AMP Holding Inc.
Form 10-Q/A
August 20, 2013

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

FORM 10-Q / A

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from __________ to __________

Commission file number: 000-53704

AMP HOLDING INC.
(Exact name of registrant as specified in its charter)

Nevada	26-1394771
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Commerce Drive, Loveland, Ohio 45140
(Address of principal executive offices) (Zip Code)

513-360-4704
Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No x

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.001 par value per share	80,579,175
(Class)	(Outstanding at August 20 , 2013)

1

Table of Contents

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	3
Item 1.	Financial Statements	3
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Stockholders’ Equity (Deficit)	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24
PART II	OTHER INFORMATION	26
Item 1.	Legal Proceedings	26
Item 1A.	Risk Factors	26
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults Upon Senior Securities	32
Item 4.	Mine Safety Disclosures	32
Item 5.	Other Information	32
Item 6.	Exhibits	33
	SIGNATURES	36

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)
Consolidated Balance Sheets
June 30, 2013 and December 31, 2012

Assets	June 30, 2013 (Unaudited)	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 146,344	$ 39,819
Inventory	441,002	41,002
Prepaid expenses and deposits	57,801	13,025
	645,147	93,846
Property, plant and equipment:		
Land	300,000	-
Buildings	3,800,000	-
Leasehold improvements	19,225	19,225
Software	27,721	27,721
Equipment	670,120	170,120
Vehicles and prototypes	164,959	164,959
	4,982,025	382,025
Less accumulated depreciation	371,842	255,178
	4,610,183	126,847
	$ 5,255,330	$ 220,693
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 1,345,308	$ 1,253,228
Accounts payable, related parties	351,350	336,556
Customer deposits	380,000	60,000
Shareholder advances	558,000	558,000
Current portion of long-term debt	392,355	230,756
	3,027,013	2,438,540
Long-term debt	2,409,598	362,186
Commitments and contingencies	-	-
Stockholders' equity (deficit):		
Series A preferred stock, par value of $.001 per share 75,000,000 shares shares authorized, 0 shares issued and outstanding at March 31, 2013 and December 31, 2012	-	-

Common stock, par value of $.001 per share 250,000,000 shares authorized,				
80,527,113 shares issued and outstanding at June 30, 2013 and				
55,955,463 shares issued and outstanding at December 31, 2012		80,527		55,955
Additional paid-in capital		19,936,311		14,956,547
Stock based compensation		4,919,250		3,778,723
Accumulated deficit during the development stage		(25,117,369)		(21,371,258)
		(181,281)		(2,580,033)
	$	5,255,330	$	220,693

See accompanying notes to consolidated financial statements.

3

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013

	Three Months Ended		Six Months Ended		Since Date of Inception, February 20, 2007 to
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)
Sales	$-	$222,098	$-	$222,098	$602,840
Expenses:					
Payroll and payroll taxes	391,693	398,223	731,860	949,145	8,058,706
Employee benefits	40,136	42,243	69,439	86,860	722,682
Stock based compensation	810,411	66,894	1,140,527	219,926	4,936,990
Batteries and motors and supplies	72,084	130,220	225,816	123,507	2,961,372
Legal and professional	135,803	42,520	284,732	154,158	2,425,486
Advertising	7,028	23,276	41,763	58,418	1,308,143
Consulting	349,700	12,289	675,171	74,468	1,778,576
Travel and entertainment	28,373	19,169	45,232	48,906	529,936
Rent	36,694	38,625	76,388	76,972	528,386
Insurance	27,253	20,426	65,103	37,753	450,722
Vehicles, development and testing	2,700	-	35,600	57,786	357,801
Depreciation	101,493	16,682	116,664	32,885	409,671
Interest and bank fees	75,356	61,402	103,995	85,871	361,322
Engineering, temporary labor	2,457	-	4,309	870	255,595
Facilities, repairs & maintenance	45,755	6,673	79,395	12,715	283,978
Utilities	31,226	8,514	44,975	18,863	179,930
Loss on sale of assets	-	-	-	-	27,544
Other	4,242	6,969	5,142	15,754	143,369
	2,162,404	894,125	3,746,111	2,054,857	25,720,209
Net loss during the development stage	$(2,162,404)	$(672,027)	$(3,746,111)	$(1,832,759)	$(25,117,369)
Basic and diluted loss per share	$(0.03)	$(0.02)	$(0.05)	$(0.05)	$(0.87)
Weighted average number of common shares outstanding	78,504,998	38,912,165	69,418,138	38,838,960	28,786,243

See accompanying notes to consolidated financial statements.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)
Consolidated Statements of Stockholders' Equity (Deficit)
From Inception, February 20, 2007
to June 30, 2013

	Common Stock		Series A Preferred Stock		Additional	Stock	Accumulated Deficit During the	Total Stockholders'
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Based Compensation	Development Stage	Equity (Deficit)
Beginning capital - inception	-	$-	-	$-	$-	$-	$-	$-
Issuance of common stock, and fulfillment of stock subscriptions receivable	7,210	900,000	-	-	-	-	-	900,000
Net loss from operations, period of inception, February 20, 2007 to December 31, 2007	-	-	-	-	-	-	(456,145)	(456,145)
	7,210	$900,000	-	$-	$-	$-	$(456,145)	$443,855
Issuance of common stock, and fulfillment of stock subscriptions receivable	4,305	875,000	-	-	-	-	-	875,000
March 10, 2008 stock dividend	62,720	-	-	-	-	-	-	-
Share based compensation for the year ended December 31, 2008	-	9,757	-	-	-	-	-	9,757
Net loss from operations for the year	-	-	-	-	-	-	(1,383,884)	(1,383,884)

ended December 31, 2008								
	74,235	$1,784,757	-	$-	$-	$-	$(1,840,029)	$(55,272)
January 1, 2009 stock re-pricing agreement	18,025	-						-
Issuance of common stock, and fulfillment of stock subscriptions receivable	168,210	753,511	-	-	49,989	-	-	803,500
Share based compensation to December 28, 2009	-	7,983	-	-	-	-	-	7,983
Shares issued out of stock option plan on December 31, 2009	3,220	-	-	-	-	-	-	-
Net effect of purchase accounting adjustments	17,508,759	(2,528,479)	-	-	2,528,479	-	-	-
Conversion of convertible notes	-	-	8,375	8	264,992	-	-	265,000
Net loss from operations for the year ended December 31, 2009	-	-	-	-	-	-	(1,524,923)	(1,524,923)
	17,772,449	$17,772	8,375	$8	$2,843,460	$-	$(3,364,952)	$(503,712)
Conversion of convertible note	29,750	30	-	-	9,970	-	-	10,000
Issuance of preferred stock, and fulfillment of stock subscriptions receivable	-	-	625	1	24,999	-	-	25,000
Issuance of common stock, and fulfillment of stock subscriptions receivable	9,808,566	9,809	-	-	3,682,530	-	-	3,692,339
	101,636	102	-	-	86,898	-	-	87,000

Conversion of account payable								
Share based compensation for the year ended December 31, 2010	-	-	-	-	-	1,436,979	-	1,436,979
Net loss from operations for the year ended December 31, 2010	-	-	-	-	-	-	(5,028,106)	(5,028,106)
	27,712,401	$27,713	9,000	$9	$6,647,857	$1,436,979	$(8,393,058)	$(280,500)
Issuance of common stock, and fulfillment of stock subscriptions receivable	9,912,447	9,911	-	-	5,404,830	-	-	5,414,741
Stock options and warrants exercised	38,692	39	-	-	12,236	-	-	12,275
Conversion of preferred stock to common stock	1,071,110	1,072	(9,000)	(9)	(1,063)	-	-	-
Share based compensation for the year ended December 31, 2011	-	-	-	-	-	2,002,891	-	2,002,891
Net loss from operations for the year ended December 31, 2011	-	-	-	-	-	-	(8,705,711)	(8,705,711)
	38,734,650	$38,735	-	$-	$12,063,860	$3,439,870	$(17,098,769)	$(1,556,304)
Issuance of detached warrants in connection with convertible debentures	-	-	-	-	91,493	-	-	91,493
Conversion of debentures and interest	10,227,070	10,227	-	-	2,035,187	-	-	2,045,414
Conversion of account payable	6,993,743	6,993	-	-	766,007	-	-	773,000

Share based compensation for the year ended December 31, 2012	-	-	-	-	-	338,853	-	338,853
Net loss from operations for the year ended December 31, 2012	-	-	-	-	-	-	(4,272,489)	(4,272,489)
	55,955,463	$55,955	-	$-	$14,956,547	$3,778,723	$(21,371,258)	$(2,580,033)
Issuance of common stock, and fulfillment of stock subscriptions receivable	21,408,125	21,408	-	-	4,279,192	-	-	4,300,600
Stock options and warrants exercised	18,764	19	-	-	1,142	-	-	1,161
Conversion of convertible note	500,000	500	-	-	99,500	-	-	100,000
Conversion of account payable	2,644,761	2,645	-	-	599,930	-	-	602,575
Share based compensation for the six months ended June 30, 2013	-	-	-	-	-	1,140,527	-	1,140,527
Net loss from operations for the six months ended June 30, 2013	-	-	-	-	-	-	(3,746,111)	(3,746,111)
	80,527,113	$80,527	-	$-	$19,936,311	$4,919,250	$(25,117,369)	$(181,281)

A vehicle with a fair market value of $30,400 and cash of $69,600 was accepted as consideration for issuance of common stock in February 2007.
A vehicle with a fair market value of $30,884 and cash of $69,116 was accepted as consideration for issuance of common stock in June 2007.
Consulting services valued at $50,000 were accepted as consideration for issuance of common stock in October 2008.
Consulting services valued at $87,000 were accepted as consideration for issuance of common stock in December 2010.
Consulting services valued at $60,000, $55,000, and $203,000 were accepted as consideration for issuance of common stock in March, October, and December 2012, respectively.

