Enstar Group LTD
Form 10-Q
November 08, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Commission File Number 001-33289

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filerþ Accelerated filer¨ Non-accelerated filer¨ Smaller reporting company¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of November 8, 2016, the registrant had outstanding 16,227,500 voting ordinary shares and 3,130,408 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 September 30, 2016

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2016 and December 31, 2015

	September 30, 2016	December 31, 2015
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 119,680	$ 87,350
Short-term investments, available-for-sale, at fair value (amortized cost: 2016 — $793; 2015 — $8,630)	792	8,622
Fixed maturities, trading, at fair value	5,036,054	4,990,794
Fixed maturities, held-to-maturity, at amortized cost	762,602	790,866
Fixed maturities, available-for-sale, at fair value (amortized cost: 2016 — $295,197; 2015 — $300,160)	299,324	293,679
Equities, trading, at fair value	120,350	115,941
Other investments, at fair value	985,696	1,034,032
Other investments, at cost	129,431	133,071
Total investments	7,453,929	7,454,355
Cash and cash equivalents	769,039	821,925
Restricted cash and cash equivalents	517,870	511,339
Premiums receivable	404,109	381,412
Deferred tax assets	112,983	121,035
Prepaid reinsurance premiums	129,921	121,427
Reinsurance balances recoverable	1,278,988	1,474,004
Funds held by reinsured companies	1,140,695	109,358
Deferred acquisition costs	103,064	89,123
Goodwill and intangible assets	186,343	191,304
Other assets	373,979	556,850
TOTAL ASSETS	$ 12,470,920	$ 11,832,132
LIABILITIES		
Losses and loss adjustment expenses	$ 6,145,569	$ 5,720,149
Policy benefits for life and annuity contracts	1,280,008	1,304,697
Unearned premiums	549,552	542,771
Insurance and reinsurance balances payable	271,840	274,598
Deferred tax liabilities	93,936	92,588
Loans payable	570,618	600,250
Other liabilities	322,921	358,633
TOTAL LIABILITIES	9,234,444	8,893,686
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	455,545	417,663
SHAREHOLDERS’ EQUITY		

Share capital authorized, issued and fully paid, par value $1 each (authorized 2016 and 2015: 156,000,000):		
Ordinary shares (issued and outstanding 2016: 16,171,378; 2015: 16,133,334)	16,171	16,133
Non-voting convertible ordinary shares:		
Series A (issued 2016: nil; 2015: 2,972,892)	—	2,973
Series C (issued and outstanding 2016: 2,725,637; 2015: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2016: 404,771; 2015: 404,771)	405	405
Series C Preferred Shares (issued and outstanding 2016: 388,571; 2015: nil)	389	—
Treasury shares at cost (Preferred shares 2016: 388,571; Series A non-voting convertible ordinary shares 2015: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,379,389	1,373,044
Accumulated other comprehensive loss	(17,333)	(35,162)
Retained earnings	1,817,266	1,578,312
Total Enstar Group Limited Shareholders’ Equity	2,777,454	2,516,872
Noncontrolling interest	3,477	3,911
TOTAL SHAREHOLDERS’ EQUITY	2,780,931	2,520,783
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS’ EQUITY	$ 12,470,920	$ 11,832,132

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Nine Months Ended September 30, 2016 and 2015

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	$223,395	$231,051	$659,732	$641,980
Fees and commission income	6,995	8,977	19,585	29,588
Net investment income	57,546	40,796	171,832	105,867
Net realized and unrealized gains (losses)	70,422	(15,130)	146,373	16,641
Other income	610	2,373	7,071	17,688
	358,968	268,067	1,004,593	811,764
EXPENSES				
Net incurred losses and loss adjustment expenses	(6,902)	32,359	172,778	168,395
Life and annuity policy benefits	21,753	22,989	62,511	73,926
Acquisition costs	52,544	49,806	146,298	121,450
General and administrative expenses	104,991	100,335	305,315	290,896
Interest expense	5,027	5,156	15,852	14,035
Net foreign exchange losses (gains)	2,320	(841)	2,236	(3,460)
	179,733	209,804	704,990	665,242
EARNINGS BEFORE INCOME TAXES	179,235	58,263	299,603	146,522
INCOME TAXES	(8,858)	(12,262)	(24,840)	(28,822)
NET EARNINGS	170,377	46,001	274,763	117,700
Less: Net losses (earnings) attributable to noncontrolling interest	(14,329)	3,041	(32,601)	(9,266)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$156,048	$49,042	$242,162	$108,434
EARNINGS PER SHARE — BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$8.09	$2.55	$12.55	$5.63
EARNINGS PER SHARE — DILUTED				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$8.02	$2.53	$12.46	$5.59
Weighted-average ordinary shares outstanding — basic	19,299,038	19,256,184	19,292,450	19,248,737
Weighted-average ordinary shares outstanding — diluted	19,449,430	19,408,627	19,432,658	19,387,285

