Enstar Group LTD
Form 10-Q
May 08, 2018

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 March 31, 2018
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, 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	þ	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 þ
As at May 1, 2018, the registrant had outstanding 16,431,192 voting ordinary shares and 3,004,443 non-voting convertible ordinary shares, each par value $1.00 per share.

Table of Contents

Enstar Group Limited
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2018

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2018 (unaudited) and December 31, 2017

	March 31, 2018	December 31, 2017
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 214,526	$ 180,211
Fixed maturities, trading, at fair value	6,338,962	5,696,073
Fixed maturities, available-for-sale, at fair value (amortized cost: 2018 — $192,859; 2017 — $208,097)	194,936	210,285
Equities, trading, at fair value	140,476	106,603
Other investments, at fair value	1,129,685	913,392
Other investments, at cost	117,889	125,621
Total investments	8,136,474	7,232,185
Cash and cash equivalents	652,827	955,150
Restricted cash and cash equivalents	483,136	257,686
Funds held - directly managed	1,176,913	1,179,940
Premiums receivable	535,041	425,702
Deferred tax assets	13,429	13,001
Prepaid reinsurance premiums	295,988	245,101
Reinsurance balances recoverable	1,479,960	1,478,806
Reinsurance balances recoverable, at fair value	888,736	542,224
Funds held by reinsured companies	814,777	175,383
Deferred acquisition costs	83,541	64,984
Goodwill and intangible assets	179,363	180,589
Other assets	871,467	831,320
Assets held for sale	—	24,351
TOTAL ASSETS	$ 15,611,652	$ 13,606,422
LIABILITIES		
Losses and loss adjustment expenses	$ 5,466,617	$ 5,603,419
Losses and loss adjustment expenses, at fair value	3,519,453	1,794,669
Policy benefits for life and annuity contracts	116,849	117,207
Unearned premiums	712,170	583,197
Insurance and reinsurance balances payable	356,483	236,697
Deferred tax liabilities	14,807	15,262
Debt obligations	860,507	646,689
Other liabilities	974,688	972,457
Liabilities held for sale	—	11,271
TOTAL LIABILITIES	12,021,574	9,980,868
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	480,767	479,606
SHAREHOLDERS’ EQUITY		

Share capital authorized, issued and fully paid, par value $1 each (authorized 2018 and 2017: 156,000,000):		
Ordinary shares (issued and outstanding 2018: 16,412,892; 2017: 16,402,279)	16,413	16,402
Non-voting convertible ordinary shares:		
Series C (issued and outstanding 2018 and 2017: 2,599,672)	2,600	2,600
Series E (issued and outstanding 2018 and 2017: 404,771)	405	405
Series C Preferred Shares (issued 2018 and 2017: 388,571)	389	389
Treasury shares at cost (Preferred shares 2018 and 2017: 388,571)	(421,559)	(421,559)
Additional paid-in capital	1,400,624	1,395,067
Accumulated other comprehensive income	11,403	10,468
Retained earnings	2,089,760	2,132,912
Total Enstar Group Limited Shareholders' Equity	3,100,035	3,136,684
Noncontrolling interest	9,276	9,264
TOTAL SHAREHOLDERS' EQUITY	3,109,311	3,145,948
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	$ 15,611,652	$ 13,606,422

See accompanying notes to the unaudited condensed consolidated financial statements

2

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months Ended March 31, 2018 and 2017

	Three Months Ended March 31,	
	2018	2017
	(expressed in thousands of U.S. dollars, except share and per share data)	
INCOME		
Net premiums earned	$170,219	$148,898
Fees and commission income	8,331	11,914
Net investment income	66,319	48,739
Net realized and unrealized gains (losses)	(143,030)	58,519
Other income	16,640	12,198
	118,479	280,268
EXPENSES		
Net incurred losses and loss adjustment expenses	19,534	77,892
Life and annuity policy benefits	(46)	(301)
Acquisition costs	30,108	20,821
General and administrative expenses	95,260	102,468
Interest expense	8,011	6,868
Net foreign exchange losses	5,868	3,715
	158,735	211,463
EARNINGS (LOSSES) BEFORE INCOME TAXES	(40,256)	68,805
INCOME TAXES	(172)	2,929
NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS	(40,428)	71,734
NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE	—	371
NET EARNINGS (LOSSES)	(40,428)	72,105
Net earnings attributable to noncontrolling interest	(782)	(17,425)
NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$(41,210)	$54,680
Earnings (Losses) per ordinary share attributable to Enstar Group Limited:		
Basic:		
Net earnings (losses) from continuing operations	$(2.12)	$2.80
Net earnings from discontinued operations	—	0.02
Net earnings (losses) per ordinary share	$(2.12)	$2.82
Diluted:		
Net earnings (losses) from continuing operations	$(2.12)	$2.78
Net earnings from discontinued operations	—	0.02
Net earnings (losses) per ordinary share	$(2.12)	$2.80
Weighted average ordinary shares outstanding:		
Basic	19,409,021	19,374,728
Diluted	19,602,512	19,501,663

