | % |
| Corporate |  | 166,647 | |  |  | 663,162 | |  |  | 2,964,842 | |  |  | 2,550,601 | |  |  | 291,394 | |  |  | 16,352 | |  |  | 6,652,998 | |  |  | 41.5 | % |
| Municipal |  | 11,820 | |  |  | 129,533 | |  |  | 82,076 | |  |  | 20,937 | |  |  | — | |  |  | 93 | |  |  | 244,459 | |  |  | 1.5 | % |
| Residential mortgage-backed |  | 557,182 | |  |  | 2,423 | |  |  | 2,201 | |  |  | 8,920 | |  |  | 1,413 | |  |  | 100 | |  |  | 572,239 | |  |  | 3.6 | % |
| Commercial mortgage-backed |  | 705,402 | |  |  | 116,062 | |  |  | 85,728 | |  |  | 71,649 | |  |  | 3,831 | |  |  | 4,582 | |  |  | 987,254 | |  |  | 6.2 | % |
| Asset-backed |  | 348,411 | |  |  | 279,778 | |  |  | 199,722 | |  |  | 82,737 | |  |  | 21,781 | |  |  | 3,164 | |  |  | 935,593 | |  |  | 5.8 | % |
| Total |  | 2,792,268 | |  |  | 1,394,582 | |  |  | 3,388,526 | |  |  | 2,780,969 | |  |  | 323,321 | |  |  | 24,291 | |  |  | 10,703,957 | |  |  | 66.8 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Other assets included within funds held - directly managed | | | | | | | | | | | | | | | | |  |  | | |  |  | | |  | 9,247 | |  |  | 0.1 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Equities** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Publicly traded equities |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 304,701 | |  |  | 1.9 | % |
| Exchange-traded funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 504,793 | |  |  | 3.2 | % |
| Privately held equities |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 348,725 | |  |  | 2.2 | % |
| Total |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 1,158,219 | |  |  | 7.3 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Other investments** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Hedge funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 73,130 | |  |  | 0.5 | % |
| Fixed income funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 603,889 | |  |  | 3.8 | % |
| Equity funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 5,617 | |  |  | — | % |
| Private equity funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 536,368 | |  |  | 3.3 | % |
| CLO equities |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 145,103 | |  |  | 0.9 | % |
| CLO equity funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 190,158 | |  |  | 1.2 | % |
| Private credit funds |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 242,359 | |  |  | 1.5 | % |
| Other |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 17,969 | |  |  | 0.1 | % |
| Total |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 1,814,593 | |  |  | 11.3 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Equity method investments** |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 936,430 | |  |  | 5.8 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Total investments** |  | 2,792,268 | |  |  | 1,394,582 | |  |  | 3,388,526 | |  |  | 2,780,969 | |  |  | 323,321 | |  |  | 24,291 | |  |  | 14,622,446 | |  |  | 91.3 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Fixed maturity investments, trading of the InRe Fund |  | — | |  |  | 4,466 | |  |  | 1,942 | |  |  | — | |  |  | 2,576 | |  |  | 189,809 | |  |  | 198,793 | |  |  | 1.2 | % |
| Equities of the InRe Fund |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 1,135,334 | |  |  | 7.1 | % |
| Other Investments of the InRe Fund |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 59,007 | |  |  | 0.4 | % |
| **Total investments of the InRe Fund (1)** |  | — | |  |  | 4,466 | |  |  | 1,942 | |  |  | — | |  |  | 2,576 | |  |  | 189,809 | |  |  | 1,393,134 | |  |  | 8.7 | % |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Total investments, plus InRe Fund investments** |  | **$** | **2,792,268** |  |  | **$** | **1,399,048** |  |  | **$** | **3,390,468** |  |  | **$** | **2,780,969** |  |  | **$** | **325,897** |  |  | **$** | **214,100** |  |  | **$** | **16,015,580** |  |  | **100.0** | **%** |

(1) Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for additional information.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2020** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **AAA Rated** | | |  | **AA Rated** | | |  | **A Rated** | | |  | **BBB Rated** | | |  | **Non-investment Grade** | | |  | **Not Rated** | | |  | **Total** | | |  | **%** | |
|  | **(in thousands of U.S. dollars, except percentages)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Fixed maturity and short-term investments, trading and AFS and funds held - directly managed** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| U.S. government & agency | $ | 951,048 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 951,048 |  |  | 6.2 | % |
| U.K. government | — | |  |  | 43,199 | |  |  | 7,883 | |  |  | — | |  |  | — | |  |  | — | |  |  | 51,082 | |  |  | 0.3 | % |
| Other government | 244,041 | |  |  | 159,095 | |  |  | 42,337 | |  |  | 51,413 | |  |  | 5,267 | |  |  | — | |  |  | 502,153 | |  |  | 3.3 | % |
| Corporate | 172,718 | |  |  | 607,796 | |  |  | 2,646,602 | |  |  | 1,960,971 | |  |  | 287,363 | |  |  | 11,282 | |  |  | 5,686,732 | |  |  | 37.3 | % |
| Municipal | 8,270 | |  |  | 78,585 | |  |  | 55,631 | |  |  | 20,183 | |  |  | — | |  |  | — | |  |  | 162,669 | |  |  | 1.1 | % |
| Residential mortgage-backed | 544,545 | |  |  | — | |  |  | 2,195 | |  |  | 2,615 | |  |  | 2,472 | |  |  | 2,118 | |  |  | 553,945 | |  |  | 3.6 | % |
| Commercial mortgage-backed | 591,396 | |  |  | 115,114 | |  |  | 74,615 | |  |  | 61,730 | |  |  | 3,961 | |  |  | 7,274 | |  |  | 854,090 | |  |  | 5.6 | % |
| Asset-backed | 239,733 | |  |  | 84,058 | |  |  | 119,757 | |  |  | 89,898 | |  |  | 24,014 | |  |  | — | |  |  | 557,460 | |  |  | 3.7 | % |
| Total | 2,751,751 | |  |  | 1,087,847 | |  |  | 2,949,020 | |  |  | 2,186,810 | |  |  | 323,077 | |  |  | 20,674 | |  |  | 9,319,179 | |  |  | 61.1 | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Other assets included within funds held - directly managed | | | | | | | | | | | | | | | |  |  | | |  |  | | |  | 14,627 | |  |  | 0.1 | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Equities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Publicly traded equities |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 260,767 | |  |  | 1.7 | % |
| Exchange-traded funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 311,287 | |  |  | 2.0 | % |
| Privately held equities |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 274,741 | |  |  | 1.8 | % |
| Total |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 846,795 | |  |  | 5.5 | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Other investments** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| Hedge funds (1) |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 2,638,339 | |  |  | 17.3 | % |
| Fixed income funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 552,541 | |  |  | 3.6 | % |
| Equity funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 190,767 | |  |  | 1.3 | % |
| Private equity funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 363,103 | |  |  | 2.4 | % |
| CLO equities |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 128,083 | |  |  | 0.8 | % |
| CLO equity funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 166,523 | |  |  | 1.1 | % |
| Private credit funds |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 192,319 | |  |  | 1.3 | % |
| Other |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 12,359 | |  |  | 0.1 | % |
| Total |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 4,244,034 | |  |  | 27.9 | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Equity method investments** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  | 832,295 | |  |  | 5.4 | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | |
| **Total investments** | **$** | **2,751,751** |  |  | **$** | **1,087,847** |  |  | **$** | **2,949,020** |  |  | **$** | **2,186,810** |  |  | **$** | **323,077** |  |  | **$** | **20,674** |  |  | **$** | **15,256,930** |  |  | **100.0** | **%** |

(1) Includes our investment in the InRe Fund of $2.4 billion

A description of our investment valuation processes is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2020 and Note 10 - "Fair Value Measurements" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The amortized cost, gross unrealized gains and losses and the fair value of our short-term investments and fixed maturity investments were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | | |  |  | | |  | **Gross Unrealized Losses** | | | | | | |  |  | | |
| **As of June 30, 2021** |  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Non-Credit Related Losses** | | |  | **Allowance for Credit Losses** | | |  | **Fair Value** | | |
| U.S. government and agency |  | $ | 784,054 |  |  | $ | 10,543 |  |  | $ | (5,158) |  |  | $ | — |  |  | $ | 789,439 |  |
| U.K. government |  | 40,011 | |  |  | 1,877 | |  |  | (192) | |  |  | — | |  |  | 41,696 | |  |
| Other government |  | 460,069 | |  |  | 23,256 | |  |  | (3,005) | |  |  | (41) | |  |  | 480,279 | |  |
| Corporate |  | 6,378,115 | |  |  | 308,841 | |  |  | (26,787) | |  |  | (7,171) | |  |  | 6,652,998 | |  |
| Municipal |  | 227,235 | |  |  | 17,533 | |  |  | (309) | |  |  | — | |  |  | 244,459 | |  |
| Residential mortgage-backed |  | 569,169 | |  |  | 6,215 | |  |  | (3,128) | |  |  | (17) | |  |  | 572,239 | |  |
| Commercial mortgage-backed |  | 966,496 | |  |  | 29,128 | |  |  | (8,213) | |  |  | (157) | |  |  | 987,254 | |  |
| Asset-backed |  | 939,474 | |  |  | 3,018 | |  |  | (6,899) | |  |  | — | |  |  | 935,593 | |  |
|  |  | 10,364,623 | |  |  | 400,411 | |  |  | (53,691) | |  |  | (7,386) | |  |  | 10,703,957 | |  |
| InRe Fund (1) |  | 149,118 | |  |  | 49,675 | |  |  | — | |  |  | — | |  |  | 198,793 | |  |
|  |  | $ | 10,513,617 |  |  | $ | 450,210 |  |  | $ | (53,691) |  |  | $ | (7,386) |  |  | $ | 10,902,750 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | | |  |  | | |  | **Gross Unrealized Losses** | | | | | | |  |  | | |
| **As of December 31, 2020** |  | **Amortized Cost** | | |  | **Gross Unrealized Gains** | | |  | **Non-Credit Related Losses** | | |  | **Allowance for Credit Losses** | | |  | **Fair Value** | | |
| U.S. government and agency |  | $ | 935,014 |  |  | $ | 17,148 |  |  | $ | (1,114) |  |  | $ | — |  |  | $ | 951,048 |  |
| U.K. government |  | 46,988 | |  |  | 4,094 | |  |  | — | |  |  | — | |  |  | 51,082 | |  |
| Other government |  | 463,765 | |  |  | 38,460 | |  |  | (72) | |  |  | — | |  |  | 502,153 | |  |
| Corporate |  | 5,226,238 | |  |  | 463,459 | |  |  | (2,784) | |  |  | (181) | |  |  | 5,686,732 | |  |
| Municipal |  | 145,469 | |  |  | 17,210 | |  |  | (10) | |  |  | — | |  |  | 162,669 | |  |
| Residential mortgage-backed |  | 545,628 | |  |  | 9,640 | |  |  | (1,323) | |  |  | — | |  |  | 553,945 | |  |
| Commercial mortgage-backed |  | 828,155 | |  |  | 37,318 | |  |  | (11,250) | |  |  | (133) | |  |  | 854,090 | |  |
| Asset-backed |  | 567,638 | |  |  | 3,682 | |  |  | (13,852) | |  |  | (8) | |  |  | 557,460 | |  |
|  |  | $ | 8,758,895 |  |  | $ | 591,011 |  |  | $ | (30,405) |  |  | $ | (322) |  |  | $ | 9,319,179 |  |

(1) Includes amounts attributed to the InRe Fund, refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for additional information.