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2016 and 2015

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$170,377	$46,001	$274,763	$117,700
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on fixed income investments arising during the period	1,668	(2,002)	10,762	(4,196)
Reclassification adjustment for net realized losses (gains) included in net earnings	(282)	(27)	(147)	(171)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	1,386	(2,029)	10,615	(4,367)
Currency translation adjustment	2,803	(11,290)	8,856	(23,877)
Total other comprehensive income (loss)	4,189	(13,319)	19,471	(28,244)
Comprehensive income	174,566	32,682	294,234	89,456
Less comprehensive loss (income) attributable to noncontrolling interest	(14,321)	2,326	(34,240)	(3,843)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$160,245	$35,008	$259,994	$85,613

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30,	
	2016	2015
	(expressed in thousands of U.S. dollars)	
Share Capital — Ordinary Shares		
Balance, beginning of period	$ 16,133	$ 15,761
Issue of shares	38	58
Conversion of Series E Non-Voting Convertible Ordinary Shares	—	309
Balance, end of period	$ 16,171	$ 16,128
Share Capital — Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 2,973	$ 2,973
Shares converted to Series C Convertible Participating Non-Voting Perpetual Preferred Stock	(2,973)	—
Balance, end of period	$ —	$ 2,973
Share Capital — Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,726	$ 2,726
Share Capital — Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 405	$ 714
Conversion to Ordinary Shares	—	(309)
Balance, end of period	$ 405	$ 405
Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning of period	$ —	$ —
Conversion of Series A Non-Voting Convertible Ordinary Stock	389	—
Balance, end of period	$ 389	$ —
Treasury Shares		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 1,373,044	$ 1,321,715
Issue of shares and warrants	1,023	1,352
Conversion of Series A Non-Voting Convertible Ordinary Stock	2,584	—
Amortization of equity incentive plan	2,738	4,504
Equity attributable to Enstar Group Limited on acquisition of noncontrolling shareholders' interest in subsidiaries	—	41,697
Balance, end of period	$ 1,379,389	$ 1,369,268
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ (35,162)	$ (12,686)
Currency translation adjustment		
Balance, beginning of period	(23,790)	(2,779)
Change in currency translation adjustment	8,852	(22,501)
Purchase of noncontrolling shareholder's interest in subsidiaries	—	2,937
Balance, end of period	(14,938)	(22,343)
Defined benefit pension liability		
Balance, beginning and end of period	(7,723)	(7,726)
Unrealized gains (losses) on investments		

Balance, beginning of period	(3,649)	(2,181)
Change in unrealized gains (losses) on investments	8,977	(3,569)
Purchase of noncontrolling shareholders’ interest in subsidiaries	—	312
Balance, end of period	5,328	(5,438)
Balance, end of period	$ (17,333)	$ (35,507)
Retained Earnings		
Balance, beginning of period	$ 1,578,312	$ 1,395,206
Net earnings attributable to Enstar Group Limited	242,162	108,434
Accretion of redeemable noncontrolling interests to redemption value	(3,208)	—
Balance, end of period	$ 1,817,266	$ 1,503,640
Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)		
Balance, beginning of period	$ 3,911	$ 217,970
Sale of noncontrolling shareholders' interest in subsidiaries	—	(195,347)
Dividends paid	—	(733)

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Contribution of capital	—	680
Net earnings (losses) attributable to noncontrolling interest	(434)	(308)
Foreign currency translation adjustments	—	(1,558)
Net movement in unrealized holding losses on investments	—	(135)
Balance, end of period	$3,477	$20,569

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2016 and 2015

	Nine Months Ended September 30,	
	2016	2015
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$274,763	$117,700
Adjustments to reconcile net earnings to cash flows used in operating activities:		
Net realized gains on sale of investments	(6,017)	(18,561)
Net unrealized (gains) losses on investments	(140,356)	1,920
Other non-cash items	5,207	4,129
Depreciation and other amortization	35,449	42,659
Net change in trading securities held on behalf of policyholders	(1,276)	(8,452)
Sales and maturities of trading securities	2,298,560	2,690,081
Purchases of trading securities	(2,271,927)	(3,189,379)
Changes in:		
Reinsurance balances recoverable	199,354	251,660
Funds held by reinsured companies	50,187	25,020
Losses and loss adjustment expenses	(779,291)	(307,872)
Policy benefits for life and annuity contracts	(28,856)	(23,843)
Insurance and reinsurance balances payable	(4,965)	60,518
Unearned premiums	6,782	(13,396)
Other operating assets and liabilities	124,217	(169,635)
Net cash flows used in operating activities	(238,169)	(537,451)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	$9,924	$56,369
Sales and maturities of available-for-sale securities	64,865	113,128
Purchase of available-for-sale securities	(52,865)	(65,036)
Maturities of held-to-maturity securities	20,844	6,520
Movement in restricted cash and cash equivalents	94,940	370,434
Purchase of other investments	(69,297)	(189,164)
Redemption of other investments	155,420	62,732
Other investing activities	(2,693)	(2,949)
Net cash flows provided by investing activities	221,138	352,034
FINANCING ACTIVITIES:		
Contribution by noncontrolling interest	$—	$680
Contribution by redeemable noncontrolling interest	—	15,728
Dividends paid to redeemable noncontrolling interest	—	(16,128)
Dividends paid to noncontrolling interest	—	(733)
Purchase of noncontrolling interest	—	(150,400)
Receipt of loans	154,048	537,700
Repayment of loans	(186,250)	(128,500)
Net cash flows provided by (used in) financing activities	(32,202)	258,347
	(3,653)	(10,280)

EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,886)	62,650
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	821,925	963,402
CASH AND CASH EQUIVALENTS, END OF PERIOD	$769,039	$1,026,052
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$17,518	$25,119
Interest paid	$14,335	$13,455

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016 and December 31, 2015

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring items considered necessary for a fair presentation under U.S. GAAP. The results of operations for any interim period are not necessarily indicative of results of the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015. Inter-company accounts and transactions have been eliminated. Results of operations for subsidiaries acquired are included from the dates on which we acquired them. In these notes, the terms "we," "us," "our," or "the Company" refer to Enstar Group Limited and its consolidated subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings.

