

Enstar Group LTD  
Form 10-Q  
August 07, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

- þ** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended June 30, 2009**  
**OR**  
**o** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**001-33289**  
**Commission File Number**

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

**Bermuda**  
*(State or other jurisdiction  
of incorporation or organization)*

**N/A**  
*(I.R.S. Employer  
Identification No.)*

**P.O. Box HM 2267**  
**Windsor Place, 3<sup>rd</sup> Floor**  
**18 Queen Street**  
**Hamilton HM JX**  
**Bermuda**  
*(Address of principal executive office, including zip code)*

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

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

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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. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a 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

As of August 5, 2009, the registrant had outstanding 13,564,779 ordinary shares, par value \$1.00 per share.

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**Table of Contents****Item 1. FINANCIAL STATEMENTS****ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****As of June 30, 2009 and December 31, 2008**

|  | <b>June 30,<br/>2009</b>   | <b>December 31,<br/>2008</b> |
|--|--|------------------------------|
|  | <b>(expressed in thousands of U.S.<br/>dollars, except share data)</b> |                              |
| <b>ASSETS</b>  |  |                              |
| Short-term investments, available-for-sale, at fair value (amortized cost: 2009 \$420,630; 2008 \$406,712) | \$ 421,205   | \$ 406,712                   |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2009 \$80,059; 2008 \$103,452)        | 78,402   | 104,797                      |
| Fixed maturities, held-to-maturity, at amortized cost (fair value: 2009 \$806,517; 2008 \$598,686)         | 793,036  | 586,716                      |
| Fixed maturities, trading, at fair value (amortized cost: 2009 \$99,243; 2008 \$110,453)                   | 101,607  | 115,846                      |
| Equities, trading, at fair value (cost: 2009 \$26,880; 2008 \$5,087)                                       | 24,699   | 3,747                        |
| Other investments, at fair value (cost: 2009 \$160,275; 2008 \$147,652)                                    | 71,039   | 60,237                       |
| Total investments  | 1,489,988  | 1,278,055                    |
| Cash and cash equivalents  | 1,548,166  | 1,866,546                    |
| Restricted cash and cash equivalents   | 463,658  | 343,327                      |
| Accrued interest receivable  | 18,416   | 21,277                       |
| Accounts receivable, net   | 19,649   | 15,992                       |
| Income taxes recoverable   | 983  |                              |
| Reinsurance balances receivable  | 699,633  | 672,696                      |
| Investment in partly owned company   | 21,119   | 20,850                       |
| Goodwill   | 21,222   | 21,222                       |
| Other assets   | 114,768  | 118,186                      |
| <b>TOTAL ASSETS</b>  | <b>\$ 4,397,602</b>  | <b>\$ 4,358,151</b>          |
| <b>LIABILITIES</b>   |  |                              |
| Losses and loss adjustment expenses  | \$ 2,781,577   | \$ 2,798,287                 |
| Reinsurance balances payable   | 205,603  | 179,917                      |
| Accounts payable and accrued liabilities   | 38,705   | 39,340                       |
| Income taxes payable   | 24,091   | 19,034                       |
| Loans payable  | 354,757  | 391,534                      |
| Other liabilities  | 78,993   | 58,808                       |
| <b>TOTAL LIABILITIES</b>   | <b>3,483,726</b>   | <b>3,486,920</b>             |

SHAREHOLDERS EQUITY

Share capital

Authorized issued and fully paid, par value \$1 each (authorized 2009:  
156,000,000; 2008: 156,000,000)

|   |        |        |
|---|--------|--------|
| Ordinary shares (issued and outstanding 2009: 13,578,281; 2008: 13,334,353) | 13,578 | 13,334 |
|---|--------|--------|

|   |       |       |
|---|-------|-------|
| Non-voting convertible ordinary shares (issued 2009: 2,972,892; 2008:<br>2,972,892) | 2,973 | 2,973 |
|---|-------|-------|

|  |           |           |
|--|-----------|-----------|
| Treasury shares at cost (non-voting convertible ordinary shares 2009: 2,972,892;<br>2008: 2,972,892) | (421,559) | (421,559) |
|--|-----------|-----------|

|                            |         |         |
|----------------------------|---------|---------|
| Additional paid-in capital | 718,247 | 709,485 |
|----------------------------|---------|---------|

|                                      |          |          |
|--------------------------------------|----------|----------|
| Accumulated other comprehensive loss | (18,420) | (30,871) |
|--------------------------------------|----------|----------|

|                   |         |         |
|-------------------|---------|---------|
| Retained earnings | 362,129 | 341,847 |
|-------------------|---------|---------|

|  |         |         |
|--|---------|---------|
| Total Enstar Group Limited Shareholders Equity | 656,948 | 615,209 |
|--|---------|---------|

|                         |         |         |
|-------------------------|---------|---------|
| Noncontrolling interest | 256,928 | 256,022 |
|-------------------------|---------|---------|

|                           |         |         |
|---------------------------|---------|---------|
| TOTAL SHAREHOLDERS EQUITY | 913,876 | 871,231 |
|---------------------------|---------|---------|

|   |              |              |
|---|--------------|--------------|
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 4,397,602 | \$ 4,358,151 |
|---|--------------|--------------|

See accompanying notes to the unaudited condensed consolidated financial statements

**Table of Contents****ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****For the Three and Six-Month Periods Ended June 30, 2009 and 2008**

|   | <b>Three Months Ended</b>   |                 | <b>Six Months Ended</b> |                 |
|---|---|-----------------|-------------------------|-----------------|
|   | <b>June 30,</b>   | <b>June 30,</b> | <b>June 30,</b>         | <b>June 30,</b> |
|   | <b>2009</b>   | <b>2008</b>     | <b>2009</b>             | <b>2008</b>     |
|   | (expressed in thousands of U.S. dollars, except share and per share data) |                 |                         |                 |
| <b>INCOME</b>   |   |                 |                         |                 |
| Consulting fees   | \$ 4,179  | \$ 3,578        | \$ 7,515                | \$ 9,633        |
| Net investment income   | 18,493  | 21,219          | 35,802                  | 21,809          |
| Net realized gains (losses)(1)  | 5,080   | 1,014           | (930)                   | (70)            |
|   | 27,752  | 25,811          | 42,387                  | 31,372          |
| <b>EXPENSES</b>   |   |                 |                         |                 |
| Net reduction in loss and loss adjustment expense liabilities   | (17,393)  | (25,483)        | (44,072)                | (24,798)        |
| Salaries and benefits   | 11,914  | 13,947          | 24,331                  | 25,304          |
| General and administrative expenses   | 10,910  | 13,972          | 23,292                  | 25,883          |
| Interest expense  | 4,675   | 7,643           | 9,640                   | 10,958          |
| Net foreign exchange gain   | (1,611)   | (4,935)         | (13)                    | (6,270)         |
|   | 8,495   | 5,144           | 13,178                  | 31,077          |
| <b>EARNINGS BEFORE INCOME TAXES AND SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY</b>   |   |                 |                         |                 |
|   | 19,257  | 20,667          | 29,209                  | 295             |
| <b>INCOME TAXES</b>   | 23  | (3,193)         | 641                     | (2,954)         |
| <b>SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY</b>  |   |                 |                         |                 |
|   |   |                 | 269                     |                 |
| <b>EARNINGS (LOSS) BEFORE EXTRAORDINARY GAIN</b>  |   |                 |                         |                 |
|   | 19,280  | 17,474          | 30,119                  | (2,659)         |
| Extraordinary gain Negative goodwill  |   |                 |                         | 50,280          |
| <b>NET EARNINGS</b>   |   |                 |                         |                 |
|   | 19,280  | 17,474          | 30,119                  | 47,621          |
| Less: Net earnings attributable to noncontrolling interests (including share of extraordinary gain of \$nil, \$nil, \$nil and \$15,084, respectively) | (10,529)  | (6,301)         | (9,837)                 | (24,761)        |
| <b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>  |   |                 |                         |                 |
|   | \$ 8,751  | \$ 11,173       | \$ 20,282               | \$ 22,860       |
| <b>EARNINGS PER SHARE BASIC:</b>  |   |                 |                         |                 |

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|  |    |            |    |            |    |            |    |            |
|--|----|------------|----|------------|----|------------|----|------------|
| Earnings (loss) before extraordinary gain attributable to Enstar Group Limited ordinary shareholders | \$ | 0.65       | \$ | 0.93       | \$ | 1.51       | \$ | (1.03)     |
| Extraordinary gain attributable to Enstar Group Limited ordinary shareholders                        |    |            |    |            |    |            |    | 2.95       |
| Net earnings attributable to Enstar Group Limited ordinary shareholders                              | \$ | 0.65       | \$ | 0.93       | \$ | 1.51       | \$ | 1.92       |
| <b>EARNINGS PER SHARE DILUTED:</b>   |    |            |    |            |    |            |    |            |
| Earnings (loss) before extraordinary gain attributable to Enstar Group Limited ordinary shareholders | \$ | 0.63       | \$ | 0.91       | \$ | 1.48       | \$ | (1.03)     |
| Extraordinary gain attributable to Enstar Group Limited ordinary shareholders                        |    |            |    |            |    |            |    | 2.95       |
| Net earnings attributable to Enstar Group Limited ordinary shareholders                              | \$ | 0.63       | \$ | 0.91       | \$ | 1.48       | \$ | 1.92       |
| Weighted average ordinary shares outstanding basic   |    | 13,532,608 |    | 11,959,125 |    | 13,448,525 |    | 11,943,330 |
| Weighted average ordinary shares outstanding diluted   |    | 13,787,553 |    | 12,238,356 |    | 13,700,853 |    | 11,943,330 |
| <b>AMOUNTS ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS:</b>                           |    |            |    |            |    |            |    |            |
| Earnings (loss) before extraordinary gain  | \$ | 8,751      | \$ | 11,173     | \$ | 20,282     | \$ | (12,336)   |
| Extraordinary gain   |    |            |    |            |    |            |    | 35,196     |
| Net earnings   | \$ | 8,751      | \$ | 11,173     | \$ | 20,282     | \$ | 22,860     |

(1) There were no other-than-temporary impairment losses recognized in accumulated other comprehensive income in the periods presented.

See accompanying notes to the unaudited condensed consolidated financial statements



Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Three and Six-Month Periods Ended June 30, 2009 and 2008**

|  | <b>Three Months</b>                             |                  | <b>Six Months</b> |                  |
|--|---|------------------|-------------------|------------------|
|  | <b>Ended</b>                                    |                  | <b>Ended</b>      |                  |
|  | <b>June 30,</b>                                 | <b>June 30,</b>  | <b>June 30,</b>   | <b>June 30,</b>  |
|  | <b>2009</b>                                     | <b>2008</b>      | <b>2009</b>       | <b>2008</b>      |
|  | <b>(expressed in thousands of U.S. dollars)</b> |                  |                   |                  |
| NET EARNINGS   | \$ 19,280                                       | \$ 17,474        | \$ 30,119         | \$ 47,621        |
| Other comprehensive income:  |   |                  |                   |                  |
| Unrealized holding losses on investments arising during the period                   | (7,024)   | (8,291)          | (14,873)          | (7,723)          |
| Reclassification adjustment for net realized (gains) losses included in net earnings | (5,080)   | (1,014)          | 930               | 70               |
| Currency translation adjustment  | 41,207  | 9,637            | 37,225            | 7,735            |
| Total other comprehensive income:  | 29,103  | 332              | 23,282            | 82               |
| Comprehensive income   | 48,383  | 17,806           | 53,401            | 47,703           |
| Less comprehensive income attributable to noncontrolling interests                   | (18,674)  | (6,301)          | (20,668)          | (24,761)         |
| <b>COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>                     | <b>\$ 29,709</b>                                | <b>\$ 11,505</b> | <b>\$ 32,733</b>  | <b>\$ 22,942</b> |

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 Six-Month Periods Ended June 30, 2009 and 2008**

|   | <b>Six Months Ended<br/>June 30,</b>                |              |
|---|---|--------------|
|   | <b>2009</b>   | <b>2008</b>  |
|   | <b>(expressed in thousands of U.S.<br/>dollars)</b> |              |
| <b>Share Capital - Ordinary Shares</b>                        |   |              |
| Balance, beginning of period                                  | \$ 13,334   | \$ 11,920    |
| Shares issued   | 167   | 2            |
| Share awards granted/vested                                   | 77  | 39           |
| Balance, end of period  | \$ 13,578   | \$ 11,961    |
| <b>Share Capital - Non-Voting Convertible Ordinary Shares</b> |   |              |
| Balance, beginning and end of period                          | \$ 2,973  | \$ 2,973     |
| <b>Treasury Shares</b>  |   |              |
| Balance, beginning and end of period                          | \$ (421,559)  | \$ (421,559) |
| <b>Additional Paid-in Capital</b>                             |   |              |
| Balance, beginning of period                                  | \$ 709,485  | \$ 590,934   |
| Share awards granted/vested                                   | 3,567   | 2,746        |
| Shares issued   | 5,195   |              |
| Amortization of share awards                                  |   | 303          |
| Balance, end of period  | \$ 718,247  | \$ 593,983   |
| <b>Accumulated Other Comprehensive Income</b>                 |   |              |
| Balance, beginning of period                                  | \$ (30,871)   | \$ 6,035     |
| Other comprehensive income                                    | 12,451  | 82           |
| Balance, end of period  | \$ (18,420)   | \$ 6,117     |
| <b>Retained Earnings</b>                                      |   |              |
| Balance, beginning of period                                  | \$ 341,847  | \$ 260,296   |
| Net earnings  | 20,282  | 22,860       |
| Balance, end of period  | \$ 362,129  | \$ 283,156   |
| <b>Noncontrolling Interest</b>                                |   |              |
| Balance, beginning of period                                  | \$ 256,022  | \$ 63,437    |
| (Return) contribution of capital                              | (18,783)  | 86,207       |

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|                            |            |            |
|----------------------------|------------|------------|
| Dividends paid             | (979)      |            |
| Net earnings               | 9,837      | 24,761     |
| Other comprehensive income | 10,831     |            |
| Balance, end of period     | \$ 256,928 | \$ 174,405 |

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 Six-Month Periods Ended June 30, 2009 and 2008**

|   | <b>Six Months Ended</b>                         |             |
|---|---|-------------|
|   | <b>June 30,</b>                                 |             |
|   | <b>2009</b>                                     | <b>2008</b> |
|   | <b>(expressed in thousands of U.S. dollars)</b> |             |
| <b>OPERATING ACTIVITIES:</b>  |   |             |
| Net earnings  | \$ 30,119                                       | \$ 47,621   |
| Adjustments to reconcile net earnings to cash flows provided by operating activities: |   |             |
| Negative goodwill   |   | (50,280)    |
| Share of undistributed net (earnings) of partly owned company                         | (269)   |             |
| Share-based compensation expense  |   | 303         |
| Net realized and unrealized investment loss   | 930   | 70          |
| Share of net loss from other investments  | 1,458   | 21,871      |
| Other items   | 4,381   | 4,767       |
| Depreciation and amortization   | 491   | 405         |
| Amortization of bond premiums or discounts  | 4,781   | 2,898       |
| Net movement of trading securities  | 14,159  | 211,045     |
| Changes in assets and liabilities:  |   |             |
| Reinsurance balances receivable   | (18,642)  | (53,093)    |
| Other assets  | 5,570   | 15,922      |
| Losses and loss adjustment expenses   | (64,558)  | 167,936     |
| Reinsurance balances payable  | 24,131  | (58,270)    |
| Accounts payable and accrued liabilities  | 5,139   | (9,163)     |
| Other liabilities   | 21,441  | 32,241      |
| Net cash flows provided by operating activities                                       | 29,131  | 334,273     |
| <b>INVESTING ACTIVITIES:</b>  |   |             |
| Acquisitions, net of cash acquired  | 8,504   | 7,066       |
| Purchase of available-for-sale securities   | (237,887)                                       | (188,755)   |
| Sales and maturities of available-for-sale securities                                 | 247,988   | 155,339     |
| Purchase of held-to-maturity securities   | (233,001)                                       |             |
| Maturity of held-to-maturity securities   | 47,549  | 117,039     |
| Movement in restricted cash and cash equivalents                                      | (120,331)                                       | (216,984)   |
| Funding of other investments  | (23,327)  | (48,753)    |
| Purchase of investment in partly owned company  |   | (21,431)    |
| Other investing activities  | (1,714)   | (290)       |
| Net cash flows (used in) investing activities   | (312,219)                                       | (196,769)   |
| <b>FINANCING ACTIVITIES:</b>  |   |             |

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|  |              |              |
|--|--------------|--------------|
| Contribution to surplus of subsidiary by noncontrolling interest |              | 86,209       |
| Receipt of loans   |              | 306,755      |
| Repayment of loans   | (57,571)     | (59,000)     |
| Distribution of capital to noncontrolling interest               | (19,759)     |              |
| Proceeds from exercise of stock options                          | 2,796        |              |
| Net cash flows (used in) provided by financing activities        | (74,534)     | 333,964      |
| TRANSLATION ADJUSTMENT   | 39,242       | 18,245       |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS             | (318,380)    | 489,713      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                   | 1,866,546    | 995,237      |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                         | \$ 1,548,166 | \$ 1,484,950 |

**Supplemental Cash Flow Information**

|                   |          |          |
|-------------------|----------|----------|
| Income taxes paid | \$ 8,279 | \$ 3,714 |
| Interest paid     | \$ 6,892 | \$ 6,432 |

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**

June 30, 2009 and December 31, 2008

(Expressed in thousands of U.S. Dollars, except per share amounts)

(unaudited)

**1. BASIS OF PREPARATION AND CONSOLIDATION**

Our condensed consolidated financial statements have not been audited. These statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. Intercompany transactions are eliminated on consolidation. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. In these notes, the terms we, us, our, or the Company refer to Enstar Group Limited and its direct and indirect subsidiaries. The following information is unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

To facilitate period-to-period comparisons, certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on the Company's consolidated net income.