Investment Agreement fees valued at $375,000 were accepted as consideration for issuance of common stock in August 2012.
Legal services valued at $40,000, $15,000, and $25,000 were accepted as consideration for issuance of common stock in September, November, and December 2012, respectively.
Consulting services valued at $302,500, $126,000, and $119,075 were accepted as consideration for issuance of common stock in March, May, and June 2013, respectively.
Legal services valued at $40,000 and $15,000 were accepted as consideration for issuance of common stock in March and June 2013, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents

AMP Holding Inc. and Susidiaries
(A Development Stage Company)
Consolidated Statements of Cash Flows
For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013

	Three Months Ended		Six Months Ended		Since Date of Inception, February 20, 2007 to
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)
Cash flows from operating activities:					
Net loss during the development stage	$(2,162,404)	$(672,027)	$(3,746,111)	$(1,832,759)	$(25,117,369)
Adjustments to reconcile net loss from operations to cash used by operations:					
Depreciation	101,493	16,682	116,664	32,885	409,671
Loss on sale of assets	-	-	-	-	27,544
Stock based compensation	810,411	66,894	1,140,527	219,926	4,936,990
Interest expense on convertible debentures	-	-	-	-	106,164
Amortized discount on convertible debentures	-	27,896	-	31,770	91,493
Legal, consulting and investment services	260,075	-	602,575	60,000	1,512,575
Effects of changes in operating assets and liabilities:					
Inventory	-	-	-	-	(41,002)
Prepaid expenses and deposits	(16,812)	-	(44,776)	11,875	(57,801)
Accounts payable	206,574	277,173	92,080	200,271	1,858,944
Accounts payable, related parties	32,221	19,316	14,794	82,264	351,350
Customer deposits	210,000	-	320,000	-	380,000
Net cash used by operations	(558,442)	(264,066)	(1,504,247)	(1,193,768)	(15,541,441)
Cash flows from investing activities:					
Initial purchase of AMP Trucks assets	-	-	(5,000,000)	-	(5,000,000)
Capital expenditures	-	(28,753)	-	(28,753)	(376,650)
Proceeds on sale of assets	-	-	-	-	38,900
Net cash used by investing activities	-	(28,753)	(5,000,000)	(28,753)	(5,337,750)
Cash flows from financing activities:					
Proceeds from debentures	-	539,250	-	1,439,250	1,939,250
Proceeds from notes payable	-	-	100,000	-	260,000
Payments on notes payable	-	-	-	-	(150,000)
Proceeds from long-term debt	-	-	2,250,000	-	2,300,000

Payments on long-term debt	(23,850)	(1,610)	(40,989)	(3,206)	(60,047)
Shareholder advances, net of repayments	-	(262,000)	-	(269,000)	558,000
Issuance of common and preferred stock	616,761	-	4,301,761	-	16,178,332
Net cash provided by financing activities	592,911	275,640	6,610,772	1,167,044	21,025,535
Change in cash and cash equivalents	34,469	(17,179)	106,525	(55,477)	146,344
Cash and cash equivalents at inception, February 20, 2007					-
Cash and cash equivalents at December 31, 2011				89,488	
Cash and cash equivalents at March 31, 2012		51,190			
Cash and cash equivalents at June 30, 2012		$34,011		$34,011	
Cash and cash equivalents at December 31, 2012			39,819		
Cash and cash equivalents at March 31, 2013	111,875				
Cash and cash equivalents at June 30, 2013	$146,344		$146,344		$146,344

Supplemental disclosure of non-cash activities:
Vehicles valued at $61,284 were contributed as consideration for issuance of common stock in February 2007.
Consulting services valued at $50,000 were accepted as consideration for issuance of common stock in October 2008.
During March 2010 a note payable of $10,000 was converted to 29,750 shares of common stock.
A vehicle valued at $33,427 was acquired through bank financing in September 2010.
Consulting services valued at $87,000 were accepted as consideration for issuance of common stock in December 2010.
Equipment valued at $14,937 was acquired through debt financing in December 2011.
Consulting services valued at $60,000, $55,000, and $203,000 were accepted as consideration for issuance of common stock in March, October, and December 2012, respectively.
Detachable warrants associated with convertible debentures valued at $91,493 were recorded as increases to additional paid-in capital from January to August 2012.
Investment Agreement fees valued at $375,000 were accepted as consideration for issuance of common stock in August 2012.
Legal services valued at $40,000, $15,000, and $25,000 were accepted as consideration for issuance of common stock in September, November, and December 2012, respectively.
During November 2012 debentures for $1,939,250 and interest of $106,164 were converted to 10,227,070 shares of common stock.
During December 2012 accounts payable of $513,636 were converted to notes payable.
During February 2013 a note payable of $100,000 was converted to 500,000 shares of common stock.
Consulting services valued at $302,500, $126,000, and $119,075 were accepted as consideration for issuance of common stock in March, May, and June 2013, respectively.

Legal services valued at $40,000 and $15,000 were accepted as consideration for issuance of common stock in March and June 2013, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)
Notes to Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINICPLES

The following accounting principles and practices are set forth to facilitate the understanding of data presented in the financial statements:

Nature of operations
AMP Holding Inc., formerly known as Title Starts Online, Inc. (the Company), incorporated in the State of Nevada in 2007 with $3,100 of capital from the issuance of common shares to the founding shareholder. On August 11, 2008 the Company received a Notice of Effectiveness from the U.S. Securities and Exchange Commission, and on September 18, 2008, the Company closed a public offering in which it accepted subscriptions for an aggregate of 200,000 shares of its common stock, raising $50,000 less offering costs of $46,234. With this limited capital the Company did not commence operations and remained a “shell company” (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended).

On December 28, 2009, the Company entered into and closed a Share Exchange Agreement with the Shareholders of Advanced Mechanical Products, Inc. (n/k/a AMP Electric Vehicles, Inc.) (AMP) pursuant to which the Company acquired 100% of the outstanding securities of AMP in exchange for 14,890,904 shares of the Company’s common stock. Considering that, following the merger, the AMP Shareholders control the majority of the outstanding voting common stock of the Company, and effectively succeeded the Company’s otherwise minimal operations to those that are AMP. AMP is considered the accounting acquirer in this reverse-merger transaction. A reverse-merger transaction is considered and accounted for as a capital transaction in substance; it is equivalent to the issuance of AMP securities for net monetary assets of the Company, which are deminimus, accompanied by a recapitalization. Accordingly, goodwill or other intangible assets have not been recognized in connection with this reverse merger transaction. AMP is the surviving entity and the historical financials following the reverse merger transaction will be those of AMP. The Company was a shell company immediately prior to the acquisition of AMP pursuant to the terms of the Share Exchange Agreement. As a result of such acquisition, the Company operations are now focused on the design, marketing and sale of modified vehicles with an all-electric power train and battery systems. Consequently, we believe that acquisition has caused the Company to cease to be a shell company as it now has operations. The Company formally changed its name to AMP Holding Inc. on May 24, 2010.

Since the acquisition, the Company has devoted the majority of its resources to the development of an all-electric drive system capable of moving heavy large vehicles ranging from full size SUV’s up to and including Medium Duty Commercial trucks. Additionally, in February, 2013 AMP Holding Inc. formed a new wholly owned subsidiary, AMP Trucks Inc., an Indiana corporation. On March 13, 2013 AMP Trucks Inc. closed on the acquisition of an asset purchase of Workhorse Custom Chassis, LLC. The assets included in this transaction include: The Workhorse brand, access to the dealer network of 440 dealers nationwide, intellectual property, and all physical assets which include the approximately 250,000 sq. ft. of facilities on 48 acres of land in Union City, Indiana. This acquisition allows AMP Holding Inc. the position as a medium duty OEM capable of producing new chassis with electric, propane, compressed natural gas, and hybrid configurations, as well as gasoline drive systems. Revenues since the inception of the Company, February 20, 2007, through the date of these financial statements have not been significant and consist of customer vehicle conversions and sales of converted experimental vehicles.

Development stage company

Based on the Company's business plan, it is a development stage company since planned principal operations resulting in revenue have not fully commenced. Accordingly, the Company presents its financial statements in conformity with the accounting principles generally accepted in the United States of America that apply to developing enterprises. As a development stage enterprise, the Company discloses its retained earnings (or deficit accumulated) during the development stage and the cumulative statements of operations and cash flows from commencement of development stage to the current balance sheet date. The development stage began in 2007 when the Company was organized.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

Basis of presentation

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has limited revenues and has negative working capital and stockholders' deficits. During 2012 and 2013 the lack of liquidity delayed the Company from paying its employees their full salaries. Employee layoffs have occurred and additional layoffs are considered as a means of conserving cash. These conditions raise substantial doubt about the ability of the Company to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon the continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

The Company has continued to raise capital. Management believes the proceeds from these offerings, future offerings, and the Company's anticipated revenue provides an opportunity to continue as a going concern. If additional funding is required, the Company plans to obtain working capital from either debt or equity financing from the sale of common, preferred stock, and/or convertible debentures. Obtaining such working capital is not assured.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Certain reclassifications were made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operation or stockholders' equity (deficit).

Financial instruments

The carrying amounts of financial instruments including cash, accounts receivable, inventory, cash overdraft, accounts payable and short-term debt approximate fair value because of the relatively short maturity of these instruments.

Inventory

Inventory is stated at the lower of cost or market.

Property and depreciation

Property and equipment is recorded at cost. Major renewals and improvements are capitalized while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed. When property and equipment is retired or otherwise disposed of, a gain or loss is realized for the difference between the net book value of the asset and the proceeds realized thereon. Depreciation is calculated using the straight-line method, based upon the following estimated useful lives:

Buildings: 15 - 30 years

Leasehold improvements: 7 years
Software: 3 - 6 years
Equipment: 5 years
Vehicles and prototypes: 3 - 5 years

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

Capital stock

On April 22, 2010 the directors of the Company approved a forward stock split of the common stock of the Company on a 14:1 basis. On May 12, 2010 the stockholders of the Company voted to approve the amendment of the certificate of incorporation resulting in a decrease of the number of shares of Common stock. The Company filed a 14c definitive information statement with the Securities and Exchange Commission and mailed the same to its shareholders. Management filed the certificate of amendment decreasing the authorized shares of common stock with the State of Nevada on September 8, 2010.

The capital stock of the Company is as follows:

Preferred Stock - The Company has authorized 75,000,000 shares of preferred stock with a par value of $.001 per share. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors. The Series A Stock is convertible, at any time at the option of the holder, into common shares of the Company based on a conversion price of $0.336 per share. The holders of the Series A Stock are not entitled to convert the Series A Stock and receive shares of common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. The Series A Stock has voting rights on an as converted basis, does not pay dividends, and does not provide any liquidation rights.

Common Stock - The Company has authorized 250,000,000 shares of common stock with a par value of $.001 per share.

Revenue recognition / customer deposits

It is the Company's policy that revenues will be recognized in accordance with SEC Staff Bulletin (SAB) No. 104, "Revenue Recognition". Under SAB 104, product revenues (or service revenues) are recognized when persuasive evidence of an arrangement exists, delivery has occurred (or service has been performed), the sales price is fixed and determinable, and collectability is reasonably assured. Customer deposits include monies from customers to reserve a production slot for conversion of an OEM power train to the AMP all electric power train. The final retail price and delivery date are yet to be determined. Customer deposits are subject to a full refund at the request of the customer.

Advertising

Advertising and public relation costs are charged to operations when incurred. Advertising and public relation expense was approximately $7,028 and $23,276 for the three months ended June 30, 2013 and 2012, respectively, $41,763 and $58,418 for the six months ended June 30, 2013 and 2012, respectively, and $1,308,143 for the period from inception to June 30, 2013 consisting primarily of consulting fees and travel and related expenses for attendance at car shows and industry expositions.

Income taxes

With the consent of its shareholders, at the date of inception, AMP elected under the Internal Revenue Code to be taxed as an S corporation. Since shareholders of an S corporation are taxed on their proportionate share of the

Company's taxable income, an S corporation is generally not subject to either federal or state income taxes at the corporate level. On December 28, 2009 pursuant to the merger transaction the Company revoked its election to be taxed as an S-corporation.

As no taxable income has occurred from the date of this merger to June 30, 2013 cumulative deferred tax assets of approximately $5,712,000 are fully reserved, and no provision or liability for federal or state income taxes has been included in the financial statements. Net operating losses of approximately $3,600,000 are available for carryover to be used against taxable income generated through 2030, net operating losses of approximately $6,700,000 are available for carryover to be used against taxable income generated through 2031, net operating losses of approximately $3,900,000 are available for carryover to be used against taxable income generated through 2032, and net operating losses of approximately $2,600,000 are available for carryover to be used against taxable income generated through 2033. The Company had not filed income tax returns during its period as a shell company.

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)
Notes to Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

Uncertain tax positions
The Company adopted the provisions of Accounting for Uncertainty in Income Taxes. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Company's income tax returns. The Company's income tax filings are subject to audit by various taxing authorities. The years of filings open to these authorities and available for audit are 2010 - 2012. The Company's policy with regard to interest and penalties is to recognize interest through interest expense and penalties through other expense. No interest or penalties with regard to income tax filings were incurred in 2013 or 2012, or since the period of inception, February 20, 2007. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

Research and development costs
The Company expenses research and development costs as they are incurred. Research and development expense incurred was approximately $486,000 and $535,000 for the three months ended June 30, 2013, and 2012, respectively, and $981,000 and $1,176,000 for the six months ended June 30, 2013 and 2012, respectively and $12,672,000 for the period from inception to June 30, 2013, consisting of payroll, payroll taxes, consulting, motors, batteries, supplies, parts and small tools.