See accompanying notes to the unaudited condensed consolidated financial statements

3

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2018 and 2017

	Three Months Ended March 31,	
	2018	2017
	(expressed in thousands of U.S. dollars)	
NET EARNINGS (LOSSES)	$ (40,428)	$ 72,105
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) on fixed income investments arising during the period	(346)	686
Reclassification adjustment for net realized (losses) gains included in net earnings	30	(149)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	(316)	537
Currency translation adjustment	1,225	1,942
Total other comprehensive income	909	2,479
Comprehensive income (loss)	(39,519)	74,584
Comprehensive income attributable to noncontrolling interest	(756)	(18,082)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ (40,275)	$ 56,502

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2018 and 2017

	Three Months Ended March 31,	
	2018	2017
	(expressed in thousands of U.S. dollars)	
Share Capital — Ordinary Shares		
Balance, beginning of period	$ 16,402	$ 16,175
Issue of shares	11	14
Conversion of Series C Non-Voting Convertible Ordinary Shares	—	192
Balance, end of period	$ 16,413	$ 16,381
Share Capital — Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 2,600	$ 2,792
Conversion to Ordinary Shares	—	(192)
Balance, end of period	$ 2,600	$ 2,600
Share Capital — Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 405	$ 405
Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning and end of period	$ 389	$ 389
Treasury Shares		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 1,395,067	$ 1,380,109
Issue of shares and warrants	(94)	(511)
Amortization of share-based compensation	5,651	2,823
Balance, end of period	$ 1,400,624	$ 1,382,421
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ 10,468	$ (23,549)
Currency translation adjustment		
Balance, beginning of period	11,171	(18,993)
Change in currency translation adjustment	1,229	1,933
Balance, end of period	12,400	(17,060)
Defined benefit pension liability		
Balance, beginning and end of period	(3,143)	(4,644)
Unrealized gains (losses) on investments		
Balance, beginning of period	2,440	88
Change in unrealized gains (losses) on investments	(294)	(111)
Balance, end of period	2,146	(23)
Balance, end of period	$ 11,403	$ (21,727)
Retained Earnings		
Balance, beginning of period	$ 2,132,912	$ 1,847,550
Net earnings (losses) attributable to Enstar Group Limited	(41,210)	54,680
Accretion of redeemable noncontrolling interests to redemption value	(369)	(1,156)
Cumulative effect of change in accounting principle	(1,573)	4,882
Balance, end of period	$ 2,089,760	$ 1,905,956
Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)		

Balance, beginning of period	$ 9,264	$ 8,520
Contribution of capital	49	—
Net earnings (loss) attributable to noncontrolling interest	(37)	697
Balance, end of period	$ 9,276	$ 9,217