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

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

New Accounting Standards Adopted in 2016

Accounting Standards Update ("ASU") 2016-17, Consolidation - Interests Held through Related Parties that are under Common Control

In October 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-17, which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (“VIE”) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

ASU 2015-16, Business Combinations, Simplifying the Accounting for Measurement-Period Adjustment

In September 2015, the FASB issued ASU 2015-16, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value or its Equivalent

In May 2015, the FASB issued ASU No. 2015-07, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at the net asset value ("NAV") per share (or its equivalent) using the practical expedient in the FASB’s fair value measurement guidance. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. In addition, the scope of current disclosure requirements for investments eligible to be measured at NAV is limited to investments for which the practical expedient is applied. While the adoption of this guidance impacted our disclosures, it did not have an impact on our consolidated financial statements.

ASU 2015-02, Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, which requires entities to evaluate whether they should consolidate certain legal entities. The new consolidation guidance changes the way entities evaluate whether (1) they should consolidate limited partnerships and similar entities; (2) fees paid to a decision maker or service provider are variable interests in a VIE, and (3) variable interests in a VIE held by related parties of a registrant require the registrant to consolidate the VIE. The new guidance also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The ASU also significantly changes how to evaluate voting rights for entities that are not similar to limited partnerships when determining whether the entity is a VIE, which may affect entities for which decision making rights are conveyed through a contractual arrangement. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU 2016-16, which requires immediate recognition of the tax consequences of many intercompany asset transfers other than inventory. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017, however early adoption is permitted. The guidance must be applied retrospectively and we are currently evaluating the impact of its adoption on our consolidated financial statements.

ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017, however early adoption is permitted. The guidance must be applied retrospectively and we are currently evaluating the impact of its adoption on our consolidated financial statements.

ASU 2016-13, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which amends the guidance on impairment of financial instruments and significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU will replace the existing “incurred loss” approach, with an “expected loss” model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing other-than-temporary-impairment model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for interim and annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

In March 2016, the FASB issued ASU 2016-08, which amends the principal-versus agent implementation guidance and illustrations in its new revenue standard (ASU 2014-09). The ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. Similar to ASU 2014-09, this guidance is effective for interim and reporting periods beginning after December 15, 2017, as amended by the one-year deferral and the early adoption provisions in ASU 2015-14. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-07, which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. Entities are therefore required to apply the guidance prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU's effective date. The ASU further requires that unrealized holding gains or losses in accumulated other comprehensive income related to an available-for-sale security that becomes eligible for the equity method be recognized in earnings as of the date on which the investment qualifies for the equity method. The ASU is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

ASU 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, which amends the guidance on the classification, measurement and disclosure of leases for both lessors and lessees. The ASU requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet and to disclose qualitative and quantitative information about leasing arrangements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

ASU 2016-01, Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many of the current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities, and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

2. SIGNIFICANT NEW BUSINESS

2016

Coca-Cola

On August 5, 2016, we entered into a reinsurance transaction with The Coca-Cola Company and its subsidiaries ("Coca-Cola") pursuant to which we reinsured certain of Coca-Cola's retention and deductible risks under its subsidiaries' U.S. workers' compensation, auto liability, general liability, and product liability insurance coverage. We assumed total gross reserves of $108.8 million, received total assets of $101.3 million and recorded a deferred charge of $7.5 million, included in other assets. We have transferred approximately $108.8 million into a trust to support our obligations under the reinsurance agreements. We provided a limited parental guarantee, subject to an overall maximum of approximately $27.0 million.

Allianz

On March 31, 2016, we completed our previously announced transaction with Allianz SE ("Allianz") to reinsure portfolios of Allianz's run-off business. Pursuant to the reinsurance agreement effective January 1, 2016, our subsidiary reinsured 50% of certain portfolios of workers' compensation, construction defect, and asbestos, pollution, and toxic tort business originally held by Fireman's Fund Insurance Company, and assumed net reinsurance reserves of approximately $1.1 billion. Affiliates of Allianz retained approximately $1.1 billion of reinsurance premium as funds withheld collateral for the obligations of our subsidiary under the reinsurance agreement, and we transferred approximately $110.0 million to a reinsurance trust to further support our subsidiary's obligations. We earned interest on the funds withheld based upon an initial fixed interest rate for the nine months ended September 30, 2016 and thereafter we will receive a return based upon an underlying portfolio of investments. We have also provided a limited parental guarantee, which is subject to a maximum cap. The combined monetary total of the support offered by us through the trust and parental guarantee is calculated in accordance with contractually defined terms and is capped at $270.0 million.