**Adoption of New Accounting Standards**

The term FAS used in these notes refers to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board ( FASB ).

The Company adopted FAS No. 141(R), Business Combinations ( FAS 141(R) ), effective January 1, 2009. FAS 141(R) replaces FAS No. 141, Business Combinations ( FAS 141 ), but retains the fundamental requirements in FAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. FAS 141(R) also requires the Company to recognize acquisition-related costs separately from the acquisition, recognize assets acquired and liabilities assumed arising from contractual contingencies at their acquisition-date fair values and recognize goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The adoption of FAS 141(R) did not have a material impact on the consolidated financial statements.

The Company adopted FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( FAS 160 ), effective January 1, 2009. FAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. FAS 160 requires consolidated net income to be reported at the amounts that include the amounts attributable to both the parent and the noncontrolling interest. This statement also establishes a method of accounting for changes in a parent's ownership interest in a subsidiary that results in deconsolidation. The

presentation and disclosure of FAS 160 have been applied retrospectively for all periods presented. The adoption of FAS 160 resulted in reclassification of noncontrolling interest in the amounts of \$256.9 million and \$256.0 million to shareholders' equity as at June 30, 2009 and December 31, 2008, respectively.

The Company adopted FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161), effective January 1, 2009. FAS 161 expands the disclosure

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**ENSTAR GROUP LIMITED**

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

**1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)**

requirements of FAS 133 and requires the reporting entity to provide enhanced disclosures about the objectives and strategies for using derivative instruments, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and credit-risk related contingent features in derivative agreements. The adoption of FAS 161 did not have a material impact on the consolidated financial statements.

The Company adopted the following three FASB Staff Positions ( FSPs ) effective April 1, 2009:

FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly ( FSP FAS 157-4 ). This FSP supercedes FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. FSP FAS 157-4 provides additional guidance on: (1) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to the normal market activity for the asset or liability, and (2) identifying transactions that are not orderly. FSP FAS 157-4 has been applied prospectively; retrospective application is not permitted.

FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS 115-2 and FAS 124-2 ). This FSP provides new guidance on the recognition and presentation of other-than-temporary impairments ( OTTI ) for available-for-sale and held-to-maturity fixed maturities (equities are excluded). A security is considered impaired if the fair value of the security is less than its amortized cost basis at the measurement date. Before the adoption of FAS 115-2, the Company was required to recognize other-than-temporary impairments in earnings if the Company could not assert that it had the ability and intent to hold its securities for a period of time sufficient to allow for any anticipated recovery in fair value in accordance with Staff Accounting Bulletin Topic 5M, Other than Temporary Impairment of Certain Investments in Debt and Equity Securities, and other authoritative literature. If the impairment was determined to be other-than-temporary, then an impairment was recognized in earnings equal to the entire difference between the security s amortized cost basis and its fair value at the balance sheet date. In accordance with FAS 115-2, the Company now recognizes other-than-temporary impairments in earnings for its impaired fixed maturity securities (1) for which the Company has the intent to sell the security or (2) if it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and (3) for those securities which have a credit loss. In assessing whether a credit loss exists, the Company has used qualitative and quantitative measures, including comparing the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If management concludes a security is other-than-temporarily impaired, the FSP requires that the difference between the fair value and the amortized cost of the security be presented as an OTTI charge in the Consolidated Statements of Earnings, with an offset for any noncredit-related loss component of the OTTI charge to be recognized in other comprehensive income. Accordingly, only the credit loss component of the OTTI amount has an impact on the Company s earnings. The FSP also requires extensive new interim and annual disclosure for both fixed maturities and equities to provide further disaggregated information, as well as information about how the credit loss component of the OTTI charge was determined, and requires a roll forward of such amount for each reporting period. Upon adoption of FAS 115-2 on April 1, 2009, the Company did not recognize a cumulative effect adjustment because all previous impairments were considered credit losses.



FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments ( FSP FAS 107-1 and APB 28-1 ). This FSP extends the disclosure requirements under FAS 107, Disclosures about Fair Value of Financial Instruments, to interim financial statements and amends APB Opinion 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

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**ENSTAR GROUP LIMITED**

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

**1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)**

The adoption of these three FSPs did not have a material impact on the Company's consolidated financial statements.

On April 1, 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FSP FAS 141(R)-1 ). This FSP amends the guidance in FAS 141(R) by requiring that assets acquired or liabilities assumed in a business combination that arise from contingencies be recognized at fair value only if fair value can be reasonably estimated; otherwise the asset or liability should generally be recognized in accordance with FAS 5, Accounting for Contingencies, and FASB Interpretation 14, Reasonable Estimation of the Amount of Loss. This FSP removes the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. FSP FAS 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after December 15, 2008. The Company does not anticipate this adoption will have a material impact on its consolidated financial statements.

In May 2009, the FASB issued FAS 165, Subsequent Events ( FAS 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. FAS 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted FAS 165 during the second quarter of 2009, and its application had no impact on its condensed consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 7, 2009.

**Recently Issued Accounting Standards Not Yet Adopted**

In June 2009, the FASB issued FAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement addresses (1) the effects on certain provisions of FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, Accounting for Transfers of Financial Assets, and (2) constituent concerns about the application of certain key provisions of FASB Interpretation No. 46(R), including those in which the accounting and disclosures under such interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 ( FAS 168 ). FAS 168 establishes the FASB Accounting Standards Codification as the single source of authoritative accounting principles in the preparation of financial statements in conformity with U.S. GAAP. FAS 168 explicitly recognizes rules and

interpretive releases of the Securities and Exchange Commission ( SEC ) under federal securities laws as authoritative U.S. GAAP for SEC registrants. FAS 168 is effective for financial statements issued for periods ending after September 15, 2009. As the new standard is not intended to change or alter existing U.S. GAAP, it is not expected to have any impact on the Company s consolidated financial statements.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements, or do not apply to its operations.

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS*****Constellation Reinsurance***

On January 31, 2009, the Company, through its indirect subsidiary, Sun Gulf Holdings Inc., completed the acquisition of all of the outstanding capital stock of Constellation Reinsurance Company Limited ( Constellation ) for a total purchase price of approximately \$2.5 million. Constellation is a New York domiciled reinsurer that is in run-off. The acquisition was funded from available cash on hand.

The purchase price and fair value of the assets acquired in the Constellation acquisition were as follows:

|                                   |          |
|-----------------------------------|----------|
| Total purchase price              | \$ 2,500 |
| Net assets acquired at fair value | \$ 2,500 |

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

|                                       |           |
|---------------------------------------|-----------|
| Cash, restricted cash and investments | \$ 11,254 |
| Reinsurance balances receivable       | 3,374     |
| Losses and loss adjustment expenses   | (12,128)  |
| Net assets acquired at fair value     | \$ 2,500  |

From January 31, 2009, the date of acquisition, to June 30, 2009, the Company has recorded in its condensed consolidated statement of earnings revenues and net (losses) related to Constellation of \$0.1 million and \$(0.2) million, respectively.

***Pro Formas, for the Three Months Ended June 30, 2008***

The following pro forma condensed combined income statement for the three and six-months ended June 30, 2008 combines the historical consolidated statements of earnings of the Company with those of AMP Limited s Australian-based closed reinsurance and insurance operations ( Gordian ) and Unionamerica Holdings Limited ( UAH ), which were acquired in the first and fourth quarters of 2008, respectively, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2008.

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| Three Months Ended June 30, 2008   | Enstar Group |           |          | Pro forma   | Group Limited Pro forma |
|--|--------------|-----------|----------|-------------|-------------------------|
|  | Limited      | Gordian   | UAH      | Adjustments |                         |
| Total income   | \$ 21,360    | \$ 4,451  | \$ 5,984 | \$          | \$ 31,795               |
| Total expenses   | (25,995)     | 17,658    | 7,102    | (8,616)(a)  | (9,851)                 |
| (Loss) earnings attributable to Enstar Group Limited                         | (4,635)      | 22,109    | 13,086   | (8,616)     | 21,944                  |
| Less: Noncontrolling interest  | 332          | (6,633)   | (3,926)  | 2,585(b)    | (7,642)                 |
| (Loss) earnings attributable to Enstar Group Limited                         | \$ (4,303)   | \$ 15,476 | \$ 9,160 | \$ (6,031)  | \$ 14,302               |
| Net earnings per ordinary share attributable to Enstar Group Limited basic   |              |           |          |             | \$ 1.20                 |
| Net earnings per ordinary share attributable to Enstar Group Limited diluted |              |           |          |             | \$ 1.17                 |

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (cont d)****Notes to the Pro Forma Condensed Combined Income Statements for the Three Months Ended June 30, 2008:**

## Expenses:

|   |            |
|---|------------|
| (a)(i) Adjustment to interest expense to reflect the financing costs of the acquisitions for the period | \$ (2,882) |
| (ii) Adjustment to recognize amortization of fair value adjustments recorded at dates of acquisition    | (6,540)    |
| (iii) Adjustment to income taxes for pro forma adjustments  | 806        |
|   | (8,616)    |
| (b) Reflects noncontrolling interest's share of net pro forma income statement adjustments              | 2,585      |

***Pro Formas, for the Six Months Ended June 30, 2008***

| <b>Six Months Ended June 30, 2008</b>  | <b>Enstar<br/>Group<br/>Limited</b> | <b>Gordian</b> | <b>UAH</b>  | <b>Pro forma<br/>Adjustments</b> | <b>Enstar<br/>Group<br/>Limited<br/>Pro forma</b> |
|--|-------------------------------------|----------------|-------------|----------------------------------|---|
| Total income   | \$ 19,612                           | \$ 18,532      | \$ 12,936   | \$ (5,194)(a)                    | \$ 45,886   |
| Total expenses   | (48,882)                            | 33,518         | (37,279)    | (25,725)(b)                      | (78,368)  |
| (Loss) earnings before extraordinary gain  | (29,270)                            | 52,050         | (24,343)    | (30,919)                         | (32,482)  |
| Extraordinary gain   | 50,280                              |                |             |                                  | 50,280  |
| Earnings (loss) before noncontrolling interest   | 21,010                              | 52,050         | (24,343)    | (30,919)                         | 17,798  |
| Noncontrolling interest (including share of extraordinary gain of \$15,084)                                    | (16,778)                            | (15,615)       | 7,303       | 9,276(c)                         | (15,814)  |
| Net earnings (loss) attributable to Enstar Group Limited   | \$ 4,232                            | \$ 36,435      | \$ (17,040) | \$ (21,643)                      | \$ 1,984  |
| Earnings per ordinary share attributable to Enstar Group Limited before extraordinary gain - basic and diluted |                                     |                |             |                                  | \$ (2.78)   |
| Extraordinary gain attributable to Enstar Group Limited - basic and diluted                                    |                                     |                |             |                                  | 2.95  |
|  |                                     |                |             |                                  | \$ 0.17   |

Net earnings per ordinary share  
attributable to Enstar Group Limited  
basic and diluted

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (cont d)****Notes to the Pro Forma Condensed Combined Income Statements for the Six Months Ended June 30, 2008:**

## Income:

|  |            |
|--|------------|
| (a) Adjustment to conform the accounting policy for investments to that of the Company | \$ (5,194) |
|--|------------|

## Expenses:

|   |          |
|---|----------|
| (b)(i) Adjustment to interest expense to reflect the financing costs of the acquisitions for the period | (10,716) |
|---|----------|

|  |          |
|--|----------|
| (ii) Adjustment to recognize amortization of fair value adjustments recorded at dates of acquisition | (18,534) |
|--|----------|

|  |       |
|--|-------|
| (iii) Adjustment to income taxes for pro forma adjustments | 3,525 |
|--|-------|

|  |          |
|--|----------|
|  | (25,725) |
|--|----------|

|  |       |
|--|-------|
| (c) Reflects noncontrolling interest's share of net pro forma income statement adjustments | 9,276 |
|--|-------|

***Copenhagen Re***

On May 29, 2009, the Company, through its indirect subsidiary, Nordic Run-Off Limited, entered into a definitive agreement for the purchase of Copenhagen Reinsurance Company Ltd. (Copenhagen Re) from Alm. Brand Forsikring A/S for a total purchase price of approximately \$28.0 million. Copenhagen Re is a Norwegian domiciled reinsurer that is in run-off. The purchase price of approximately \$28.0 million is expected to be financed from available cash on hand. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. The transaction is expected to close in the third quarter of 2009.

**3. SIGNIFICANT NEW BUSINESS**

The Company owns 50.1% of Shelbourne Group Limited (Shelbourne), which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd's Syndicate 2008, a syndicate approved by Lloyd's of London on December 16, 2007 to undertake Reinsurance to Close (RITC) transactions with Lloyd's syndicates in run-off. In February 2009, Lloyd's Syndicate 2008 entered into a RITC agreement with a Lloyd's syndicate with total gross insurance reserves of approximately \$67.0 million.

JCF FPK I L.P. (JCF FPK), a joint investment program between J.C. Flowers II L.P. (the Flowers Fund) and Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC (FPK), owns 25% of Shelbourne. The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of the Company's board of directors and one of its largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, the Company's Executive Chairman and a member of its board of directors, is a Managing Director of J.C. Flowers & Co. LLC. An affiliate of the Flowers Fund controls approximately 41% of FPK. In addition, in July 2008, FPK acted as lead managing underwriter in the Company's public share offering.

**4. RESTRICTED CASH AND CASH EQUIVALENTS**



Restricted cash and cash equivalents were \$463.7 million and \$343.3 million as of June 30, 2009 and December 31, 2008, respectively. The restricted cash and cash equivalents are used as collateral against letters of credit and as guarantee under trust agreements. Letters of credit are issued to ceding insurers as security for the obligations of insurance subsidiaries under reinsurance agreements with those ceding insurers.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS***Available-for-sale*

The amortized cost and estimated fair value of investments in fixed maturity securities classified as available-for-sale are as follows:

|                                    | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses<br/>Non-OTTI</b> | <b>Fair<br/>Value</b> |
|------------------------------------|---------------------------|---|---|-----------------------|
| <b><u>As at June 30, 2009</u></b>  |                           |   |   |                       |
| U.S government and agency          | \$ 135,069                | \$ 538  | \$ (5)  | \$ 135,602            |
| Non-U.S. government                | 20,556                    | 25  | (24)  | 20,557                |
| Corporate                          | 343,132                   | 1,098   | (2,374)   | 341,856               |
| Residential mortgage-backed<br>CMO | 1,371<br>561              | 15  | (355)   | 1,386<br>206          |
|                                    | \$ 500,689                | \$ 1,676  | \$ (2,758)  | \$ 499,607            |

|  | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses<br/>Non-OTTI</b> | <b>Fair<br/>Value</b>  |
|--|---------------------------|---|---|------------------------|
| <b><u>As at December 31, 2008</u></b>              |                           |   |   |                        |
| U.S government and agency                          | \$ 239,856                | \$ 2,197  | \$  | \$ 242,053             |
| Non-U.S. government                                | 25,447                    | 32  |   | 25,479                 |
| Corporate  | 229,135                   | 737   | (1,217)   | 228,655                |
| Residential mortgage-backed<br>Asset backed<br>CMO | 1,634<br>13,509<br>583    | 218   | (255)<br>(367)  | 1,634<br>13,472<br>216 |
|  | \$ 510,164                | \$ 3,184  | \$ (1,839)  | \$ 511,509             |

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The following table summarizes fixed maturity securities classified as available-for-sale in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

|                                   | 12 Months or Greater |                   | Less Than 12 Months |                   | Total      |                   |
|-----------------------------------|----------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                   | Fair Value           | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b><u>As at June 30, 2009</u></b> |                      |                   |                     |                   |            |                   |
| U.S government and agency         | \$                   | \$                | \$ 43,450           | \$ (5)            | \$ 43,450  | \$ (5)            |
| Non-U.S. government               |                      |                   | 19,493              | (24)              | 19,493     | (24)              |
| Corporate                         | 22,550               | (2,278)           | 39,758              | (96)              | 62,308     | (2,374)           |
| CMO                               | 206                  | (355)             |                     |                   | 206        | (355)             |
|                                   | \$ 22,756            | \$ (2,633)        | \$ 102,701          | \$ (125)          | \$ 125,457 | \$ (2,758)        |

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

|                                       | 12 Months or<br>Greater |                      | Less Than 12 Months |                      | Total         |                      |
|---------------------------------------|-------------------------|----------------------|---------------------|----------------------|---------------|----------------------|
|                                       | Fair<br>Value           | Unrealized<br>Losses | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| <b><u>As at December 31, 2008</u></b> |                         |                      |                     |                      |               |                      |
| Corporate                             | \$                      | \$                   | \$ 18,130           | \$ (1,217)           | \$ 18,130     | \$ (1,217)           |
| Asset backed                          |                         |                      | 3,313               | (255)                | 3,313         | (255)                |
| CMO                                   | 216                     | (367)                |                     |                      | 216           | (367)                |
|                                       | \$ 216                  | \$ (367)             | \$ 21,443           | \$ (1,472)           | \$ 21,659     | \$ (1,839)           |

As at June 30, 2009 and December 31, 2008, the number of fixed maturity securities classified as available-for-sale in an unrealized loss position was 59 and 30, respectively, with a fair value of \$125.5 million and \$21.7 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for 12 months or longer was 28 and 1, respectively. As of June 30, 2009, one of these securities was considered to be other-than-temporarily impaired.