Basic and diluted loss per share
Basic loss per share is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. For all periods, all of the Company's common stock equivalents were excluded from the calculation of diluted loss per common share because they were anti-dilutive, due to the Company's net losses.

Stock based compensation
The Company accounts for its stock based compensation in accordance with "Share-Based Payments" (codified in FASB ASC Topic 718 and 505). The Company recognizes in its statement of operations the grant-date fair value of stock options and warrants issued to employees and non-employees. The fair value is estimated on the date of grant using a lattice-based valuation model that uses assumptions concerning expected volatility, expected term, and the expected risk-free rate of return. For the awards granted, the expected volatility was estimated by management as 50% based on a range of forecasted results. The expected term of the awards granted was assumed to be the contract life of the option or warrant (one, two, three, five or ten years as determined in the specific arrangement). The risk-free rate of return was based on market yields in effect on the date of each grant for United States Treasury debt securities with a maturity equal to the expected term of the award.

Related party transactions
Certain stockholders and stockholder family members have advanced funds or performed services for the Company. These services are believed to be at market rates for similar services from non-related parties. Related party accounts payable are segregated in the balance sheet. An experimental vehicle was sold to a stockholder in 2012 for $50,000 and in 2010 for $25,000, which also approximates the selling price to non-related parties.

Subsequent events

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

On July 1, 2013, the Company settled outstanding invoices for legal services totaling $10,000 by issuing 27,062 shares of common stock at a cost basis of $0.3695 per share.

On July 31, 2013, 25,000 shares of common stock were issued at a cost basis of $0.4005 per share to compensate a sales and marketing consultant for services performed during July.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

On August 15, 2013, with an effective date of August 7, 2013, the Company entered into an Employment Agreement with Julio C. Rodriguez to become Chief Financial Officer (CFO). As part of his compensation package Mr. Rodriguez received stock options for 300,000 shares vesting over a two year period.

2. ACQUISITION

On March 13, 2013 the Company acquired the operating assets of Workhorse Custom Chassis, LLC, an unrelated company located in Union City, Indiana. The following summarizes the consideration paid, and the components of the purchase price and the related allocation of assets acquired and liabilities assumed.

Consideration	
Cash at closing	$2,750,000
Secured debenture	2,250,000
	$5,000,000
Assets acquired	
Inventory	$400,000
Equipment	500,000
Land	300,000
Buildings	3,800,000
	$5,000,000

Valuation methods used for the identifiable assets acquired in the acquisition make use of fair value measurements based on unobservable inputs and reliance on management’s assumptions that similar market participants would use in pricing the assets. As such, the fair value measurements represent a Level 3 input.

3. LONG-TERM DEBT

Long-term debt consists of the following:	June 30, 2013	December 31, 2012
Secured debenture payable to Workhorse Custom Chassis, LLC, due March 2016 plus interest at 10%. The debenture is secured by the real estate and related assets of the plant located in Union City, Indiana with a net book value of $4,911,667 at June 30, 2013	$ 2,250,000	$ -
Note payable, Bank due in monthly installments of $635 including interest at 5.04% with the final payment due August 2015. The note is secured by equipment with a net book value of $14,489 at June 30, 2013	15,386	18,761

Note payable, vendor due in monthly installments of $439 including interest at 8.00% with the final payment due December 2014. The note is secured by equipment with a net book value of $10,206 at June 30, 2013		7,431		10,545
Note payable to the City of Loveland, due in annual installments of $10,241 including interest with the final payment due October 2016. Interest rate amended to 8.00%. The note is unsecured and contains restrictions on the use of proceeds.		50,000		50,000
Note payable, vendor due in monthly installments of $5,000 for the first half of 2013, escalating to final payment of $43,736 in March 2014. Note is noninterest bearing and is unsecured.		258,736		281,236
Note payable, vendor due in monthly installments of $2,000 plus interest at 4% for the first half of 2013, escalating to final payment of $18,461 plus interest at 4% in December 2014. Note is unsecured.		220,400		232,400
		2,801,953		592,942
Less current portion		392,355		230,756
Long term debt	$	2,409,598	$	362,186

Aggregate maturities of long-term debt are as follows:

2013	$188,084
2014	338,883
2015	14,822
2016	2,260,164
	$2,801,953

The note payable to the City of Loveland contains job creation incentives whereby each annual payment may be forgiven by the City upon the Company meeting minimum job creation benchmarks. This loan agreement amended the incentives to 30 full time employees within the City of Loveland with payroll totaling $135,000 by October 31, 2013 and 40 employees with payroll totaling $175,000 by July 31, 2014, continuing with an average of 40 employees with payroll totaling $175,000 thereafter. The proceeds from this loan were to be used for qualified disbursements only, and the Company has been notified it did not meet the requirements for qualified disbursements and for forgiveness of the 2012 principal and interest payment, which is past due. In 2013 the Company made payments to an escrow account totaling $22,900.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

4. CONVERTIBLE DEBENTURES

From January 6, 2012 through August 3, 2012, the Company entered into Securities Purchase Agreements and Security Agreements with several accredited investors (the "2012 Investors") providing for the sale by the Company to the 2012 Investors of Secured Convertible Debentures in the aggregate amount of $1,939,250 (the "2012 Notes"). The Company received the proceeds in connection with these financings between January 6, 2012 and August 3, 2012. Further a shareholder, director and officer converted secured and unsecured loans provided to the Company from September 30, 2011 to June 5, 2012 in the aggregate amount of $389,250 into the 2012 Notes and 2012 Warrants. The 2012 Notes were to mature one year from their respective effective dates (the "Maturity Dates") and interest associated with the 2012 Notes was 10% per annum, payable on the Maturity Dates. In November 2012, the Company entered into a Note and Warrant Amendment and Conversion Agreement whereby the holders and the 2012 Investors converted all principal and interest under the 2012 Notes into 10,227,070 shares of common stock. Further, the exercise price of the 2012 Warrants was reduced to $0.25 per share.

In addition to the 2012 Notes, the 2012 Investors also received common stock purchase warrants (the "2012 Warrants") to acquire 1,939,250 shares of common stock of the Company. The 2012 Warrants are exercisable for three years at an exercise price of $0.50 per share, reduced to $0.25 per share as noted above. The value of the detachable 2012 Warrants was determined using a lattice-based valuation model that used an expected volatility, estimated by management as 50% based on a range of forecasted results, and an expected risk-free rate of return, based on market yields in effect on the grant dates for United States Treasury debt securities with a three year maturity. The $91,493 value of the detachable 2012 Warrants was recorded as an increase in additional paid-in capital and a discount against the 2012 Notes. The discount on the 2012 notes was amortized as interest expense during the period that the 2012 Notes were outstanding. Amortization charged to the Statement of Operations is $91,493 for the year ended December 31, 2012.

The 2012 Notes and the 2012 Warrants carry standard anti-dilution provisions but in no event may the conversion price be reduced below $0.25. Further, the 2012 Investors will have the right to participate in the next financing on a pro-rata basis up to $1,000,000.

5. SHAREHOLDER AND RELATED PARTY ADVANCES

On November 30, 2009, a shareholder, director and officer of the company advanced $43,000 to the Company for working capital needs. In consideration of such advance, the Company issued a promissory note with interest at 3% per annum due November 1, 2011. The maturity date for this note was extended to November 30, 2013.

In addition, on September 30, 2011, October 31, 2011, May 30, 2012, May 31, 2012 and June 5, 2012 the same shareholder advanced $62,000, $200,000, $12,250, $15,000 and $100,000, respectively, to the Company for working capital needs. In consideration of these advances, the Company issued promissory notes with interest rates from 6% to 10% per annum due September 30, 2012. On June 30, 2012, these secured and unsecured loans in the aggregate amount of $389,250 were converted into the 2012 notes and 2012 warrants.

In 2012 this shareholder also advanced $33,600 to the Company for working capital needs, of which $18,600 was repaid during 2012. In consideration of the $15,000 remaining advance, the Company issued a promissory note with interest at 10% per annum due October 5, 2013.

During 2012 shareholders and related parties advanced $500,000 to the Company for working capital needs. In consideration of such advances, the Company issued promissory notes with interest at 10% per annum due October 16, 2013. The notes are unsecured and require the Company to designate part of the proceeds of financing in excess of $2,000,000 to be used for repayment of these notes. The Company is in violation of this covenant in 2013 as financing in excess of $2,000,000 has occurred but repayment of these notes has not occurred.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

6. LEASE OBLIGATIONS

On October 1, 2011 the Company began leasing operating facilities under an agreement expiring on September 30, 2018. Future minimum monthly lease payments under the agreement are currently $12,231 and increase 3% in October of each year. Prepaid expenses and deposits include a security deposit equal to $12,275. Aggregate maturities of lease obligations are as follows:

2013	$74,488
2014	152,312
2015	156,881
2016	161,588
2017	166,436
2018	127,614
	$839,319

The Company also leased office space for approximately $1,000 per month on a month to month agreement through May 2012 and two apartments for approximately $2,200 per month on month to month agreements through January 2012. Prior to October 2011 the Company leased operating facilities under terms of an operating type lease with monthly payments of $8,500. Prior to December 2009 the Company leased office/warehouse space under terms of an operating type lease with monthly payments of $1,650. Total rent expense under these operating type leases for the three months ended June 30, 2013 and 2012 was $36,694 and $38,625, respectively, $76,388 and $76,972, for the six months ended June 30, 2013 and 2012, respectively, and $528,386 for the period from inception to June 30, 2013.

7. STOCK BASED COMPENSATION

Options to directors, officers and employees

The Company maintains, as adopted by the board of directors, the 2013 Incentive Stock Plan, the 2012 Incentive Stock Plan, the 2011 Incentive Stock Plan and the 2010 Stock Incentive Plan (the plans) providing for the issuance of up to 11,000,000 options to employees, officers, directors or consultants of the Company. Incentive stock options granted under the plans may only be granted with an exercise price of not less than fair market value of the Company's common stock on the date of grant (110% of fair market value for incentive stock options granted to principal stockholders). Non-qualified stock options granted under the plans may only be granted with an exercise price of not less than 85% of the fair market value of the Company's common stock on the date of grant. Awards under the plans may be either vested or unvested options. The unvested options vest ratably over two years for options with a five or three year term and after one year for options with a two year term.

In addition to the plans, the Company has granted, on various dates, stock options to directors, officers and employees to purchase common stock of the Company. The terms, exercise prices and vesting of these awards vary.