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2018 and 2017

	Three Months Ended March 31, 2018	2017
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings (losses)	$ (40,428)	$ 72,105
Net earnings from discontinued operations	—	(371)
Adjustments to reconcile net earnings (losses) to cash flows used in operating activities:		
Realized losses (gains) on sale of investments	6,074	329
Unrealized losses (gains) on investments	106,128	(55,511)
Other non-cash items	6,363	1,225
Depreciation and other amortization	6,703	9,302
Net change in trading securities held on behalf of policyholders	—	83
Sales and maturities of trading securities	864,352	1,073,433
Purchases of trading securities	(1,672,449)	(2,275,239)
Changes in:		
Reinsurance balances recoverable	(347,798)	(540,939)
Funds held by reinsured companies	(636,367)	(221,277)
Losses and loss adjustment expenses	1,587,609	1,769,233
Policy benefits for life and annuity contracts	(2,980)	(1,972)
Insurance and reinsurance balances payable	119,830	36,508
Unearned premiums	128,973	30,607
Other operating assets and liabilities	(200,224)	8,345
Net cash flows used in operating activities	(74,214)	(94,139)
INVESTING ACTIVITIES:		
Sales and maturities of available-for-sale securities	22,700	24,724
Purchase of available-for-sale securities	(5,039)	(7,188)
Purchase of other investments	(275,862)	(38,237)
Redemption of other investments	32,276	69,326
Other investing activities	(4,304)	(4,981)
Net cash flows provided by (used in) investing activities	(230,229)	43,644
FINANCING ACTIVITIES:		
Contribution by noncontrolling interest	49	—
Receipt of loans	345,400	437,100
Repayment of loans	(132,938)	(381,000)
Net cash flows provided by financing activities	212,511	56,100
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	15,059	(10,275)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(76,873)	(4,670)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,212,836	1,318,645
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,135,963	$ 1,313,975

Supplemental Cash Flow Information:

Income taxes paid, net of refunds	$ 2,461	$ 3,917
Interest paid	$ 10,530	$ 6,385
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	652,827	921,562
Restricted cash and cash equivalents	483,136	392,413
Cash, cash equivalents and restricted cash	$ 1,135,963	$ 1,313,975

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and December 31, 2017
(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, 2017. All significant inter-company transactions and balances have been eliminated. Results of operations for acquired subsidiaries are included from the date of acquisition. In these notes, the terms "we," "us," "our," or "the Company" refer to Enstar Group Limited and its consolidated subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings.
The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. Results of changes in estimates are reflected in earnings in the period in which the change is made. Our principal estimates include, but are not limited to:
- liability for losses and loss adjustment expenses ("LAE");
- liability for policy benefits for life 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, and impairments on goodwill, intangible assets and deferred charges;
- fair value measurements of investments;
- fair value estimates associated with accounting for acquisitions;
- fair value estimates associated with loss portfolio transfer reinsurance agreements for which we have elected the fair value option; and
- redeemable noncontrolling interests.

New Accounting Standards Adopted in 2018
Accounting Standards Update ("ASU") 2017-09, Stock Compensation - Scope of Modification Accounting
In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718 - Compensation - Stock Compensation. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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

In March 2017, the FASB issued ASU 2017-07, which amends the requirements in ASC 715 - Compensation - Retirement Benefits, related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the statement of earnings, and (2) present the other components elsewhere in the statement of earnings and outside of income from operations if such a subtotal is presented. The ASU also requires entities to disclose the captions within the statement of earnings that contain the other components if they are not presented on appropriately described separate lines. In addition, only the service-cost component of the net benefit cost is eligible for capitalization, which is a change from prior practice, under which entities capitalize the aggregate net benefit cost when applicable. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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

In February 2017, the FASB issued ASU 2017-05, which clarifies the scope of the Board's guidance on nonfinancial asset derecognition (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The ASU clarifies that ASC 610-20 applies to the derecognition of all nonfinancial assets and in-substance nonfinancial assets. The ASU also requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary pursuant to ASC 810, and (2) control of the asset is transferred in accordance with ASC 606. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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

In October 2016, the FASB issued ASU 2016-16, which requires immediate recognition of the tax consequences of many intercompany asset transfers other than inventory. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

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

In August 2016, the FASB issued ASU 2016-15, which amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The adoption of this guidance did not have any impact on our consolidated financial statements and disclosures.

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.

In February 2018, the FASB also issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies that entities should use a prospective transition approach only for equity securities they elect to measure using the new measurement alternative. The amendments also clarify that an entity that voluntarily discontinues using the measurement alternative for an equity security without a readily determinable fair value must measure that security and all identical or similar investments of the same issuer at fair value. Under this guidance, this election is

irrevocable and will apply to all future purchases of identical or similar investments of the same issuer. The amendments also clarify other aspects of ASU 2016-01 on how to apply the measurement alternative and the presentation requirements for financial liabilities measured under the fair value option. The adoption of this guidance is contingent on the adoption of ASU 2016-01.
We adopted ASU 2016-01 on January 1, 2018 using the modified retrospective approach and recorded a cumulative-effect adjustment of $1.6 million to reduce opening retained earnings for certain of our other investments

that were previously classified as available-for-sale securities and for which changes in fair value were previously included in accumulated other comprehensive income. We also adopted ASU 2018-03 following our adoption of ASU 2016-01 and this adoption did not have any impact on our consolidated financial statements and related disclosures.