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

|  | Amortized<br>Cost | Fair<br>Value | % of Total<br>Fair Value |
|--|-------------------|---------------|--------------------------|
| <b><u>As at June 30, 2009</u></b>      |                   |               |                          |
| Due in one year or less                | \$ 442,450        | \$ 443,141    | 88.7%                    |
| Due after one year through five years  | 24,076            | 23,708        | 4.8%                     |
| Due after five years through ten years | 13,354            | 12,500        | 2.5%                     |
| Due after 10 years                     | 18,877            | 18,666        | 3.7%                     |
|  | 498,757           | 498,015       | 99.7%                    |
| Residential mortgage-backed            | 1,371             | 1,386         | 0.3%                     |
| CMO                                    | 561               | 206           | 0.0%                     |
|  | \$ 500,689        | \$ 499,607    | 100.0%                   |

|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>% of Total<br/>Fair Value</b> |
|--|---------------------------|-----------------------|----------------------------------|
| <b><u>As at December 31, 2008</u></b>  |                           |                       |                                  |
| Due in one year or less                | \$ 393,357                | \$ 393,673            | 77.1%                            |
| Due after one year through five years  | 74,547                    | 73,556                | 14.4%                            |
| Due after five years through ten years | 11,117                    | 12,016                | 2.3%                             |
| Due after 10 years                     | 15,417                    | 16,942                | 3.3%                             |
|  | 494,438                   | 496,187               | 97.1%                            |
| Residential mortgage-backed            | 1,634                     | 1,634                 | 0.3%                             |
| Asset backed                           | 13,509                    | 13,472                | 2.6%                             |
| CMO                                    | 583                       | 216                   | 0.0%                             |
|  | \$ 510,164                | \$ 511,509            | 100.0%                           |

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)***Held-to-maturity*

The amortized cost and estimated fair value of investments in fixed maturity securities classified as held-to-maturity are as follows:

|                                   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses</b> | <b>Fair<br/>Value</b> |
|-----------------------------------|---------------------------|---|--|-----------------------|
| <b><u>As at June 30, 2009</u></b> |                           |   |  |                       |
| U.S government and agency         | \$ 67,616                 | \$ 747  | \$ (52)  | \$ 68,311             |
| Non-U.S. government               | 189,083                   | 4,095   | (87)   | 193,091               |
| Corporate                         | 468,863                   | 9,147   | (2,936)  | 475,074               |
| Residential mortgage-backed       | 8,874                     | 79  | (152)  | 8,801                 |
| Commercial mortgage-backed        | 20,191                    | 1,448   | (26)   | 21,613                |
| Asset backed                      | 37,038                    | 1,805   | (197)  | 38,646                |
| CMO                               | 1,371                     | 1   | (391)  | 981                   |
|                                   | \$ 793,036                | \$ 17,322   | \$ (3,841)   | \$ 806,517            |

|                                       | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Losses</b> | <b>Fair<br/>Value</b> |
|---------------------------------------|---------------------------|---|--|-----------------------|
| <b><u>As at December 31, 2008</u></b> |                           |   |  |                       |
| U.S government and agency             | \$ 95,583                 | \$ 2,155  | \$   | \$ 97,738             |
| Non-U.S. government                   | 156,620                   | 9,466   |  | 166,086               |
| Corporate                             | 277,073                   | 2,452   | (2,107)  | 277,418               |
| Residential mortgage-backed           | 9,819                     |   | (193)  | 9,626                 |
| Commercial mortgage-backed            | 17,074                    | 1,045   | (117)  | 18,002                |
| Asset backed                          | 29,057                    | 297   | (602)  | 28,752                |
| CMO                                   | 1,490                     |   | (426)  | 1,064                 |
|                                       | \$ 586,716                | \$ 15,415   | \$ (3,445)   | \$ 598,686            |



**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

The following tables summarize fixed maturity securities classified as held-to-maturity in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

|                             | <b>12 Months or Greater</b> |                          | <b>Less Than 12 Months</b> |                          | <b>Total</b>      |                          |
|-----------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                             | <b>Fair Value</b>           | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>As at June 30, 2009</b>  |                             |                          |                            |                          |                   |                          |
| U.S government and agency   | \$                          | \$                       | \$ 71,046                  | \$ (52)                  | \$ 71,046         | \$ (52)                  |
| Non-U.S. government         |                             |                          | 26,745                     | (87)                     | 26,745            | (87)                     |
| Corporate                   | 11,874                      | (1,181)                  | 122,077                    | (1,755)                  | 133,951           | (2,936)                  |
| Residential mortgage-backed | 1,633                       | (150)                    | 643                        | (2)                      | 2,276             | (152)                    |
| Commercial mortgage-backed  | 18                          | (12)                     | 1,899                      | (14)                     | 1,917             | (26)                     |
| Asset backed                | 1,921                       | (195)                    | 76                         | (2)                      | 1,997             | (197)                    |
| CMO                         | 930                         | (391)                    |                            |                          | 930               | (391)                    |
|                             | \$ 16,376                   | \$ (1,929)               | \$ 222,486                 | \$ (1,912)               | \$ 238,862        | \$ (3,841)               |

|                                | <b>12 Months or Greater</b> |                          | <b>Less Than 12 Months</b> |                          | <b>Total</b>      |                          |
|--------------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                | <b>Fair Value</b>           | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| <b>As at December 31, 2008</b> |                             |                          |                            |                          |                   |                          |
| Corporate                      | \$ 2,014                    | \$ (46)                  | \$ 21,391                  | \$ (2,061)               | \$ 23,405         | \$ (2,107)               |
| Residential mortgage-backed    | 2,699                       | (193)                    |                            |                          | 2,699             | (193)                    |
| Commercial mortgage-backed     | 58                          | (117)                    |                            |                          | 58                | (117)                    |
| Asset backed                   | 26,642                      | (602)                    |                            |                          | 26,642            | (602)                    |
| CMO                            | 1,011                       | (426)                    |                            |                          | 1,011             | (426)                    |
|                                | \$ 32,424                   | \$ (1,384)               | \$ 21,391                  | \$ (2,061)               | \$ 53,815         | \$ (3,445)               |

As at June 30, 2009 and December 31, 2008, the number of fixed maturity securities classified as held-to-maturity in an unrealized loss position was 84 and 38, respectively, with a fair value of \$238.9 million and \$53.8 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for 12 months or longer was 29 and 24, respectively. As of June 30, 2009, none of these securities were considered to be other than temporarily impaired. The Company has the intent and ability to hold these securities until their maturities. The



unrealized losses from these securities were not a result of credit, collateral or structural issues.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

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

|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>% of Total<br/>Fair Value</b> |
|--|---------------------------|-----------------------|----------------------------------|
| <b><u>As at June 30, 2009</u></b>      |                           |                       |                                  |
| Due in one year or less                | \$ 144,121                | \$ 145,054            | 18.0%                            |
| Due after one year through five years  | 520,667                   | 530,427               | 65.8%                            |
| Due after five years through ten years | 60,774                    | 60,995                | 7.5%                             |
| Due after 10 years                     |                           |                       |                                  |
|  | 725,562                   | 736,476               | 91.3%                            |
| Residential mortgage-backed            | 8,874                     | 8,801                 | 1.1%                             |
| Commercial mortgage-backed             | 20,191                    | 21,613                | 2.7%                             |
| Asset backed                           | 37,038                    | 38,646                | 4.8%                             |
| CMO                                    | 1,371                     | 981                   | 0.1%                             |
|  | \$ 793,036                | \$ 806,517            | 100.0%                           |

|  | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>% of Total<br/>Fair Value</b> |
|--|---------------------------|-----------------------|----------------------------------|
| <b><u>As at December 31, 2008</u></b>  |                           |                       |                                  |
| Due in one year or less                | \$ 80,002                 | \$ 80,492             | 13.4%                            |
| Due after one year through five years  | 387,550                   | 395,224               | 66.1%                            |
| Due after five years through ten years | 61,724                    | 65,526                | 10.9%                            |
| Due after 10 years                     |                           |                       |                                  |
|  | 529,276                   | 541,242               | 90.4%                            |
| Residential mortgage-backed            | 9,819                     | 9,626                 | 1.6%                             |
| Commercial mortgage-backed             | 17,074                    | 18,002                | 3.0%                             |
| Asset backed                           | 29,057                    | 28,752                | 4.8%                             |
| CMO                                    | 1,490                     | 1,064                 | 0.2%                             |
|  | \$ 586,716                | \$ 598,686            | 100.00%                          |

*FAS 115-2 Other-Than-Temporary Impairment Process*

Upon the adoption of FAS 115-2, effective April 1, 2009, the Company changed its quarterly process for assessing whether declines in the fair value of its fixed maturity investments, both available-for-sale and held-to-maturity, represented impairments that are other-than-temporary. The process now includes reviewing each fixed maturity investment that is impaired and determining: (1) if the Company has the intent to sell the debt security or (2) if it is more likely than not that the Company will be required to sell the debt security before its anticipated recovery; and (3) assessing whether a credit loss exists, that is, where the Company believes that the present value of the cash flows expected to be collected from the security are less than the amortized cost basis of the security.

The Company had no planned sales of its available-for-sale or held-to-maturity investments as at June 30, 2009. In assessing whether it is more likely than not that the Company will be required to sell a security before its

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors. For the three months ended June 30, 2009, the Company did not recognize any other-than-temporary impairments due to required sales.

In evaluating credit losses, the Company considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

Based on the factors described above, the Company determined that a credit loss existed for one security. The Company did not consider an evaluation of future cash flows was necessary for this security and the impairment of \$0.6 million was recognized in earnings.

*Trading*

The estimated fair value of investments in fixed maturity securities and short-term investments classified as trading securities were as follows:

|                                   | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|-----------------------------------|--------------------------|------------------------------|
| U.S government and agency         | \$ 75,404                | \$ 84,351                    |
| Corporate                         | 25,466                   | 30,644                       |
| Commercial mortgage-backed<br>CMO | 34                       | 452                          |
| Asset backed                      | 440                      | 399                          |
| Equities                          | 263                      | 3,747                        |
|                                   | 24,699                   | 3,747                        |
|                                   | <b>\$ 126,306</b>        | <b>\$ 119,593</b>            |

*Other Investments*

At June 30, 2009 and December 31, 2008, the Company had \$71.0 million and \$60.2 million, respectively, of other investments recorded in limited partnerships, limited liability companies and equity funds. These other investments represented 2.0% and 1.7% of total investments and cash and cash equivalents at June 30, 2009 and December 31, 2008, respectively. All of the Company's investments in limited partnerships and limited liability companies that are categorized as other investments are subject to restrictions on redemptions and sales that are determined by the

governing documents and limit the Company's ability to liquidate these investments in the short term. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. These investments are accounted for under the equity method. As at June 30, 2009 and December 31, 2008, the Company had unfunded capital commitments relating to its other investments of \$102.4 million and \$108.0 million, respectively. As at June 30, 2009 and December 31, 2008, the Company had 94.6% and 90.6%, respectively, of other investments with a related party.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)***Fair Value of Financial Instruments*

In accordance with FAS No. 157, Fair Value Measurements ( FAS 157 ), the Company has categorized its investments measured at fair value between levels as follows:

|                             | <b>June 30, 2009</b>  |  |  |                             |
|-----------------------------|---|--|--|-----------------------------|
|                             | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total Fair<br/>Value</b> |
| U.S government and agency   | \$  | \$ 211,006   | \$   | \$ 211,006                  |
| Non-U.S. government         |   | 20,557   |  | 20,557                      |
| Corporate                   |   | 367,322  |  | 367,322                     |
| Residential mortgage-backed |   | 1,386  |  | 1,386                       |
| Commercial mortgage-backed  |   | 34   |  | 34                          |
| Asset backed                |   |  | 263  | 263                         |
| CMO                         |   | 646  |  | 646                         |
| Equities                    | 12,755  | 8,744  | 3,200  | 24,699                      |
| Other investments           |   |  | 71,039   | 71,039                      |
| <b>Total investments</b>    | <b>\$ 12,755</b>  | <b>\$ 609,695</b>  | <b>\$ 74,502</b>   | <b>\$ 696,952</b>           |

|                           | <b>December 31, 2008</b>  |  |  |                             |
|---------------------------|---|--|--|-----------------------------|
|                           | <b>Quoted<br/>Prices in<br/>Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total Fair<br/>Value</b> |
| U.S government and agency | \$  | \$ 326,404   | \$   | \$ 326,404                  |
| Non-U.S. government       |   | 25,479   |  | 25,479                      |
| Corporate                 |   | 259,299  |  | 259,299                     |

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|                             |          |            |           |            |
|-----------------------------|----------|------------|-----------|------------|
| Residential mortgage-backed |          | 1,634      |           | 1,634      |
| Asset backed                |          | 13,519     | 352       | 13,871     |
| CMO                         |          | 668        |           | 668        |
| Equities                    | 3,747    |            |           | 3,747      |
| Other investments           |          |            | 60,237    | 60,237     |
| Total investments           | \$ 3,747 | \$ 627,003 | \$ 60,589 | \$ 691,339 |

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

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 June 30, 2009:

|  | <b>Fixed<br/>Maturity<br/>Investments</b> | <b>Other<br/>Investments</b> | <b>Equity<br/>Securities</b> | <b>Total</b> |
|--|---|------------------------------|------------------------------|--------------|
| Level 3 investments as of April 1, 2009      | \$ 284                                    | \$ 69,566                    | \$ 2,091                     | \$ 71,941    |
| Net purchases (sales and distributions)      |   | (212)                        |                              | (212)        |
| Total realized and unrealized (gains) losses | (21)                                      | 1,685                        | 1,109                        | 2,773        |
| Net transfers in and/or (out) of Level 3     |   |                              |                              |              |
| Level 3 investments as of June 30, 2009      | \$ 263                                    | \$ 71,039                    | \$ 3,200                     | \$ 74,502    |

The amount of net gains/(losses) for the period included in earnings attributable to the fair value of changes in assets still held at June 30, 2009 was \$1.8 million. Of this amount, \$1.1 million was included in net realized gains/(losses) and \$0.7 million was included in net investment income.

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 six-month period ended June 30, 2009:

|  | <b>Fixed<br/>Maturity<br/>Investments</b> | <b>Other<br/>Investments</b> | <b>Equity<br/>Securities</b> | <b>Total</b> |
|--|---|------------------------------|------------------------------|--------------|
| Level 3 investments as of January 1, 2009    | \$ 352                                    | \$ 60,237                    | \$                           | \$ 60,589    |
| Net purchases (sales and distributions)      |   | 12,415                       | 2,006                        | 14,421       |
| Total realized and unrealized (gains) losses | (89)                                      | (1,613)                      | 1,194                        | (508)        |
| Net transfers in and/or (out) of Level 3     |   |                              |                              |              |
| Level 3 investments as of June 30, 2009      | \$ 263                                    | \$ 71,039                    | \$ 3,200                     | \$ 74,502    |

The amount of net (losses)/gains for the period included in earnings attributable to the fair value of changes in assets still held at June 30, 2009 was \$(0.6) million. Of this amount, \$1.1 million was included in net realized gains/(losses) and \$(1.7) million was included in net investment income.



During the six months ended June 30, 2009 and 2008, proceeds from the sale and maturities of available-for-sale securities were \$248.0 million and \$155.3 million, respectively. Gross realized gains on sale of available-for-sale securities were \$0.1 million and \$0.3 million, respectively, and gross realized losses on sale of available-for-sale securities were \$0.1 million and \$nil, respectively.

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)***Restricted Investments*

The Company is required to maintain investments on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The investments in trust as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted investments was as follows:

|  | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|--------------------------|------------------------------|
| Assets used for collateral in trust for third-party agreements | \$ 188,563               | \$ 297,491                   |
| Deposits with U.S. regulatory authorities                      | 6,251                    | 11,751                       |
|  | <b>\$ 194,814</b>        | <b>\$ 309,242</b>            |

**6. LOANS PAYABLE**

On April 4, 2009, the Company repaid AU\$80.7 million (approximately \$57.6 million) of the outstanding principal of the Facility A commitment pursuant to the term facility agreement of the Company's wholly-owned subsidiary, Cumberland Holdings Limited. As at June 30, 2009, the outstanding loan balance related to the Cumberland Loan Facility was AU\$147.9 million (approximately \$119.2 million).

On June 29, 2009, Gordian received approval from the Australian regulators to release a further AU\$123.9 million bringing the total approved and unpaid releases to AU\$149.7 million. The Company expects the distributions to be made by Gordian in the third quarter of 2009. In accordance with the terms of the Cumberland Loan Facility, 50% of the total distributions will be used to paydown the Cumberland Loan Facility.