13

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

The following table summarizes option activity for directors, officers and employees:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months
Outstanding at January 1, 2010	-	$ -	$ -	-
Granted	4,940,000	0.56	0.33	81
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at December 31, 2010	4,940,000	$ 0.56	$ 0.33	77
Exercisable at December 31, 2010	1,854,625	$ 0.53	$ 0.32	75
Granted	3,425,000	0.63	0.28	54
Exercised	(29,750)	0.41	0.26	40
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at December 31, 2011	8,335,250	$ 0.59	$ 0.31	58
Exercisable at December 31, 2011	4,588,875	$ 0.57	$ 0.31	60
Granted	2,025,000	0.13	0.05	40
Exercised	-	-	-	-
Forfeited	(1,315,375)	0.61	0.27	40
Expired	(1,314,375)	0.55	0.29	51
Outstanding at December 31, 2012	7,730,500	$ 0.48	$ 0.25	44
Exercisable at December 31, 2012	6,080,000	$ 0.54	$ 0.29	46
Granted	1,100,000	0.29	0.13	60
Exercised	(21,126)	0.11	0.04	29
Forfeited	-	-	-	-
Expired	(308,500)	0.68	0.19	1
Outstanding at June 30, 2013	8,500,874	$ 0.44	$ 0.23	42
Exercisable at June 30, 2013	6,266,937	$ 0.53	$ 0.29	41

The Company recorded $476,226, $325,673, $855,246, $588,201 and $2,263,086 compensation expense for stock options to directors, officers and employees for the six months ended June 30, 2013, for the years ended 2012, 2011, and 2010, and for the period from inception (February 20, 2007) to June 30, 2013, respectively. As of June 30, 2013, unrecognized compensation expense of $192,620 is related to non-vested options granted to directors, officers and employees which is anticipated to be recognized over the next 44 months, commensurate with the vesting schedules.

Table of Contents

AMP Holding Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012
and for the Period From Inception,
February 20, 2007 to June 30, 2013
(Unaudited)

Options to consultants
The Company has also granted, on various dates, stock options to purchase common stock of the Company to consultants for services previously provided to the Company. The terms, exercise prices and vesting of these awards vary.

The following table summarizes option activity for consultants:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Exercise Term in Months		
Outstanding at January 1, 2010	-	$ -	$ -	-		
Granted	810,000	0.67	0.23	36		
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(37,202)	16,611	80,340			59,749
Acquisition costs	5,652	11,167	29,602	3,958		50,379
Life and annuity policy benefits				27,732		27,732
Salaries and benefits	31,463	4,226	17,600	2,394		55,683
General and administrative expenses	15,579	3,990	25,043	2,761	(10,196)	37,177
Interest expense	2,325	1,204		432	(432)	3,529
Net foreign exchange (gains) losses	(632)	(435)	620	(78)		(525)
	17,185	36,763	153,205	37,199	(10,628)	233,724
EARNINGS (LOSS) BEFORE INCOME TAXES	65,310	3,209	(10,383)	4,625		62,761
INCOME TAXES	(5,223)	(1,280)	(394)	(1,555)		(8,452)
NET EARNINGS (LOSS)	60,087	1,929	(10,777)	3,070		54,309
Less: Net earnings (loss) attributable to noncontrolling interest	(5,574)	(1,293)	4,351			(2,516)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 54,513	$ 636	$ (6,426)	$ 3,070	$	$ 51,793

Table of Contents

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Six Months Ended June 30, 2014					
	Non-life run-off	Atrium	Torus	Life and annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	$ 19,611	$ 66,636	$ 138,239	$ 54,088	$	$ 278,574
Fees and commission income	15,173	10,295		34	(10,995)	14,507
Net investment income	36,600	977	1,365	19,941	(886)	57,997
Net realized and unrealized gains	60,555	(103)	3,218	9,314		72,984
	131,939	77,805	142,822	83,377	(11,881)	424,062
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(66,383)	33,742	80,340			47,699
Acquisition costs	5,652	20,728	29,602	7,558		63,540
Life and annuity policy benefits				54,541		54,541
Salaries and benefits	57,311	7,759	17,600	4,403		87,073
General and administrative expenses	31,342	8,031	25,936	5,113	(10,995)	59,427
Interest expense	4,887	2,376		886	(886)	7,263
Net foreign exchange losses (gains)	1,498	(986)	625	(67)		1,070
	34,307	71,650	154,103	72,434	(11,881)	320,613
EARNINGS (LOSS) BEFORE INCOME TAXES	97,632	6,155	(11,281)	10,943	0	103,449
INCOME TAXES	(8,874)	(2,619)	(394)	(3,841)		(15,728)
NET EARNINGS (LOSS)	88,758	3,536	(11,675)	7,102	0	87,721
Less: Net earnings (loss) attributable to noncontrolling interest	(8,645)	(2,403)	4,707			(6,341)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 80,113	$ 1,133	$ (6,968)	$ 7,102	$ 0	$ 81,380

61

Table of Contents

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Three Months Ended June 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 41,216	$ 34,380		$ 75,596
Fees and commission income	3,536		(576)	2,960
Net investment income	17,180	10,072		27,252
Net realized and unrealized losses	(17,238)	(10,681)		(27,919)
	44,694	33,771	(576)	77,889
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(27,422)			(27,422)
Life and annuity policy benefits		25,562		25,562
Acquisition costs	5,712	3,920		9,632
Salaries and benefits	24,626	1,061		25,687
General and administrative expenses	16,046	4,532	(576)	20,002
Interest expense	2,631	460		3,091
Net foreign exchange (gains) losses	(8,450)	47		(8,403)
	13,143	35,582	(576)	48,149
EARNINGS (LOSS) BEFORE INCOME TAXES	31,551	(1,811)		29,740
INCOME TAXES	(4,534)	(8)		(4,542)
NET EARNINGS (LOSS)	27,017	(1,819)		25,198
Less: Net earnings attributable to noncontrolling interest	(6,001)			(6,001)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 21,016	$ (1,819)	$	$ 19,197

Table of Contents

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Six Months Ended June 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 72,136	$ 35,121		$ 107,257
Fees and commission income	6,164		(757)	5,407
Net investment income	34,871	10,344		45,215
Net realized and unrealized gains (losses)	13,040	(10,839)		2,201
	126,211	34,626	(757)	160,080
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(18,261)			(18,261)
Life and annuity policy benefits		26,322		26,322
Acquisition costs	8,099	3,901		12,000
Salaries and benefits	48,090	1,207		49,297
General and administrative expenses	32,461	6,244	(757)	37,948
Interest expense	5,051	475		5,526
Net foreign exchange (gains) losses	(3,514)	193		(3,321)
	71,926	38,342	(757)	109,511
EARNINGS (LOSS) BEFORE INCOME TAXES	54,285	(3,716)		50,569
INCOME TAXES	(12,358)	(28)		(12,386)
NET EARNINGS (LOSS)	41,927	(3,744)		38,183
Less: Net earnings attributable to noncontrolling interest	(7,027)			(7,027)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 34,900	$ (3,744)	$	$ 31,156

Table of Contents

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 as of June 30, 2014, and the related condensed consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, and the related condensed consolidated statements of changes in shareholders equity and cash flows for the six-month periods ended June 30, 2014 and 2013. These condensed consolidated 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 the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Enstar Group Limited and subsidiaries as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity and cash flows for the year then ended; and in our report dated March 3, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG Audit Limited

Hamilton, Bermuda

August 11, 2014

Table of Contents

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

Table of Contents:

Section	Page
Business Overview	65
Key Performance Indicator	66
Acquisitions	66
Significant New Business	68
Consolidated Results of Operations for the Three and Six Months Ended June 30, 2014 and 2013	69
Results of Operations by Segment for the Three and Six Months Ended June 30, 2014 and 2013	73
Non-life Run-off Segment	73
Atrium Segment	86
Torus Segment	92
Life and Annuities Segment	95
Liquidity and Capital Resources	101
Reinsurance Balances Recoverable	101
Cash Flows	102
Investments	103
Loans Payable	110
Aggregate Contractual Obligations	111
Commitments and Contingencies	112
Critical Accounting Policies	112
Off-Balance Sheet Arrangements and Special Purpose Entity Arrangements	112
Non-GAAP Financial Measures	112

The following discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2014 and 2013 should be read in conjunction with the attached unaudited condensed 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, 2013.

Business Overview

Enstar Group Limited, or Enstar, is a Bermuda-based holding company that was formed in 2001 and became publicly traded in 2007. We are listed on the NASDAQ Global Select Market under the ticker symbol ESGR. Enstar and our operating subsidiaries acquire and manage diversified insurance businesses through a network of service companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations.

Our primary corporate objective is growing our net book value per share. We believe this is driven primarily by growth in our net earnings, which is in turn driven in large part by successfully completing new acquisitions, effectively managing companies and portfolios of business that we have acquired, and executing on our active underwriting strategies.

Our core focus is acquiring and managing insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off, and providing management, consulting and other services to the insurance and reinsurance industry. Since our formation, we have completed the acquisition of over 60 insurance and reinsurance companies and portfolios of insurance and reinsurance business and are now administering those businesses. This

includes 13 Reinsurance to Close, or RITC transactions, with Lloyd s of London insurance and reinsurance syndicates in run-off, whereby the portfolio of run-off liabilities is transferred from one Lloyd s syndicate to another.

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

65

diversified our portfolio of run-off businesses to include closed life and annuities, primarily through our acquisition of the U.S. life and annuities operations of HSBC Holdings plc (which we now refer to as Pavonia). In addition to portfolio diversification, we believe our life and annuities business has the potential to provide us with a more regular earnings and cash flow stream, which may, to a degree, counter some of the volatility inherent in our core non-life run-off business over the long term.

In 2013, we entered the active underwriting business through our acquisitions of approximately 60% interests in Atrium Underwriting Group Limited (or Atrium) on November 25, 2013 and Arden Reinsurance Company Ltd (or Arden) on September 9, 2013. Atrium s wholly-owned subsidiary, Atrium Underwriters Ltd, manages and underwrites specialist insurance and reinsurance business for Lloyd s Syndicate 609. Atrium s wholly-owned subsidiary, Atrium 5 Ltd, provides approximately 25% of the underwriting capacity and capital to Syndicate 609, with the balance provided by traditional Lloyd s Names. Arden provides reinsurance to Atrium 5 Ltd. through an approximate 65% quota share reinsurance arrangement, and is currently in the process of running off certain other portfolios of run-off business.

On April 1, 2014, we acquired Torus Insurance Holdings Limited (or Torus). Torus is an A- rated global specialty insurer with multiple global underwriting platforms, including Lloyd s Syndicate 1301. Torus offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S. and Bermuda. Prior to acquisition, Torus ceased underwriting certain lines of business in order to focus on core property, casualty and specialty lines. The results of the discontinued lines of business which were placed into run-off are included within our non-life run-off segment. During the three months ended June 30, 2014, a Fitzwilliam Insurance Limited segregated cell, of which Enstar owns 60% and Trident owns 40%, entered into a 100% quota share reinsurance of Torus non-life run-off reserves with effect from January 1, 2014.

We believe that Torus and Atrium, our active underwriting businesses, provide an additional earnings stream, and also enhance our ability to compete for non-life run-off and other acquisition targets by providing opportunities for us to offer, through Torus, renewal rights or loss portfolio reinsurance transactions in connection with such acquisitions, which may be attractive to certain vendors or may present alternative ways in which proposed transactions can be structured.

Overall, Enstar has four segments of business that are each managed, operated and reported on differently: (i) Non-life run-off; (ii) Atrium; (iii) Torus; and (iv) Life and annuities.

The table below summarizes the total number of employees we had as at June 30, 2014 and December 31, 2013 by operating segment:

	2014	2013
Non-life run-off	515	529
Atrium	156	161
Torus	498	
Life and annuities	49	49
Total	1,218	739

Key Performance Indicator

Our primary corporate objective is growing our net book value per share. We increased our book value per share on a fully diluted basis by $8.74 from $105.20 per share, as at December 31, 2013, to $113.94, as at June 30, 2014. The increase was primarily due to the issuance of voting and non-voting shares with a value of approximately $356.1 million to certain shareholders of Torus upon completion of the Torus acquisition, as well as net earnings for the six months ended June 30, 2014.