ASUs 2014-09, 2016-08, 2016-10, 2016-12, Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU applies to all contracts with customers except those that are within the scope of other FASB topics, primarily our premium revenues which are covered by ASC 944 - Financial Services - Insurance, and revenues from our investment portfolios which are covered by other FASB topics. While contracts within the scope of ASC 944 are excluded from the scope of the ASU, certain insurance-related contracts are within the scope of the ASU, for example contracts under which service providers charge their customers fixed fees in exchange for an agreement to provide services for an uncertain future event. Certain of the ASU's provisions also apply to transfers of non-financial assets and include guidance on recognition and measurement.

In March 2016, the FASB also issued ASU 2016-08, Revenue from Contracts with Customers - Principal versus Agent Considerations, which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB then issued ASU 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing, which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB further issued ASU 2016-12, Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients, which clarifies the following aspects in ASU 2014-09 - (1a) collectability, (2) presentation of sales taxes and other similar taxes collected from customers, (3) non-cash considerations, (4) contract modifications at transition, (5) completed contracts at transition, and (6) technical correction.

We adopted ASU 2014-09 and the related amendments, as codified in ASC 606 - Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective method with prior periods not being restated. Premium revenues and those related to our investment portfolios, which collectively comprise most of our total revenues, are within the scope of other FASB topics and therefore are excluded from the scope of the revenue recognition standard. For other revenue types, which are within the scope of the new guidance, we evaluated individual contracts against the provisions of the new guidance to identify any contracts where the timing and measurement of those revenues may differ based upon the new guidance. The adoption did not have a material impact on our consolidated financial statements and related 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, 2017 describes accounting pronouncements that were not adopted as of December 31, 2017. Those pronouncements are not yet adopted unless discussed above in "New Accounting Standards Adopted in 2018." There were no other relevant pronouncements.

2. SIGNIFICANT NEW BUSINESS

Zurich Australia

On February 23, 2018, we entered into a reinsurance agreement with Zurich Australian Insurance Limited, a subsidiary of Zurich Insurance Group ("Zurich") to reinsure its New South Wales Vehicle Compulsory Third Party ("CTP") insurance business. Under the agreement, which was effective as of January 1, 2018, we assumed gross loss reserves of AUD$359.4 million ($280.8 million) in exchange for a reinsurance premium consideration of AUD$343.9 million ($268.7 million). We elected the fair value option for this reinsurance contract and recorded an initial fair value adjustment of AUD$15.5 million ($12.1 million) on the assumed gross loss reserves. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

Following the initial reinsurance transaction, which transferred the economics of the CTP insurance business, we and Zurich are pursuing a portfolio transfer of the CTP insurance business under Division 3A Part III of Australia's Insurance Act 1973 (Cth), which will provide legal finality for Zurich's obligations. The transfer is subject to court, regulatory and other approvals.

Neon RITC Transaction

On February 16, 2018, we closed the reinsurance-to-close (“RITC”) transaction with Neon Underwriting Limited ("Neon"), under which we reinsured to close the 2015 and prior underwriting years of account (comprising underwriting years 2008 to 2015) of Neon's Syndicate 2468, with effect from January 1, 2018. We assumed gross loss reserves of £403.9 million ($546.3 million) and net loss reserves of £342.1 million ($462.6 million) relating to the portfolio in exchange for a reinsurance premium consideration of £329.1 million ($445.1 million). We elected the fair value option for this reinsurance contract and recorded initial fair value adjustments of $20.6 million and $17.5 million on the gross and net loss reserves assumed, respectively. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

Following the closing of the transaction, we have taken responsibility for claims handling and provided complete finality to Neon's obligations.

Novae RITC Transaction

On January 29, 2018, we entered into an RITC transaction with AXIS Managing Agency Limited, under which we reinsured to close the 2015 and prior underwriting years of account of Novae Syndicate 2007 ("Novae"), with effect from January 1, 2018. We assumed gross loss reserves of £860.1 million ($1,163.2 million) and net loss reserves of £630.7 million ($853.0 million) relating to the portfolio in exchange for a reinsurance premium consideration of £594.1 million ($803.5 million). We elected the fair value option for this reinsurance contract and recorded initial fair value adjustments of $67.5 million and $49.5 million on the gross and net loss reserves assumed, respectively. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and the assumptions made.