On December 30, 2008, in connection with the UAH acquisition, Royston Run-off Limited ( Royston ) borrowed the full amount of \$184.6 million available under a term facilities agreement (the Unionamerica Facilities Agreement ), with National Australia Bank Limited ( NABL ). Of that amount, Royston borrowed \$152.6 million under Facility A and \$32.0 million under Facility B. The loans are secured by a lien covering all of the assets of Royston. The Company provided a guarantee of all of Royston's obligations under the facilities agreement. The Facility A portion is repayable within three years from October 3, 2008, the date of the Unionamerica Facilities Agreement. The Facility B portion is repayable within four years from the date of the Unionamerica Facilities Agreement. The Flowers Fund has a 30% non-voting equity interest in Royston Holdings Ltd., the direct parent company of Royston.

On August 4, 2009, Royston entered into an amended and restated term facility agreement pursuant to which: (1) NABL's participation in the original \$184.6 million facility was reduced from 100% to 50%, with Barclays Bank PLC providing the remaining 50%; (2) the guarantee provided by the Company of all of the obligations of Royston under the Unionamerica Facilities Agreement was terminated; and (3) the interest rate on the Facility A portion was reduced from LIBOR plus 3.50% to LIBOR plus 2.75% and the interest rate on the Facility B portion was reduced from LIBOR plus 4.00% to LIBOR plus 3.25%.

The fair values of the Company's floating rate loans approximate their book value.

## **7. EMPLOYEE BENEFITS**

Our share-based compensation plans provide for the grant of various awards to our employees and to members of the board of directors. These are described in Note 12 to the Consolidated Financial Statements contained in our

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. EMPLOYEE BENEFITS (cont d)**

Annual Report on Form 10-K for the year ended December 31, 2008. The information below includes both the employee and director components of our share-based compensation.

*(a) Employee share plans*

Employee stock awards for the six-months ended June 30, 2009 are summarized as follows:

|                           | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average Fair<br/>Value of<br/>the Award</b> |
|---------------------------|-----------------------------|---|
| Nonvested January 1, 2009 | 13,749                      | \$ 813  |
| Granted                   | 67,451                      | 3,454   |
| Vested                    | (79,564)                    | (4,189)   |
| Nonvested June 30, 2009   | 1,636                       | \$ 96   |

*i) 2004-2005 Employee Share Plan*

On May 23, 2006, the Company entered into an agreement and plan of merger with The Enstar Group, Inc. ( EGI ) and a recapitalization agreement. These agreements provided for the cancellation of the then-current annual incentive compensation plan and replaced it with a new annual incentive compensation plan.

As a result of the execution of these agreements, the accounting treatment for share-based awards under the Company's employee share plan changed from book value to fair value. The determination of the share-award expenses was based on the fair-market value per share of EGI common stock as of the grant date and is recognized over the vesting period.

Compensation costs of \$0.1 million and \$0.3 million relating to the issuance of share-awards to employees of the Company in 2004 and 2005 have been recognized in the Company's statement of earnings for the three and six-months ended June 30, 2008, respectively, as compared to \$Nil for the three and six-month periods ended June 30, 2009.

*ii) 2006-2010 Annual Incentive Plan and 2006 Equity Incentive Plan*

For the six months ended June 30, 2009 and 2008, 64,572 and 27,140 shares were awarded to officers and employees under the 2006 Equity Incentive Plan. The total value of the awards for the six months ended June 30, 2009 and 2008 were \$3.3 million and \$2.6 million, respectively, and was charged against the 2006-2010 Annual Incentive Plan accrual established for the years ended December 31, 2008 and 2007, respectively.

The expense relating to the 2006-2010 Annual Incentive Plan for the three and six-months ended June 30, 2009, was \$1.6 million and \$3.6 million, respectively, as compared to \$2.0 million and \$4.0 million for the three and six-month periods ended June 30, 2008, respectively.

*iii) Enstar Group Limited Employee Share Purchase Plan*

Compensation costs of less than \$0.1 million and \$0.2 million relating to the shares issued under the Employee Share Purchase Plan (the Plan ) have been recognized in the Company's statement of earnings for the three and six-month periods ended June 30, 2009, respectively, as compared to less than \$0.1 million and \$0.1 million for the three and six-month periods ended June 30, 2008, respectively. As at June 30, 2009, 5,574 shares have been issued to employees under the Plan.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. EMPLOYEE BENEFITS (cont d)***(b) Options*

|             |                 | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Intrinsic<br/>Value of<br/>Shares</b> |
|-------------|-----------------|-----------------------------|--|--|
| Outstanding | January 1, 2009 | 490,371                     | \$ 25.40   | \$ 16,545                                |
| Granted     |                 |                             |  |  |
| Exercised   |                 | (162,785)                   | 17.18  | (2,796)                                  |
| Forfeited   |                 |                             |  |  |
| Outstanding | June 30, 2009   | 327,586                     | \$ 29.49   | \$ 9,619                                 |

Stock options outstanding and exercisable as of June 30, 2009 were as follows:

| <b>Ranges of<br/>Exercise<br/>Prices</b> | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual Life</b> |
|--|------------------------------|--|--|
| \$10 - \$20                              | 160,860                      | \$ 17.23                                       | 1.6 years  |
| \$40 - \$60                              | 166,726                      | 41.32  | 4.2 years  |

*(c) Deferred Compensation and Stock Plan for Non-Employee Directors*

For the six-months ended June 30, 2009 and 2008, 3,431 and 1,987 restricted share units, respectively, were credited to the accounts of Non-Employee Directors under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors (the Deferred Compensation Plan).

Following T. Wayne Davis' resignation from the Board of Directors, 1,576 restricted share units previously credited to his account under the Deferred Compensation Plan were converted into the same number of the Company's ordinary shares on April 1, 2009, with fractional shares paid in cash. Also on April 1, 2009, 14,146 restricted stock units previously credited to Mr. Davis' account under EGI's Deferred Compensation and Stock Plan for Non-Employee Directors were converted into the same number of the Company's ordinary shares.



Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. EARNINGS PER SHARE**

The following table sets forth the comparison of basic and diluted earnings per share of amounts attributable to the Company's ordinary shareholders for the three and six month periods ended June 30, 2009 and 2008.

|   | <b>Three Months<br/>Ended<br/>June 30,<br/>2009</b> | <b>Three Months<br/>Ended<br/>June 30,<br/>2008</b> |
|---|---|---|
| Basic earnings per share  |   |   |
| Net earnings attributable to Enstar Group Limited before extraordinary gain                 | \$ 8,751  | \$ 11,173   |
| Weighted average shares outstanding - basic   | 13,532,608  | 11,959,125  |
| Earnings per share attributable to Enstar Group Limited before extraordinary gain - basic   | \$ 0.65   | \$ 0.93   |
| Diluted earnings per share  |   |   |
| Net earnings attributable to Enstar Group Limited before extraordinary gain                 | \$ 8,751  | \$ 11,173   |
| Weighted average shares outstanding - basic   | 13,532,608  | 11,959,125  |
| Share equivalents:  |   |   |
| Unvested shares   | 1,769   | 14,548  |
| Options   | 245,543   | 261,550   |
| Restricted share units  | 7,633   | 3,133   |
| Weighted average shares outstanding - diluted   | 13,787,553  | 12,238,356  |
| Earnings per share attributable to Enstar Group Limited before extraordinary gain - diluted | \$ 0.63   | \$ 0.91   |



Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. EARNINGS PER SHARE (cont d)**

|  | <b>Six Months<br/>Ended<br/>June 30,<br/>2009</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2008</b> |
|--|---|---|
| Basic earnings per share   |   |   |
| Net earnings (loss) attributable to Enstar Group Limited before extraordinary gain               | \$ 20,282   | \$ (12,336)                                       |
| Weighted average shares outstanding basic  | 13,448,525  | 11,943,330  |
| Earnings (loss) per share attributable to Enstar Group Limited before extraordinary gain basic   | \$ 1.51   | \$ (1.03)   |
| Diluted earnings per share   |   |   |
| Net earnings (loss) attributable to Enstar Group Limited before extraordinary gain               | \$ 20,282   | \$ (12,336)                                       |
| Weighted average shares outstanding basic  | 13,448,525  | 11,943,330  |
| Share equivalents:   |   |   |
| Unvested shares  | 7,726   |   |
| Options  | 237,070   |   |
| Restricted share units   | 7,532   |   |
| Weighted average shares outstanding diluted  | 13,700,853  | 11,943,330  |
| Earnings (loss) per share attributable to Enstar Group Limited before extraordinary gain diluted | \$ 1.48   | \$ (1.03)   |

The following securities have not been included in the computation of diluted earnings per share for the six-month period ended June 30, 2008 because to do so would have been anti-dilutive.

| <b>Share equivalents:</b> | <b>2008</b> |
|---------------------------|-------------|
| Unvested shares           | 20,205      |
| Options                   | 257,859     |
| Restricted share units    | 2,637       |
| Total                     | 280,701     |

## 9. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with companies and partnerships that are affiliated with J. Christopher Flowers and John J. Oros. Mr. Flowers is a member of the Company's board of directors and is one of the Company's largest shareholders. Mr. Oros is the Company's Executive Chairman and a member of the board of directors.

During the six months ended June 30, 2009, the Company funded an additional \$5.7 million of its outstanding capital commitment to entities affiliated with Messrs. Flowers and Oros. The Company had, as of June 30, 2009 and December 31, 2008, investments in entities affiliated with Messrs. Flowers and Oros with a total value of \$67.2 million and \$54.5 million, respectively, and outstanding commitments to entities managed by Messrs. Flowers and Oros, as of those dates, of \$98.3 million and \$104.0 million, respectively. The Company's outstanding commitments may be drawn down over approximately the next five years.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. RELATED PARTY TRANSACTIONS (cont d)**

On January 16, 2009, the Company committed to invest approximately \$8.7 million in JCF III Co-invest I L.P., an entity affiliated with Messrs. Flowers and Oros, in connection with its investment in certain of the operations, assets and liabilities of IndyMac Bank, F.S.B.

As at June 30, 2009, the related party investments associated with Messrs. Flowers and Oros accounted for 96% of the total unfunded capital commitments of the Company, and 94.6% of the total amount of investments classified as Other Investments by the Company.

**10. SEGMENT INFORMATION**

The determination of reportable segments is based on how senior management monitors the Company's operations. The Company measures the results of its operations under two major business categories: reinsurance and consulting.

All of the consulting fees for the reinsurance segment relate to intercompany fees paid to the consulting segment.

|   | <b>Three Months Ended June 30, 2009</b> |                   |              |
|---|---|-------------------|--------------|
|   | <b>Reinsurance</b>                      | <b>Consulting</b> | <b>Total</b> |
| Consulting fees   | \$ (8,247)                              | \$ 12,426         | \$ 4,179     |
| Net investment income   | 17,593                                  | 900               | 18,493       |
| Net realized gains  | 5,080                                   |                   | 5,080        |
|   | 14,426                                  | 13,326            | 27,752       |
| Net reduction in loss and loss adjustment expense liabilities | (17,393)                                |                   | (17,393)     |
| Salaries and benefits   | 2,961                                   | 8,953             | 11,914       |
| General and administrative expenses                           | 6,727                                   | 4,183             | 10,910       |
| Interest expense  | 4,675                                   |                   | 4,675        |
| Net foreign exchange gain                                     | (948)                                   | (663)             | (1,611)      |
|   | (3,978)                                 | 12,473            | 8,495        |
| Earnings before income taxes                                  | 18,404                                  | 853               | 19,257       |
| Income taxes  | 1,723                                   | (1,700)           | 23           |
| Net earnings (loss)   | 20,127                                  | (847)             | 19,280       |
| Less: Net earnings attributable to noncontrolling interest    | (10,529)                                |                   | (10,529)     |
| Net earnings (loss) attributable to Enstar Group Limited      | \$ 9,598                                | \$ (847)          | \$ 8,751     |



**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. SEGMENT INFORMATION (cont d)**

|   | <b>Three Months Ended June 30, 2008</b> |                   |              |
|---|---|-------------------|--------------|
|   | <b>Reinsurance</b>                      | <b>Consulting</b> | <b>Total</b> |
| Consulting fees   | \$ (9,037)                              | \$ 12,615         | \$ 3,578     |
| Net investment income   | 19,512                                  | 1,707             | 21,219       |
| Net realized gains  | 1,014                                   |                   | 1,014        |
|   | 11,489                                  | 14,322            | 25,811       |
| Net reduction in loss and loss adjustment expense liabilities | (25,483)                                |                   | (25,483)     |
| Salaries and benefits   | 5,172                                   | 8,775             | 13,947       |
| General and administrative expenses                           | 8,968                                   | 5,004             | 13,972       |
| Interest expense  | 7,643                                   |                   | 7,643        |
| Net foreign exchange gain                                     | (4,932)                                 | (3)               | (4,935)      |
|   | (8,632)                                 | 13,776            | 5,144        |
| Earnings before income taxes                                  | 20,121                                  | 546               | 20,667       |
| Income taxes  | (3,186)                                 | (7)               | (3,193)      |
| Net earnings  | 16,935                                  | 539               | 17,474       |
| Less: Net earnings attributable to noncontrolling interest    | (6,301)                                 |                   | (6,301)      |
| Net earnings attributable to Enstar Group Limited             | \$ 10,634                               | \$ 539            | \$ 11,173    |

|   | <b>Six Months Ended June 30, 2009</b> |                   |              |
|---|---------------------------------------|-------------------|--------------|
|   | <b>Reinsurance</b>                    | <b>Consulting</b> | <b>Total</b> |
| Consulting fees   | \$ (16,243)                           | \$ 23,758         | \$ 7,515     |
| Net investment income   | 34,690                                | 1,112             | 35,802       |
| Net realized losses   | (930)                                 |                   | (930)        |
|   | 17,517                                | 24,870            | 42,387       |
| Net reduction in loss and loss adjustment expense liabilities | (44,072)                              |                   | (44,072)     |
| Salaries and benefits   | 6,427                                 | 17,904            | 24,331       |
| General and administrative expenses                           | 14,784                                | 8,508             | 23,292       |
| Interest expense  | 9,640                                 |                   | 9,640        |

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|  |           |            |           |
|--|-----------|------------|-----------|
| Net foreign exchange loss (gain)   | 361       | (374)      | (13)      |
|  | (12,860)  | 26,038     | 13,178    |
| Earnings before income taxes and share of net earnings of partly owned company | 30,377    | (1,168)    | 29,209    |
| Income taxes   | 1,848     | (1,207)    | 641       |
| Share of net earnings of partly owned company                                  | 269       |            | 269       |
| Net earnings (loss)  | 32,494    | (2,375)    | 30,119    |
| Less: Net earnings attributable to noncontrolling interest                     | (9,837)   |            | (9,837)   |
| Net earnings (loss) attributable to Enstar Group Limited                       | \$ 22,657 | \$ (2,375) | \$ 20,282 |

**Table of Contents****ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. SEGMENT INFORMATION (cont d)**

|   | <b>Six Months Ended June 30, 2008</b> |                   |              |
|---|---------------------------------------|-------------------|--------------|
|   | <b>Reinsurance</b>                    | <b>Consulting</b> | <b>Total</b> |
| Consulting fees   | \$ (16,285)                           | \$ 25,918         | \$ 9,633     |
| Net investment income (loss)                                  | 25,010                                | (3,201)           | 21,809       |
| Net realized gains  | (70)                                  |                   | (70)         |
|   | 8,655                                 | 22,717            | 31,372       |
| Net reduction in loss and loss adjustment expense liabilities | (24,798)                              |                   | (24,798)     |
| Salaries and benefits   | 7,234                                 | 18,070            | 25,304       |
| General and administrative expenses                           | 17,257                                | 8,626             | 25,883       |
| Interest expense  | 10,958                                |                   | 10,958       |
| Net foreign exchange gain                                     | (5,895)                               | (375)             | (6,270)      |
|   | 4,756                                 | 26,321            | 31,077       |
| Earnings (loss) before income taxes                           | 3,899                                 | (3,604)           | 295          |
| Income taxes  | (4,747)                               | 1,793             | (2,954)      |
| Loss before extraordinary gain                                | (848)                                 | (1,811)           | (2,659)      |
| Extraordinary gain Negative goodwill                          | 50,280                                |                   | 50,280       |
| Net earnings (loss)   | 49,432                                | (1,811)           | 47,621       |
| Less: Net earnings attributable to noncontrolling interest    | (24,761)                              |                   | (24,761)     |
| Net earnings (loss) attributable to Enstar Group Limited      | \$ 24,671                             | \$ (1,811)        | \$ 22,860    |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
of Enstar Group Limited

We have reviewed the accompanying condensed consolidated balance sheet of Enstar Group Limited and subsidiaries (the Company) as of June 30, 2009, and the related condensed consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2009 and 2008, and changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2009 and 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Enstar Group Limited and subsidiaries as of December 31, 2008 and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended prior to retrospective adjustment for the adoption of FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, (not presented herein); and in our report dated March 4, 2009, we expressed an unqualified opinion on those consolidated financial statements. We have also audited the adjustments that were applied to retrospectively adjust the December 31, 2008 consolidated financial statements of Enstar Group Limited and subsidiaries (not presented herein). In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche

Hamilton, Bermuda  
August 7, 2009



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**Item 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following is a discussion and analysis of our results of operations for the three and six months ended June 30, 2009 and 2008. This discussion and analysis should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**Business Overview**

Enstar Group Limited, or Enstar, was formed in August 2001 under the laws of Bermuda to acquire and manage insurance and reinsurance companies in run-off, and to provide management, consulting and other services to the insurance and reinsurance industry.