66

Acquisitions

Torus Insurance Holdings Limited

On April 1, 2014, Kenmare Holdings Ltd. (or Kenmare), our wholly-owned subsidiary, together with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., which are managed by Stone Point Capital LLC (or collectively, Trident), completed the acquisition of Torus. At closing, Torus became directly owned by Bayshore Holdings Ltd. (or Bayshore), which was 60% owned by Kenmare and 40% owned by Trident.

The purchase price for Torus was established in the amended and restated amalgamation agreement as $646.0 million, to be paid partly in cash and partly in Enstar s stock. The number of Enstar shares to be issued was fixed at the signing of the amalgamation agreement on July 8, 2013 and was determined by reference to an agreed-upon value per share of $132.448, which was the average closing price of our voting ordinary shares, par value $1.00 per share (or the Voting Ordinary Shares), over the 20 trading days prior to such signing date. On the day before closing of the amalgamation, the Voting Ordinary Shares had a closing price of $136.31 per share. At closing, we contributed cash of $41.6 million towards the purchase price and $3.6 million towards related transaction expenses, as well as 1,898,326 Voting Ordinary Shares and 714,015 shares of Series B Convertible Participating Non-Voting Perpetual Preferred Stock (or the Non-Voting Preferred Shares). Based on a price of $136.31 per share, our contribution of cash and shares to the purchase price totaled $397.7 million in the aggregate. Trident contributed cash of $258.4 million towards the purchase price and $2.4 million towards related transaction expenses. Based on a price of $136.31 per share, the aggregate purchase price paid by us and Trident was $656.1 million.

FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. (or collectively, First Reserve) received 1,501,211 Voting Ordinary Shares, 714,015 Non-Voting Preferred Shares and cash consideration in the transaction. Following the approval of our shareholders of an amendment to our bye-laws on June 10, 2014, First Reserve s Non-Voting Preferred Shares converted on a share-for-share basis into 714,015 shares of newly created Series E Non-Voting Convertible Ordinary Shares, or the Series E Non-Voting Ordinary Shares. Corsair Specialty Investors, L.P. (or Corsair) received 397,115 Voting Ordinary Shares and cash consideration in the transaction. The remaining Torus shareholders received all cash. As a result of the amalgamation, First Reserve now owns approximately 9.5% and 11.5%, respectively, of our Voting Ordinary Shares and outstanding share capital.

Upon the closing of the Torus acquisition, Bayshore, Kenmare and Trident entered into a Shareholders Agreement, which was subsequently amended, as described in Dowling Co-investments in Bayshore and Northshore below.

In satisfaction of certain of our obligations under the Registration Rights Agreement we entered into with First Reserve and Corsair at the closing of the Amalgamation, we filed a resale shelf registration statement with the SEC on April 29, 2014 with respect to the Voting Ordinary Shares (including the Voting Ordinary Shares into which the Series E Non-Voting Ordinary Shares may convert) that we issued pursuant to the amalgamation.

Changes in Ownership Interests relating to Holding Companies for our Active Underwriting Businesses

Atrium Employee Equity Awards

On April 17, 2014, Northshore Holdings Ltd. (or Northshore), the parent company of Atrium and Arden, implemented long-term incentive plans that awarded time-based restricted shares of Northshore to certain Atrium employees. These equity awards will have the effect of modestly reducing

67

Kenmare s equity interest in Northshore (as well as Trident s equity interest) over the course of the vesting periods as Atrium employees acquire shares. Shares generally vest over two or three years, although certain awards began vesting in 2014.

Dowling Co-investments in Bayshore and Northshore Holdings Ltd.

On May 8, 2014, Dowling Capital Partners I, L.P. (or Dowling), purchased common shares of both Bayshore and Northshore from Kenmare and Trident (on a pro rata basis in accordance with their respective interests) for an aggregate amount of $15.4 million.

Prior to the sale of shares to Dowling, Kenmare and Trident owned 60% and 40% of Bayshore, respectively, and 57.1% and 38.1% of Northshore on a fully diluted basis, respectively (assuming full vesting of Atrium employees restricted shares totaling 4.8%). Following the sale of Bayshore shares to Dowling, Kenmare, Trident and Dowling own 59%, 39.3% and 1.7% of Bayshore, respectively. Following the sale of Northshore shares to Dowling, Kenmare, Trident, certain Atrium employees and Dowling own 56.1%, 37.4%, 4.8% and 1.7% of Northshore, respectively, on a fully diluted basis.

In connection with the sale of Bayshore shares, the Bayshore Shareholders Agreement was amended and restated. The Amended and Restated Bayshore Shareholders Agreement, among other things, provides that Kenmare has the right to appoint three members to the Bayshore board of directors and Trident has the right to appoint two members. The Amended and Restated Bayshore Shareholders Agreement includes a five-year period, or the Restricted Period, during which no shareholder can transfer its ownership interest in Bayshore to a third party unless approved by a super-majority of the shareholders. Following the Restricted Period: (i) each shareholder must offer Kenmare and Trident the right to buy its shares before the shares are offered to a third party; (ii) Kenmare can require each other shareholder to participate in a sale of Bayshore to a third party as long as Kenmare owns 55% of the aggregate number of outstanding shares of Bayshore held by Kenmare and Trident; (iii) each shareholder has the right to be included on a pro rata basis in any sales made by another shareholder; and (iv) each of Kenmare, Trident and Dowling has the right to buy its pro rata share of any new securities issued by Bayshore.

The Amended and Restated Bayshore Shareholders Agreement also provides that during the 90-day period following the fifth anniversary of the Torus closing, and at any time following the seventh anniversary of such closing, Kenmare would have the right to purchase the Bayshore shares owned by all other shareholders of Bayshore at their then fair market value, which would be payable in cash. Following the seventh anniversary of the Torus closing, Trident would have the right to require Kenmare to purchase all of Trident s shares in Bayshore for their then current fair market value and Dowling would have the right to participate in such transaction by requiring Kenmare to purchase all of its shares in Bayshore on the same terms. Kenmare would have the option to pay for such shares either in cash or by delivering our Voting Ordinary Shares.

In connection with the sale of Northshore shares, the Northshore Shareholders Agreement was amended and restated. The Amended and Restated Northshore Shareholders Agreement provides for substantially the same rights and obligations as the Amended and Restated Bayshore Shareholders Agreement, except that the fifth and seventh anniversaries refer to the Arden closing.

Significant New Business

Reciprocal of America

On July 6, 2012, our wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers compensation business. The

68

Table of Contents

estimated total liabilities to be assumed are approximately $164.5 million, with an equivalent amount of assets to be received as consideration. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close by the end of 2014.

Shelbourne RITC Transactions

Effective January 1, 2014, Lloyd s Syndicate 2008 (or S2008), which is managed by our wholly-owned subsidiary and Lloyd s managing agent, Shelbourne Syndicate Services Limited, entered into a reinsurance to close contract of the 2011 and prior underwriting year of account of another Lloyd s syndicate, under which S2008 assumed total net insurance reserves of approximately £17.0 million (approximately $28.1 million) for consideration of an equal amount.

Effective December 31, 2012, S2008 entered into a 100% quota share reinsurance agreement with another Lloyd s syndicate in respect of its 2009 and prior years of account (or the 2009 Liabilities), under which S2008 assumed total gross insurance reserves of approximately £193.0 million (approximately $313.3 million) for consideration of an equal amount. Effective January 1, 2014, the 2012 Lloyd s underwriting year of account of S2008 entered into a partial RITC transaction with respect to the 2009 Liabilities.

Consolidated Results of Operations For the Three and Six Months Ended June 30, 2014 and 2013

The following table sets forth our selected unaudited condensed consolidated statement of earnings data for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(expressed in thousands of U.S. dollars)			
INCOME				
Net premiums earned	$ 216,916	$ 75,596	$ 278,574	$ 107,257
Fees and commission income	7,509	2,960	14,507	5,407
Net investment income	33,649	27,252	57,997	45,215
Net realized and unrealized gains (losses)	38,411	(27,919)	72,984	2,201
	296,485	77,889	424,062	160,080
EXPENSES				
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities	59,749	(27,422)	47,699	(18,261)
Acquisition costs	50,379	9,632	63,540	12,000
Life and annuity policy benefits	27,732	25,562	54,541	26,322
Salaries and benefits	55,683	25,687	87,073	49,297
General and administrative expenses	37,177	20,002	59,427	37,948
Interest expense	3,529	3,091	7,263	5,526
Net foreign exchange (gains) losses	(525)	(8,403)	1,070	(3,321)
	233,724	48,149	320,613	109,511

EARNINGS BEFORE INCOME TAXES	62,761	29,740	103,449	50,569
INCOME TAXES	(8,452)	(4,542)	(15,728)	(12,386)
NET EARNINGS	54,309	25,198	87,721	38,183
Less: Net earnings attributable to noncontrolling interest	(2,516)	(6,001)	(6,341)	(7,027)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 51,793	$ 19,197	$ 81,380	$ 31,156

69

Table of Contents

Certain reclassifications have been made to the 2013 comparatives of net increase (reduction) in ultimate losses and loss adjustment expense liabilities, acquisition costs and life and annuity policy benefits to conform to current year presentation. These reclassifications had no impact on net earnings previously reported.

The following table provides a split by operating segment of the net earnings attributable to Enstar Group Limited:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands of U.S. dollars)			
Segment split of earnings (losses) attibutable to Enstar Group Limited:				
Non-life run-off	$ 54,513	$ 21,016	$ 80,113	$ 34,900
Atrium	636		1,133	
Torus	(6,426)		(6,968)	
Life and annuities	3,070	(1,819)	7,102	(3,744)
Net earnings attributable to Enstar Group Limited	$ 51,793	$ 19,197	$ 81,380	$ 31,156

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related footnotes. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under Cautionary Statement Regarding Forward-Looking Statements and in Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 and in Item 1A of Part II of this Quarterly Report on Form 10-Q.

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $54.3 million and $87.7 million for the three and six months ended June 30, 2014, respectively, as compared to $25.2 million and $38.2 million for the same periods in 2013. Our comparative results were impacted by our 2013 and 2014 acquisitions, among other factors. Subsequent to June 30, 2013, we completed the acquisitions of Arden (on September 9, 2013), Atrium (on November 25, 2013) and Torus (on April 1, 2014). Our comparative results for the six months ended June 30, 2014 were also impacted by our March 31, 2013 acquisition of Pavonia.

The change in consolidated net earnings for the three and six month periods was attributable primarily to the following:

Net premiums earned Combined net premiums earned for our four operating segments were $216.9 million and $278.6 million for the three and six months ended June 30, 2014, respectively, as compared to $75.6 million and $107.3 million for the same periods in 2013. The significant increase in 2014 was due primarily to the net premiums earned by Torus and Atrium, partially offset by a reduction in net premiums earned by SeaBright during the three months ended June 30, 2014, as described in greater detail in the segment discussion below.

Net investment income Net investment income was $33.6 million and $58.0 million for the three and six months ended June 30, 2014, respectively, as compared to $27.3 million and $45.2 million for the same periods in 2013. The

increase in each of the periods during 2014 was largely attributable to the net investment income earned on a larger base of cash and fixed maturity investments as a result of the Arden, Atrium and Torus transactions (as well as the Pavonia transaction with respect to the increase during the six month period), although this was partially offset by lower reinvestment yields on new purchases of fixed maturity investments.