We have historically accounted for our fixed income securities as a trading portfolio, whereby unrealized gains or losses are reflected in earnings. However, from October 1, 2019, we have also elected to use AFS accounting. As trading fixed income securities mature or are disposed, the proceeds are generally reinvested in fixed income securities classified as AFS securities for the Investments segment and the StarStone International Portfolio.[[2]](#footnote-3) The difference in the treatment of the fixed income securities is that unrealized changes on investments classified as trading are recorded through earnings, whereas unrealized changes on investments classified as AFS are recorded directly to shareholders' equity as a component of other comprehensive income. We may experience 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, allowances for credit losses 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 3. Quantitative and Qualitative Disclosures About Market Risk", included within this Quarterly Report on Form 10-Q.

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 AFS and the fixed maturity investments included within our funds held - directly managed balance as of June 30, 2021:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Fair Value** | | |  | **Average Credit Rating** |
|  | **(in thousands of U.S. dollars)** | | |  |  |
| Bank of America Corp | $ | 136,071 |  |  | A |
| Citigroup Inc | 119,550 | |  |  | A- |
| Morgan Stanley | 109,975 | |  |  | A |
| JPMorgan Chase & Co. | 104,958 | |  |  | A |
| Wells Fargo & Co | 93,383 | |  |  | A |
| Comcast Corp | 89,141 | |  |  | A- |
| Apple Inc | 79,340 | |  |  | AA+ |
| AT&T Inc | 71,316 | |  |  | BBB |
| Verizon Communications Inc | 60,884 | |  |  | BBB+ |
| Oracle Corp | 60,075 | |  |  | BBB+ |
|  | $ | 924,693 |  |  |  |

***Investment Results - Consolidated***

Comparability of our investment results between periods is impacted by our significant new business as described in Note 2 - "Significant New Business" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The following tables summarize our consolidated investment results.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2021** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
| Net investment income: |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 85,962 |  |  | $ | 539 |  |  | $ | 86,501 |  |
| Cash and restricted cash | (87) | |  |  | (292) | |  |  | (379) | |  |
| Other investments, including equities | 13,464 | |  |  | (1) | |  |  | 13,463 | |  |
| Less: Investment expenses | (3,309) | |  |  | 42 | |  |  | (3,267) | |  |
| Net investment expenses of the InRe Fund (2) | (20,171) | |  |  | — | |  |  | (20,171) | |  |
| **Total net investment income** | **$** | **75,859** |  |  | **$** | **288** |  |  | **$** | **76,147** |  |
|  |  | | |  |  | | |  |  | | |
| Net realized gains: |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 17,589 |  |  | $ | 134 |  |  | $ | 17,723 |  |
| Other investments, including equities | 774 | |  |  | — | |  |  | 774 | |  |
| Net realized gains of the InRe Fund (2) | 321,705 | |  |  | — | |  |  | 321,705 | |  |
| **Total net realized gains** | **$** | **340,068** |  |  | **$** | **134** |  |  | **$** | **340,202** |  |
|  |  | | |  |  | | |  |  | | |
| Net unrealized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities, trading (1) | $ | 57,610 |  |  | $ | (69) |  |  | $ | 57,541 |  |
| Other investments, including equities | 112,307 | |  |  | 145 | |  |  | 112,452 | |  |
| Net unrealized losses of the InRe Fund (2) | (104,975) | |  |  | — | |  |  | (104,975) | |  |
| **Total net unrealized gains** | **$** | **64,942** |  |  | **$** | **76** |  |  | **$** | **65,018** |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return included in earnings (A)** | **$** | **480,869** |  |  | **$** | **498** |  |  | **$** | **481,367** |  |
|  |  | | |  |  | | |  |  | | |
| Other comprehensive income (loss): |  | | |  |  | | |  |  | | |
| Unrealized gains (losses), on fixed income securities, AFS, net of reclassification adjustments excluding foreign exchange (B) (1) | $ | 58,575 |  |  | $ | (18) |  |  | $ | 58,557 |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return = (A) + (B)** | **$** | **539,444** |  |  | **$** | **480** |  |  | **$** | **539,924** |  |
|  |  | | |  |  | | |  |  | | |
| Annualized income from fixed income assets (3) | $ | 343,500 |  |  | $ | 988 |  |  | $ | 344,488 |  |
| Average aggregate fixed income assets, at cost (3)(4) | 12,318,318 | |  |  | 220,790 | |  |  | 12,539,108 | |  |
| **Annualized investment book yield** | 2.79 | | % |  | 0.45 | | % |  | 2.75 | | % |
|  |  | | |  |  | | |  |  | | |
| Average aggregate invested assets, at fair value (4) | $ | 18,002,055 |  |  | $ | 235,971 |  |  | $ | 18,238,026 |  |
| Investment return included in net earnings | 2.67 | | % |  | 0.21 | | % |  | 2.64 | | % |
| **Total investment return** | 3.00 | | % |  | 0.20 | | % |  | 2.96 | | % |

(1) Fixed income securities includes both trading and AFS short-term and fixed maturity investments as well as funds held - directly managed whereas fixed income securities, trading excludes AFS investments and fixed income, AFS excludes trading investments.

(2) Effective April 1, 2021, the InRe Fund was consolidated by us. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net unrealized gains (losses) from other investments, including equities. Prior period amounts have been reclassified to net unrealized gains (losses) of the InRe Fund to conform to current period presentation.

(3) Fixed income assets includes fixed income securities and cash and restricted cash.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30, 2020** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
| Net investment income: |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 80,216 |  |  | $ | 7,440 |  |  | $ | 87,656 |  |
| Cash and restricted cash | 861 | |  |  | (144) | |  |  | 717 | |  |
| Other investments, including equities | 7,781 | |  |  | 1,272 | |  |  | 9,053 | |  |
| Less: Investment expenses | (2,595) | |  |  | (388) | |  |  | (2,983) | |  |
| **Total net investment income** | **$** | **86,263** |  |  | **$** | **8,180** |  |  | **$** | **94,443** |  |
|  |  | | |  |  | | |  |  | | |
| Net realized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 56,557 |  |  | $ | (248) |  |  | $ | 56,309 |  |
| Other investments, including equities | 489 | |  |  | 1,397 | |  |  | 1,886 | |  |
| **Total net realized gains** | **$** | **57,046** |  |  | **$** | **1,149** |  |  | **$** | **58,195** |  |
|  |  | | |  |  | | |  |  | | |
| Net unrealized gains: |  | | |  |  | | |  |  | | |
| Fixed income securities, trading (1) | $ | 328,437 |  |  | $ | 32,618 |  |  | $ | 361,055 |  |
| Other investments, including equities (2) | 175,957 | |  |  | 7,347 | |  |  | 183,304 | |  |
| Net unrealized gains of the InRe Fund (2) | 365,054 | |  |  | — | |  |  | 365,054 | |  |
| **Total net unrealized gains** | **$** | **869,448** |  |  | **$** | **39,965** |  |  | **$** | **909,413** |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return included in earnings (A)** | **$** | **1,012,757** |  |  | **$** | **49,294** |  |  | **$** | **1,062,051** |  |
|  |  | | |  |  | | |  |  | | |
| Other comprehensive income: |  | | |  |  | | |  |  | | |
| Unrealized gains, on fixed income securities, AFS, net of reclassification adjustments excluding foreign exchange (B) (1) | $ | 79,133 |  |  | $ | 11,285 |  |  | $ | 90,418 |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return = (A) + (B)** | **$** | **1,091,890** |  |  | **$** | **60,579** |  |  | **$** | **1,152,469** |  |
|  |  | | |  |  | | |  |  | | |
| Annualized income from fixed income assets (3) | $ | 324,308 |  |  | $ | 29,184 |  |  | $ | 353,492 |  |
| Average aggregate fixed income assets, at cost (3)(4) | 9,539,974 | |  |  | 1,292,794 | |  |  | 10,832,768 | |  |
| **Annualized investment book yield** | 3.40 | | % |  | 2.26 | | % |  | 3.26 | | % |
|  |  | | |  |  | | |  |  | | |
| Average aggregate invested assets, at fair value (4) | $ | 12,894,658 |  |  | $ | 1,479,039 |  |  | $ | 14,373,697 |  |
| Investment return included in net earnings | 7.85 | | % |  | 3.33 | | % |  | 7.39 | | % |
| **Total investment return** | 8.47 | | % |  | 4.10 | | % |  | 8.02 | | % |

(1) Fixed income securities includes both trading and AFS short-term and fixed maturity investments as well as funds held - directly managed whereas fixed income securities, trading excludes AFS investments and fixed income, AFS excludes trading investments.

(2) Effective April 1, 2021, the InRe Fund was consolidated by us. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net unrealized gains (losses) from other investments, including equities. Prior period amounts have been reclassified to net unrealized gains (losses) of the InRe Fund to conform to current period presentation.

(3) Fixed income assets includes fixed income securities and cash and restricted cash.