In addition to the reinsurance transaction described above, we have entered into a claims consulting agreement with San Francisco Reinsurance Company, an affiliate of Allianz, with respect to the entire $2.2 billion portfolio, including the 50% share retained by affiliates of Allianz.

3. INVESTMENTS

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

Trading

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

	September 30, 2016	December 31, 2015
U.S. government and agency	$ 819,021	$ 750,957
Non-U.S. government	310,866	359,002
Corporate	2,606,905	2,631,682
Municipal	12,088	22,247
Residential mortgage-backed	472,228	391,247
Commercial mortgage-backed	284,147	284,575
Asset-backed	650,479	638,434
Total fixed maturity and short-term investments	5,155,734	5,078,144
Equities — U.S.	112,699	108,793
Equities — International	7,651	7,148
	$ 5,276,084	$ 5,194,085

Included within residential and commercial mortgage-backed securities as at September 30, 2016 were securities issued by U.S. governmental agencies with a fair value of $445.1 million (as at December 31, 2015: $359.4 million). Included within corporate securities as at September 30, 2016 were senior secured loans of $89.3 million (as at December 31, 2015: $94.4 million).

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

As at September 30, 2016	Amortized Cost	Fair Value	% of Total Fair Value	
One year or less	$661,976	$655,422	12.7	%
More than one year through two years	958,009	955,940	18.5	%
More than two years through five years	1,384,585	1,397,884	27.1	%
More than five years through ten years	544,337	554,881	10.8	%
More than ten years	172,642	184,753	3.6	%
Residential mortgage-backed	471,639	472,228	9.2	%
Commercial mortgage-backed	283,510	284,147	5.5	%
Asset-backed	651,418	650,479	12.6	%
	$5,128,116	$5,155,734	100.0	%

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Held-to-maturity

We hold a portfolio of held-to-maturity securities to support our annuity business. The amortized cost and fair values of our fixed maturity investments classified as held-to-maturity were as follows:

As at September 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,793	$ 1,237	$ (73)	$ 20,957
Non-U.S. government	27,554	695	—	28,249
Corporate	715,255	39,617	(1,082)	753,790
	$ 762,602	$ 41,549	$ (1,155)	$ 802,996

As at December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,771	$ 8	$ (458)	$ 19,321
Non-U.S. government	40,503	48	(1,493)	39,058
Corporate	730,592	3,398	(23,298)	710,692
	$ 790,866	$ 3,454	$ (25,249)	$ 769,071

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

As at September 30, 2016	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 11,979	$ 11,990	1.5 %
More than one year through two years	31,613	31,747	4.0 %
More than two years through five years	59,104	60,872	7.6 %
More than five years through ten years	126,485	131,281	16.3 %
More than ten years	533,421	567,106	70.6 %
	$ 762,602	$ 802,996	100.0 %

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

As at September 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 12,786	$ 95	$ —	$ 12,881
Non-U.S. government	93,077	3,078	(2,297)	93,858
Corporate	178,441	4,758	(1,656)	181,543
Municipal	6,607	83	(1)	6,689
Residential mortgage-backed	536	51	—	587
Asset-backed	4,543	15	—	4,558
	$ 295,990	$ 8,080	$ (3,954)	$ 300,116

As at December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 25,102	$ 80	$ (341)	$ 24,841
Non-U.S. government	89,631	42	(3,889)	$ 85,784
Corporate	182,773	1,040	(3,429)	$ 180,384
Municipal	5,959	4	(36)	$ 5,927
Residential mortgage-backed	665	51	(1)	$ 715
Asset-backed	4,660	—	(10)	$ 4,650
	$ 308,790	$ 1,217	$ (7,706)	$ 302,301

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

As at September 30, 2016	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 45,038	$ 43,865	14.6 %
More than one year through two years	71,583	70,910	23.6 %
More than two years through five years	84,842	84,226	28.1 %
More than five years through ten years	41,579	43,986	14.7 %
More than ten years	47,869	51,984	17.3 %
Residential mortgage-backed	536	587	0.2 %
Asset-backed	4,543	4,558	1.5 %
	$ 295,990	$ 300,116	100.0 %

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ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	12 Months or Greater		Less Than 12 Months		Total	
As at September 30, 2016	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity and short-term investments, at fair value						
Non-U.S. government	$8,861	$(1,679)	$18,835	$(618)	$27,696	$(2,297)
Corporate	9,718	(1,479)	28,066	(177)	37,784	(1,656)
Municipal	—	—	696	(1)	696	(1)
Total	$18,579	$(3,158)	$47,597	$(796)	$66,176	$(3,954)
Fixed maturity investments, at amortized cost						
U.S. government and agency	$—	$—	$5,437	$(73)	$5,437	$(73)
Corporate	13,751	(809)	21,770	(273)	35,521	(1,082)
Total	13,751	(809)	27,207	(346)	40,958	(1,155)
Total fixed maturity and short-term investments	$32,330	$(3,967)	$74,804	$(1,142)	$107,134	$(5,109)