Net realized and unrealized gains (losses) Net realized and unrealized gains (losses) were $38.4 million and $73.0 million for the three and six months ended June 30, 2014, respectively, as compared to $(27.9) million and $2.2 million for the same periods in 2013. The increase in net realized and unrealized gains between the 2014 and 2013 periods was attributable primarily to an increase in realized and unrealized gains on fixed income securities in each of our operating segments due primarily to marginal decreases in U.S. investment yields for 2014 (particularly in longer dated fixed maturity investments) as compared to increases in yields for 2013.

Net increase (reduction) in ultimate losses and loss adjustment expense liabilities For the three and six months ended June 30, 2014 net ultimate losses and loss adjustment expense liabilities increased by $59.7 million and $47.7 million, respectively, compared to reductions of $27.4 million and $18.3 million in the three and six months ended June 30, 2013, respectively. The total increase of $87.2 million for the three months ended June 30, 2014 compared to the comparative period in 2013 was due primarily to increases in net ultimate losses of $16.6 million relating to Atrium and $80.3 million relating to Torus. The total increase of $66.0 million for the six months ended June 30, 2014 compared to 2013 was due to increases in net ultimate losses of $33.7 million relating to Atrium and $80.3 million relating to Torus, partially offset by a $48.1 million larger reduction in the non-life run-off segment in 2014 compared to the same period in 2013.

Acquisition costs Acquisition costs were $50.4 million and $63.5 million for the three and six months ended June 30, 2014, respectively, as compared to $9.6 million and $12.0 million for the same periods in 2013. The significant increase for 2014 was due to the acquisition costs associated with the net premiums earned by Atrium and Torus.

Life and annuity policy benefits Life and annuity policy benefits were $27.7 million and $54.5 million for the three and six months ended June 30, 2014, respectively, as compared to $25.6 million and $26.3 million for the same periods in 2013. The significant increase for the six months ended June 30, 2014 as compared to the same period in 2013 was due primarily to the acquisition of Pavonia on March 31, 2013. The movements for both the three and six month periods ended June 30, 2014 and 2013 related entirely to our life and annuities segment and are described in greater detail in the segment discussion below.

Salaries and benefits Salaries and benefits were $55.7 million and $87.1 million for the three and six months ended June 30, 2014, respectively, as compared to $25.7 million and $49.3 million for the same periods in 2013. These increases were due predominantly to the salaries and benefits costs associated with our increased head count relating to the Atrium and Torus acquisitions, as well as the Pavonia acquisition that was completed during the six-month period in 2013, in addition to an increase in our bonus accrual amount for 2014 due to higher net earnings.

General and administrative expenses General and administrative expenses for the three and six months ended June 30, 2014 were $37.2 million and $59.4 million, respectively, compared to $20.0 million and $37.9 million, respectively, for the same periods in 2013. The increases were due principally to the acquisition expenses associated with the Arden, Atrium and Torus acquisitions.

Income tax expense Income tax expenses were $8.5 million and $15.7 million for the three and six months ended June 30, 2014, respectively, as compared to $4.5 million and $12.4 million for the same periods in 2013. Income tax expense is generated through our foreign operations outside of Bermuda, principally in the United States, U.K and Australia. Our income tax expense may fluctuate significantly from period to period depending on the geographic distribution of pre-tax earnings or loss in any given period between different jurisdictions with different tax rates. For the three and six months ended June 30, 2014, the effective tax rate was 13.5% and 15.2%, respectively, compared to 15.3% and 24.5% for the same periods in 2013. The lower effective tax rate for the six months ended

71

Table of Contents

June 30, 2014 compared to the same period in 2013 was attributable to higher earnings in our non-tax paying subsidiaries.

Noncontrolling interest Noncontrolling interest for the three and six months ended June 30, 2014 decreased by $3.5 million and $0.7 million, respectively, relative to the same periods for 2013. The decrease was attributable primarily to losses associated with our active underwriting companies (in which there are redeemable noncontrolling interests and noncontrolling interests), which were acquired subsequent to June 30, 2013.

72

Table of Contents

Results of Operations by Segment For the Three and Six Months Ended June 30, 2014 and 2013

Non-life Run-off Segment

Three Months Ended June 30, 2014 and 2013

The following is a discussion and analysis of the results of operations for our non-life run-off segment for the three months ended June 30, 2014 and 2013 which are summarized below:

	Three Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 17,084	$ 41,216
Fees and commission income	12,218	3,536
Net investment income	22,267	17,180
Net realized and unrealized gains (losses)	30,926	(17,238)
	82,495	44,694
EXPENSES		
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	10,209	35,504
Prior periods	(47,411)	(62,926)
	(37,202)	(27,422)
Acquisition costs	5,652	5,712
Salaries and benefits	31,463	24,626
General and administrative expenses	15,579	16,046
Interest expense	2,325	2,631
Net foreign exchange gains	(632)	(8,450)
	17,185	13,143
EARNINGS BEFORE INCOME TAXES	65,310	31,551
INCOME TAXES	(5,223)	(4,534)
NET EARNINGS	60,087	27,017
Less: Net earnings attributable to noncontrolling interest	(5,574)	(6,001)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 54,513	$ 21,016

Summary Comparison of Three Months Ended June 30, 2014 and 2013

In our non-life run-off segment, we reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $60.1 million and $27.0 million for the three months ended June 30, 2014 and 2013, respectively.

The increase in earnings of $33.1 million was attributable primarily to the following:

(i) an increase in net realized and unrealized gains of $48.2 million;

73

(ii) an increase in fees and commission income of $8.7 million; and

(iii) an increase in investment income of $5.1 million; partially offset by

(iv) a decrease of $15.5 million in net reduction in ultimate losses and loss adjustment expense liabilities related to prior periods;

(v) a decrease in net foreign exchange gains of $7.8 million; and

(vi) an increase in salaries and benefits of $6.8 million.

For the three months ended June 30, 2014 the total of: (i) net premiums earned of $17.1 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of $10.2 million; and less (iii) acquisition costs of $5.7 million amounted to $1.2 million and primarily related to the Torus run-off business. For the three months ended June 30, 2013 the total of: (i) net premiums earned of $41.2 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of $35.3 million; and less (iii) acquisition costs of $5.7 million, amounted to $nil million and related to SeaBright.

Noncontrolling interest in earnings for the non-life run-off segment decreased by $0.4 million to $5.6 million for the three months ended June 30, 2014 as a result of lower earnings in those companies in which there are noncontrolling interests. Net earnings for the non-life run-off segment attributable to Enstar Group Limited increased by $33.5 million, or 159.5%, from $21.0 million for the three months ended June 30, 2013 to $54.5 million for the three months ended June 30, 2014.

Net Premiums Earned:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Gross premiums written	$ 6,720		$ 4,444
Ceded reinsurance premiums written	(904)		(3,274)
Net premiums written	5,816	$ 4,646	1,170
Gross premiums earned	22,406		45,414
Ceded reinsurance premiums earned	(5,322)		(4,198)
Net premiums earned	$ 17,084	*$ (24,132)*	$ 41,216

Premiums Written

Gross non-life run-off premiums written consist of direct premiums written and premiums assumed by Torus run-off business and SeaBright. Upon acquisition, SeaBright was placed into run-off and, as a result, stopped writing new

insurance policies.

We would expect to have in future periods relatively low levels of gross and net premiums written relating to the Torus run-off business.

Premiums Earned

Gross non-life run-off premiums earned for the three months ended June 30, 2014 and 2013 totaled $22.4 million and $45.4 million, respectively. Ceded reinsurance premiums earned for the three

74

Table of Contents

months ended June 30, 2014 and 2013 totaled $5.3 million and $4.2 million, respectively. Accordingly, net premiums earned for the three months ended June 30, 2014 and 2013 totaled $17.1 million and $41.2 million, respectively.

Premiums written and earned in 2014 primarily relate to the Torus run-off business whereas premiums written and earned in 2013 relate to SeaBright.

Fees and Commission Income:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Internal	10,183		576
External	2,035		2,960
Total	$ 12,218	*$ 8,682*	$ 3,536

Our management companies in the non-life run-off segment earned fees and commission income of approximately $12.2 million and $3.5 million for the three months ended June 30, 2014 and 2013, respectively. The increase in fees and commission income of $8.7 million related primarily to management fees charged to our Torus segment. These internal fees are eliminated upon consolidation of our results of operations. While our consulting subsidiaries continue to provide management and consultancy services, claims inspection services and reinsurance collection services to third-party clients in limited circumstances, the core focus of these subsidiaries is providing in-house services to companies within the Enstar group.

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Three Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	***Variance***	**2013**	**2014**	***Variance***	**2013**
	(in thousands of U.S. dollars)					
Total	$ 22,267	*$ 5,087*	$ 17,180	$ 30,926	*$ 48,164*	$ (17,238)

Net investment income for the non-life run-off segment for the three months ended June 30, 2014 increased by $5.1 million to $22.3 million, as compared to $17.2 million for the three months ended June 30, 2013. The increase was primarily a result of higher investment balances due to assets acquired in respect of the Torus run-off business.

Net realized and unrealized gains (losses) for the non-life run-off segment for the three months ended June 30, 2014 and 2013 were $30.9 million and $(17.2) million, respectively. The increase of $48.2 million was primarily attributable to:

(i) gains of $9.9 million in relation to the fixed maturity investments of the segment due primarily to marginal declines in the longer end of the U.S. yield curve for the three months ended June 30, 2014, as compared to losses of $31.5 million for the same period in 2013 due to increases across the U.S. yield curve during that time; and

(ii) an increase of $6.1 million in realized and unrealized gains on the private equity and other investment holdings of the segment.

Table of Contents

Annualized Returns

The below table presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses)) earned by the non-life run-off segment on its cash and investments for the three months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014	2013
			(in thousands of U.S. dollars)	
Cash and fixed maturity investments	2.29%	(1.89)%	$ 3,968,276	$ 3,596,031
Other investments and equities	15.01%	10.65%	812,552	589,034
Combined overall	4.45%	(0.01)%	4,780,828	4,185,064

The average credit ratings by fair value of our fixed maturity investments for our non-life run-off segment as at June 30, 2014 and 2013 were AA- and A+, respectively.

Net (Reduction) Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

The following table shows the components of the movement in the net reduction in ultimate losses and loss adjustment expense liabilities for the non-life run-off segment for the three months ended June 30 2014 and 2013 (a reclassification of $5.7 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation):

	Three Months Ended June 30,						
	2014				2013		
	Prior Periods	Current Period	Total	*Total Variance*	Prior Periods	Current Period	Total
	(in thousands of U.S. dollars)						
Net losses paid	$ 116,315	$ 260	$ 116,575		$ 40,884	$ 2,784	$ 43,668
Net change in case and LAE reserves	(78,596)	175	(78,421)		(74,166)	10,133	(64,033)
Net change in IBNR reserves	(64,504)	9,774	(54,730)		(15,218)	22,587	7,369
(Reduction) increase in estimates of net ultimate losses	(26,785)	10,209	(16,576)	*3,580*	(48,500)	35,504	(12,996)
Paid loss recoveries on bad debt provision	(11,206)		(11,206)				
Reduction in provisions for unallocated loss adjustment expense liabilities	(12,874)		(12,874)		(16,795)		(16,795)
Amortization of fair value adjustments	3,454		3,454		2,369		2,369

Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (47,411)	$ 10,209	$ (37,202)	*9,780*	$ (62,926)	$ 35,504	$ (27,422)

Net change in case and LAE reserves comprise the movement during the period in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the

76

settlement or movement of assumed claims. Net change in incurred but not reported, or IBNR, reserves represents the change in our actuarial estimates of losses incurred but not reported, less amounts recoverable.