Since our formation we have acquired a number of insurance and reinsurance companies and are now administering those businesses in run-off. We derive our net earnings from the ownership and management of these companies primarily by settling insurance and reinsurance claims below the recorded loss reserves and from returns on the portfolio of investments retained to pay future claims. In addition, we have formed other businesses that provide management and consultancy services, claims inspection services and reinsurance collection services to our affiliates and third-party clients for both fixed and success-based fees.

**Recent Transactions**

On May 29, 2009, we, through our indirect subsidiary, Nordic Run-Off Limited, entered into a definitive agreement for the purchase of Copenhagen Reinsurance Company Ltd., or Copenhagen Re, from Alm. Brand Forsikring A/S for a total purchase price of approximately \$28.0 million. Copenhagen Re is a Norwegian domiciled reinsurer that is in run-off. We expect the purchase price to be financed from available cash on hand. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. We expect the transaction to close in the third quarter of 2009.

On January 31, 2009, we, through our indirect subsidiary, Sun Gulf Holdings Inc., completed the acquisition of all of the outstanding capital stock of Constellation Reinsurance Company Limited, or Constellation, for a total purchase price of approximately \$2.5 million. Constellation is a New York domiciled reinsurer that is in run-off. The acquisition was funded from available cash on hand.

We own 50.1% of Shelbourne Group Limited, which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd's Syndicate 2008, a syndicate approved by Lloyd's of London on December 16, 2007 to undertake Reinsurance to Close or RITC transactions (the transferring of liabilities from one Lloyd's Syndicate to another) with Lloyd's syndicates in run-off. In February 2009, Lloyd's Syndicate 2008 entered into a RITC agreement with a Lloyd's syndicate with total gross insurance reserves of approximately \$67.0 million. JCF FPK I L.P., or JCF FPK, a joint investment program between J.C. Flowers II L.P., or the Flowers Fund, and Fox-Pitt Kelton Cochran Caronia Waller (USA) LLC, or FPK, owns 25.0% of Shelbourne Group Limited.

The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of our board of directors and one of our largest shareholders, is the founder and Managing Member of J.C. Flowers & Co. LLC. John J. Oros, our Executive Chairman and a member of our board of directors, is a Managing Director of J.C. Flowers & Co. LLC. In July 2008, FPK acted as lead managing underwriter in our public share offering. An affiliate of the Flowers Fund controls approximately 41% of FPK.



**Table of Contents****Results of Operations**

The following table sets forth Enstar's selected consolidated statement of operations data for each of the periods indicated.

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| <b>INCOME</b>  |                           |             |                         |             |
| Consulting fees  | \$ 4,179                  | \$ 3,578    | \$ 7,515                | \$ 9,633    |
| Net investment income  | 18,493                    | 21,219      | 35,802                  | 21,809      |
| Net realized gains (losses)  | 5,080                     | 1,014       | (930)                   | (70)        |
|  | 27,752                    | 25,811      | 42,387                  | 31,372      |
| <b>EXPENSES</b>  |                           |             |                         |             |
| Net reduction in loss and loss adjustment expense liabilities                  | (17,393)                  | (25,483)    | (44,072)                | (24,798)    |
| Salaries and benefits  | 11,914                    | 13,947      | 24,331                  | 25,304      |
| General and administrative expenses  | 10,910                    | 13,972      | 23,292                  | 25,883      |
| Interest expense   | 4,675                     | 7,643       | 9,640                   | 10,958      |
| Net foreign exchange gain  | (1,611)                   | (4,935)     | (13)                    | (6,270)     |
|  | 8,495                     | 5,144       | 13,178                  | 31,077      |
| Earnings before income taxes and share of net earnings of partly owned company | 19,257                    | 20,667      | 29,209                  | 295         |
| Income taxes   | 23                        | (3,193)     | 641                     | (2,954)     |
| Share of net earnings of partly owned company                                  |                           |             | 269                     |             |
| Earnings (loss) before extraordinary gain                                      | 19,280                    | 17,474      | 30,119                  | (2,659)     |
| Extraordinary gain - negative goodwill   |                           |             |                         | 50,280      |
| <b>NET EARNINGS</b>  | 19,280                    | 17,474      | 30,119                  | 47,621      |
| Less: Net earnings attributable to noncontrolling interest                     | (10,529)                  | (6,301)     | (9,837)                 | (24,761)    |
| <b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>                       | \$ 8,751                  | \$ 11,173   | \$ 20,282               | \$ 22,860   |

**Comparison of the Three Months Ended June 30, 2009 and 2008**

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately \$19.3 million for the three months ended June 30, 2009 as compared to approximately \$17.5 million for the same period in 2008. The increase in earnings of approximately \$1.8 million was primarily attributable to the following:

- (i) an increase in investment income (net of realized gains) of \$1.3 million primarily as a result of the reversal of prior period writedowns on our equity portfolio partially offset by lower investment income reflecting the impact of lower global short-term and intermediate interest rates;
- (ii) reduction in salary and general and administrative costs of \$5.1 million due to reduced costs primarily as a result of a lower British pound exchange rate to the U.S. dollar;
- (iii) reduced interest expense of \$3.0 million due primarily to lower interest rates on outstanding loans along with lower outstanding principal on the term loan facility agreement of our wholly owned subsidiary, Cumberland Holdings Limited, or the Cumberland Loan Facility; and
- (iv) a reduction in income taxes of \$3.2 million due to lower tax liabilities on the results of our taxable subsidiaries; partially offset by
- (v) decreased reduction in loss and loss adjustment expense liabilities of \$8.1 million; and
- (vi) a reduction in foreign exchange gains of \$3.3 million.

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We recorded noncontrolling interest in earnings of \$10.5 million and \$6.3 million for the three months ended June 30, 2009 and 2008, respectively. The increase for the three months ended June 30, 2009 in noncontrolling interest was due primarily to an increase in the number of subsidiary companies for which there exists a noncontrolling interest. Accordingly, net earnings attributable to Enstar Group Limited decreased from approximately \$11.2 million for the three months ended June 30, 2008 to approximately \$8.8 million for the three months ended June 30, 2009.

*Consulting Fees:*

|             | <b>Three Months Ended June 30,</b>    |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 12,426                             | \$ 12,615   | \$ (189)        |
| Reinsurance | (8,247)                               | (9,037)     | 790             |
| Total       | \$ 4,179                              | \$ 3,578    | \$ 601          |

We earned consulting fees of approximately \$4.2 million and \$3.6 million for the three months ended June 30, 2009 and 2008, respectively.

Internal management fees of \$8.2 million and \$9.0 million were paid in the quarters ended June 30, 2009 and 2008, respectively, by our reinsurance companies to our consulting companies. The decrease in internal fees paid to the consulting segment was due primarily to a decrease in fees paid by our reinsurance companies in respect of internal collection and audit services.

*Net Investment Income and Net Realized Gains:*

|             | <b>Three Months Ended June 30,</b>    |             |                 |                       |             |                 |
|-------------|---------------------------------------|-------------|-----------------|-----------------------|-------------|-----------------|
|             | <b>Net Investment</b>                 |             |                 | <b>Net Realized</b>   |             |                 |
|             | <b>Income</b>                         |             |                 | <b>Gains/(Losses)</b> |             |                 |
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> | <b>2009</b>           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |                       |             |                 |
| Consulting  | \$ 900                                | \$ 1,707    | \$ (807)        | \$                    | \$          | \$              |
| Reinsurance | 17,593                                | 19,512      | (1,919)         | 5,080                 | 1,014       | 4,066           |
| Total       | \$ 18,493                             | \$ 21,219   | \$ (2,726)      | \$ 5,080              | \$ 1,014    | \$ 4,066        |

Net investment income for the three months ended June 30, 2009 decreased by \$2.7 million to \$18.5 million, as compared to \$21.2 million for the same period in 2008. The decrease was primarily attributable to the following:

- (i) lower investment income from fixed maturities and cash and cash equivalents, reflecting the impact of lower global short-term and intermediate interest rates the average U.S. Federal Funds Rate has decreased

from 2.08% for the three months ended June 30, 2008 to 0.25% for the three months ended June 30, 2009;

- (ii) decrease in the Australian dollar and British pound quarterly average foreign exchange rates; partially offset by
- (iii) an appreciation of \$0.4 million in the fair value of our investments in New NIB Partners L.P., the Flowers Fund, Affirmative Investment LLC and GSC European Mezzanine Fund II, LP for the three months ended June 30, 2009.

The average return on the cash and fixed maturity investments for the three months ended June 30, 2009 was 1.96%, as compared to the average return of 2.88% for the three months ended June 30, 2008. The average Standard & Poor's credit rating of our fixed income investments at June 30, 2009 was AA.

Net realized gains for the three months ended June 30, 2009 and 2008 were \$5.1 million and \$1.0 million, respectively. The change between 2008 and 2009 of approximately \$4.1 million relates primarily to mark to market gains in 2009 in the market value of our equity portfolio.

**Table of Contents***Net Reduction in Loss and Loss Adjustment Expense Liabilities:*

The net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 and 2008 were \$17.4 million and \$25.5 million, respectively. The net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 of \$17.4 million was attributable to a reduction in estimates of net ultimate losses of \$17.7 million and a reduction in estimates of loss adjustment expense liabilities, or LAE, of \$9.4 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments of \$9.8 million relating to companies acquired. The reduction in estimates of net ultimate losses of \$17.7 million primarily related to the reduction in estimates of net ultimate losses of \$13.0 million in one of our subsidiaries. This reduction in estimates of ultimate losses of \$13.0 million was comprised of net favorable incurred loss development for the six months ended June 30, 2009 of \$2.6 million and reductions in IBNR reserves of \$10.4 million. The net favorable incurred loss development of \$2.6 million, whereby net advised case and LAE reserves of \$6.6 million were settled for net paid losses of \$4.0 million, arose from the settlement of losses during the period below carried reserves. The net reduction in the estimate of the subsidiary's IBNR loss and loss adjustment expense liabilities of \$10.4 million was the result of the application of our reserving methodologies to the reduced case and LAE reserves following the subsidiary's semi-annual actuarial review of reserves as required by local regulation.

The reduction in estimates of net ultimate losses of \$25.2 million for the three months ended June 30, 2008 was primarily attributable to the reduction in estimates of net ultimate losses of \$25.5 million related to one of our subsidiaries, which reduction was comprised of net favorable incurred loss development of \$12.1 million and related reductions in IBNR reserves of \$13.4 million. The net favorable incurred loss development of \$12.1 million, whereby net advised case and LAE reserves of \$21.2 million were settled for net paid losses of \$9.1 million, arose from the settlement of non-commuted losses during the period below carried reserves and three commutations of assumed and ceded exposures at less than case and LAE reserves. The net reduction in the estimate of the subsidiary's IBNR loss and loss adjustment expense liabilities of \$13.4 million was the result of an independent actuarial review and the application of our reserving methodologies to the reduced case and LAE reserves. During the three months ended June 30, 2008, another of our reinsurance subsidiaries commuted its largest exposure, which was fully reinsured by a single reinsurer with a AA- rating from Standard & Poors. The subsidiary paid net claims of \$221.2 million and reduced net IBNR loss reserves by the same amount.

The following table shows the components of the movement in the net reduction in loss and loss adjustment expense liabilities for the three months ended June 30, 2009 and 2008.

|  | <b>Three Months Ended<br/>June 30,</b>    |                 |
|--|---|-----------------|
|  | <b>2009</b>                               | <b>2008</b>     |
|  | <b>(in thousands of U.S.<br/>dollars)</b> |                 |
| Net Losses Paid  | \$ 67,449                                 | \$ 260,866      |
| Net Change in Case and LAE Reserves                                  | (26,896)                                  | (43,985)        |
| Net Change in IBNR   | (57,946)                                  | (242,364)       |
| <br>Net Reduction in Loss and Loss Adjustment<br>Expense Liabilities | <br>\$ (17,393)                           | <br>\$ (25,483) |





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The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended June 30, 2009 and June 30, 2008. Losses incurred and paid are reflected net of reinsurance recoverables.

|                                  | <b>Three Months Ended<br/>June 30,</b> |              |
|----------------------------------|--|--------------|
|                                  | <b>2009</b>                            | <b>2008</b>  |
|                                  | <b>(in thousands of U.S. dollars)</b>  |              |
| Balance as of April 1            | \$ 2,797,827                           | \$ 2,700,687 |
| Less: Reinsurance recoverables   | 379,615                                | 662,929      |
|                                  | 2,418,212                              | 2,037,758    |
| Incurred Related to Prior Years  | (17,393)                               | (25,483)     |
| Paid Related to Prior Years      | (67,449)                               | (260,866)    |
| Effect of Exchange Rate Movement | 72,776                                 | 31,106       |
| Net balance as at June 30        | \$ 2,406,146                           | \$ 1,782,515 |
| Plus: Reinsurance recoverables   | 375,431                                | 529,075      |
| Balance as at June 30            | \$ 2,781,577                           | \$ 2,311,590 |

*Salaries and Benefits:*

|             | <b>Three Months Ended June 30,</b>    |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 8,953                              | \$ 8,775    | \$ (178)        |
| Reinsurance | 2,961                                 | 5,172       | 2,211           |
| Total       | \$ 11,914                             | \$ 13,947   | \$ 2,033        |

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were \$11.9 million and \$13.9 million for the three months ended June 30, 2009 and 2008, respectively.

The reduction in total salaries and benefits of approximately \$2.0 million is primarily attributable to:

- (i) a reduction in the quarterly average British pound exchange rate to U.S. dollars for the three months ended June 30, 2008 and 2009 from approximately 1.972 to 1.552, respectively. Of our total headcount as at June 30, 2009 and June 30, 2008, approximately 67% and 63%, respectively, had their salaries paid in British pounds;
- (ii) a reduction in the discretionary bonus expense for the three months ended June 30, 2009 of \$0.5 million; partially offset by

- (iii) increased staff costs due to an increase in average staff numbers for the three months ended June 30, 2008 of 249 to an average of 286 for the three months ended June 30, 2009.

Expenses relating to our discretionary bonus plan will be variable and dependent on our overall profitability.

*General and Administrative Expenses:*

|              | <b>Three Months Ended June 30,</b>    |                  |                 |
|--------------|---------------------------------------|------------------|-----------------|
|              | <b>2009</b>                           | <b>2008</b>      | <b>Variance</b> |
|              | <b>(in thousands of U.S. dollars)</b> |                  |                 |
| Consulting   | \$ 4,183                              | \$ 5,004         | \$ 821          |
| Reinsurance  | 6,727                                 | 8,968            | 2,241           |
| <b>Total</b> | <b>\$ 10,910</b>                      | <b>\$ 13,972</b> | <b>\$ 3,062</b> |

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General and administrative expenses attributable to the consulting segment decreased by \$0.8 million during the three months ended June 30, 2009, as compared to the three months ended June 30, 2008.

General and administrative expenses attributable to the reinsurance segment decreased by \$2.2 million during the three months ended June 30, 2009, as compared to the three months ended June 30, 2008. The reduction in general and administrative expenses is primarily attributable to the following:

- (i) a reduction in the quarterly average British pound exchange rate to U.S. dollars for the three months ended June 30, 2008 and 2009 from approximately 1.972 to 1.552, respectively;
- (ii) a reduction in consulting and third-party management expenses; partially offset by
- (iii) increased legal fees incurred in our U.S. subsidiaries; and
- (iv) increased costs resulting from companies acquired subsequent to June 30, 2008.

*Interest Expense:*

|             | <b>Three Months Ended June 30,<br/>2009          2008          Variance<br/>(in thousands of U.S. dollars)</b> |          |          |
|-------------|--|----------|----------|
| Consulting  | \$   | \$       | \$       |
| Reinsurance | 4,675  | 7,643    | 2,968    |
| Total       | \$ 4,675   | \$ 7,643 | \$ 2,968 |

Interest expense of \$4.7 million and \$7.6 million was recorded for the three months ended June 30, 2009 and 2008, respectively. The decrease in interest expense is primarily attributable to the combination of:

- (i) a reduction in the principal balance on the outstanding loan relating to the acquisition of AMP Limited's Australian-based closed reinsurance and insurance operations, or Gordian;
- (ii) a reduction in the Australian LIBOR interest rate on the Cumberland Loan Facility between June 30, 2008 and June 30, 2009; and
- (iii) a reduction in the average Australian dollar exchange rate to U.S. dollars from approximately 0.944 to 0.762 for the three months ended June 30, 2008 and June 30, 2009, respectively.

*Foreign Exchange Gain:*

|            | <b>Three Months Ended June 30,<br/>2009          2008          Variance<br/>(in thousands of U.S. dollars)</b> |      |        |
|------------|--|------|--------|
| Consulting | \$ 663   | \$ 3 | \$ 660 |

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|             |          |          |            |
|-------------|----------|----------|------------|
| Reinsurance | 948      | 4,932    | (3,984)    |
| Total       | \$ 1,611 | \$ 4,935 | \$ (3,324) |

We recorded a foreign exchange gain of \$1.6 million for the quarter ended June 30, 2009, as compared to a foreign exchange gain of \$4.9 million for the same period in 2008. For the quarter ended June 30, 2009, the foreign exchange gain arose primarily as a result of holding surplus British pounds relating primarily to cash collateral requirements to support British pound denominated letters of credit required by U.K. regulators, partially offset by foreign exchange losses arising as a result of the holding of surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the U.S. dollar has been depreciating against the currency.