	12 Months or Greater		Less Than 12 Months		Total	
As at December 31, 2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity and short-term investments, at fair value						
U.S. government and agency	$523	$(2)	$21,694	$(339)	$22,217	$(341)
Non-U.S. government	18,995	(2,633)	50,080	(1,256)	69,075	(3,889)
Corporate	54,295	(2,394)	81,047	(1,035)	135,342	(3,429)
Municipal	—	—	4,609	(36)	4,609	(36)
Residential mortgage-backed	71	(1)	—	—	71	(1)
Asset-backed	4,649	(10)	—	—	4,649	(10)
Total	$78,533	$(5,040)	$157,430	$(2,666)	$235,963	$(7,706)
Fixed maturity investments, at amortized cost						
U.S. government and agency	$7,221	$(48)	$12,024	$(410)	$19,245	$(458)
Non-U.S. government	24,424	(1,255)	8,885	(238)	33,309	(1,493)
Corporate	209,000	(9,038)	330,833	(14,260)	539,833	(23,298)
Total	240,645	(10,341)	351,742	(14,908)	592,387	(25,249)
Total fixed maturity and short-term investments	$319,178	$(15,381)	$509,172	$(17,574)	$828,350	$(32,955)

As at September 30, 2016 and December 31, 2015, the number of securities classified as available-for-sale in an unrealized loss position was 123 and 332, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 48 and 124, respectively.

As at September 30, 2016 and December 31, 2015, the number of securities classified as held-to-maturity in an unrealized loss position was 10 and 109, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 3 and 53, respectively.

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Other-Than-Temporary Impairment

For the nine months ended September 30, 2016 and 2015, we did not recognize any other-than-temporary impairment losses on either our available-for-sale or held-to-maturity securities. We determined that no credit losses existed as at September 30, 2016. A description of our other-than-temporary impairment process is included in Note 2 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015. There were no changes to our process during the nine months ended September 30, 2016.

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity and short-term investments as of September 30, 2016:

	Amortized Cost	Fair Value	% of Total Investments		AAA Rated		AA Rated		A Rated		BBB Rated		Non-Investment Grade		No
Fixed maturity and short-term investments, at fair value															
U.S. government and agency	$823,515	$831,902	13.3	%	$805,241		$26,661		$—		$—		$—		$—
Non-U.S. government	409,975	404,724	6.5	%	132,142		205,155		47,369		20,058		—		—
Corporate	2,760,381	2,788,448	44.5	%	145,128		492,504		1,267,740		724,547		155,980		2,5
Municipal	18,588	18,777	0.3	%	6,617		9,890		2,270		—		—		—
Residential mortgage-backed	472,175	472,815	7.6	%	463,098		420		6,216		2,144		934		3
Commercial mortgage-backed	283,510	284,147	4.5	%	105,545		39,131		80,084		20,614		1,281		37,
Asset-backed	655,961	655,037	10.5	%	221,930		133,672		193,621		34,898		70,720		196
Total	5,424,105	5,455,850	87.2	%	1,879,701		907,433		1,597,300		802,261		228,915		40,
% of total fair value					34.5	%	16.6	%	29.3	%	14.7	%	4.2	%	0.7
Fixed maturity investments, at amortized cost															
U.S. government and agency	19,793	20,957	0.3	%	19,560		1,380		—		—		—		17
Non-U.S. government	27,554	28,249	0.5	%	—		9,467		18,782		—		—		—
Corporate	715,255	753,790	12.0	%	41,408		116,411		487,062		108,838		—		71
Total	762,602	802,996	12.8	%	60,968		127,258		505,844		108,838		—		88
% of total fair value					7.6	%	15.8	%	63.0	%	13.6	%	—	%	—
Total fixed maturity and short-term	$6,186,707	$6,258,846	100.0	%	$1,940,669		$1,034,691		$2,103,144		$911,099		$228,915		$40

investments % of total fair value	31.0 %	16.5 %	33.6 %	14.6 %	3.7 %	0.6

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Other Investments, at fair value

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

	September 30, 2016	December 31, 2015
Private equities and private equity funds	$ 254,561	$ 254,883
Fixed income funds	255,665	291,736
Fixed income hedge funds	105,145	109,400
Equity funds	175,896	147,390
Multi-strategy hedge fund	102,646	99,020
Real estate debt fund	—	54,829
CLO equities	67,648	61,702
CLO equity funds	14,593	13,928
Call options on equities	8,500	—
Other	1,042	1,144
	$ 985,696	$ 1,034,032

The valuation of our other investments is described in Note 4 - "Fair Value Measurements." Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

- Private equities and private equity funds invest primarily in the financial services industry. All of our investments in private equities and private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the dates of our initial investments.
- Fixed income funds comprise a number of positions in diversified fixed income funds that are managed by third-party managers. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from daily up to quarterly.
- Fixed income hedge funds invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of up to three years from the time of initial investment. Once eligible, redemptions are permitted quarterly with 90 days' notice.
- Equity funds invest in a diversified portfolio of international publicly traded equity securities. The funds are eligible for bi-monthly redemption.
- Multi-strategy hedge fund comprises an investment in a hedge fund that invests in a variety of asset classes including funds, fixed income, equity securities and other investments. The fund is eligible for quarterly redemption after November 1, 2016. Once eligible, redemptions will be permitted quarterly with 60 days' notice.
- Real estate debt fund invests primarily in U.S. commercial real estate loans and securities. A redemption request for this fund can be made 10 days after the date of any monthly valuation. The fund was fully redeemed as at March 31, 2016.
- CLO equities comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by us in these securities.
- CLO equity funds comprise two funds that invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. One of the funds has a fair value of $3.8 million, part of a self-liquidating structure that is expected to pay out over two to six years. The other fund has a fair value of $10.8 million and is

eligible for redemption in 2018.