Following the closing of the transaction, we have taken responsibility for claims handling and provided complete finality to Novae's obligations.

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

Pavonia

On December 29, 2017, the Company completed the previously announced sale of its subsidiary, Pavonia Holdings (US) Inc. ("Pavonia"), to Southland National Holdings, Inc. ("Southland"), a Delaware corporation and a subsidiary of Global Bankers Insurance Group, LLC. The aggregate purchase price was $120.0 million. The Company used the proceeds to make repayments under its revolving credit facility.

Pavonia owns Pavonia Life Insurance Company of Michigan (“PLIC MI”) and Enstar Life (US), Inc. Pursuant to the amended stock purchase agreement between the Company and Southland, which partially restructured the transaction, Southland will acquire Pavonia Life Insurance Company of New York ("PLIC NY") for $13.1 million in a second closing that is expected to occur in 2018, subject to regulatory approval. The additional purchase price represents the cash consideration we paid to PLIC MI when we acquired PLIC NY from PLIC MI as a result of the restructuring of the first closing of the transaction.

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

	December 31, 2017
Assets:	
Fixed maturities, trading, at fair value	$ 20,770
Equities, trading, at fair value	765
Cash and cash equivalents	6,314
Restricted cash and cash equivalents	13
Reinsurance balances recoverable	1,728
Other assets	269
Assets of businesses held for sale	29,859
Less: Accrual of loss on sale	(5,508)
Total assets held for sale	$ 24,351
Liabilities:	
Policy benefits for life and annuity contracts	$ 10,666
Other liabilities	605
Total liabilities held for sale	$ 11,271

As at December 31, 2017, included in the table above were restricted investments of $1.4 million.

As at March 31, 2018, included within Other assets and Other liabilities on our consolidated balance sheet were amounts of $23.5 million and $11.0 million, respectively, relating to PLIC NY.

The Pavonia business qualifies as a discontinued operation. The following table summarizes the components of net earnings from discontinued operations on the unaudited condensed consolidated statements of earnings for the three months ended March 31, 2017:

	Three Months Ended March 31, 2017
INCOME	
Net premiums earned	$14,325
Net investment income	10,029
Net realized and unrealized gains (losses)	1,622
Other income	360
	26,336
EXPENSES	
Life and annuity policy benefits	20,670
Acquisition costs	2,036
General and administrative expenses	3,057
Other expenses	(16)
	25,747

EARNINGS BEFORE INCOME TAXES	589
INCOME TAXES	(218)
NET EARNINGS FROM DISCONTINUED OPERATIONS	$371

The following table presents the cash flows of Pavonia for the three months ended March 31, 2017:

	Three Months Ended March 31, 2017
Operating activities	$15,463
Investing activities	1,237
Change in cash and cash equivalents	$16,700

4. INVESTMENTS

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

Trading

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

	March 31, 2018	December 31, 2017
U.S. government and agency	$470,639	$ 554,036
Non-U.S. government	1,000,302	607,132
Corporate	3,772,357	3,363,060
Municipal	95,740	100,221
Residential mortgage-backed	262,498	288,713
Commercial mortgage-backed	407,088	421,548
Asset-backed	544,864	541,574
Total fixed maturity and short-term investments	6,553,488	5,876,284
Equities — U.S.	102,932	106,363
Equities — International	37,544	240
	$6,693,964	$ 5,982,887

Included within residential and commercial mortgage-backed securities as at March 31, 2018 were securities issued by U.S. governmental agencies with a fair value of $123.3 million (as at December 31, 2017: $152.4 million). Included within corporate securities as at March 31, 2018 were senior secured loans of $70.9 million (as at December 31, 2017: $68.9 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 March 31, 2018	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$417,571	$417,566	6.4 %
More than one year through two years	550,136	547,148	8.3 %
More than two years through five years	1,534,602	1,524,622	23.3 %
More than five years through ten years	1,468,068	1,461,882	22.3 %
More than ten years	1,327,767	1,387,820	21.2 %
Residential mortgage-backed	259,309	262,498	4.0 %
Commercial mortgage-backed	417,110	407,088	6.2 %
Asset-backed	540,310	544,864	8.3 %
	$6,514,873	$6,553,488	100.0 %