Three Months Ended June 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended June 30, 2014 of $37.2 million included an increase in incurred losses of $10.2 million related to current period earned premium, related primarily to the portion of the run-off business acquired with Torus. Excluding current period incurred losses of $10.2 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $47.4 million, which was attributable to a reduction in estimates of net ultimate losses of $26.8 million, paid loss recoveries on bad debt provisions of $11.2 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $12.9 million, relating to 2014 runoff activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $3.5 million.

The reduction in estimates of net ultimate losses relating to prior periods of $26.8 million was related primarily to:

(i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $6.8 million;

(ii) a reduction in IBNR reserves of $10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd s Syndicate 2008. The prior period estimate of aggregate net IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and

(iii) favorable claims settlements during the three months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately $12.8 million.

Three Months Ended June 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended June 30, 2013 of $27.4 million included losses incurred of $35.5 million related to premiums earned in the period by SeaBright. Excluding SeaBright s incurred losses of $35.5 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $62.9 million. This decrease was attributable to a reduction in estimates of net ultimate losses of $48.5 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $16.8 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $2.4 million.

The reduction in estimates of net ultimate losses relating to prior periods of $48.5 million was due primarily to:

(i)

our review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $8.3 million;

(ii) net favorable incurred loss development of $25.0 million (excluding the impact of redundant case reserves of $8.3 million) which included the settlement of net ceded case reserves of $26.2 million (excluding ceded IBNR recoverable) for net paid receipts of $74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of our top ten ceded reinsurance balances recoverable; and

(iii) a reduction in IBNR reserves of $20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of our Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Salaries and Benefits:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 31,463	*$ (6,837)*	$ 24,626

Salaries and benefits for the non-life run-off segment, which include expenses relating to our discretionary bonus and employee share plans, were $31.5 million and $24.6 million for the three months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits was related primarily to:

(i) an increase in the discretionary bonus provision of approximately $4.3 million due to the increase in net earnings for the three months ended June 30, 2014 as compared to 2013. Expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability; and

(ii) an increase in total salaries effective April 1, 2014, following a salary review across the segment, as compared to the same period in 2013 when a salary freeze had generally been in effect; partially offset by

(iii) a reduction in our average head count in our non-life run-off segment from approximately 568 for the three months ended June 30, 2013 to approximately 517 for the three months ended June 30, 2014.

Net Foreign Exchange Gains:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 632	*$ (7,818)*	$ 8,450

We recorded net foreign exchange gains for the non-life run-off segment of $0.6 million and $8.5 million for the three months ended June 30, 2014 and 2013, respectively. The net foreign exchange gains for the three months ended June 30, 2013 arose primarily as a result of holding surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the Australian dollar depreciated sharply against the U.S. dollar.

In addition to the net foreign exchange gains recorded in our consolidated statement of earnings, we recorded in our unaudited condensed consolidated statement of comprehensive income currency translation adjustment gains (losses), net of noncontrolling interest, related to our non-life run-off segment of $2.1 million and $(12.5) million for the three months ended June 30, 2014 and 2013, respectively. For the three months ended June 30, 2014 and 2013, the currency translation adjustments related primarily to our Australian-based subsidiaries. As the functional currency of these subsidiaries are Australian dollars, we record any U.S. dollar gains or losses on the translation of their net Australian dollar assets through accumulated other comprehensive income.

Income Tax Expense:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 5,223	*$ (689)*	$ 4,534

We recorded income tax expense for the non-life run-off segment of $5.2 million and $4.5 million for the three months ended June 30, 2014 and 2013, respectively.

Income tax expense is generated primarily through our foreign operations outside of Bermuda, principally in the United States, Europe and Australia. The effective tax rate, which is calculated as income tax expense or benefit divided by income before tax, is driven primarily by the geographic distribution of pre-tax net income between jurisdictions with comparatively higher tax rates and those with comparatively lower income tax rates and as a result may fluctuate significantly from period to period.

The effective tax rate was 7.9% for the three months ended June 30, 2014 compared with 14.4% for same period in 2013, associated primarily with us having proportionately higher net income in our non-tax paying subsidiaries than in the prior period.

Noncontrolling Interest:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 5,574	*$ 427*	$ 6,001

We recorded a noncontrolling interest in earnings of the non-life run-off segment of $5.6 million and $6.0 million for the three months ended June 30, 2014 and 2013, respectively.

The decrease for the three months ended June 30, 2014 was due primarily to the decrease in earnings for those companies in our non-life run-off segment where there exists a noncontrolling interest.

Table of Contents

Six Months Ended June 30, 2014 and 2013

The following is a discussion and analysis of the results of operations for our non-life run-off segment for the six months ended June 30, 2014 and 2013 which are summarized below:

	Six Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 19,611	$ 72,136
Fees and commission income	15,173	6,164
Net investment income	36,600	34,871
Net realized and unrealized gains	60,555	13,040
	131,939	126,211
EXPENSES		
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities		
Current period	11,641	64,037
Prior periods	(78,024)	(82,298)
	(66,383)	(18,261)
Acquisition costs	5,652	8,099
Salaries and benefits	57,311	48,090
General and administrative expenses	31,342	32,461
Interest expense	4,887	5,051
Net foreign exchange losses (gains)	1,498	(3,514)
	34,307	71,926
EARNINGS BEFORE INCOME TAXES	97,632	54,285
INCOME TAXES	(8,874)	(12,358)
NET EARNINGS	88,758	41,927
Less: Net earnings attributable to noncontrolling interest	(8,645)	(7,027)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 80,113	$ 34,900

Summary Comparison of Six Months Ended June 30, 2014 and 2013

In our non-life run-off segment, we reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately $88.8 million and $41.9 million for the six months ended June 30, 2014 and 2013, respectively.

80

Table of Contents

The increase in earnings of $46.8 million was attributable primarily to the following:

(i) an increase in net realized and unrealized gains of $47.5 million;

(ii) an increase in fees and commission income of $9.0 million; and

(iii) a reduction in income taxes of $3.5 million; partially offset by

(iv) an increase in salaries and benefits of $9.2 million;

(v) a decrease of $4.3 million in net reduction in ultimate losses and loss adjustment expense liabilities related to prior periods; and

(vi) a net foreign exchange loss of $1.5 million for the six months ended June 30, 2014, as compared to a net foreign exchange gain of $3.5 million for the same period in 2013.

For the six months ended June 30, 2014 the total of: (i) net premiums earned of $19.6 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of $11.6 million; and less (iii) acquisition costs of $5.7 million amounted to $1.2 million and primarily related to the Torus run-off business. For the six months ended June 30, 2013 the total of: (i) net premiums earned of $72.1 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of $64.0 million; and less (iii) acquisition costs of $8.1 million, amounted to $nil million and related to SeaBright.

Noncontrolling interest in earnings for the non-life run-off segment increased by $1.6 million to $8.6 million for the six months ended June 30, 2014 as a result of higher earnings in those companies in which there are noncontrolling interests. Net earnings for the non-life run-off segment attributable to Enstar Group Limited increased by $45.2 million, or 129.5%, from $34.9 million for the six months ended June 30, 2013 to $80.1 million for the six months ended June 30, 2014.

Net Premiums Earned:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Gross premiums written	$ 8,039		$ 16,542
Ceded reinsurance premiums written	(1,180)		(5,664)
Net premiums written	6,859	*$ (4,019)*	10,878
Gross premiums earned	25,174		79,550

Ceded reinsurance premiums earned	(5,563)		(7,414)
Net premiums earned	$ 19,611	*$ (52,525)*	$ 72,136

Premiums Written

Gross non-life run-off premiums written consist of direct premiums written and premiums assumed primarily by Torus run-off business for 2014 and by SeaBright for 2013. Gross and net non-life run-off premiums written for the six months ended June 30, 2014 totaled $8.0 million and $6.9 million, respectively, as compared to $16.5 million and $10.9 million for the same period in 2013.

Premiums Earned

Gross non-life run-off premiums earned for the six months ended June 30, 2014 and 2013 totaled $25.2 million and $79.5 million, respectively. Ceded reinsurance premiums earned for the six months

ended June 30, 2014 and 2013 totaled $5.6 million and $7.4 million, respectively. Accordingly, net premiums earned for the six months ended June 30, 2014 and 2013 totaled $19.6 million and $72.1 million, respectively.

Premiums earned in 2014 primarily relate to Torus run-off business whereas premiums earned in 2013 relate to SeaBright.

Fees and Commission Income:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Internal	$ 10,961		$ 757
External	4,212		5,407
Total	$ 15,173	*$ 9,009*	$ 6,164

Our management companies in the non-life run-off segment earned fees and commission income of approximately $15.2 million and $6.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase in fees and commission income of $9.0 million related primarily to management fees charged to our Torus segment. These internal fees are eliminated upon consolidation of our results of operations.

Net Investment Income and Net Realized and Unrealized Gains:

	Six Months Ended June 30,					
	Net Investment Income			**Net Realized and Unrealized Gains**		
	2014	***Variance***	**2013**	**2014**	***Variance***	**2013**
	(in thousands of U.S. dollars)					
Total	$ 36,600	*$ 1,729*	$ 34,871	$ 60,555	*$ 47,515*	$ 13,040

Net investment income for the non-life run-off segment for the six months ended June 30, 2014 increased by $1.7 million to $36.6 million, as compared to $34.9 million for the six months ended June 30, 2013. The increase was primarily a result of higher investment balances due to assets acquired in respect of the Torus run-off business.

Net realized and unrealized gains for the non-life run-off segment for the six months ended June 30, 2014 and 2013 were $60.6 million and $13.1 million, respectively. The increase of $47.5 million was attributable primarily to the combination of the following items:

(i) gains of $18.1 million in relation to fixed maturity investments of the segment due primarily to declines in the longer end of the U.S. yield curve for the year to date as compared to losses of $29.8 million for the same period in 2013 due to increases across the U.S. yield curve; and

(ii) an increase of $4.0 million in realized and unrealized gains on the private equity and other investment holdings of the segment; partially offset by

(iii) a decrease of $4.4 million in realized and unrealized gains on our equity portfolios as equity markets generally continued to advance in 2014, but not to the same extent as for the same period in 2013.

Table of Contents

Annualized Returns

The below table presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains) earned by the non-life run-off segment on its cash and investments for the six months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014	2013
			(in thousands of U.S. dollars)	
Cash and fixed maturity investments	2.21%	(0.04)%	$ 3,996,896	$ 3,407,285
Other investments and equities	13.42%	15.99%	788,716	567,732
Combined overall	4.06%	2.41%	4,785,612	3,975,017

The average credit ratings by fair value of our fixed maturity investments for our non-life run-off segment as at June 30, 2014 and 2013 were AA- and A+, respectively.

Net (Reduction) Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

The following table shows the components of the movement in the net (reduction) increase in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 and 2013 (a reclassification of $8.1 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation):

	Six Months Ended June 30,						
	2014				2013		
	Prior Periods	Current Period	Total	*Total Variance*	Prior Periods	Current Period	Total
	(in thousands of U.S. dollars)						
Net losses paid	$ 203,470	$ 792	$ 204,262		$ 122,018	$ 5,324	$ 127,342
Net change in case and LAE reserves	(141,845)	1,026	(140,819)		(137,612)	15,379	(122,233)
Net change in IBNR reserves	(101,901)	9,823	(92,078)		(37,968)	43,334	5,366
(Reduction) increase in estimates of net ultimate losses	(40,276)	11,641	(28,635)	*39,110*	(53,562)	64,037	10,475
Paid loss recoveries on bad debt provisions	(11,206)		(11,206)				
Reduction in provisions for unallocated loss adjustment expense liabilities	(26,233)		(26,233)		(33,198)		(33,198)
	(309)		(309)		4,462		4,462

Amortization of fair value adjustments										
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$	(78,024)	$ 11,641	$	(66,383)	*48,122*	$	(82,298)	$ 64,037	$ (18,261)

Six Months Ended June 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 of $66.4 million included an increase in incurred losses of $11.6 million related to

83

current period earned premium, which was primarily with respect to the portion of the run-off business acquired with Torus. Excluding current period incurred losses of $11.6 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $78.0 million, which was attributable to a reduction in estimates of net ultimate losses of $40.3 million, paid loss recoveries on bad debt provisions of $11.2 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $26.2 million, relating to 2014 runoff activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $(0.3) million.