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

*Net Investment Income*

**Three Months Ended June 30, 2021 versus 2020:** Net investment income decreased by $18.3 million primarily due to InRe Fund expenses of $20.2 million in 2021. The InRe Fund expenses primarily include management and performance fee accruals which were previously included in the change in NAV prior to consolidation of the fund. Our annualized book yield declined by 51 basis points, primarily due to reinvestment of fixed maturities at lower yields and time required to invest new premium, partially offset by an increase in our average aggregate fixed maturities and cash and cash equivalents of $1.7 billion which was primarily due to the Hiscox, CNA, Liberty Mutual, AXA Group and Coca-Cola transactions in 2021 and Hannover Re, Munich Re, Aspen, AXA Group and Lyft transactions in 2020.

*Net Realized and Unrealized Gains:*

**Three Months Ended June 30, 2021 versus 2020:** Net realized and unrealized gains were $405.2 million for the three months ended June 30, 2021 compared to $967.6 million for the three months ended June 30, 2020, a decrease of $562.4 million. Included in net realized and unrealized gains are the following items:

1. Net realized and unrealized gains on fixed income securities, including fixed income securities within our funds held portfolios of $75.3 million for the three months ended June 30, 2021, compared to $417.4 million for the three months ended June 30, 2020, a decrease of $342.1 million. The gains for the three months ended June 20, 2021 were primarily driven by lower interest rates as the interest rate curve flattened, while the gains for the three months ended June 20, 2020 were primarily driven by a significant tightening in credit spreads as markets normalized after the COVID-related dislocation and spread widening experienced in the first quarter of 2020;
2. Net realized and unrealized gains on other investments, including equities and the InRe Fund, of $330.0 million for the three months ended June 30, 2021 compared to gains of $550.2 million for the three months ended June 30, 2020, a decrease of $220.3 million. The net realized and unrealized gains for the three months ended June 30, 2021 were driven by strong performance in the InRe Fund, equities and equity funds, private equity funds, private credit funds, fixed income funds, CLO equity and CLO equity funds, principally driven by a rally in risk assets and global equity markets as economies continued to re-open following the shut-downs related to the COVID-19 pandemic. The realized and unrealized gains for the three months ended June 30, 2020 primarily comprised unrealized gains in the InRe Fund, fixed income funds, equity funds, CLO equities and CLO equity funds principally driven by tightening credit spreads and a strong recovery of the global equity markets in the second quarter of 2020 reversing the impact of the unrealized losses associated with COVID-19 pandemic during the first quarter of 2020.

The following tables summarize our investment results for the six months ended June 30, 2021 and 2020:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2021** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
| Net investment income: |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 137,456 |  |  | $ | 1,245 |  |  | $ | 138,701 |  |
| Cash and restricted cash | (346) | |  |  | (121) | |  |  | (467) | |  |
| Other investments, including equities | 27,056 | |  |  | (1) | |  |  | 27,055 | |  |
| Less: Investment expenses | (6,805) | |  |  | (77) | |  |  | (6,882) | |  |
| Net investment expenses of the InRe Fund (2) | (20,171) | |  |  | — | |  |  | (20,171) | |  |
| **Total net investment income** | **$** | **137,190** |  |  | **$** | **1,046** |  |  | **$** | **138,236** |  |
|  |  | | |  |  | | |  |  | | |
| Net realized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 24,640 |  |  | $ | 13 |  |  | $ | 24,653 |  |
| Other investments, including equities | (17) | |  |  | — | |  |  | (17) | |  |
| Net realized gains of the InRe Fund (2) | 321,705 | |  |  | — | |  |  | 321,705 | |  |
| **Total net realized gains** | **$** | **346,328** |  |  | **$** | **13** |  |  | **$** | **346,341** |  |
|  |  | | |  |  | | |  |  | | |
| Net unrealized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities, trading (1) | $ | (154,189) |  |  | $ | (1,383) |  |  | $ | (155,572) |  |
| Other investments, including equities (2) | 221,760 | |  |  | 271 | |  |  | 222,031 | |  |
| Net unrealized losses of the InRe Fund (2) | (28,368) | |  |  | — | |  |  | (28,368) | |  |
| **Total net unrealized gains (losses)** | **$** | **39,203** |  |  | **$** | **(1,112)** |  |  | **$** | **38,091** |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return included in earnings (A)** | **$** | **522,721** |  |  | **$** | **(53)** |  |  | **$** | **522,668** |  |
|  |  | | |  |  | | |  |  | | |
| Other comprehensive income: |  | | |  |  | | |  |  | | |
| Unrealized losses, on fixed income securities, AFS, net of reclassification adjustments excluding foreign exchange (B) (1) | $ | (46,846) |  |  | $ | (55) |  |  | $ | (46,901) |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return = (A) + (B)** | **$** | **475,875** |  |  | **$** | **(108)** |  |  | **$** | **475,767** |  |
|  |  | | |  |  | | |  |  | | |
| Annualized income from fixed income assets (3) | $ | 274,220 |  |  | $ | 2,248 |  |  | $ | 276,468 |  |
| Average aggregate fixed income assets, at cost (3)(4) | 11,801,835 | |  |  | 224,040 | |  |  | 12,025,875 | |  |
| **Annualized investment book yield** | 2.32 | | % |  | 1.00 | | % |  | 2.30 | | % |
|  |  | | |  |  | | |  |  | | |
| Average aggregate invested assets, at fair value (4) | $ | 17,494,305 |  |  | $ | 239,383 |  |  | $ | 17,733,688 |  |
| Investment return included in net earnings | 2.99 | | % |  | (0.02) | | % |  | 2.95 | | % |
| **Total investment return** | 2.72 | | % |  | (0.05) | | % |  | 2.68 | | % |

(1) Fixed income securities includes both trading and AFS short-term and fixed maturity investments as well as funds held - directly managed whereas fixed income securities, trading excludes AFS investments and fixed income, AFS excludes trading.

(2) Effective April 1, 2021, the InRe Fund was consolidated by us. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net unrealized gains (losses) from other investments, including equities. Prior period amounts have been reclassified to net unrealized gains (losses) of the InRe Fund to conform to current period presentation.

(3) Fixed income assets includes fixed income securities and cash and restricted cash.

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Six Months Ended June 30, 2020** | | | | | | | | | | |
|  | **Investments** | | |  | **Legacy Underwriting** | | |  | **Total** | | |
| Net investment income: |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 136,352 |  |  | $ | 14,307 |  |  | $ | 150,659 |  |
| Cash and restricted cash | 2,242 | |  |  | 625 | |  |  | 2,867 | |  |
| Other investments, including equities | 19,045 | |  |  | 4,064 | |  |  | 23,109 | |  |
| Less: Investment expenses | (6,413) | |  |  | (1,065) | |  |  | (7,478) | |  |
| **Total net investment income** | **$** | **151,226** |  |  | **$** | **17,931** |  |  | **$** | **169,157** |  |
|  |  | | |  |  | | |  |  | | |
| Net realized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities (1) | $ | 59,827 |  |  | $ | 700 |  |  | $ | 60,527 |  |
| Other investments, including equities | (708) | |  |  | 1,587 | |  |  | 879 | |  |
| **Total net realized gains** | **$** | **59,119** |  |  | **$** | **2,287** |  |  | **$** | **61,406** |  |
|  |  | | |  |  | | |  |  | | |
| Net unrealized gains (losses): |  | | |  |  | | |  |  | | |
| Fixed income securities, trading (1) | $ | 86,887 |  |  | $ | (7,611) |  |  | $ | 79,276 |  |
| Other investments, including equities (2) | (114,390) | |  |  | (7,941) | |  |  | (122,331) | |  |
| Net unrealized gains of the InRe Fund (2) | 320,196 | |  |  | — | |  |  | 320,196 | |  |
| **Total net unrealized gains (losses)** | **$** | **292,693** |  |  | **$** | **(15,552)** |  |  | **$** | **277,141** |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return included in earnings (A)** | **$** | **503,038** |  |  | **$** | **4,666** |  |  | **$** | **507,704** |  |
|  |  | | |  |  | | |  |  | | |
| Other comprehensive income: |  | | |  |  | | |  |  | | |
| Unrealized gains, on fixed income securities, AFS, net of reclassification adjustments excluding foreign exchange (B) (1) | $ | 39,199 |  |  | $ | 1,582 |  |  | $ | 40,781 |  |
|  |  | | |  |  | | |  |  | | |
| **Total investment return = (A) + (B)** | **$** | **542,237** |  |  | **$** | **6,248** |  |  | **$** | **548,485** |  |
|  |  | | |  |  | | |  |  | | |
| Annualized income from fixed income assets (3) | $ | 277,188 |  |  | $ | 29,864 |  |  | $ | 307,052 |  |
| Average aggregate fixed income assets, at cost (3)(4) | 9,357,926 | |  |  | 1,290,429 | |  |  | 10,648,355 | |  |
| **Annualized investment book yield** | 2.96 | | % |  | 2.31 | | % |  | 2.88 | | % |
|  |  | | |  |  | | |  |  | | |
| Average aggregate invested assets, at fair value (4) | $ | 12,668,261 |  |  | $ | 1,512,819 |  |  | $ | 14,181,080 |  |
| Investment return included in net earnings | 3.97 | | % |  | 0.31 | | % |  | 3.58 | | % |
| **Total investment return** | 4.28 | | % |  | 0.41 | | % |  | 3.87 | | % |

(1) Fixed income securities includes both trading and AFS short-term and fixed maturity investments as well as funds held - directly managed whereas fixed income securities, trading excludes AFS investments and fixed income, AFS excludes trading investments.

(2) Effective April 1, 2021, the InRe Fund was consolidated by us. Prior to this, all income or loss from the InRe Fund was determined by the change in net asset value (NAV) of our holdings in the fund, which was included within net unrealized gains (losses) from other investments, including equities. Prior period amounts have been reclassified to net unrealized gains (losses) of the InRe Fund to conform to current period presentation.

(3) Fixed income assets includes fixed income securities and cash and restricted cash.