Available-for-sale

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

As at March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 2,429	$ —	$ (13)	$ 2,416
Non-U.S. government	81,983	1,419	(416)	82,986
Corporate	104,665	2,058	(947)	105,776
Municipal	3,760	4	(28)	3,736
Residential mortgage-backed	22	—	—	22
	$ 192,859	$ 3,481	$ (1,404)	$ 194,936

As at December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 4,210	$ —	$ (23)	$ 4,187
Non-U.S. government	84,776	1,249	(588)	85,437
Corporate	113,561	2,436	(876)	115,121
Municipal	5,146	8	(18)	5,136
Residential mortgage-backed	31	—	—	31
Asset-backed	373	—	—	373
	$ 208,097	$ 3,693	$ (1,505)	$ 210,285

The contractual maturities of our fixed maturity 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 March 31, 2018	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 37,572	$37,357	19.2 %
More than one year through two years	16,731	16,693	8.6 %
More than two years through five years	48,971	49,426	25.3 %
More than five years through ten years	52,467	53,569	27.5 %
More than ten years	37,096	37,869	19.4 %
Residential mortgage-backed	22	22	— %
	$ 192,859	$194,936	100.0 %

Gross Unrealized Losses

The following tables summarize our fixed maturity investments in a gross unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
As at March 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity investments, at fair value						
U.S. government and agency	$2,288	$ (12)	$127	$ (1)	$2,415	$ (13)
Non-U.S. government	6,191	(321)	9,836	(95)	16,027	(416)
Corporate	8,628	(678)	38,795	(269)	47,423	(947)
Municipal	368	(7)	3,123	(21)	3,491	(28)
Total fixed maturity and short-term investments	$17,475	$ (1,018)	$51,881	$ (386)	$69,356	$ (1,404)

	12 Months or Greater		Less Than 12 Months		Total	
As at December 31, 2017	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity investments, at fair value						
U.S. government and agency	$2,344	$ (16)	$1,842	$ (7)	$4,186	$ (23)
Non-U.S. government	11,101	(373)	20,965	(215)	32,066	(588)
Corporate	9,177	(807)	24,200	(69)	33,377	(876)
Municipal	369	(5)	3,605	(13)	3,974	(18)
Total fixed maturity and short-term investments	$22,991	$ (1,201)	$50,612	$ (304)	$73,603	$ (1,505)

As at March 31, 2018 and December 31, 2017, the number of securities classified as available-for-sale in an unrealized loss position was 113 and 96, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 32 and 37, respectively.

Other-Than-Temporary Impairment

For the three months ended March 31, 2018 and 2017, we did not recognize any other-than-temporary impairment losses on our available-for-sale securities. We determined that no credit losses existed as at March 31, 2018 or December 31, 2017. A description of our other-than-temporary impairment process is included in Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017. There were no changes to our process during the three months ended

March 31, 2018.

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity and short-term investments as at March 31, 2018:

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	N
Fixed maturity and short-term investments									
U.S. government and agency	$478,946	$473,055	7.0 %	$472,466	$589	$—	$—	$—	$
Non-U.S. government	1,044,537	1,083,288	16.1 %	323,183	609,204	84,316	60,547	6,038	–
Corporate	3,867,651	3,878,133	57.4 %	168,725	416,632	2,037,741	1,074,943	178,958	1
Municipal	99,846	99,476	1.5 %	19,574	63,724	12,778	3,400	—	–
Residential mortgage-backed	259,331	262,520	3.9 %	144,650	5,774	14,437	657	96,079	9
Commercial mortgage-backed	417,110	407,088	6.0 %	211,536	47,498	72,257	53,254	7,619	1
Asset-backed	540,310	544,864	8.1 %	264,078	41,558	76,995	71,665	89,278	1
Total	$6,707,731	$6,748,424	100.0%	$1,604,212	$1,184,979	$2,298,524	$1,264,466	$377,972	$
% of total fair value				23.8 %	17.6 %	34.0 %	18.7 %	5.6 %	0

Other Investments, at fair value

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

	March 31, 2018	December 31, 2017
Private equities and private equity funds	$246,151	$ 289,556
Fixed income funds	230,174	229,999
Hedge funds	172,446	63,773
Equity funds	399,980	249,475
CLO equities	56,346	56,765
CLO equity fund	11,910	12,840
Private credit funds	4,419	10,156
Call options on equity	7,480	—
Other	779	828
	$1,129,685	$ 913,392

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

- Private equities and private equity funds invest primarily in the financial services industry. All of our investments in private equities and private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the dates of our initial investments.