For the three months ended June 30, 2008, the foreign exchange gain arose primarily as a result of the holding of surplus net Australian dollars and Euros in the reinsurance segment at a time when these currencies had been appreciating against the U.S. dollar.

**Table of Contents***Income Tax Recovery/(Expense):*

|             | <b>Three Months Ended June 30,</b>    |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ (1,700)                            | \$ (7)      | \$ (1,693)      |
| Reinsurance | 1,723                                 | (3,186)     | 4,909           |
| Total       | \$ 23                                 | \$ (3,193)  | \$ 3,216        |

We recorded an income tax recovery/(expense) of \$0.1 million and \$(3.2) million for the three months ended June 30, 2009 and 2008, respectively. During the three months ended June 30, 2009 and 2008, we incurred net income tax recovery/(expense) for our subsidiaries that operate in taxable jurisdictions of \$0.1 million and \$(6.7) million, respectively. For the three months ended June 30, 2008, this was partially offset by the expiration of the statute of limitations on certain previously recorded uncertain tax liabilities. In accordance with FIN 48, those liabilities were reversed with the corresponding adjustment being made to income tax recovery in the income statement. The benefit of the expiration of the statute of limitations on uncertain tax liabilities resulted in a recovery by us for the quarter ended June 30, 2008 of \$3.5 million.

*Noncontrolling Interest*

|             | <b>Three Months Ended June 30,</b>    |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$                                    | \$          | \$              |
| Reinsurance | (10,529)                              | (6,301)     | (4,228)         |
| Total       | \$ (10,529)                           | \$ (6,301)  | \$ (4,228)      |

We recorded noncontrolling interest in earnings of \$10.5 million and \$6.3 million for the three months ended June 30, 2009 and 2008, respectively. The increase for the three months ended June 30, 2009 in noncontrolling interest was due primarily to an increase in the number of subsidiary companies for which there exists a noncontrolling interest.

*Comparison of the Six Months Ended June 30, 2009 and 2008*

We reported consolidated net earnings, before extraordinary item and net earnings attributable to noncontrolling interest, of approximately \$30.1 million for the six months ended June 30, 2009 as compared to a net (loss) of approximately \$(2.7) million for the same period in 2008. The increase in earnings of approximately \$32.8 million was primarily a result of the following:

- (i) an increase in investment income of \$14.0 million primarily due to a decrease in the cumulative writedowns on our private equity investments of \$21.0 million, partially offset by lower investment income reflecting the impact of lower global short-term and intermediate interest rates and a \$0.9 million

increase in net realized losses;

- (ii) an increased reduction in loss and loss adjustment expense liabilities of \$19.3 million;
- (iii) a reduction in salary and general and administrative costs of \$3.6 million due to lower actual expenses primarily as a result of a lower British pound exchange rate to the U.S. dollar; and
- (iv) a reduction in income taxes of \$3.6 million due to lower tax liabilities on the results of our taxable subsidiaries; partially offset by
- (v) a reduction in foreign exchange gains and consulting fees of \$8.4 million.

We recorded noncontrolling interest in earnings of \$9.8 million and \$24.8 million for the six months ended June 30, 2009 and 2008, respectively. The decrease for the six months ended June 30, 2009 in noncontrolling interest was due primarily to the noncontrolling interest's share of the negative goodwill relating to the Gordian

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acquisition in 2008. Accordingly, net earnings attributable to Enstar Group Limited decreased from approximately \$22.9 million for the six months ended June 30, 2008 to approximately \$20.3 million for the six months ended June 30, 2009.

*Consulting Fees:*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 23,758                             | \$ 25,918   | \$ (2,160)      |
| Reinsurance | (16,243)                              | (16,285)    | 42              |
| Total       | \$ 7,515                              | \$ 9,633    | \$ (2,118)      |

We earned consulting fees of approximately \$7.5 million and \$9.6 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in consulting fees primarily related to decreased incentive fees earned from third-party agreements.

Internal management fees of \$16.2 million and \$16.3 million were paid in the six months ended June 30, 2009 and 2008, respectively, by our reinsurance companies to our consulting companies.

*Net Investment Income and Net Realized (Losses):*

|             | <b>Six Months Ended June 30,</b>      |             |                 |                     |             |                 |
|-------------|---------------------------------------|-------------|-----------------|---------------------|-------------|-----------------|
|             | <b>Net Investment</b>                 |             |                 | <b>Net Realized</b> |             |                 |
|             | <b>Income</b>                         |             |                 | <b>(Losses)</b>     |             |                 |
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> | <b>2009</b>         | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |                     |             |                 |
| Consulting  | \$ 1,112                              | \$ (3,201)  | \$ 4,313        | \$                  | \$          | \$              |
| Reinsurance | 34,690                                | 25,010      | 9,680           | (930)               | (70)        | (860)           |
| Total       | \$ 35,802                             | \$ 21,809   | \$ 13,993       | \$ (930)            | \$ (70)     | \$ (860)        |

Net investment income for the six months ended June 30, 2009 increased by \$14.0 million to \$35.8 million, as compared to \$21.8 million for the same period in 2008. The increase was primarily attributable to the combination of the following items:

- (i) Decrease from \$22.7 million to \$1.7 million in writedowns in the fair value of our investments in New NIB Partners L.P., the Flowers Fund, Affirmative Investment LLC and GSC European Mezzanine Fund II, LP for the six months ended June 30, 2008 and 2009, respectively; partially offset by
- (ii)

lower investment income from fixed maturities and cash and cash equivalents, reflecting the impact of lower global short-term and intermediate interest rates the average U.S. Federal Funds Rate has decreased from 2.65% for the six months ended June 30, 2008 to an average of 0.25% for the six months ended June 30, 2009.

The average return on the cash and fixed maturity investments for the six months ended June 30, 2009 was 1.76%, as compared to the average return of 4.10% for the six months ended June 30, 2008. The average Standard & Poor's credit rating of our fixed income investments at June 30, 2009 was AA.

Net realized (losses) for the six months ended June 30, 2009 and 2008 were \$(0.9) million and \$(0.1) million, respectively. The increase was due primarily to the writedown of our equity investments in 2009.



**Table of Contents****Fair Value Measurements**

The following table summarizes all of our financial assets and liabilities measured at fair value by FAS No. 157, Fair Value Measurements, or FAS 157, hierarchy.

|                             | <b>June 30, 2009</b>  |  |  |                  | <b>Total Fair Value</b> |
|-----------------------------|---|--|--|------------------|-------------------------|
|                             | <b>Quoted Prices<br/>in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |                  |                         |
| U.S. government and agency  | \$  | \$   | 211,006  | \$               | \$ 211,006              |
| Non-U.S. government         |   |  | 20,557   |                  | 20,557                  |
| Corporate                   |   |  | 367,322  |                  | 367,322                 |
| Residential mortgage-backed |   |  | 1,386  |                  | 1,386                   |
| Commercial mortgage-backed  |   |  | 34   |                  | 34                      |
| Asset backed                |   |  |  | 263              | 263                     |
| CMO                         |   |  | 646  |                  | 646                     |
| Equities                    | 12,755  | 8,744  |  | 3,200            | 24,699                  |
| Other investments           |   |  |  | 71,039           | 71,039                  |
| <b>Total investments</b>    | <b>\$ 12,755</b>  | <b>\$ 609,695</b>  |  | <b>\$ 74,502</b> | <b>\$ 696,952</b>       |

*Net Reduction in Loss and Loss Adjustment Expense Liabilities:*

The net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 and 2008 was \$44.1 million and \$24.8 million, respectively. The net reduction in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 of \$44.1 million was attributable to a reduction in estimates of net ultimate losses of \$47.6 million, a reduction in aggregate provisions for bad debts of \$9.7 million and a reduction in estimates of loss adjustment expense liabilities of \$19.5 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments relating to companies acquired amounting to \$32.7 million.

The reduction in estimates of net ultimate losses of \$47.6 million primarily related to a reduction in estimates of loss reserves in two of our subsidiaries of \$33.9 million following the commutation of one of our largest ten assumed and ceded exposures at less than case and LAE reserves and the agreement of claims liabilities of certain policyholders at levels that required a reassessment of IBNR loss reserves.

In addition, we recognized a reduction in estimates of net ultimate losses of \$13.0 million in one of our subsidiaries as a result of net favorable incurred loss development for the six months ended June 30, 2009 of \$2.6 million and reductions in IBNR reserves of \$10.4 million. The net favorable incurred loss development of \$2.6 million, whereby net advised case and LAE reserves of \$6.6 million were settled for net paid losses of \$4.0 million, arose from the settlement of losses during the period below carried reserves. The net reduction in the estimate of the subsidiary's IBNR loss and loss adjustment expense liabilities of \$10.4 million was the result of the application of our reserving methodologies to the reduced case and LAE reserves following the subsidiary's semi-annual actuarial review of

reserves as required by local regulation.

The reduction in estimates of net ultimate losses of \$23.9 million for the six months ended June 30, 2008 was primarily attributable to the reduction in estimates of net ultimate losses of \$25.5 million related to one of our subsidiaries, which reduction was comprised of net favorable incurred loss development of \$12.1 million and related reductions in IBNR reserves of \$13.4 million. The net favorable incurred loss development of \$12.1 million, whereby net advised case and LAE reserves of \$21.2 million were settled for net paid losses of \$9.1 million, arose from the settlement of non-commuted losses during the period below carried reserves and approximately three commutations of assumed and ceded exposures at less than case and LAE reserves. The net reduction in the estimate of the subsidiary's IBNR loss and loss adjustment expense liabilities of \$13.4 million was the result of an independent actuarial review and the application of our reserving methodologies to the reduced case and LAE reserves. During the six months ended June 30, 2008, another of our reinsurance subsidiaries commuted its largest exposure, which was fully reinsured by a single reinsurer with an AA- rating from Standard & Poor's. The subsidiary paid net claims of \$221.2 million and reduced net IBNR loss reserves by the same amount.

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The following table shows the components of the movement in the net increase in loss and loss adjustment expense liabilities for the six months ended June 30, 2009 and 2008.

|   | <b>Six Months Ended June 30,</b>      |                 |
|---|---------------------------------------|-----------------|
|   | <b>2009</b>                           | <b>2008</b>     |
|   | <b>(in thousands of U.S. dollars)</b> |                 |
| Net Losses Paid   | \$ 79,821                             | \$ 257,491      |
| Net Change in Case and LAE Reserves                                 | (42,202)                              | (39,443)        |
| Net Change in IBNR  | (81,691)                              | (242,846)       |
| <br>Net (Reduction) in Loss and Loss Adjustment Expense Liabilities | <br>\$ (44,072)                       | <br>\$ (24,798) |

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the six months ended June 30, 2009 and June 30, 2008. Losses incurred and paid are reflected net of reinsurance recoverables.

|   | <b>Six Months Ended June 30,</b>      |                  |
|---|---------------------------------------|------------------|
|   | <b>2009</b>                           | <b>2008</b>      |
|   | <b>(in thousands of U.S. dollars)</b> |                  |
| Balance as of January 1                   | \$ 2,798,287                          | \$ 1,591,449     |
| Less: Reinsurance recoverables            | 394,575                               | 427,964          |
|   | 2,403,712                             | 1,163,485        |
| Incurred Related to Prior Years           | (44,072)                              | (24,798)         |
| Paid Related to Prior Years               | (79,821)                              | (257,491)        |
| Effect of Exchange Rate Movement          | 66,126                                | 40,519           |
| Retroactive Reinsurance Contracts Assumed | 48,818                                | 394,913          |
| Acquired on Acquisition of Subsidiaries   | 11,383                                | 465,887          |
| <br>Net balance as at June 30             | <br>2,406,146                         | <br>1,782,515    |
| Plus: Reinsurance recoverables            | 375,431                               | 529,075          |
| <br>Balance as at June 30                 | <br>\$ 2,781,577                      | <br>\$ 2,311,590 |

*Salaries and Benefits:*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 17,904                             | \$ 18,070   | \$ 166          |
| Reinsurance | 6,427                                 | 7,234       | 807             |

|       |           |           |        |
|-------|-----------|-----------|--------|
| Total | \$ 24,331 | \$ 25,304 | \$ 973 |
|-------|-----------|-----------|--------|

Salaries and benefits, which include expenses relating to our discretionary bonus and employee share plans, were \$24.3 million and \$25.3 million for the six months ended June 30, 2009 and 2008, respectively. The reduction in salaries and benefits is primarily attributable to:

- (i) a reduction in the average British pound exchange rate to U.S. dollars for the six months ended June 30, 2008 and 2009 from approximately 1.975 to 1.493, respectively. Of our total headcount as at June 30, 2009 and June 30, 2008, approximately 67% and 63%, respectively, had their salaries paid in British pounds;
- (ii) a reduction in the discretionary bonus expense for the six months ended June 30, 2009 of \$0.5 million; partially offset by
- (iii) increased staff costs due to an increase in average staff numbers from 243 at June 30, 2008 to 287 as at June 30, 2009.

Expenses relating to our discretionary bonus plan will be variable and dependent on our overall profitability.

**Table of Contents***General and Administrative Expenses:*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 8,508                              | \$ 8,626    | \$ 118          |
| Reinsurance | 14,784                                | 17,257      | 2,473           |
| Total       | \$ 23,292                             | \$ 25,883   | \$ 2,591        |

General and administrative expenses attributable to the reinsurance segment decreased by \$2.6 million during the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. For the six months ended June 30, 2008, we incurred approximately \$4.5 million of bank loan structure fees in respect of acquisitions we completed during that period. For the six months ended June 30, 2009 we did not incur any similar fees. In addition, expenses were lower as a result of a reduction in the British pound exchange rate, in which a large portion of our costs are denominated. The reduced expenses were partially offset by increased costs resulting from companies acquired subsequent to June 30, 2008.

*Interest Expense:*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$                                    | \$          | \$              |
| Reinsurance | 9,640                                 | 10,958      | (1,318)         |
| Total       | \$ 9,640                              | \$ 10,958   | \$ (1,318)      |

Interest expense of \$9.6 million and \$11.0 million was recorded for the six months ended June 30, 2009 and 2008, respectively. The decrease in interest expense is primarily attributable to the combination of:

- (i) a reduction in the principal balance on the Cumberland Loan Facility;
- (ii) a reduction in the Australian LIBOR interest rate on the Cumberland Loan Facility between June 30, 2008 and June 30, 2009; and
- (iii) a reduction in the average Australian dollar exchange rate to U.S. dollars from approximately 0.925 to 0.713 for the six months ended June 30, 2008 and June 30, 2009, respectively.

*Foreign Exchange Gain/(Loss):***Six Months Ended June 30,**

|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ 374                                | \$ 375      | \$ (1)          |
| Reinsurance | (361)                                 | 5,895       | (6,256)         |
| Total       | \$ 13                                 | \$ 6,270    | \$ (6,257)      |

We recorded a foreign exchange gain of \$0.1 million for the six-month period ended June 30, 2009, as compared to a foreign exchange gain of \$6.3 million for the same period in 2008. For the six months ended June 30, 2009, the foreign exchange gain arose primarily as a result of holding surplus British pounds relating primarily to cash collateral requirements to support British pound denominated letters of credit required by U.K. regulators, partially offset by the combination of realized foreign exchange losses on currency translations and foreign exchange losses arising as a result of the holding of surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the U.S. dollar has been depreciating against the currency.

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For the six months ended June 30, 2008, the foreign exchange gain arose primarily as a result of the holding of surplus net Australian dollars and Euros in the reinsurance segment at a time when these currencies were appreciating against the U.S. dollar.

In addition to the foreign exchange gains recorded in our consolidated statement of earnings for the six months ended June 30, 2009, we recorded in our condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, of \$26.4 million as compared to \$7.7 million for the same period in 2008. For the six months ended June 30, 2009, the currency translation adjustment gains related primarily to Gordian. As the functional currency of Gordian is Australian dollars, we are required to record any U.S. dollar gains or losses on the translation of the net Australian dollar assets of Gordian through accumulated other comprehensive income.

*Income Tax Recovery/(Expense):*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$ (1,207)                            | \$ 1,793    | \$ (3,000)      |
| Reinsurance | 1,848                                 | (4,747)     | 6,595           |
| Total       | \$ 641                                | \$ (2,954)  | \$ 3,595        |

We recorded income tax recovery/(expense) of \$0.6 million and \$(3.0) million for the six months ended June 30, 2009 and 2008, respectively. Income tax (expense)/recovery of \$(1.2) million and \$1.8 million were recorded in the consulting segment for the six months ended June 30, 2009 and 2008, respectively. The variance between the two periods was primarily attributable to our recording of tax recoveries on losses incurred by our U.S. operations for the six months ended June 30, 2008.

Income tax recovery/(expense) of \$1.8 million and \$(4.8) million were recorded in the reinsurance segment for the six months ended June 30, 2009 and 2008, respectively. During the period ended June 30, 2009 and 2008, we recorded net income tax (recovery)/expense related to those subsidiaries operating in taxable jurisdictions of \$1.8 million and \$(8.3) million, respectively.