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

*Net Investment Income:*

**Six Months Ended June 30, 2021 versus 2020:** Net investment income decreased by $30.9 million, primarily due to a $12.0 million decrease in net investment income from fixed maturities and $20.2 million of expenses related to the InRe Fund. The InRe Fund expenses primarily include management and performance fee accruals which were previously included in the change in NAV prior to consolidation of the fund. Our book yield declined by 58 basis points, primarily due to reinvestment of fixed maturities at lower yields and time required to invest new premium, partially offset by an increase in our average aggregate fixed maturities and cash and cash equivalents of $1.4 billion. This increase was primarily due to the Hiscox, CNA, Liberty Mutual, AXA Group and Coca-Cola transactions in 2021 and Hannover Re, Munich Re, Aspen, AXA Group and Lyft transactions in 2020.

*Net Realized and Unrealized Gains (Losses):*

**Six Months Ended June 30, 2021 versus 2020:** Net realized and unrealized gains were $384.4 million for 2021 compared to net realized and unrealized gains of $338.5 million for 2020, an increase of $45.9 million. Included in net realized and unrealized gains (losses) are the following items:

1. Net realized and unrealized losses on fixed income securities, including fixed income securities within our funds held portfolios, of $130.9 million for the six months ended June 30, 2021, compared to net realized and unrealized gains of $139.8 million for the six months ended June 30, 2020, a decrease of $270.7 million. The losses in the current period were primarily driven by an increase in interest rates partially offset by tightening of credit spreads. The gains in 2020 were due to a decline in interest rates partially offset by the widening of credit spreads;
2. Net realized and unrealized gains on other investments, including equities and the InRe Fund, of $515.4 million for the six months ended June 30, 2021 compared to gains of $198.7 million for the six months ended June 30, 2020, an increase of $316.6 million. The net realized and unrealized gains for the six months ended June 30, 2021 were driven by a strong performance in the InRe Fund, private equity funds, fixed income funds and private debt funds, equity and equity funds and CLO equities, principally driven by a rally in risk assets and global equity markets as economies continued to re-open following the shut-downs related to the COVID-19 pandemic. The net realized and unrealized gains for the six months ended June 30, 2020 primarily comprised of unrealized gains in the InRe Fund and private equity funds, partially offset by losses in our equity funds, fixed income funds, CLO equities and CLO equity funds, due to the disruption in global financial markets associated with the COVID-19 pandemic.

**Liquidity and Capital Resources**

***Overview***

We aim to generate cash flows from our (re)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 of June 30, 2021 included ordinary shareholders' equity of $6.7 billion, preferred equity of $510.0 million, redeemable noncontrolling interest of $177.4 million, and debt obligations of $1.4 billion. Based on our current loss reserves position, our portfolios of in-force (re)insurance business, and our investment positions, we believe we are well capitalized.

The following table details our capital position:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | |  | **December 31, 2020** | | |  | **Change** | | |
|  |  | **(in thousands of U.S. dollars)** | | | | | | | | | | |
| Ordinary shareholders' equity |  | $ | 6,677,308 |  |  | $ | 6,164,395 |  |  | $ | 512,913 |  |
| Series D and E Preferred Shares |  | 510,000 | |  |  | 510,000 | |  |  | — | |  |
| Total Enstar Shareholders' Equity (A) |  | 7,187,308 | |  |  | 6,674,395 | |  |  | 512,913 | |  |
| Noncontrolling interest |  | 12,635 | |  |  | 13,609 | |  |  | (974) | |  |
| Total Shareholders' Equity (B) |  | 7,199,943 | |  |  | 6,688,004 | |  |  | 511,939 | |  |
|  |  |  | | |  |  | | |  |  | | |
| Senior Notes |  | 844,269 | |  |  | 843,447 | |  |  | 822 | |  |
| Junior Subordinated Notes |  | 344,943 | |  |  | 344,812 | |  |  | 131 | |  |
| Revolving credit facility |  | 175,000 | |  |  | 185,000 | |  |  | (10,000) | |  |
| Total debt (C) |  | 1,364,212 | |  |  | 1,373,259 | |  |  | (9,047) | |  |
|  |  |  | | |  |  | | |  |  | | |
| Redeemable noncontrolling interest (D) |  | 177,449 | |  |  | 365,436 | |  |  | (187,987) | |  |
|  |  |  | | |  |  | | |  |  | | |
| Total capitalization = (B) + (C) + (D) |  | $ | 8,741,604 |  |  | $ | 8,426,699 |  |  | $ | 314,905 |  |
|  |  |  | | |  |  | | |  |  | | |
| Total capitalization attributable to Enstar = (A) + (C) |  | $ | 8,551,520 |  |  | $ | 8,047,654 |  |  | $ | 503,866 |  |
|  |  |  | | |  |  | | |  |  | | |
| Debt to total capitalization |  | 15.6 | | % |  | 16.3 | | % |  | (0.7) | | % |
| Debt and Series D and E Preferred Shares to total capitalization |  | 21.4 | | % |  | 22.3 | | % |  | (0.9) | | % |
|  |  |  | | |  |  | | |  |  | | |
| Debt to total capitalization attributable to Enstar |  | 16.0 | | % |  | 17.1 | | % |  | (1.1) | | % |
| Debt and Series D and E Preferred Shares to total capitalization attributable to Enstar |  | 21.9 | | % |  | 23.4 | | % |  | (1.5) | | % |

As of June 30, 2021, we had $769.4 million of cash and cash equivalents, excluding restricted cash that supports (re)insurance operations, and included in this amount was $304.0 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 amounts 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 June 30, 2021 for any material withholding taxes on dividends or other distributions, as described in Note 19 - "Income Taxation" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

***Dividends***

Historically, Enstar has not declared a dividend on its ordinary shares. The strategy has been to retain earnings and invest distributions from operating subsidiaries into our business. While there is no current expectation to declare a dividend on our ordinary shares, we may re-evaluate this strategy from time to time based on overall market conditions and other factors.

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. For further information on preferred share dividends, refer to Note 16 - "Shareholders' Equity" and Note 23 - "Subsequent Events" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Any payment of common or preferred dividends must be approved by our Board of Directors. Our ability to pay ordinary and preferred dividends is subject to certain restrictions, as described in Note 22 - "Dividend Restrictions and Statutory Financial Information" in the notes to our condensed consolidated financial statements included within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020.

***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 utilize our credit and loan facilities, and we have issued senior notes and preferred shares and guaranteed junior subordinated notes issued by one of our subsidiaries.

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 dividends on our preference shares and interest and principal on loans from subsidiaries and debt obligations, including loans under our credit facilities, our 4.50% senior notes due 2022 (the “2022 Senior Notes”), our 4.95% senior notes due 2029 (the "2029 Senior Notes” and, together with the 2022 Senior Notes, the "Senior Notes") and our 5.75% Junior Subordinated Notes due 2040 (the “Junior Subordinated Notes”). Under the eligible capital rules of the Bermuda Monetary Authority, the Senior Notes qualify as Tier 3 capital and the Preferred Shares and Junior Subordinated Notes qualify as Tier 2 capital when considering the Bermuda Solvency Capital Requirements.

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 August 17, 2020 with the U.S. Securities and Exchange Commission ("SEC") to allow us to conduct future offerings of certain securities, if desired, including debt, equity and other securities.

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 (re)insurance subsidiaries are restricted by (re)insurance laws and regulations, as described below. The ability of all of our subsidiaries to make distributions and transfers to us may also be restricted by, among other things, other applicable laws and regulations and the terms of our credit facilities and our subsidiaries' bank loans and other issued debt instruments.

*U.S. Finance Company Liquidity*

Enstar Finance LLC ("Enstar Finance") is a wholly-owned finance subsidiary and is dependent upon funds from other subsidiaries to pay any amounts due under the Junior Subordinated Notes. In addition, as noted above, we are a holding company that conducts substantially all of our operations through our subsidiaries. Our only significant assets are the capital stock of our subsidiaries. Because substantially all of our operations are conducted through our (re)insurance subsidiaries, substantially all of our consolidated assets are held by our subsidiaries and most of our cash flow, and, consequently, our ability to pay any amounts due under the guaranty of the Junior Subordinated Notes, is dependent upon the earnings of our subsidiaries and the transfer of funds by those subsidiaries to us in the form of distributions or loans.

In addition, the ability of our (re)insurance subsidiaries to make distributions or other transfers to Enstar Finance or us is limited by applicable insurance laws and regulations, as described below. These laws and regulations and the determinations by the regulators implementing them may significantly restrict such distributions and transfers, and, as a result, adversely affect the overall liquidity of Enstar Finance or us. The ability of all of our subsidiaries to make distributions and transfers to Enstar Finance and us may also be restricted by, among other things, other applicable laws and regulations and the terms of our credit facilities and our subsidiaries’ bank loans and other issued debt instruments.

*Operating Company Liquidity*

The ability of our (re)insurance subsidiaries to pay dividends and make other distributions is limited by the applicable laws and regulations of the jurisdictions in which our (re)insurance 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 (re)insurance subsidiaries to maintain minimum capital 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" in our Annual Report on Form 10-K for the year ended December 31, 2020. As of June 30, 2021, all of our (re)insurance subsidiaries’ capital requirement 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 condensed consolidated financial statements included within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020. 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 credit facility agreements and other debt instruments. Variability in ultimate loss payments may also result in increased liquidity requirements for our subsidiaries.

Sources of funds primarily consist of cash and investment portfolios acquired on the completion of acquisitions and loss portfolio transfer reinsurance agreements, investment income earned, proceeds from sales and maturities of investments and collection of premiums receivable. Cash balances acquired upon our purchase of (re)insurance companies are classified as cash provided by investing activities. Cash acquired from loss portfolio transfers and other 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. We generally expect negative operating cash flows to be met by positive investing cash flows; however, cash provided by operating activities was positive for the six months ended June 30, 2021 and 2020 as the cash acquired from loss portfolio transfers and other reinsurance agreements and the sale of trading securities exceeded cash used in the purchase of trading securities, with the net proceeds being used in the purchase of AFS securities and other investments included within investing cash flows.