- Fixed income funds comprise a number of positions in diversified fixed income funds that are managed by third-party managers. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from daily up to 45 days notice.
- Hedge funds invest in a diversified portfolio of debt and equity securities. The fixed income 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. The majority of our portfolio of fixed income hedge funds are

eligible for redemption. The equity hedge fund has imposed lock-up periods of up to three years from the time of initial investment. Once eligible, redemptions are permitted semi-annually with 60 days' notice.

- Equity funds invest in a diversified portfolio of U.S. and international publicly-traded equity securities. The funds have liquidity terms that vary from daily up to quarterly.
- 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 fund invests primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. The fund has a fair value of $11.9 million and is eligible for redemption in 2018.
- Private credit funds invest in direct senior or collateralized loans. The investments are subject to restrictions on redemption and sales that are determined by the governing documents and limit our ability to liquidate our positions in the funds.
- 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 $0.4 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.

As at March 31, 2018, we had unfunded commitments to other investments of $212.1 million.

Other Investments, at cost

Our other investments carried at cost of $117.9 million as at March 31, 2018 consist of life settlement contracts. During the three months ended March 31, 2018 and 2017, net investment income included $6.5 million and $6.9 million, respectively, related to investments in life settlements. There were impairment charges of $2.2 million and $0.1 million recognized in net realized and unrealized gains/losses during the three months ended March 31, 2018 and 2017, respectively, related to investments in life settlements. The following table presents further information regarding our investments in life settlements as at March 31, 2018 and December 31, 2017.

	March 31, 2018			December 31, 2017		
	Number of Contracts	Carrying Value	Face Value (Death Benefits)	Number of Contracts	Carrying Value	Face Value (Death Benefits)
Remaining Life Expectancy of Insureds:						
0 – 1 year	$—	$—	$—	$—	$—	$—
1 – 2 years	9	11,540	21,340	11	17,655	29,471
2 – 3 years	12	10,505	24,180	10	7,524	19,906
3 – 4 years	16	10,688	22,728	20	16,119	32,411
4 – 5 years	15	14,982	34,130	13	13,960	32,730
Thereafter	154	70,174	386,654	162	70,363	390,843
Total	$206	$117,889	$489,032	$216	$125,621	$505,361

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

At March 31, 2018, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending March 31, 2019 and each of the four succeeding years ending March 31, 2023 is $17.0 million, $17.2 million, $16.1 million, $15.6 million and $15.3 million, respectively.

Net Investment Income

Major categories of net investment income for the three months ended March 31, 2018 and 2017 are summarized as follows:

	Three Months Ended March 31,	
	2018	2017
Fixed maturity investments	$43,888	$30,330
Short-term investments and cash and cash equivalents	2,082	2,640
Funds held	3,129	39
Funds held - directly managed	8,626	7,002
Investment income from fixed maturities and cash and cash equivalents	57,725	40,011
Equity securities	1,490	726
Other investments	3,314	3,509
Life settlements and other	6,659	6,896
Investment income from equities and other investments	11,463	11,131
Gross investment income	69,188	51,142
Investment expenses	(2,869)	(2,403)
Net investment income	$66,319	$48,739

Net Realized and Unrealized Gains and Losses

Components of net realized and unrealized gains and losses for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Net realized gains (losses) on sale:		
Gross realized gains on fixed maturity securities, available-for-sale	7	160
Gross realized losses on fixed maturity securities, available-for-sale	(37)	(11)
Net realized losses on fixed maturity securities, trading	(6,947)	(1,052)
Net realized gains on equity securities, trading	903	574
Net realized gains (losses) on funds held - directly managed	96	(3,853)
Total net realized gains (losses) on sale	$(5,978)	$(4,182)
Net unrealized gains (losses):		
Fixed maturity securities, trading	$(100,301)	$23,316
Equity securities, trading	3,835	8,686
Other Investments	(9,662)	23,509
Change in fair value of embedded derivative on funds held – directly managed	(27,881)	6,928
Change in value of fair value option on funds held - directly managed	(3,043)	262
Total net unrealized gains (losses)	(137,052)	62,701
Net realized and unrealized gains (losses)	$(143,030)	$58,519

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of $7.5 million and $24.7 million for the three months ended March 31, 2018 and 2017, respectively.