- Call options on equities comprise directly held options to purchase the common equity of publicly traded corporations.
- Other primarily comprises a fund that provides loans to educational institutions throughout the United States and its territories.

Investments of $0.8 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.

As at September 30, 2016, we had unfunded commitments to private equity funds of $122.8 million.

Other Investments, at cost

Our other investments carried at cost of $129.4 million as of September 30, 2016 consist of life settlement contracts acquired during 2015. During the nine months ended September 30, 2016 and 2015, net investment income included $16.8 million and $9.3 million, respectively, related to investments in life settlements. There were impairment charges of $3.6 million and $nil recognized in net realized and unrealized gains/losses during the nine months ended September 30, 2016 and 2015, respectively. The following table presents further information regarding our investments in life settlements as of September 30, 2016 and December 31, 2015.

	September 30, 2016			December 31, 2015		
	Number of Contracts	Carrying Value	Face Value (Death Benefits)	Number of Contracts	Carrying Value	Face Value (Death Benefits)
Remaining Life Expectancy of Insureds:						
0 – 1 year	2	$448	$700	2	$417	$700
1 – 2 years	5	6,060	9,500	4	3,032	5,000
2 – 3 years	14	21,585	46,885	19	24,072	39,123
3 – 4 years	18	16,076	32,272	14	9,695	20,932
4 – 5 years	17	8,911	20,302	16	9,025	22,457
Thereafter	183	76,351	427,489	221	86,830	491,499
Total	239	$129,431	$537,148	276	$133,071	$579,711

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

At September 30, 2016, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending September 30, 2017 and the four succeeding years ending September 30, 2021 is $17.7 million, $17.3 million, $17.5 million, $16.9 million and $15.3 million, respectively.

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Net Realized and Unrealized Gains (Losses)

Components of net realized and unrealized gains (losses) for the three and nine months ended September 30, 2016 and 2015 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net realized gains (losses) on sale:				
Gross realized gains on fixed maturity securities, available-for-sale	$12	$126	$391	$279
Gross realized (losses) on fixed maturity securities, available-for-sale	—	(99)	(244)	(108)
Net realized gains (losses) on fixed maturity securities, trading	3,826	(5,207)	3,449	(1,455)
Net realized gains on equity securities, trading	1,393	3,959	2,421	19,845
Total net realized gains (losses) on sale	$5,231	$(1,221)	$6,017	$18,561
Net unrealized gains (losses):				
Fixed maturity securities, trading	$14,670	$(875)	$96,882	$(9,940)
Equity securities, trading	2,866	(7,996)	5,089	(21,560)
Other investments	47,655	(5,038)	38,385	29,580
Total net unrealized gains (losses)	65,191	(13,909)	140,356	(1,920)
Net realized and unrealized gains (losses)	$70,422	$(15,130)	$146,373	$16,641

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of $2.4 million and $36.0 million for the three and nine months ended September 30, 2016, respectively, and $11.8 million and $71.5 million for the three and nine months ended September 30, 2015, respectively.

Net Investment Income

Major categories of net investment income for the three and nine months ended September 30, 2016 and 2015 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Fixed maturity investments	$38,018	$31,178	$115,127	$85,978
Short-term investments and cash and cash equivalents	908	1,181	2,957	5,287
Equity securities	1,021	1,407	3,530	4,403
Other investments	4,997	3,451	16,724	7,891
Funds held	7,333	174	22,570	163
Life settlements and other	7,043	6,712	17,204	9,807
Gross investment income	59,320	44,103	178,112	113,529
Investment expenses	(1,774)	(3,307)	(6,280)	(7,662)
Net investment income	$57,546	$40,796	$171,832	$105,867

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $517.9 million and $511.3 million, as of September 30, 2016 and December 31, 2015, respectively, was as follows:

	September 30, 2016	December 31, 2015
Collateral in trust for third party agreements	$ 2,936,408	$ 3,053,692
Assets on deposit with regulatory authorities	904,259	915,346
Collateral for secured letter of credit facilities	195,318	212,544
Funds at Lloyd's [1]	358,710	382,624
	$ 4,394,695	$ 4,564,206

[1] Our underwriting businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" ("FAL") and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. As at September 30, 2016, our combined Funds at Lloyd's were comprised of cash and investments of $311.2 million and letters of credit supported by collateral of $47.5 million. In November 2016, we entered into an unsecured letter of credit agreement for Funds at Lloyd’s purposes ("FAL Facility") to issue up to $140.0 million of letters of credit, with a provision to increase the facility up to $200.0 million. The FAL Facility is available to satisfy our Funds at Lloyd’s requirements and replaces certain restricted assets and letter of credit arrangements. The FAL Facility expires in 2021.

4. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

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

	September 30, 2016			
Investments:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	$—	$ 831,902	$ —	$831,902
Non-U.S. government	—	404,724	—	404,724
Corporate	—	2,727,654	60,794	2,788,448
Municipal	—	18,777	—	18,777
Residential mortgage-backed	—	471,163	1,652	472,815
Commercial mortgage-backed	—	261,953	22,194	284,147
Asset-backed	—	560,880	94,157	655,037
Equities — U.S.	105,557	7,142	—	112,699
Equities — International	3,045	4,606	—	7,651
Other investments	—	327,356	82,961	410,317
Total investments	$108,602	$ 5,616,157	$ 261,758	$5,986,517
Other Assets:				
Derivative Instruments	$—	$ —	$ 59	$59
	$—	$ —	$ 59	$59
Other Liabilities:				
Derivative Instruments	$—	$ —	$ 718	$718
	$—	$ —	$ 718	$718

	December 31, 2015			
Investments:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	$—	$ 775,798	$ —	$775,798
Non-U.S. government	—	444,786	—	444,786
Corporate	—	2,812,066	—	2,812,066
Municipal	—	28,174	—	28,174
Residential mortgage-backed	—	391,962	—	391,962
Commercial mortgage-backed	—	255,169	29,406	284,575
Asset-backed	—	458,328	184,756	643,084
Equities — U.S.	99,467	9,326	—	108,793
Equities — International	2,702	4,446	—	7,148
Other investments	—	321,076	77,016	398,092
Total investments	$102,169	$ 5,501,131	$ 291,178	$5,894,478

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

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Other investments:	September 30, 2016	December 31, 2015
Other investments measured at fair value	$ 410,317	$ 398,092
Other investments measured at NAV as practical expedient	575,379	635,940
Total other investments shown on balance sheets	$ 985,696	$ 1,034,032

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Investments

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

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

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

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

originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Equities

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

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

Other investments, at fair value

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

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

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

- For our investments in private equities and private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in fixed income funds and equity funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.
- For our investments in fixed income and multi-strategy 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.
- Our investment in the real estate debt fund was valued based on the most recently available NAV from the external fund manager. The fair value of this investment was measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy. As at March 31, 2016 this fund was fully redeemed.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by our external CLO equity manager. If the investment does not involve an external CLO equity manager, the fair value of the investment is valued based on valuations provided by the broker or lead underwriter of the investment (the "broker"). Our CLO equity investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.

In providing valuations, the CLO equity manager and brokers use observable and unobservable inputs. Of the significant unobservable market inputs used, the default and loss severity rates involve the most judgment and create the most sensitivity. A significant increase or decrease in either of these significant inputs in isolation would result in lower or higher fair value estimates for direct investments in CLO equities and, in general, a

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

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

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

- For our investments in CLO equity funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- For our investments in call options on publicly traded equities, we measure fair value by obtaining the latest option price as of our reporting date. These are classified as Level 2.

Changes in Leveling of Financial Instruments

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. During the nine months ended September 30, 2016, we transferred $54.6 million of corporate securities, $2.8 million of residential mortgage-backed securities, $40.1 million of commercial mortgage-backed securities and $31.0 million of asset-backed securities from Level 2 to Level 3. These securities were transferred from Level 2 to Level 3 due to insufficient market observable inputs for the valuation of the specific assets. During the nine months ended September 30, 2016, we transferred $0.6 million of residential mortgage-backed securities, $50.1 million of commercial mortgage-backed securities and $138.3 million of asset-backed securities from Level 3 to Level 2. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets. There were no transfers between Levels 1 and 2.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016				Three Months Ended September 30, 2015			
	Fixed Maturity Investments	Other Investments	Derivative Instruments	Total	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Beginning fair value	$162,104	$ 80,470	$ —	$242,574	$ —	$463,905	$ —	$463,905
Purchases	35,828	—	—	35,828	—	56,839	—	56,839
Sales	(6,425)	(1,774)	—	(8,199)	—	(21,488)	—	(21,488)
	4,703	4,265	(659)	8,309	—	17,241	—	17,241

Net realized and unrealized gains								
Net transfers into (out of) Level 3	(17,413)	—	—	(17,413)	—	—	—	—
Ending fair value	$178,797	$ 82,961	$ (659)	$261,099	$—	$516,497	$ —	$516,497

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ENSTAR GROUP LIMITED

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The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016				Nine Months Ended September 30, 2015			
	Fixed Maturity Investments	Other Investments	Derivative Instruments	Total	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Beginning fair value	$214,162	$ 77,016	$ —	$291,178	$600	$ 349,790	$ 4,850	$355,240
Purchases	68,444	6,885	—	75,329	—	193,224	—	193,224
Sales	(43,145)	(6,432)	—	(49,577)	(600)	(63,903)	(5,000)	(69,503)
Net realized and unrealized gains (losses)	(148)	5,492	(659)	4,685	—	37,386	150	37,536
Net transfers into (out of) Level 3	(60,516)	—	—	(60,516)	—	—	—	—
Ending fair value	$178,797	$ 82,961	$ (659)	$261,099	$—	$ 516,497	$ —	$516,497

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

Disclosure of Fair Values for Financial Instruments Carried at Cost

The following tables present our fair value hierarchy for those assets carried at cost or amortized cost in the unaudited condensed consolidated balance sheet but for which disclosure of the fair value is required:

	September 30, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Carrying Value
Fixed maturity investments, held-to-maturity:					
U.S. government and agency	$ —	$ 20,957	$ —	$20,957	$19,793
Non-U.S. government	—	28,249	—	28,249	27,554
Corporate	—	745,139	8,651	753,790	715,255
Sub-total	—	794,345	8,651	802,996	762,602
Other investments:					
Life settlements	—	—	127,047	127,047	129,431
Total	$ —	$ 794,345	$ 135,698	$930,043	$892,033

	December 31, 2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Carrying Value
Fixed maturity investments, held-to-maturity:					
U.S. government and agency	$ —	$ 19,321	$ —	$19,321	$19,771
Non-U.S. government	—	39,058	—	39,058	40,503
Corporate	—	710,692	—	710,692	730,592
Sub-total	—	769,071	—	769,071	790,866
Other investments:					
Life settlements	—	—	130,268	130,268	133,071
Total	$ —	$ 769,071	$ 130,268	$899,339	$923,937

During the nine months ended September 30, 2016, we transferred $8.6 million of corporate securities from Level 2 to Level 3. These securities were transferred from Level 2 to Level 3 due to insufficient market observable inputs for the valuation of the specific assets.

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

Disclosure of fair value of amounts relating to insurance contracts is not required. 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

September 30, 2016 and December 31, 2015.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. DERIVATIVE INSTRUMENTS
Foreign Currency Hedging of Net Investments
We use foreign currency forward exchange rate contracts in qualifying hedging relationships to hedge the foreign currency exchange rate risk associated with certain of our net investments in foreign operations. At September 30, 2016, we had two forward currency contracts in place for notional amounts of AU$63.0 million (approximately $48.3 million) and CA$50.0 million (approximately $38.1 million), which we had designated as hedges of the net investments in our Australian and Canadian operations.
The following table presents the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts of the net gains deferred in the currency translation adjustment account which is a component of accumulated other comprehensive income (loss) ("AOCI"), in shareholders' equity, related to our foreign currency forward exchange rate contracts as at September 30, 2016.

		September 30, 2016 Fair Value		Amount of Gains (Losses) Deferred in AOCI (Effective Portion)	
	Gross Notional Amount	Assets	Liabilities	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Foreign exchange forward - AUD	$ 48,277	$ —	$ 718	$ (210)	$ (210)
Foreign exchange forward - CAD	38,118	59	—	234	234
Total qualifying hedges	$ 86,395	$ 59	$ 718	$ 24	$ 24

We did not have any forward currency contract hedges of our net investments in foreign operations as at September 30, 2015 and December 31, 2015 or during the three and nine months ended September 30, 2015.
We also borrowed €75.0 million during 2016 that was designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros as described in Note 11 - "Loans Payable".
Investments in Call Options on Equities
We use equity call option instruments either to obtain exposure to a particular equity instrument or for yield enhancement, in non-qualifying hedging relationships.
The following table presents the cost, estimated fair value recorded within other investments and the unrealized gains on our non-qualifying equity derivative instruments recorded in net earnings for the three and nine months ended September 30, 2016:

	September 30, 2016		Unrealized Gains in Net Earnings	
	Cost	Fair Value	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Call options	$ 5,500	$ 8,500	$ 3,650	$ 3,000

on
equities
We did not have any equity derivative instruments as at September 30, 2015 and December 31, 2015 and during the three and nine months ended September 30, 2015.

6. REINSURANCE BALANCES RECOVERABLE

The following tables provide the total reinsurance balances recoverable by segment as at September 30, 2016 and December 31, 2015:

	September 30, 2016				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	$467,170	$6,720	$162,740	$ 18,145	$654,775
IBNR	426,411	20,058	131,612	274	578,355
Fair value adjustments	(14,324)	1,875	(3,657)	—	(16,106)
Total reinsurance reserves recoverable	879,257	28,653	290,695	18,419	1,217,024
Paid losses recoverable	44,691	126	14,756	2,391	61,964
	$923,948	$28,779	$305,451	$ 20,810	$1,278,988

	December 31, 2015				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	$587,164	$6,772	$182,076	$ 22,786	$798,798
IBNR	465,211	16,581	123,732	306	605,830
Fair value adjustments	(17,628)	2,499	(6,025)	—	(21,154)
Total reinsurance reserves recoverable	1,034,747	25,852	299,783	23,092	1,383,474
Paid losses recoverable	72,213	430	16,568	1,319	90,530
	$1,106,960	$26,282	$316,351	$ 24,411	$1,474,004

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

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

As of September 30, 2016 and December 31, 2015, we had reinsurance balances recoverable of approximately $1.3 billion and $1.5 billion, respectively. The decrease of $195.0 million in reinsurance balances recoverable was primarily a result of commutations in our Non-life Run-off segment and cash collections made during the nine months ended September 30, 2016 in our Non-life Run-off and StarStone segments.

Top Ten Reinsurers

	September 30, 2016						December 31, 2015					
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total	% of Total	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total	% of Total
Top ten reinsurers	$614,992	$23,612	$160,507	$ 11,681	$810,792	63.4%	$					