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

*Cash Flows*

The following table summarizes our consolidated cash flows provided by (used in) operating, investing and financing activities:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | | | | |  |  | | |
|  |  | **2021** | | |  | **2020** | | |  | **Change** | | |
|  |  | **(in thousands of U.S. dollars)** | | | | | | | | | | |
| Cash provided by (used in): |  |  | | |  |  | | |  |  | | |
| Operating activities |  | $ | 2,355,016 |  |  | $ | 849,161 |  |  | $ | 1,505,855 |  |
| Investing activities |  | (1,785,147) | |  |  | (1,156,139) | |  |  | (629,008) | |  |
| Financing activities |  | (39,917) | |  |  | 319,624 | |  |  | (359,541) | |  |
| Net cash flows from discontinued operations |  | — | |  |  | 1,156 | |  |  | (1,156) | |  |
| Effect of exchange rate changes on cash |  | 2,527 | |  |  | 4,526 | |  |  | (1,999) | |  |
| Net increase in cash and cash equivalents |  | 532,479 | |  |  | 18,328 | |  |  | 514,151 | |  |
| Cash, cash equivalents and restricted cash, beginning of period |  | 1,373,116 | |  |  | 971,349 | |  |  | 401,767 | |  |
| Net change in cash of businesses held-for-sale |  | 223,200 | |  |  | (1,156) | |  |  | 224,356 | |  |
| Total cash and cash equivalents and restricted cash, end of period |  | $ | 2,128,795 |  |  | $ | 988,521 |  |  | $ | 1,140,274 |  |
|  |  |  | | |  |  | | |  |  | | |
| **Reconciliation to Condensed Consolidated Balance Sheets:** |  |  | | |  |  | | |  |  | | |
| Cash and Cash equivalents |  | $ | 769,359 |  |  | $ | 651,855 |  |  | $ | 117,504 |  |
| Restricted cash and cash equivalents |  | 356,899 | |  |  | 336,666 | |  |  | 20,233 | |  |
| Cash and restricted cash and cash equivalents of the InRe Fund |  | 1,002,537 | |  |  | — | |  |  | 1,002,537 | |  |
| Total cash, cash equivalents and restricted cash |  | $ | 2,128,795 |  |  | $ | 988,521 |  |  | $ | 1,140,274 |  |

Details of our consolidated cash flows are included in "Item 1. Financial Statements - Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020."

**Six Months Ended June 30, 2021 versus 2020:** Cash and cash equivalents increased by $532.5 million during the six months ended June 30, 2021 compared to an increase of $18.3 million during the six months ended June 30, 2020.

For the six months ended June 30, 2021, cash and cash equivalents increased by $532.5 million, as cash provided by operating activities of $2.4 billion offset cash used in investing and financing activities of $1.8 billion and $39.9 million, respectively. Cash provided by operations was predominantly driven by: (i) cash and restricted cash acquired in Run-off reinsurance transactions of $1.4 billion; and (ii) the cash inflows from net sales and maturities of trading securities of $1.2 billion; partially offset by (iii) the timing of paid losses. Cash used in financing activities for the six months ended June 30, 2021 was attributable to net loan repayments of $10.0 million, share repurchases and preferred share dividends. Cash used in investing activities for the six months ended June 30, 2021 primarily related to: (i) net purchases of AFS securities of $2.0 billion; and (ii) the sales of subsidiaries, net of cash sold, of $232.3 million; partially offset by (iii) the impact of consolidating the opening cash and restricted cash balances of the InRe Fund of $574.1 million. Change in cash of businesses held-for-sale is due to the disposal of Northshore.

For the six months ended June 30, 2020, cash and cash equivalents increased by $18.3 million, as cash provided by operating and financing activities of $849.2 million and $319.6 million, respectively, was partially offset by cash used in investing activities of $1.2 billion. Cash provided by operations was largely a result of the timing of paid losses and net sales and maturities of trading securities. Cash provided by financing activities for the six months ended June 30, 2020 was primarily attributable to net inflows of $350.0 million from loan obligations, partially offset by share repurchases and preferred share dividends. Cash used in investing activities for the six months ended June 30, 2020 was primarily related to net subscriptions of other investments of $520.2 million and net purchases of AFS securities of $602.2 million.

***Investable Assets***

We define investable assets as the sum of total investments, cash and cash equivalents, restricted cash and cash equivalents, funds held and the net variable interest entity assets of the InRe Fund. Investable assets were $20.2 billion as of June 30, 2021 as compared to $17.3 billion as of December 31, 2020, an increase of 16.8% primarily attributable to the 2021 transactions described in Note 2 - "Significant New Business" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. For further information regarding our investment strategy and our portfolio and results, refer to "Item 1. Business - Investments" in our Annual Report on Form 10-K for the year ended December 31, 2020 and "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Investable Assets" above, respectively.

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

As of June 30, 2021 and December 31, 2020, we had reinsurance balances recoverable on paid and unpaid losses of $2.0 billion and $2.1 billion, respectively.

Our (re)insurance run-off subsidiaries and assumed portfolios, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of (re)insurance assumed. Previously, on an annual basis, StarStone International, included within the Run-off segment from January 1, 2021, purchased a tailored outwards reinsurance program designed to manage its risk profile. The majority of StarStone International's third-party reinsurance 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 6 - "Reinsurance Balances Recoverable on Paid and Unpaid Losses" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

***Debt Obligations***

We utilize debt financing and loan facilities primarily for funding acquisitions and significant new business, investment activities and, from time to time, for general corporate purposes. Our debt obligations were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Facility** |  | **Origination Date** |  | **Term** |  | **June 30, 2021** | | |  | **December 31, 2020** | | |
| 4.50% Senior Notes due 2022 |  | March 10, 2017 |  | 5 years |  | $ | 349,492 |  |  | $ | 349,253 |  |
| 4.95% Senior Notes due 2029 |  | May 28, 2019 |  | 10 years |  | 494,777 | |  |  | 494,194 | |  |
| Total Senior Notes |  |  |  |  |  | 844,269 | |  |  | 843,447 | |  |
| 5.75% Junior Subordinated Notes due 2040 |  | August 26, 2020 |  | 20 years |  | 344,943 | |  |  | 344,812 | |  |
| EGL Revolving Credit Facility |  | August 16, 2018 |  | 5 years |  | 175,000 | |  |  | 185,000 | |  |
| Total debt obligations |  |  | | |  | $ | 1,364,212 |  |  | $ | 1,373,259 |  |

For further information regarding our debt arrangements, including letters of credit, refer to Note 14 - "Debt Obligations and Credit Facilities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. Subsequent to June 30, 2021, we borrowed an additional $300 million under our revolving credit facility.

*Credit Ratings*

The following table presents our credit ratings as of August 5, 2021:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Credit ratings (1)** |  | **Standard and Poor’s** |  | **Fitch Ratings** |
| Long-term issuer |  | BBB (Outlook: Positive) |  | BBB (Outlook: Positive) |
| Senior notes |  | BBB |  | BBB- |
| Junior subordinated notes |  | BB+ |  | BB+ |
| Series D preferred shares |  | BB+ |  | BB+ |
| Series E preferred shares |  | BB+ |  | BB+ |

(1) Credit ratings are provided by third parties, Standard and Poor’s and Fitch Ratings, and are subject to certain limitations and disclaimers. For information on these ratings, refer to the rating agencies’ websites and other publications.

Agency ratings are not a recommendation to buy, sell or hold any of our securities and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating. For information on risks related to our credit ratings, refer to "Item 1A. Risk Factors - Risks Relating to Liquidity and Capital Resources" and "Item 1A. Risk Factors - Risks Relating to Ownership of our Shares" in our Annual Report on Form 10-K for the year ended December 31, 2020.

***Contractual Obligations***

The following table summarizes, as of June 30, 2021, our future payments under material contractual obligations and estimated payments for losses and LAE for the Run-off segment by expected payment date. The table 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)** | | | | | | | | | | | | | | | | | | | | | | |
| **Operating Activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Estimated gross reserves for losses and LAE for the Run-off segment (1) |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Asbestos | $ | 1,708.2 |  |  | $ | 139.0 |  |  | $ | 251.1 |  |  | $ | 207.2 |  |  | $ | 323.2 |  |  | $ | 787.7 |  |
| Environmental | 291.0 | |  |  | 32.8 | |  |  | 56.4 | |  |  | 42.8 | |  |  | 58.3 | |  |  | 100.6 | |  |
| General Casualty | 3,118.9 | |  |  | 300.3 | |  |  | 392.7 | |  |  | 461.0 | |  |  | 1,596.1 | |  |  | 368.8 | |  |
| Workers' compensation/personal accident | 2,705.4 | |  |  | 226.4 | |  |  | 418.8 | |  |  | 420.2 | |  |  | 547.0 | |  |  | 1,092.9 | |  |
| Marine, aviation and transit | 356.3 | |  |  | 80.1 | |  |  | 95.6 | |  |  | 55.0 | |  |  | 66.3 | |  |  | 59.3 | |  |
| Construction defect | 167.2 | |  |  | 31.7 | |  |  | 58.9 | |  |  | 40.4 | |  |  | 28.2 | |  |  | 8.0 | |  |
| Professional indemnity/ Directors & Officers | 1,538.6 | |  |  | 269.3 | |  |  | 336.8 | |  |  | 263.6 | |  |  | 541.8 | |  |  | 126.9 | |  |
| Motor | 812.1 | |  |  | 271.0 | |  |  | 225.7 | |  |  | 81.0 | |  |  | 83.4 | |  |  | 151.0 | |  |
| Property | 163.0 | |  |  | 58.4 | |  |  | 49.0 | |  |  | 22.3 | |  |  | 19.7 | |  |  | 13.6 | |  |
| Other | 575.2 | |  |  | 138.8 | |  |  | 149.7 | |  |  | 89.7 | |  |  | 85.4 | |  |  | 111.5 | |  |
| StarStone International (Non-U.S.) | 1,191.2 | |  |  | 396.1 | |  |  | 419.9 | |  |  | 195.3 | |  |  | 144.1 | |  |  | 35.8 | |  |
| Total outstanding losses and IBNR | 12,627.1 | |  |  | 1,943.9 | |  |  | 2,454.7 | |  |  | 1,878.5 | |  |  | 3,493.7 | |  |  | 2,856.2 | |  |
| ULAE | 428.6 | |  |  | 69.4 | |  |  | 91.6 | |  |  | 63.7 | |  |  | 95.9 | |  |  | 108.0 | |  |
| Estimated gross reserves for losses and LAE for the Run-off segment (1) | 13,055.7 | |  |  | 2,013.3 | |  |  | 2,546.3 | |  |  | 1,942.2 | |  |  | 3,589.6 | |  |  | 2,964.2 | |  |
| **Investing Activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Unfunded investment commitments | 1,574.2 | |  |  | 466.8 | |  |  | 571.4 | |  |  | 339.6 | |  |  | 196.4 | |  |  | — | |  |
| **Financing Activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Loan repayments (including estimated interest payments) | 1,991.1 | |  |  | 415.3 | |  |  | 270.0 | |  |  | 89.7 | |  |  | 674.9 | |  |  | 541.2 | |  |
| **Total** | $ | 16,621.0 |  |  | $ | 2,895.4 |  |  | $ | 3,387.7 |  |  | $ | 2,371.5 |  |  | $ | 4,460.9 |  |  | $ | 3,505.4 |  |

(1) The reserves for losses and LAE represent management’s estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above. The amounts in the above table represent our estimates of known liabilities as of June 30, 2021 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, certain of the reserves included in the unaudited condensed consolidated financial statements as of June 30, 2021 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.