17

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 $483.1 million and $257.7 million, as at March 31, 2018 and December 31, 2017, respectively, was as follows:

	March 31, 2018	December 31, 2017
Collateral in trust for third party agreements	$3,369,669	$ 3,118,892
Assets on deposit with regulatory authorities	595,149	599,829
Collateral for secured letter of credit facilities	159,574	151,467
Funds at Lloyd's [1]	375,847	234,833
	$4,500,239	$ 4,105,021

[1] Our underwriting businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. On February 8, 2018, we amended and restated our unsecured letter of credit agreement for Funds at Lloyd's purposes ("FAL Facility") to issue up to $325.0 million letters of credit, with a provision to increase the facility up to $400.0 million, subject to lenders approval. The FAL Facility is available to satisfy our Funds at Lloyd's requirements and expires in 2022. As at March 31, 2018, our combined Funds at Lloyd's were comprised of cash and investments of $375.8 million and unsecured letters of credit of $295.0 million.

The increase in the collateral in trust for third-party agreements and Funds at Lloyd's was primarily due to the loss portfolio transfer reinsurance transactions as described in Note 2 - "Significant New Business".

5. FUNDS HELD - DIRECTLY MANAGED

Funds held - directly managed is comprised of the following:

- The funds held balance in relation to the Allianz transaction, described in Note 4 - "Significant New Business" in our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017. This receives a variable return reflecting the economics of the investment portfolio underlying the funds held asset and qualifies as an embedded derivative. We have recorded the aggregate of the funds held, typically held at cost, and the embedded derivative as a single amount in our consolidated balance sheet. As at March 31, 2018 and December 31, 2017, the funds held at cost had a carrying value of $1,021.7 million and $994.8 million, respectively, and the embedded derivative had a fair value of $(23.3) million and $4.7 million, respectively, the aggregate of which was $998.4 million and $999.5 million, respectively, as included in the table below.
- The funds held balance in relation to the QBE reinsurance transaction described in Note 4 - "Significant New Business" in our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for which we elected the fair value option.

The following table presents the fair values of assets and liabilities underlying the funds held - directly managed account as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Fixed maturity investments:		
U.S. government and agency	$79,240	$ 69,850
Non-U.S. government	9,114	2,926
Corporate	666,085	695,490
Municipal	57,055	58,930
Residential mortgage-backed	45,987	29,439
Commercial mortgage-backed	206,248	211,186
Asset-backed	90,600	97,565
Total fixed maturity investments	$1,154,329	$ 1,165,386
Other assets	22,584	14,554
	$1,176,913	$ 1,179,940

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

As at March 31, 2018	Amortized Cost	Fair Value	% of Total Fair Value	
One year or less	$28,380	$28,259	2.5	%
More than one year through two years	83,964	83,289	7.2	%
More than two years through five years	234,632	229,926	19.9	%
More than five years through ten years	244,905	236,622	20.5	%
More than ten years	235,198	233,398	20.2	%
Residential mortgage-backed	46,892	45,987	4.0	%
Commercial mortgage-backed	215,199	206,248	17.9	%
Asset-backed	90,499	90,600	7.8	%
	$1,179,669	$1,154,329	100.0	%

Credit Ratings

The following table sets forth the credit ratings of the fixed maturity investments underlying the funds held - directly managed account as at March 31, 2018:

	Amortized Cost	Fair Value	% of Total Investments		AAA Rated	AA Rated	A Rated	BBB Rated
U.S. government and agency	$80,077	$79,240	6.9	%	$79,240	$—	$—	$—
Non-U.S. government	8,952	9,114	0.8	%	—	—	2,889	6,225
Corporate	681,752	666,085	57.7	%	7,326	26,174	301,212	331,373
Municipal	56,298	57,055	4.9	%	—	19,972	29,676	7,407
Residential mortgage-backed	46,892	45,987	4.0	%	45,987	—	—	—
Commercial mortgage-backed	215,199	206,248	17.9	%	197,795	6,472	1,981	—
Asset-backed	90,499	90,600	7.8	%	86,901	3,699	—	—
Total	$1,179,669	$1,154,329	100.0	%	$417,249	$56,317	$335,758	$345,005
% of total fair value								