In addition, the benefit of the expiration of the statute of limitations on uncertain tax liabilities resulted in a recovery by us during the six months ended June 30, 2008 of \$3.5 million.

*Negative Goodwill:*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$                                    | \$          | \$              |
| Reinsurance |                                       | 50,280      | (50,280)        |
| Total       | \$                                    | \$ 50,280   | \$ (50,280)     |

Negative goodwill of \$nil million and \$50.3 million, was recorded for the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2008 the negative goodwill of \$50.3 million was earned in connection with our acquisition of AMP Limited's Australian-based closed reinsurance and insurance operations, or Gordian, and represents the excess of the cumulative fair value of net assets acquired of \$455.7 million over the cost of \$405.4 million. This excess was, in accordance with SFAS 141 Business Combinations, recognized as an extraordinary gain in 2008. The negative goodwill arose primarily as a result of the income earned by Gordian between the date of the balance sheet on which the agreed purchase price was based, June 30, 2007, and the date the acquisition closed, March 5, 2008.



**Table of Contents***Noncontrolling Interest*

|             | <b>Six Months Ended June 30,</b>      |             |                 |
|-------------|---------------------------------------|-------------|-----------------|
|             | <b>2009</b>                           | <b>2008</b> | <b>Variance</b> |
|             | <b>(in thousands of U.S. dollars)</b> |             |                 |
| Consulting  | \$                                    | \$          | \$              |
| Reinsurance | (9,837)                               | (24,761)    | 14,924          |
| Total       | \$ (9,837)                            | \$ (24,761) | \$ 14,924       |

We recorded noncontrolling interest in earnings of \$9.8 million and \$24.8 million for the six months ended June 30, 2009 and 2008, respectively. The decrease for the six months ended June 30, 2009 in noncontrolling interest was due primarily to the noncontrolling interest's share of the negative goodwill relating to the Gordian acquisition in 2008.

**Liquidity and Capital Resources**

On April 4, 2009, we repaid AU\$80.7 million (approximately \$56.7 million) of the outstanding principal of the Facility A commitment pursuant to the Cumberland Loan Facility. As at June 30, 2009, the outstanding loan balance related to the Cumberland Loan Facility was AU\$147.9 million (approximately \$119.2 million).

On June 29, 2009, we received approval from the Australian regulators to release a further AU\$123.9 million bringing the total approved and unpaid releases to AU\$149.7 million. We expect the distributions to be made in the third quarter of 2009. In accordance with the terms of the Cumberland Loan Facility, 50% of the total distributions will be used to pay down the Cumberland Loan Facility.

Other than this repayment, there have been no material changes to our liquidity position or capital resource requirements since December 31, 2008. For more information refer to Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

On December 30, 2008, in connection with the Unionamerica Holdings Limited acquisition, Royston Run-off Limited, or Royston, borrowed the full amount of \$184.6 million available under a term facilities agreement, or the Unionamerica Facilities Agreement, with National Australia Bank Limited, or NABL. Of that amount, Royston borrowed \$152.6 million under Facility A and \$32.0 million under Facility B. The loans are secured by a lien covering all of the assets of Royston. We provided a guarantee of all of Royston's obligations under the facilities agreement. The Facility A portion is repayable within three years from October 3, 2008, the date of the Unionamerica Facilities Agreement. The Facility B portion is repayable within four years from the date of the Unionamerica Facilities Agreement. The Flowers Fund has a 30% non-voting equity interest in Royston Holdings Ltd., the direct parent company of Royston.

On August 4, 2009, Royston entered into an amended and restated term facility agreement pursuant to which: (1) NABL's participation in the original \$184.6 million facility was reduced from 100% to 50%, with Barclays Bank PLC providing the remaining 50%; (2) the guarantee provided by us of all of the obligations of Royston under the Unionamerica Facilities Agreement was terminated; and (3) the interest rate on the Facility A portion was reduced from LIBOR plus 3.50% to LIBOR plus 2.75% and the interest rate on the Facility B portion was reduced from LIBOR plus 4.00% to LIBOR plus 3.25%.

With respect to the six-month periods ended June 30, 2009 and 2008, net cash provided by our operating activities was \$29.1 million and \$334.3 million, respectively. The decrease in cash flows was primarily attributable to a decrease in the net assets assumed on retroactive reinsurance contracts during the six-months ended June 30, 2009.

Net cash used in investing activities for the six-month periods ended June 30, 2009 and 2008 was \$312.2 million and \$196.8 million, respectively. The decrease in the cash flows was primarily due to an increase in net purchases of investments partially offset by an increase in cash provided by the sales and maturities of available-for-sale securities.

Net cash (used in) provided by financing activities for the six month periods ended June 30, 2009 and 2008 was \$(74.5) million and \$334.0 million, respectively. The decrease in cash flows was primarily attributable to the receipt

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of bank loans and capital contributions by noncontrolling interest shareholders relating to acquisitions completed during the six months ended June 30, 2008 which did not recur in 2009.

**Commitments and Contingencies**

There have been no other material changes in our commitments or contingencies since December 31, 2008. For more information refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Commitments and Contingencies included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

**Critical Accounting Estimates**

Our critical accounting estimates are discussed in Management's Discussion and Analysis of Results of Operations and Financial Condition Critical Accounting Policies included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 5, 2009.

**Off-Balance Sheet and Special Purpose Entity Arrangements**

At June 30, 2009, we have not entered into any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

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**Cautionary Statement Regarding Forward-Looking Statements**

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

Factors that could cause actual results to differ materially from those suggested by the forward-looking statements include:

risks associated with implementing our business strategies and initiatives;

the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;

risks relating to the availability and collectability of our reinsurance;

changes in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions including current market conditions and the instability in the global credit markets, which could affect our investment portfolio, our ability to finance future acquisitions and our profitability;

losses due to foreign currency exchange rate fluctuations;

tax, regulatory or legal restrictions or limitations applicable to us or the insurance and reinsurance business generally;

increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;

emerging claim and coverage issues;

lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;

loss of key personnel;

changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management's discretion;

operational risks, including system or human failures;

risks that we may require additional capital in the future which may not be available or may be available only on unfavorable terms;

the risk that ongoing or future industry regulatory developments will disrupt our business, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;

changes in Bermuda law or regulation or the political stability of Bermuda;

changes in tax laws or regulations applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere; and

changes in accounting policies or practices.

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*The factors listed above should be not construed as exhaustive and should be read in conjunction with the other cautionary statements and Risk Factors that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 5, 2009, as well as in the materials filed and to be filed with the SEC. We undertake no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise.*

**Item 3. QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK**

There have been no material changes in our market risk exposures since December 31, 2008. For more information refer to Quantitative and Qualitative Disclosures about Market Risk included in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on March 5, 2009.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls**

Our management has performed an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of changes in our internal control over financial reporting that occurred during the three months ended June 30, 2009. Based upon that evaluation there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on our business, results of operations or financial condition. Nevertheless, we cannot assure you that lawsuits, arbitrations or other litigation will not have a material adverse effect on our business, financial condition or results of operations. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental claims. There can be no assurance that any such future litigation will not have a material adverse effect on our business, financial condition or results of operations.

In April 2008, we, Enstar US, Inc., or Enstar US, Dukes Place Limited and certain affiliates of Dukes Place, or, collectively, Dukes Place, were named as defendants in a lawsuit filed in the United States District Court for the Southern District of New York by National Indemnity Company, or NICO, an indirect subsidiary of Berkshire Hathaway. The complaint alleges, among other things, that Dukes Place, we and Enstar US: (i) interfered with the rights of NICO as reinsurer under reinsurance agreements entered into between NICO and each of Stonewall and Seaton, two Rhode Island domiciled insurers that are indirect subsidiaries of Dukes Place, and (ii) breached certain duties owed to NICO under management agreements between Enstar US and each of Stonewall and Seaton. The suit was filed shortly after Virginia Holdings Ltd., our indirect subsidiary, or Virginia, completed a hearing before the Rhode Island Department of Business Regulation as part of Virginia's application to buy a 44.4% interest in the insurers from Dukes Place. Virginia completed that acquisition on June 13, 2008. The suit does not seek a stated amount of damages. On July 23, 2008, we and Enstar US filed a motion to dismiss Count I (relating to breach of fiduciary duty), Count III (relating to breach of contract) and Count V (relating to inducing breach of contract), in each case for failure to state a claim upon which relief can be granted. Subsequently, the parties entered into a Stipulation and Order filed with the Court on October 7, 2008, by which (i) NICO agreed to dismiss Count V of its Complaint with prejudice, (ii) the defendants agreed to withdraw their motion to dismiss Counts I and III without prejudice, reserving all of their rights and defenses to challenge these claims on the merits, and (iii) NICO agreed to extend the defendants' time to file an answer and counterclaim. On November 5, 2008, we, Enstar US and Dukes Place filed an answer to NICO's complaint and Dukes Place asserted certain counterclaims against NICO. On January 12, 2009, NICO filed a motion to dismiss certain of the counterclaims, along with a motion for summary judgment addressed to the counterclaims. We, Enstar US and Dukes Place filed papers in opposition to NICO's motion on February 23, 2009, and NICO filed reply briefs in support of its motion on March 23, 2009. We, Enstar US and Dukes Place are currently in discussions with NICO regarding a potential settlement of all claims and counterclaims. Our management believes the suit will not have a material impact on us or our subsidiaries.

**Item 1A. RISK FACTORS**

Our results of operations and financial condition are subject to numerous risks and uncertainties described in Risk Factors included in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 5, 2009. The risk factors identified therein have not materially changed.

**Table of Contents****Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The following matters were submitted to a vote of shareholders at our Annual General Meeting of Shareholders on June 9, 2009:

1. Election of the following nominees to serve as members of our Board of Directors in the classes set forth below.

***Class III Directors:***

| <b>Nominee</b>         | <b>Votes For</b> | <b>Votes Against</b> | <b>Votes Abstained</b> |
|------------------------|------------------|----------------------|------------------------|
| Paul J. Collins        | 10,029,773       | 685,314              | 17,897                 |
| J. Christopher Flowers | 10,030,551       | 684,887              | 17,546                 |
| Dominic F. Silvester   | 10,309,619       | 405,486              | 17,879                 |

***Class II Director:***

| <b>Nominee</b>       | <b>Votes For</b> | <b>Votes Against</b> | <b>Votes Abstained</b> |
|----------------------|------------------|----------------------|------------------------|
| Charles T. Akre, Jr. | 10,666,313       | 42,829               | 23,842                 |

The continuing members of our Board of Directors following the Annual General Meeting of Shareholders include T. Whit Armstrong, Robert J. Campbell, Gregory L. Curl, Paul J. O Shea and John J. Oros.

2. Ratification of the selection of Deloitte & Touche, Hamilton, Bermuda, to act as our independent registered public accounting firm for the fiscal year ending December 31, 2009 and authorization of our Board of Directors, acting through the Audit Committee, to approve the fees for the independent registered public accounting firm.

| <b>Votes For</b> | <b>Votes Against</b> | <b>Votes Abstained</b> |
|------------------|----------------------|------------------------|
| 10,699,313       | 11,355               | 22,316                 |

3. Election of directors of each of our subsidiaries identified in Proposal Number Four in the Proxy Statement, filed with the SEC on April 30, 2009 (nominees for the respective subsidiaries and the results of voting are set forth below).

**1. AG AUSTRALIA HOLDINGS LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Paul J. O Shea     | 10,579,438 | 66,610         | 86,936         |
| Nicholas A. Packer | 10,579,438 | 66,560         | 86,986         |
| Steven Given       | 10,579,488 | 66,560         | 86,936         |
| Sandra O Sullivan  | 10,579,488 | 66,560         | 86,936         |



**2. BANTRY HOLDINGS LTD**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |

**3. B.H. ACQUISITION LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****4. BLACKROCK HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |

**5. BOSWORTH RUN-OFF LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**6. BRAMPTON INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Max Lewis        | 10,579,438 | 66,610         | 86,936         |
| Albert Maass     | 10,579,438 | 66,560         | 86,986         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas   | 10,579,438 | 66,610         | 86,936         |
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |

**7. BRITTANY INSURANCE COMPANY LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |

**8. CAPITAL ASSURANCE COMPANY INC**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Karl J. Wall     | 10,579,488 | 66,560         | 86,936         |
| Robert Carlson   | 10,579,488 | 66,560         | 86,936         |
| Andrea Giannetta | 10,579,478 | 66,570         | 86,936         |
| Debbie Haran     | 10,579,478 | 66,570         | 86,936         |
| James Grajewski  | 10,579,438 | 66,560         | 86,986         |

**9. CAPITAL ASSURANCE SERVICES INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Karl J. Wall     | 10,579,488 | 66,560         | 86,936         |
| Robert Carlson   | 10,579,488 | 66,560         | 86,936         |
| Andrea Giannetta | 10,579,488 | 66,560         | 86,936         |
| Debbie Haran     | 10,579,488 | 66,560         | 86,936         |
| James Grajewski  | 10,579,428 | 66,570         | 86,986         |

**10. CASTLEWOOD (BERMUDA) LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,428 | 66,620         | 86,936         |
| Richard J. Harris   | 10,579,478 | 66,570         | 86,936         |
| Adrian C. Kimberley | 10,579,428 | 66,570         | 86,986         |
| David Roche         | 10,579,478 | 66,570         | 86,936         |

**Table of Contents****11. CAVELL HOLDINGS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,428 | 66,570         | 86,986         |
| Derek Reid       | 10,579,478 | 66,570         | 86,936         |
| Gareth Nokes     | 10,579,438 | 66,610         | 86,936         |

**12. CAVELL INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,428 | 66,570         | 86,986         |
| Derek Reid       | 10,579,478 | 66,570         | 86,936         |
| Darren S. Truman | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,438 | 66,610         | 86,936         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Thomas Nichols   | 10,579,438 | 66,560         | 86,986         |

**13. CAVELL LEASING LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Derek Reid       | 10,579,478 | 66,570         | 86,936         |
| Alan Turner      | 10,579,428 | 66,570         | 86,986         |

**14. CAVELL OVERSEAS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Derek Reid       | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |

**15. CHURCH BAY LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Gary Potts         | 10,579,478 | 66,570         | 86,936         |
| Jann Skinner       | 10,579,488 | 66,560         | 86,936         |
| Bruce Bollom       | 10,579,428 | 66,570         | 86,986         |
| Paul J. O Shea     | 10,579,438 | 66,610         | 86,936         |
| Nicholas A. Packer | 10,579,488 | 66,560         | 86,936         |

**16. CIRRUS RE COMPANY A/S**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
|------------------|------------|----------------|----------------|

|               |            |        |        |
|---------------|------------|--------|--------|
| Alan Turner   | 10,579,438 | 66,560 | 86,986 |
| David Roche   | 10,579,488 | 66,560 | 86,936 |
| Jan Endressen | 10,579,488 | 66,560 | 86,936 |

**17. COBALT SOLUTIONS SERVICES LTD.**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Paul J. O Shea     | 10,579,438 | 66,610         | 86,936         |
| Nicholas A. Packer | 10,579,488 | 66,560         | 86,936         |
| Steven Given       | 10,579,488 | 66,560         | 86,936         |
| Sandra O Sulliva   | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****18. COMOX HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |

**19. COMPAGNIE EUROPEENE D ASSURANCES INDUSTRIELLES S.A.**

| <b>Nominees:</b>     | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|----------------------|------------|----------------|----------------|
| David Roche          | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas       | 10,579,488 | 66,560         | 86,936         |
| Nicholas A. Packer   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea       | 10,579,438 | 66,610         | 86,936         |
| John J. Oros         | 10,579,438 | 66,560         | 86,986         |
| Dominic F. Silvester | 10,579,488 | 66,560         | 86,936         |

**20. CONSTELLATION REINSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Karl J. Wall     | 10,579,438 | 66,560         | 86,986         |
| Robert Carlson   | 10,579,438 | 66,560         | 86,986         |
| Thomas J. Balkan | 10,579,438 | 66,560         | 86,986         |
| Joseph Follis    | 10,579,438 | 66,560         | 86,986         |
| Andrea Giannetta | 10,579,438 | 66,560         | 86,986         |
| Mark A. Kern     | 10,579,438 | 66,560         | 86,986         |
| Raymond Rizzi    | 10,579,438 | 66,560         | 86,986         |
| Teresa Reali     | 10,579,438 | 66,560         | 86,986         |
| Donna L. Stolz   | 10,579,438 | 66,560         | 86,986         |
| James Grajewski  | 10,579,438 | 66,560         | 86,986         |
| Jay Banskota     | 10,579,438 | 66,560         | 86,986         |
| Richard C. Ryan  | 10,579,438 | 66,560         | 86,986         |
| Rudy A. Dimmling | 10,579,438 | 66,560         | 86,986         |

**21. COURTENAY HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,438 | 66,560         | 86,986         |
| Paul J. O Shea      | 10,579,428 | 66,570         | 86,986         |
| David Roche         | 10,579,438 | 66,560         | 86,986         |

**22. CRANMORE ADJUSTERS LIMITED**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| David Hackett     | 10,579,438 | 66,560         | 86,986         |
| Alan Turner       | 10,579,438 | 66,560         | 86,986         |
| Steven Norrington | 10,579,438 | 66,560         | 86,986         |
| Philip Cooper     | 10,579,438 | 66,560         | 86,986         |
| Mark Wood         | 10,579,438 | 66,560         | 86,986         |
| David Ellis       | 10,579,438 | 66,560         | 86,986         |
| Gareth Nokes      | 10,579,438 | 66,560         | 86,986         |