As of June 30, 2021, excluding fair value adjustments, we expect to pay estimated gross losses and LAE for the Run-off segment of $2.0 billion in the short-term (less than one year) and $11.0 billion in the long-term (more than one year). We generally attempt to match the duration of our investment portfolio to the duration of our general liability profile. 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. The settlement of liabilities also has the potential to accelerate the natural payout of losses, which may require additional liquidity.

In addition to the contractual obligations noted in the table, above, as of June 30, 2021 we have the right to purchase the RNCI related to StarStone International from the Trident V Funds and the Dowling Funds after a certain time in the future (a "call right") and the RNCI holders have the right to sell their RNCI interests to us after a certain time in the future (a "put right"). Following closing of the Exchange Transaction described in Note 20 - "Related Party Transactions" in our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q, we hold a call right over the portion of StarStone International owned by the Trident V Funds and the Dowling Funds, and they hold a put right to transfer those interests to us.

For additional information relating to our commitments and contingencies, see Note 21 - "Commitments and Contingencies" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. For additional information relating to our defendant asbestos and environmental liabilities, see Note 9 - "Defendant Asbestos and Environmental Liabilities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

***Off-Balance Sheet Arrangements***

At June 30, 2021, we did not have any off-balance sheet arrangements, as defined by SEC rules and regulations.

**Critical Accounting Estimates**

Our critical accounting estimates are discussed in Management's Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2020. Except as discussed above, in the updates included in Note 1 - "Significant Accounting Policies" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q, our critical accounting estimates have not materially changed.

**Cautionary Statement Regarding Forward-Looking Statements**

This quarterly 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 our Annual Report on Form 10-K for the year ended December 31, 2020. These factors include:

**Risks Relating to our Run-off Business**

1. changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management’s discretion;
2. the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;
3. 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;
4. emerging claim and coverage issues and disputes that could impact reserve adequacy;
5. lengthy and unpredictable litigation affecting the assessment of losses and/or coverage issues;
6. increased competitive pressures, including increased competition in the market for run-off business that aligns with our strategic objectives;
7. 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;
8. risks relating to our subsidiaries with liabilities arising from legacy manufacturing operations;
9. the impact of the COVID-19 pandemic and the resulting disruption and economic turmoil, such as increased volatility in global financial markets, could adversely impact our reserves, investment returns, financial condition, and liquidity and capital resources, and any future impact on our business is difficult to predict at this time;

**Risks Relating to Liquidity and Capital Resources**

1. 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;
2. the risk that our reinsurance subsidiaries may not be able to provide the required collateral to ceding companies pursuant to their reinsurance contracts, including through the use of letters of credit;
3. 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;
4. risks relating to the availability and collectability of our reinsurance;
5. the ability of our subsidiaries to distribute funds to us and the resulting impact on our liquidity;
6. losses due to foreign currency exchange rate fluctuations;
7. our ability to comply with covenants in our debt agreements;

**Risk Relating to our Investments**

1. the risk that the value of our investment portfolios and the investment income that we receive from these portfolios may decline materially as a result of market fluctuations and economic conditions, including those related to interest rates, credit spreads, and the phase out of the London Interbank Offered Rate ("LIBOR");
2. risks relating to the performance of our investment portfolio and our ability to structure our investments in a manner that recognizes our liquidity needs;
3. risks relating to our strategic investments in alternative asset classes, such as hedge funds and joint ventures, which are illiquid and may be volatile;
4. risks relating to our investments in the InRe Fund, which may be volatile as a result of the InRe Fund's use of leverage, derivatives, and its exposure to Chinese equities;

**Risks Relating to Laws and Regulations**

1. risks relating to the complex regulatory environment in which we operate, including 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 our Operations**

1. loss of key personnel;
2. operational risks, including cybersecurity events, external hazards, human failures or other difficulties with our information technology systems that could disrupt our business or result in the loss of critical and confidential information, increased costs;

**Risks Relating to Taxation**

1. tax, regulatory or legal restrictions or limitations applicable to us or the (re)insurance business generally;
2. 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;

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

1. risk relating to the ownership of our shares resulting from certain provisions of our bye-laws and our status as a Bermuda company.

The factors listed above should be not construed as exhaustive and should be read in conjunction with the Risk Factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2020. We undertake no obligation to publicly update or review any forward looking statement, whether to reflect any change in our expectations with regard thereto, or as a result of new information, future developments or otherwise, except as required by law.

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

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

We are principally exposed to four types of market risk: interest rate risk, credit risk, equity price risk and foreign currency risk. Our policies to address these risks in 2021 are not materially different than those used in 2020 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. However, due to the ongoing uncertainty and volatility in financial markets as a result of the economic conditions caused by the COVID-19 pandemic, we expect interest rates, credit spreads and global equity markets to remain volatile in the near-term. Furthermore, the pandemic has increased the risk of defaults across many industries. As a result, we continue to closely monitor market risk during this time.

**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 includes 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 AFS, our funds held directly managed portfolio, our fixed income funds and our fixed income exchange-traded funds, and excludes investments classified as held-for-sale:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Interest Rate Shift in Basis Points** | | | | | | | | | | | | | | | | | | |
| **As of June 30, 2021** |  | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
|  |  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | |
| Total Market Value (1) |  | $ | 12,119 |  |  | $ | 11,796 |  |  | $ | 11,489 |  |  | $ | 11,202 |  |  | $ | 10,939 |  |
| Market Value Change from Base |  | 5.5 | | % |  | 2.7 | | % |  | — | | % |  | (2.5) | | % |  | (4.8) | | % |
| Change in Unrealized Value |  | $ | 630 |  |  | $ | 307 |  |  | $ | — |  |  | $ | (287) |  |  | $ | (550) |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **As of December 31, 2020** |  | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
| Total Market Value (1) |  | $ | 10,632 |  |  | $ | 10,324 |  |  | $ | 10,028 |  |  | $ | 9,756 |  |  | $ | 9,495 |  |
| Market Value Change from Base |  | 6.0 | | % |  | 3.0 | | % |  | — | | % |  | (2.7) | | % |  | (5.3) | | % |
| Change in Unrealized Value |  | $ | 604 |  |  | $ | 296 |  |  | $ | — |  |  | $ | (272) |  |  | $ | (533) |  |

(1) Excludes equity exchange-traded funds of $323.2 million and $154.9 million as of June 30, 2021 and December 31, 2020, respectively, which are included in the Equity Price Risk section below.

Actual shifts in interest rates may not change by the same magnitude across the maturity spectrum or on an individual security and, as a result, the impact on the fair value of our fixed maturity securities, short-term investments, funds held - directly managed and fixed income exchange-traded funds may be materially different from the resulting change in 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 AFS, our funds held directly managed portfolio, our fixed income funds and our fixed income exchange-traded funds, and excludes investments classified as held-for-sale:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Credit Spread Shift in Basis Points** | | | | | | | | | | | | | | | | | | |
| **As at June 30, 2021** | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
|  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | |
| Total Market Value (1) | $ | 12,117 |  |  | $ | 11,793 |  |  | $ | 11,489 |  |  | $ | 11,201 |  |  | $ | 10,927 |  |
| Market Value Change from Base | 5.5 | | % |  | 2.6 | | % |  |  | | |  | (2.5) | | % |  | (4.9) | | % |
| Change in Unrealized Value | $ | 628 |  |  | $ | 304 |  |  |  | | |  | $ | (288) |  |  | $ | (562) |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **As at December 31, 2020** | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
| Total Market Value (1) | $ | 10,608 |  |  | $ | 10,308 |  |  | $ | 10,028 |  |  | $ | 9,765 |  |  | $ | 9,516 |  |
| Market Value Change from Base | 5.8 | | % |  | 2.8 | | % |  |  | | |  | (2.6) | | % |  | (5.1) | | % |
| Change in Unrealized Value | $ | 580 |  |  | $ | 280 |  |  |  | | |  | $ | (263) |  |  | $ | (512) |  |

(1) Excludes equity exchange-traded funds of $323.2 million and $154.9 million for the years ended June 30, 2021 and December 31, 2020, respectively, which are included in the Equity Price Risk section below.

**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 $10.7 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 securities of short-to-medium duration. A table of credit ratings for our fixed maturity and short-term investments is in Note 4 - "Investments" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. As of June 30, 2021, 39.1% of our fixed maturity and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2020: 41.2%) with 3.0% rated lower than BBB- (December 31, 2020: 3.5%). 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 of June 30, 2021 (December 31, 2020: 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 believe we do not have significant concentrations of credit risk.

A summary of our fixed maturity and short-term investments by credit rating is as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Credit rating** | **June 30, 2021** | |  | **December 31, 2020** | |  | **Change** | |
| AAA | 26.1 | % |  | 29.5 | % |  | (3.4) | % |
| AA | 13.0 | % |  | 11.7 | % |  | 1.3 | % |
| A | 31.7 | % |  | 31.6 | % |  | 0.1 | % |
| BBB | 26.0 | % |  | 23.5 | % |  | 2.5 | % |
| Non-investment grade | 3.0 | % |  | 3.5 | % |  | (0.5) | % |
| Not rated | 0.2 | % |  | 0.2 | % |  | — | % |
| 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 (re)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 6 - "Reinsurance Balances Recoverable on Paid and Unpaid Losses" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

***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 condensed 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 June 30, 2021, we had a significant concentration of $909.5 million (December 31, 2020: $955.0 million) to one reinsured company which has financial strength credit ratings of A+ from A.M. Best and AA from Standard & Poor's.

**Equity Price Risk**

Our portfolio of equity investments, excluding our fixed income exchange-traded funds but including the equity funds, has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our fixed income exchange-traded funds are excluded from the below analysis and have been included within the interest rate and credit spread risk analysis, as these exchange-traded funds are part of our fixed income investment strategy and are backed by fixed income instruments. The following table summarizes the aggregate hypothetical change in fair value from a 10% decline in the overall market prices of our equities at risk:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June 30, 2021** | | |  | **December 31, 2020** | | |  | **Change** | | |
|  | **(in millions of U.S. dollars)** | | | | | | | | | | |
| Publicly traded equity investments in common and preferred stocks | $ | 304.7 |  |  | $ | 260.8 |  |  | $ | 43.9 |  |
| Privately held equity investments in common and preferred stocks | 348.7 | |  |  | 274.7 | |  |  | 74.0 | |  |
| Private equity funds | 536.4 | |  |  | 363.1 | |  |  | 173.3 | |  |
| Equity funds | 5.6 | |  |  | 190.8 | |  |  | (185.2) | |  |
| Equity exchange traded funds | 323.2 | |  |  | 154.9 | |  |  | 168.3 | |  |
| Fair value of equities at risk | $ | 1,518.6 |  |  | $ | 1,244.3 |  |  | $ | 274.3 |  |
|  |  | | |  |  | | |  |  | | |
| Impact of 10% decline in fair value | $ | 151.9 |  |  | $ | 124.4 |  |  | $ | 27.5 |  |

***Hedge Funds***

As of June 30, 2021, we had investments of $73.1 million (December 31, 2020: $2.6 billion) in hedge funds, included within our other investments, at fair value, that have exposure to interest rate, credit spread, and equity price risk given the underlying assets in those funds.

Effective April 1, 2021, the InRe Fund was consolidated by us. As a result, the carrying amounts of the assets and liabilities of the InRe Fund are presented separately in “variable interest entity assets of the InRe Fund” and “variable interest entity liabilities of the InRe Fund” within the condensed consolidated balance sheet as of June 30, 2021. Refer to *"Consolidated Variable Interest Entity - InRe Fund"* below for further details on market risks as at June 30, 2021. As of December 31, 2020, our investment in the InRe Fund was $2.4 billion.

As of June 30, 2021 and December 31, 2020, the impact of a 10% decline in the fair value of these investments would have been $7.3 million and $263.8 million, respectively. These hedge funds may employ investment strategies that involve the use of leverage and short sales, which would have the effect of increasing interest rate, credit spread, and equity price sensitivity such that a 10% decline in market prices could reduce the fair value of our investment in the funds by more than 10%.

**Foreign Currency Risk**

The table below summarizes our net exposures to foreign currencies:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **AUD** | | |  | **CAD** | | |  | **EUR** | | |  | **GBP** | | |  | **Other** | | |  | **Total** | | |
| **As of June 30, 2021** |  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Total net foreign currency exposure |  | $ | (6.0) |  |  | $ | (7.5) |  |  | $ | 2.6 |  |  | $ | 29.3 |  |  | $ | (0.5) |  |  | $ | 17.9 |  |
| Pre-tax impact of a 10% movement in USD(1) |  | $ | (0.6) |  |  | $ | (0.8) |  |  | $ | 0.3 |  |  | $ | 2.9 |  |  | $ | (0.1) |  |  | $ | 1.7 |  |
|  |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **As of December 31, 2020** |  |  | | | | | | | | | | | | | | | | | | | | | | |
| Total net foreign currency exposure |  | $ | 7.0 |  |  | $ | (1.9) |  |  | $ | 24.4 |  |  | $ | 38.9 |  |  | $ | 1.5 |  |  | $ | 69.9 |  |
| Pre-tax impact of a 10% movement in USD(1) |  | $ | 0.7 |  |  | $ | (0.2) |  |  | $ | 2.4 |  |  | $ | 3.9 |  |  | $ | 0.2 |  |  | $ | 7.0 |  |

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

Through our subsidiaries located in various jurisdictions, we conduct our (re)insurance operations in a variety of non-U.S. currencies. We have the following exposures to foreign currency risk:

1. *Transaction Risk:* The functional currency for the majority of our subsidiaries is the U.S. dollar. Within these entities, any fluctuations in foreign currency exchange rates relative to the U.S. dollar has 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 AFS investments, are recognized in our consolidated statements of earnings. Changes in foreign exchange rates relating to non-U.S. dollar AFS investments are recorded in accumulated other comprehensive income (loss) in shareholders’ equity. Our subsidiaries with non-U.S. dollar functional currencies are also exposed to fluctuations in foreign currency exchange rates relative to their own functional currency.
2. *Translation Risk:* We have net investments in certain European, British, and Australian subsidiaries whose functional currencies are the Euro, British pound and Australian dollar, respectively. The foreign exchange gain or loss resulting from the translation of their financial statements from their respective 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.

Our foreign currency policy is to broadly manage, where possible, our foreign currency risk by:

1. Seeking to match our liabilities under (re)insurance policies that are payable in foreign currencies with assets that are denominated in such currencies, subject to regulatory constraints.
2. Selectively utilizing foreign currency forward contracts to mitigate foreign currency risk.

The instruments we use to manage foreign currency risk are discussed in Note 5 - "Derivatives and Hedging Instruments" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. 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 consolidated results of operations and financial condition.

**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. However, the actual effects of inflation on our consolidated results of operations cannot be accurately known until claims are ultimately settled.

**Consolidated Variable Interest Entity - InRe Fund**

Effective April 1, 2021, the InRe Fund was consolidated by us. The InRe Fund is principally exposed to four types of market risk: interest rate risk, credit risk, equity price risk and foreign currency risk.

**Interest Rate and Credit Spread Risk**

The InRe Fund’s investment portfolio includes fixed maturity investments and certain securities sold, but not yet purchased whose fair values will fluctuate with changes in interest rates and credit spreads.

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 the InRe Fund’s fixed maturity investments portfolio classified as trading and certain securities sold, but not yet purchased :

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Interest Rate Shift in Basis Points** | | | | | | | | | | | | | | | | | | |
| **As at June 30, 2021** | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
|  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | |
| Total Market Value | $ | 218 |  |  | $ | 213 |  |  | $ | 209 |  |  | $ | 205 |  |  | $ | 200 |  |
| Market Value Change from Base | 4.2 | | % |  | 2.1 | | % |  | — | | % |  | (2.1) | | % |  | (4.1) | | % |
| Change in Unrealized Value | $ | 8.8 |  |  | $ | 4.4 |  |  | $ | — |  |  | $ | (4.3) |  |  | $ | (8.6) |  |

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 the InRe Fund’s fixed maturity securities may be materially different from the resulting change in 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 the InRe Fund’s fixed maturity investments portfolio classified as trading:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Credit Spread Shift in Basis Points** | | | | | | | | | | | | | | | | | | |
| **As at June 30, 2021** | **-100** | | |  | **-50** | | |  | — | | |  | **+50** | | |  | **+100** | | |
|  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | |
| Total Market Value | $ | 182 |  |  | $ | 189 |  |  | $ | 195 |  |  | $ | 202 |  |  | $ | 208 |  |
| Market Value Change from Base | (6.7) | | % |  | (3.3) | | % |  | — | | % |  | 3.4 | | % |  | 6.8 | | % |
| Change in Unrealized Value | $ | (13.1) |  |  | $ | (6.5) |  |  | $ | — |  |  | $ | 6.6 |  |  | $ | 13.3 |  |

**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. The InRe Fund is exposed to direct credit risk primarily within its portfolios of derivative financial instruments and fixed maturity investments classified as trading, respectively, as discussed below.

***Derivative Counterparties***

The InRe Fund is a direct counterparty to derivative instruments and is exposed to credit risk in the event of nonperformance by the counterparties in those contracts. As an investor in the InRe Fund, we bear the risk of credit loss due to counterparty default even though we are not a direct counterparty to those contracts. The risk of counterparty default associated with InRe Fund’s derivative portfolio is mitigated by collateral posting requirements that counterparties to those transactions must meet, by dealing with reputable counterparties, which are high credit quality institutions, and by seeking to negotiate master agreements with inputs that include netting provisions that incorporate the right of “set off” (assets less liabilities) across OTC contracts with such counterparties. The InRe Fund’s exposure to credit risk at any point in time is limited to amounts recorded as assets on the condensed consolidated balance sheets.

***Fixed Maturity Investments***

As a holder of $198.8 million in fixed maturity investments, the InRe fund also has exposure to credit risk as a result of investment ratings downgrades or issuer defaults. A table of credit ratings for the InRe Fund’s fixed maturity investments is in Note 11 - "Variable Interest Entities" to the condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. As of June 30, 2021, 2.2% of InRe Fund’s fixed maturity investment portfolio was rated AA or higher by a major rating agency with the remainder either rated below AA or unrated.

A summary of the InRe Fund’s fixed maturity investments by credit rating is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **June 30, 2021** | |
| AA |  | 2.2 | % |
| A |  | 1.0 | % |
| Non-Investment grade |  | 1.3 | % |
| Not rated |  | 95.5 | % |
| Total |  | 100.0 | % |

**Equity Price Risk**

InRe Fund’s portfolio of equity and derivative investments, excluding exchange-traded funds, have exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the prices of securities. The InRe Fund’s derivative portfolio includes exchange-traded derivatives, derivatives contracted in the over-the-counter market, and options forward contracts.

The following table summarizes the aggregate hypothetical change in fair value from a 10% decline in the overall market prices of the InRe Fund's equities at risk:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **June 30, 2021** | | |
|  |  | **(in millions of U.S. dollars)** | | |
| Publicly traded equity investments in common and preferred stocks (1) |  | $ | 1,079.7 |  |
| Equities sold not purchased |  | (89.4) | |  |
| Convertible bonds |  | 194.3 | |  |
| Warrants/rights |  | 59.0 | |  |
| Net derivative assets (2) |  | 188.2 | |  |
| Fair value of equities at risk |  | $ | 1,431.8 |  |
|  |  |  | | |
| Impact of 10% decline in fair value |  | $ | 153.0 |  |

(1) Excludes equity exchange traded funds of $55.7 million as at June 30, 2021.