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**Table of Contents****23. CRANMORE (US) INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Cheryl D. Davis  | 10,579,478 | 66,570         | 86,936         |
| John J. Oros     | 10,579,488 | 66,560         | 86,936         |
| Karl J. Wall     | 10,579,478 | 66,570         | 86,936         |
| Donna L. Stolz   | 10,579,488 | 66,560         | 86,936         |

**24. CUMBERLAND HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,478 | 66,570         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |

**25. DENMAN HOLDINGS LIMITED**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Richard J. Harris | 10,579,488 | 66,560         | 86,936         |
| John J. Oros      | 10,579,488 | 66,560         | 86,936         |
| Cameron Leamy     | 10,579,488 | 66,560         | 86,936         |
| Kenneth Thompson  | 10,579,488 | 66,560         | 86,936         |

**26. ELECTRICITY PRODUCERS INSURANCE COMPANY (BERMUDA) LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,478 | 66,570         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Orla Gregory        | 10,579,488 | 66,560         | 86,936         |
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |

**27. ENSTAR ACQUISITIONS LTD.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,478 | 66,570         | 86,936         |

**28. ENSTAR AUSTRALIA HOLDINGS PTY LTD.**



| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Gary Potts         | 10,579,488 | 66,560         | 86,936         |
| Jann Skinner       | 10,579,488 | 66,560         | 86,936         |
| Bruce Bollom       | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea     | 10,579,488 | 66,560         | 86,936         |
| Nicholas A. Packer | 10,579,488 | 66,560         | 86,936         |

**29. ENSTAR AUSTRALIA LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Paul J. O Shea     | 10,579,428 | 66,620         | 86,936         |
| Nicholas A. Packer | 10,579,488 | 66,560         | 86,936         |
| Nick Hall          | 10,579,438 | 66,560         | 86,986         |
| Mark Sinderberry   | 10,579,488 | 66,560         | 86,936         |
| Orla Gregory       | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****30. ENSTAR BROKERS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Richard J. Harris   | 10,579,478 | 66,570         | 86,936         |
| Elizabeth DaSilva   | 10,579,428 | 66,570         | 86,986         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,963         |
| David Rocke         | 10,579,488 | 66,560         | 86,963         |

**31. ENSTAR (EU) HOLDINGS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| David Hackett    | 10,579,478 | 66,570         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |

**32. ENSTAR (EU) LTD.**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| David Hackett     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner       | 10,579,488 | 66,560         | 86,936         |
| Duncan McLaughlin | 10,579,438 | 66,610         | 86,936         |
| Derek Reid        | 10,579,438 | 66,560         | 86,986         |
| C. Paul Thomas    | 10,579,488 | 66,560         | 86,936         |
| David Grisley     | 10,579,488 | 66,560         | 86,936         |
| David Atkins      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes      | 10,579,438 | 66,560         | 86,986         |
| Thomas Nichols    | 10,579,438 | 66,560         | 86,986         |

**33. ENSTAR FINANCIAL SERVICES INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| John J. Oros     | 10,579,478 | 66,570         | 86,936         |
| Cheryl D. Davis  | 10,579,478 | 66,570         | 86,936         |

**34. ENSTAR GROUP OPERATIONS INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| John J. Oros     | 10,579,488 | 66,560         | 86,936         |
| Cheryl D. Davis  | 10,579,488 | 66,560         | 86,936         |

**35. ENSTAR HOLDINGS (US) INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Cheryl D. Davis  | 10,579,438 | 66,560         | 86,986         |
| John J. Oros     | 10,579,438 | 66,560         | 86,986         |
| Karl J. Wall     | 10,579,438 | 66,560         | 86,986         |
| Donna L. Stolz   | 10,579,438 | 66,560         | 86,986         |

**36. ENSTAR INVESTMENTS, INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Cheryl D. Davis  | 10,579,428 | 66,570         | 86,986         |
| John J. Oros     | 10,579,438 | 66,560         | 86,986         |
| Karl J. Wall     | 10,579,438 | 66,560         | 86,986         |
| Donna L. Stolz   | 10,579,438 | 66,560         | 86,986         |

**Table of Contents****37. ENSTAR LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,428 | 66,570         | 86,986         |
| Richard J. Harris   | 10,579,438 | 66,560         | 86,986         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Elizabeth DaSilva   | 10,579,438 | 66,560         | 86,986         |

**38. ENSTAR (US) INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Cheryl D. Davis  | 10,579,428 | 66,570         | 86,986         |
| John J. Oros     | 10,579,438 | 66,560         | 86,986         |
| Karl J. Wall     | 10,579,438 | 66,560         | 86,986         |
| Donna L. Stolz   | 10,579,438 | 66,560         | 86,986         |

**39. ENSTAR USA, INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| John J. Oros     | 10,579,428 | 66,560         | 86,996         |
| Cheryl D. Davis  | 10,579,438 | 66,560         | 86,986         |
| Karl J. Wall     | 10,579,438 | 66,560         | 86,986         |

**40. FANNY BAY HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,428 | 66,560         | 86,996         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,438 | 66,560         | 86,986         |
| Duncan M. Scott     | 10,579,438 | 66,560         | 86,986         |
| David Roche         | 10,579,438 | 66,560         | 86,986         |

**41. FIELDMILL INSURANCE COMPANY LTD.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,428 | 66,570         | 86,986         |
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| C. Paul Thomas   | 10,579,438 | 66,560         | 86,986         |
| Thomas Nichols   | 10,579,438 | 66,560         | 86,986         |

**42. FITZWILLIAM INSURANCE LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,438 | 66,560         | 86,986         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Nicholas A. Packer  | 10,579,438 | 66,560         | 86,986         |
| David Rocke         | 10,579,438 | 66,560         | 86,986         |

**43. FLATTS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |

**Table of Contents****44. GK CONSORTIUM MANAGEMENT LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |

**45. GORDIAN RUNOFF LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Gary Potts         | 10,579,438 | 66,560         | 86,986         |
| Jann Skinner       | 10,579,438 | 66,560         | 86,986         |
| Bruce Bollom       | 10,579,428 | 66,570         | 86,986         |
| Paul J. O Shea     | 10,579,438 | 66,560         | 86,986         |
| Nicholas A. Packer | 10,579,438 | 66,560         | 86,986         |

**46. GOSHAWK DEDICATED LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,428 | 66,570         | 86,986         |
| Alan Turner      | 10,579,428 | 66,570         | 86,986         |

**47. GOSHAWK HOLDINGS (BERMUDA) LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,560         | 86,986         |
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Orla Gregory        | 10,579,438 | 66,560         | 86,986         |
| David Roche         | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,438 | 66,560         | 86,986         |

**48. GOSHAWK INSURANCE HOLDINGS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Orla Gregory     | 10,579,438 | 66,560         | 86,986         |
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |

**49. GUILDHALL INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |

|                |            |        |        |
|----------------|------------|--------|--------|
| Alan Turner    | 10,579,428 | 66,570 | 86,986 |
| C. Paul Thomas | 10,579,438 | 66,560 | 86,986 |
| Thomas Nichols | 10,579,438 | 66,560 | 86,986 |

**50. HARPER FINANCING LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Derek Reid       | 10,579,428 | 66,570         | 86,986         |
| Brian J. Walker  | 10,579,438 | 66,560         | 86,986         |
| Alan Turner      | 10,579,438 | 66,560         | 86,986         |
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |

**51. HARPER HOLDINGS SARL**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Nicholas A. Packer | 10,579,438 | 66,560         | 86,986         |
| Claudine Schinker  | 10,579,438 | 66,560         | 86,986         |
| Laetitia Ambrosi   | 10,579,438 | 66,560         | 86,986         |

**Table of Contents****52. HARPER INSURANCE LIMITED**

| <b>Nominees:</b>     | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|----------------------|------------|----------------|----------------|
| Richard J. Harris    | 10,579,438 | 66,560         | 86,986         |
| Michael H.P. Handler | 10,579,438 | 66,560         | 86,986         |
| Florian von Meiss    | 10,579,438 | 66,560         | 86,986         |
| Stefan P. Wehrenburg | 10,579,438 | 66,560         | 86,986         |
| Nicholas A. Packer   | 10,579,438 | 66,560         | 86,986         |

**53. HARRINGTON SOUND LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Paul J. O Shea     | 10,579,428 | 66,570         | 86,986         |
| Nicholas A. Packer | 10,579,438 | 66,560         | 86,986         |
| Steven Given       | 10,579,438 | 66,560         | 86,986         |
| Sandra O Sullivan  | 10,579,438 | 66,560         | 86,986         |

**54. HILLCOT HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Albert Maass        | 10,579,438 | 66,560         | 86,986         |
| Jiro Kasahara       | 10,579,478 | 66,570         | 86,936         |

**55. HILLCOT RE LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |

**56. HILLCOT UNDERWRITING MANAGEMENT LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |

**57. HUDSON REINSURANCE COMPANY LIMITED**



| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Duncan M. Scott     | 10,579,438 | 66,560         | 86,986         |
| David Rocke         | 10,579,438 | 66,560         | 86,986         |

**58. INTER-OCEAN HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Orla Gregory        | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****59. INTER-OCEAN REINSURANCE COMPANY LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Orla Gregory        | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |
| Elizabeth DaSilva   | 10,579,438 | 66,560         | 86,986         |

**60. INTER-OCEAN REINSURANCE (IRELAND) LTD.**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Richard J. Harris | 10,579,488 | 66,560         | 86,936         |
| Orla Gregory      | 10,579,488 | 66,560         | 86,936         |
| Kevin O Connor    | 10,579,488 | 66,560         | 86,936         |

**61. KENMARE HOLDINGS LTD.**

| <b>Nominees:</b>     | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|----------------------|------------|----------------|----------------|
| Paul J. O Shea       | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris    | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley  | 10,579,488 | 66,560         | 86,936         |
| Dominic F. Silvester | 10,579,438 | 66,560         | 86,986         |
| Nicholas A. Packer   | 10,579,438 | 66,560         | 86,986         |
| David Roche          | 10,579,488 | 66,560         | 86,936         |

**62. KINSALE BROKERS LIMITED**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Philip Hernon     | 10,579,438 | 66,560         | 86,986         |
| Steve Western     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner       | 10,579,488 | 66,560         | 86,936         |
| Steven Norrington | 10,579,438 | 66,560         | 86,986         |
| Derek Reid        | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes      | 10,579,438 | 66,560         | 86,986         |

**63. LONGMYND INSURANCE COMPANY LTD.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |

|                |            |        |        |
|----------------|------------|--------|--------|
| C. Paul Thomas | 10,579,488 | 66,560 | 86,936 |
| Thomas Nichols | 10,579,488 | 66,560 | 86,936 |

**64. MARLON INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**65. MARLON MANAGEMENT SERVICES LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****66. MERCANTILE INDEMNITY COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Derek Reid       | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |

**67. OCEANIA HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| David Roche         | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |

**68. OVERSEAS REINSURANCE CORPORATION LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |

**69. PAGET HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |

**70. QUALICUM HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| David Roche         | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Duncan M. Scott     | 10,579,488 | 66,560         | 86,936         |

**71. REGIS AGENCIES LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |

**72. REVIR LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| Elizabeth DaSilva   | 10,579,488 | 66,560         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |

**Table of Contents****73. RIVER THAMES INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |
| Max Lewis        | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,438 | 66,560         | 86,986         |
| C. Paul Thomas   | 10,579,438 | 66,610         | 86,936         |
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |

**74. ROMBALDS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Derek Reid       | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**75. ROSEMONT REINSURANCE LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Orla Gregory        | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |

**76. ROYSTON HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,438 | 66,560         | 86,986         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,438 | 66,610         | 86,936         |
| Duncan M. Scott     | 10,579,438 | 66,560         | 86,986         |

**77. ROYSTON RUN-OFF LTD.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Derek Reid       | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**78. SGL NO. 1 LTD.**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Richard J. Harris | 10,579,548 | 66,560         | 86,936         |
| Timothy Hanford   | 10,579,488 | 66,560         | 86,936         |

**79. SHELBORNE GROUP LIMITED**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Richard J. Harris | 10,579,478 | 66,560         | 86,946         |
| John J. Oros      | 10,579,478 | 66,560         | 86,946         |
| Gregory L. Curl   | 10,579,428 | 66,560         | 86,996         |
| George Cochran    | 10,579,428 | 66,560         | 86,996         |
| Timothy Hanford   | 10,579,428 | 66,560         | 86,996         |
| Sean Dalton       | 10,579,478 | 66,560         | 86,946         |
| Philip Martin     | 10,579,478 | 66,560         | 86,946         |

**Table of Contents****80. SHELBOURNE SYNDICATE SERVICES LIMITED**

| <b>Nominees:</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|-------------------|------------|----------------|----------------|
| Richard J. Harris | 10,579,488 | 66,560         | 86,936         |
| Sean Dalton       | 10,579,488 | 66,560         | 86,936         |
| Andrew Elliot     | 10,579,438 | 66,560         | 86,986         |
| George Cochran    | 10,579,438 | 66,560         | 86,986         |
| Timothy Hanford   | 10,579,488 | 66,560         | 86,936         |
| Philip Martin     | 10,579,488 | 66,560         | 86,936         |
| Clifford Murphy   | 10,579,488 | 66,560         | 86,936         |

**81. SHELLY BAY HOLDINGS LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Paul J. O Shea     | 10,579,428 | 66,620         | 86,936         |
| Nicholas A. Packer | 10,579,428 | 66,620         | 86,936         |
| Steven Given       | 10,579,478 | 66,570         | 86,936         |
| Sandra O Sullivan  | 10,579,478 | 66,570         | 86,936         |

**82. SIMCOE HOLDINGS LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Rocke         | 10,579,488 | 66,560         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Elizabeth DaSilva   | 10,579,488 | 66,560         | 86,936         |

**83. SPRE LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**84. SUN GULF HOLDINGS INC.**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| John J. Oros     | 10,579,438 | 66,560         | 86,986         |
| Karl J. Wall     | 10,579,488 | 66,560         | 86,936         |
| Cheryl D. Davis  | 10,579,488 | 66,560         | 86,936         |
| Donna L. Stolz   | 10,579,488 | 66,560         | 86,936         |

**85. SUNDOWN HOLDINGS LIMITED**



| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Roche         | 10,579,478 | 66,570         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea      | 10,579,428 | 66,620         | 86,936         |

**86. TATE & LYLE REINSURANCE LIMITED**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,428 | 66,620         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Roche         | 10,579,478 | 66,570         | 86,936         |

**Table of Contents****87. TGI AUSTRALIA LIMITED**

| <b>Nominees:</b>   | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--------------------|------------|----------------|----------------|
| Gary Potts         | 10,579,438 | 66,560         | 86,986         |
| Jann Skinner       | 10,579,438 | 66,610         | 86,936         |
| Bruce Bollom       | 10,579,488 | 66,560         | 86,936         |
| Paul J. O Shea     | 10,579,438 | 66,610         | 86,936         |
| Nicholas A. Packer | 10,579,488 | 66,560         | 86,936         |

**88. UNIONAMERICA ACQUISITION COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**89. UNIONAMERICA HOLDINGS LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| Alan Turner      | 10,579,488 | 66,560         | 86,936         |

**90. UNIONAMERICA INSURANCE COMPANY LIMITED**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,478 | 66,570         | 86,936         |
| C. Paul Thomas   | 10,579,428 | 66,570         | 86,986         |
| Alan Turner      | 10,579,478 | 66,570         | 86,936         |

**91. UNIONE ITALIANA (UK) REINSURANCE COMPANY**

| <b>Nominees:</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------------|------------|----------------|----------------|
| Alan Turner      | 10,579,478 | 66,570         | 86,936         |
| Derek Reid       | 10,579,488 | 66,560         | 86,936         |
| Gareth Nokes     | 10,579,488 | 66,560         | 86,936         |
| C. Paul Thomas   | 10,579,488 | 66,560         | 86,936         |
| Thomas Nichols   | 10,579,488 | 66,560         | 86,936         |

**92. VIRGINIA HOLDINGS LTD.**

| <b>Nominees:</b>    | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---------------------|------------|----------------|----------------|
| Paul J. O Shea      | 10,579,428 | 66,620         | 86,936         |
| Richard J. Harris   | 10,579,488 | 66,560         | 86,936         |
| Adrian C. Kimberley | 10,579,488 | 66,560         | 86,936         |
| David Roche         | 10,579,488 | 66,560         | 86,936         |

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**Item 6. EXHIBITS**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 15.1*                  | Deloitte & Touche Letter Regarding Unaudited Interim Financial Information.  |
| 31.1*                  | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2*                  | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1**                 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2**                 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

\* Filed herewith

\*\* Furnished herewith

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2009.

ENSTAR GROUP LIMITED

By: /s/ Richard J. Harris

Richard J. Harris,  
Chief Financial Officer, Authorized Signatory and  
Principal Accounting and Financial Officer

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**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 15.1*                  | Deloitte & Touche Letter Regarding Unaudited Interim Financial Information.  |
| 31.1*                  | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2*                  | Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1**                 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2**                 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

\* Filed herewith

\*\* Furnished herewith