(2) Includes equity options/swaps and index futures.

The InRe Fund may employ investment strategies that involve the use of leverage and short sales that are generally purchased to cover long positions. The InRe Fund’s exposure to losses from uncovered short sales may be unlimited, whereas losses from purchases are limited to the total amount invested. Should the value of the collateral pledged by the InRe Fund as part of its securities lending agreements with its prime brokers be insufficient to cover the InRe Fund’s obligations in connection with short sold positions, the prime broker would be expected to exit the related short sold positions and mitigate additional losses.

The InRe Fund has also entered into freestanding derivative contracts that are not designated as hedging instruments for accounting purposes. Such contracts may include contracts for differences, swaps and option contracts.

To evaluate risks within the InRe Fund’s portfolio of equity and derivative investments, the InRe Fund and Enstar focus on actual and potential volatility generated by individual positions as well as the total portfolio. Various techniques and procedures are utilized to enable the most complete understanding of these risks. Quantitative measures of market risk are evaluated regularly. These measures include stress testing to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables, such as a decline in equity prices and indices; and evaluating risks in the InRe Fund’s portfolio under the current market environment and potential future environments.

For additional information regarding market risks relevant to the InRe Fund, refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

**Foreign Currency Risk**

The table below summarizes the InRe Fund’s net exposures to foreign currencies:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **AUD** | | |  | **CNH** | | |  | **EUR** | | |  | **HKD** | | |  | **Other** | | |  | **Total** | | |
| **As of June 30, 2021** |  | **(in millions of U.S. dollars)** | | | | | | | | | | | | | | | | | | | | | | |
| Total net foreign currency exposure |  | $ | 47.7 |  |  | $ | 63.0 |  |  | $ | 50.6 |  |  | $ | 175.1 |  |  | $ | (10.4) |  |  | $ | 326.0 |  |
| Pre-tax impact of a 10% movement in USD(1) |  | $ | (4.8) |  |  | $ | (6.3) |  |  | $ | (5.1) |  |  | $ | (17.5) |  |  | $ | 1.0 |  |  | $ | (32.6) |  |

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

To the extent the InRe Fund’s foreign currency exposure is not matched or hedged, the InRe Fund may experience foreign exchange losses or gains, which would be reflected in the InRe Fund’s results of operations which, in turn, would affect our consolidated results of operations and financial condition.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2021. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that we maintained effective disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

For a discussion of legal proceedings, see Note 21 - "Commitments and Contingencies" in the notes to our unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**ITEM 1A. RISK FACTORS**

Our results of operations and financial condition are subject to numerous risks and uncertainties described in “Risk Factors” included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020. Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020.

***We have made significant direct investments in a consolidated hedge fund, the manager of which exercises broad discretionary authority to determine how the underlying funds are invested. The performance of such investments is dependent on the manager’s ability to select and manage appropriate investments and the ability of its key personnel to develop and implement appropriate investment strategies.***

We have made significant direct investments in the InRe Fund, L.P. (the “InRe Fund”), a hedge fund managed by AnglePoint HK. For more information about our investment in the InRe Fund refer to Note 11 - "Variable Interest Entities" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Subject to certain limitations, AnglePoint HK has broad discretionary authority to determine how our assets in the InRe Fund are invested. As a result, the success of our investment in the InRe Fund is, in part, dependent on AnglePoint HK’s ability to select and manage appropriate investments and the ability of AnglePoint HK’s key personnel to develop and implement appropriate investment strategies. The failure of AnglePoint HK or any of its key personnel to perform adequately (or a loss or diminution of the services provided by AnglePoint HK’s key personnel) could result in losses or lower than expected profits, either of which could significantly and negatively affect our investment returns and results of operations.

Our investments in the InRe Fund may have different, more significant risk characteristics than our investments in fixed maturity securities and may also have more volatile values and returns than the broader equity markets, all of which could negatively affect our investment income and overall portfolio liquidity. The InRe Fund employs investment strategies and trading techniques that involve the use of margin, derivatives (including contracts for differences), and other forms of financial leverage or short sales. Furthermore, the InRe Fund has exposure to Asian markets, including through investments in Chinese equities, which have recently experienced high levels of volatility. The InRe Fund's trading techniques and exposures could result in significant or outsized realized or unrealized losses and negatively affect the value and liquidity of our investment portfolio, which could materially adversely impact our financial condition and results of operations.

Past performance is not indicative of future results, and our investments in the InRe Fund may not achieve future results that are comparable to historical results.

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

**Issuer Purchases of Equity Securities**

The following table provides information about ordinary shares acquired by the Company during the three months ended June 30, 2021.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Period** |  | **Total Number of Shares Purchased** |  | **Average Price Paid per Share** | | |  | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)** | | |  | **Maximum Number (or Dollar Value) of Shares that May Yet be Purchased Under the Program (1)** | | |
| Beginning dollar amount available to be repurchased |  |  |  |  | | |  |  | | |  | $ | 119,769 |  |
| April 1, 2021 - April 30, 2021 |  | — |  | $ | — |  |  | $ | — |  |  | — | |  |
| May 1, 2021 - May 31, 2021 |  | 100 |  | $ | 239.02 |  |  | $ | 100 |  |  | (24) | |  |
| June 1, 2021 - June 30, 2021 |  | 30,264 |  | $ | 237.38 |  |  | $ | 30,264 |  |  | (7,184) | |  |
|  |  | 30,364 |  |  | | |  | 30,364 | |  |  | $ | 112,561 |  |

(1) On February 25, 2021, our Board of Directors approved an extension of the duration of our previously announced ordinary share Repurchase Program through March 1, 2022. The Repurchase Program was previously set to expire on March 1, 2021. Pursuant to the Repurchase Program, the Company was permitted to repurchase a limited number of its ordinary shares, not to exceed $150.0 million in aggregate (the “Authorized Shares”) including shares repurchased prior to the extension of the Repurchase Program. During the three months ended June 30, 2021, we repurchased 30,364 ordinary shares at an average price of $237.39, for an aggregate price of $7.2 million under the Repurchase Program. On July 15, 2021, we announced the termination of the Repurchase Program in connection with the repurchase of 3,749,400 of our ordinary shares from funds managed by Hillhouse Group for a price of $234.52 per share, totaling $879.3 million in the aggregate. Refer to Note 23 - "Subsequent Events" to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q for additional information related to ordinary share repurchases subsequent to June 30, 2021 and the termination of the Repurchase Program, which took place on July 15, 2021.

**ITEM 6. EXHIBITS**

|  |  |  |
| --- | --- | --- |
| **Exhibit No.** |  | **Description** |
| [3.1](http://www.sec.gov/Archives/edgar/data/1363829/000095012311042903/w81504aexv3w1.htm) |  | Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 of the Company’s Form 10-K/A filed on May 2, 2011). |
|  |  |  |
| [3.2](http://www.sec.gov/Archives/edgar/data/1363829/000136382919000105/ex-31eglfiftharbyexlaws2019.htm) |  | Fifth Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K filed on June 13, 2019). |
|  |  |  |
| [3.3](http://www.sec.gov/Archives/edgar/data/1363829/000136382916000012/ex-31.htm) |  | Certificate of Designations of Series C Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K filed on June 17, 2016). |
|  |  |  |
| [3.4](http://www.sec.gov/Archives/edgar/data/1363829/000136382918000076/ex-41cod2018prefsharesd.htm) |  | Certificate of Designations of 7.00% fixed-to-floating rate perpetual non-cumulative preference shares, Series D (incorporated by reference to Exhibit 4.1 of the Company’s Form 8-K filed on June 27, 2018). |
|  |  |  |
| [3.5](http://www.sec.gov/Archives/edgar/data/1363829/000136382918000153/ex-41cod2018prefsharese.htm) |  | Certificate of Designations of 7.00% perpetual non-cumulative preference shares, Series E (incorporated by reference to Exhibit 4.1 of the Company’s Form 8-K filed on November 21, 2018). |
|  |  |  |
| [22.1](https://www.sec.gov/Archives/edgar/data/1363829/000136382920000227/ex221-subsidiaryguaran.htm) |  | Subsidiary Guarantors and Issuers of Guaranteed Securities (incorporated by reference to Exhibit 22.1 of the Company’s Form 10-Q filed on November 6, 2020). |
|  |  |  |
| [31.1](wurl://docs.v1/doc:7ddc8175abf14a0d89cc267f690f0b4d)\* |  | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002. |
|  |  |  |
| [31.2](wurl://docs.v1/doc:ecc7698954d448d99870907edb53fd11)\* |  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002. |
|  |  |  |
| [32.1](wurl://docs.v1/doc:3cf815188f014b8eb512f5a5b659a857)\*\* |  | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
|  |  |  |
| [32.2](wurl://docs.v1/doc:52d9ff2ca1944d19a0c85a4b8f7d3086)\*\* |  | 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.INS |  | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
|  |  |  |
| 101.SCH |  | XBRL Taxonomy Extension Schema |
|  |  |  |
| 101.CAL |  | XBRL Taxonomy Extension Calculation Linkbase |
|  |  |  |
| 101.LAB |  | XBRL Taxonomy Extension Label Linkbase |
|  |  |  |
| 101.DEF |  | XBRL Taxonomy Extension Definition Linkbase |
|  |  |  |
| 101.PRE |  | XBRL Taxonomy Extension Presentation Linkbase |
|  |  |  |
| 104 |  | Cover page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101) |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\* filed herewith

\*\* furnished herewith

+ denotes management contract or compensatory arrangement

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 5, 2021.

|  |  |
| --- | --- |
|  | ENSTAR GROUP LIMITED |
|  |  |
| By: | /S/ Zachary Wolf |
|  | Zachary Wolf  Chief Financial Officer, Authorized Signatory, Principal Financial Officer |
|  |  |
| By: | /s/ Michael Murphy |
|  | Michael Murphy  Chief Accounting Officer,  Principal Accounting Officer |

1. Run-off segment COVID-19 related net underwriting losses of $19.5 million includes net incurred losses of $22.0 million, partially offset by reinstatement premiums of $2.5 million. [↑](#footnote-ref-2)
2. The investment results of StarStone International were included in the Legacy Underwriting segment prior to January 1, 2021 and the Investments segment from January 1, 2021. [↑](#footnote-ref-3)