The reduction in estimates of net ultimate losses relating to prior periods of $40.3 million was related primarily to:

(i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $13.6 million;

(ii) a reduction in IBNR reserves of $10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd s Syndicate 2008. The prior period estimate of aggregate net IBNR liabilities was reduced as a result of the continued favorable trend of loss development during the six months ended June 30, 2014 compared to prior forecasts; and

(iii) favorable claims settlements during the six months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately $19.5 million.

Six Months Ended June 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2013 of $18.3 million included incurred losses of $64.0 million related to premiums earned in the period by SeaBright. Excluding SeaBright s incurred losses of $64.0 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $82.3 million, which was attributable to a reduction in estimates of net ultimate losses of $53.6 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $33.2 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $4.5 million.

The reduction in estimates of net ultimate losses relating to prior periods of $53.6 million was related primarily to:

(i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $16.6 million;

(ii) net incurred loss development of $1.0 million (excluding the impact of redundant case reserves of $16.6 million) which included the settlement of net ceded case reserves of $26.2 million (excluding ceded IBNR

recoverable) for net paid receipts of $74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of our top ten ceded reinsurance balances recoverable; and

(iii) a reduction in IBNR reserves of $20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of our Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net

84

Table of Contents

IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Acquisition Costs:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 5,652	*$ 2,447*	$ 8,099

Acquisition costs for the non-life run-off segment were $5.7 million and $8.1 million for the six months ended June 30, 2014 and 2013, respectively. Acquisition costs are directly related to the amount of net premiums earned by us which, for the six months ended June 30, 2014, directly related to the portion of Torus business that was placed into run-off and, for the same period in 2013, directly related only to SeaBright. A reclassification of $8.1 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation.

Salaries and Benefits:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 57,311	*$ (9,221)*	$ 48,090

Salaries and benefits for the non-life run-off segment, which include expenses relating to our discretionary bonus and employee share plans, were $57.3 million and $48.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits was related primarily to:

(i) an increase in the discretionary bonus provision of approximately $8.2 million due to the increase in net earnings for the six months ended June 30, 2014 as compared to 2013. Expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability; and

(ii) an increase in total salaries effective April 1, 2014, following a salary review across the segment, as compared to the same period in 2013 when a salary freeze had generally been in effect; partially offset by

(iii) a reduction in our average headcount in our non-life segment from approximately 562 for the six months ended June 30, 2013 to approximately 520 for the six months ended June 30, 2013.

Net Foreign Exchange (Losses) Gains:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ (1,498)	*$ (5,012)*	$ 3,514

We recorded net foreign exchange (losses) gains for the non-life run-off segment of $(1.5) million and $3.5 million for the six months ended June 30, 2014 and 2013, respectively. The net foreign exchange losses for the six months ended June 30, 2014 arose primarily as a result of the holding of surplus U.S. dollar assets by our Australian subsidiary at a time when the Australian dollar had

85

appreciated against the U.S. dollar. The net foreign exchange gains for the six months ended June 30, 2013 arose principally as a result of the holding of surplus U.S. dollar assets by our Australian subsidiary at a time when the Australian dollar had depreciated against the U.S. dollar.

In addition to the net foreign exchange (losses) gains recorded in our consolidated statement of earnings, we recorded in our unaudited condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, related to our non-life run-off segment of $5.3 million for the six months ended June 30, 2014 as compared to losses, net of noncontrolling interest, of $12.8 million for the six months ended June 30, 2013. For both the six months ended June 30, 2014 and 2013, the currency translation adjustments related primarily to our Australian-based subsidiaries.

Income Tax Expense:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 8,874	*$ 3,484*	$ 12,358

We recorded income tax expense for the non-life run-off segment of $8.9 million and $12.4 million for the six months ended June 30, 2014 and 2013, respectively. The decrease in income taxes of $3.5 million was due principally to decreased pre-tax net income recorded in our U.S. and U.K.-based subsidiaries.

The effective tax rate was 9.1% for the six months ended June 30, 2014 as compared with 22.8% for the same period in 2013. In 2014, we had proportionately greater net income in our non-tax paying subsidiaries than in the prior period.

Noncontrolling Interest:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 8,645	*$ (1,618)*	$ 7,027

We recorded a noncontrolling interest in earnings of the non-life run-off segment of $8.6 million and $7.0 million for the six months ended June 30, 2014 and 2013, respectively. The increase for the six months ended June 30, 2014 was due primarily to the increase in earnings for those companies where there exists a noncontrolling interest.

Atrium Segment

Our Atrium segment is comprised of the operations and financial results of Northshore, a holding company that owns Atrium and its subsidiaries (acquired November 25, 2013) and Arden (acquired September 9, 2013). Arden provides quota share reinsurance to Atrium. This quota share arrangement is eliminated upon consolidation.

Results related to Arden s run-off lines of business are included within our non-life run-off segment. Atrium s subsidiary, Atrium Underwriters Ltd., or AUL, is the managing agent for Lloyd s Syndicate 609. AUL earns fees and profit commissions on business underwritten for the Syndicate. Atrium s subsidiary, Atrium 5 Ltd, impacts our results with respect to the 25% underwriting capacity and capital it provides to Syndicate 609. The remaining underwriting capacity is provided by traditional Lloyd s Names.

86

The following is a discussion and analysis of our results of operations for the Atrium segment for the three and six months ended June 30, 2014, which are summarized below:

	Three Months Ended June 30, 2014				Six Months Ended June 30, 2014			
	Atrium	Holding Companies	Enstar Specific Expenses	Total	Atrium	Holding Companies	Enstar Specific Expenses	Total
	(in thousands of U.S. dollars)							
INCOME								
Net premiums earned	$ 33,997	$	$	$ 33,997	$ 66,636	$	$	$ 66,636
Fees and commission income	5,474			5,474	10,295			10,295
Net investment income	497			497	977			977
Net realized and unrealized gains	4			4	(103)			(103)
	39,972			39,972	77,805			77,805
EXPENSES								
Net increase in ultimate losses and loss adjustment expense liabilities	16,611			16,611	33,742			33,742
Acquisition costs	11,167			11,167	20,728			20,728
Salaries and benefits	4,226			4,226	7,759			7,759
General and administrative expenses	3,329	661		3,990	6,201	1,830		8,031
Interest expense			1,204	1,204	5		2,371	2,376
Net foreign exchange gains	(435)			(435)	(986)			(986)
	34,898	661	1,204	36,763	67,449	1,830	2,371	71,650
EARNINGS (LOSS) BEFORE INCOME TAXES	5,074	(661)	(1,204)	3,209	10,356	(1,830)	(2,371)	6,155
INCOME TAXES	(1,280)			(1,280)	(2,619)			(2,619)
NET EARNINGS (LOSS)	3,794	(661)	(1,204)	1,929	7,737	(1,830)	(2,371)	3,536
Less: Net (earnings) loss attributable to noncontrolling interest	(1,570)	277		(1,293)	(3,148)	745		(2,403)
NET EARNINGS (LOSS)	$ 2,224	$ (384)	$ (1,204)	$ 636	$ 4,589	$ (1,085)	$ (2,371)	$ 1,133

ATTRIBUTABLE TO ENSTAR GROUP LIMITED		
Loss ratio [1]	48.9%	50.6%
Acquisition cost ratio [2]	32.8%	31.1%
Other operating expense ratio [3]	22.2%	20.9%
Combined ratio [4]	103.9%	102.6%

(1) Loss ratio is obtained by dividing net increase in ultimate losses and loss adjustment expense liabilities by net premiums earned.

(2) Acquisition cost ratio is obtained by dividing acquisition costs by net premiums earned.

(3) Other operating expense ratio is obtained by dividing the sum of general and administrative expenses and salaries and benefits attributable to Atrium by net premiums earned. Other operating expense ratio is a non-GAAP financial measure because it excludes the general and administrative expenses of the Atrium segment holding companies. The most directly comparable GAAP financial measure would be to include these holding company expenses, which would result in a ratio of

24.2% and 23.7% for the three and six months ended June 30, 2014, respectively. See Non-GAAP Financial Measures for more information on this ratio.

(4) Our combined ratio is the sum of: (i) our loss ratio, (ii) our acquisition cost ratio and (iii) our other operating expense ratio (which is a non-GAAP financial measure, as described in footnote 3). Our historical combined ratio may not be indicative of future underwriting performance.

Three Months Ended June 30, 2014

For the Atrium segment, we reported net earnings, before net earnings attributable to noncontrolling interest, of approximately $1.9 million for the three months ended June 30, 2014.

The results were primarily driven by:

(i) net underwriting result of $6.2 million (net premiums earned of $34.0 million less $16.6 million in net increase in ultimate losses and loss adjustment expense liabilities and $11.2 million of acquisition costs);

(ii) fees and commission income of $5.5 million; and

(iii) net investment income and net realized and unrealized gains of $0.5 million; partially offset by

(iv) salaries and benefits and general and administrative expenses of $8.2 million;

(v) interest expense of $1.2 million; and

(vi) income taxes of $1.3 million.

Noncontrolling interest in earnings of the Atrium segment of $1.3 million resulted in net earnings attributable to Enstar Group Limited of $0.6 million for the three months ended June 30, 2014. The noncontrolling interests share of earnings is greater than their 41.54% share of the Atrium segment s net earnings primarily due to interest expense in respect of borrowings under our revolving credit facility that are recorded within the Atrium segment and 100% attributable to us.

Six Months Ended June 30, 2014

For the Atrium segment, we reported net earnings, before net earnings attributable to noncontrolling interest, of approximately $3.5 million for the six months ended June 30, 2014.

The results were primarily driven by:

(i)

net underwriting result of $12.2 million (net premiums earned of $66.6 million less $33.7 million in net increase in ultimate losses and loss adjustment expense liabilities and $20.7 million of acquisition costs);

(ii) fees and commission income of $10.3 million; and

(iii) net investment income and net realized and unrealized gains of $0.9 million; partially offset by

(iv) salaries and benefits and general and administrative expenses of $15.8 million;

(v) interest expense of $2.4 million; and

(vi) income taxes of $2.6 million.

88

Table of Contents

Noncontrolling interest in earnings of the Atrium segment of $2.4 million resulted in net earnings attributable to Enstar Group Limited of $1.1 million for the six months ended June 30, 2014. The noncontrolling interests share of earnings is greater than their 41.54% share of the Atrium segment s net earnings primarily due to interest expense in respect of borrowings under our revolving credit facility that are recorded within the segment and 100% attributable to us.

For 2014, we expect the income and expenses associated with the Atrium segment to increase as compared to 2013 as a result of owning these companies for a full year. Earnings attributable to noncontrolling interest in 2014 will be dependent on the level of earnings for these companies.

Gross Premiums Written:

The following table provides gross premiums written by line of business for the Atrium segment for the three and six months ended June 30, 2014:

	Gross Premiums Written		Gross Premiums Written	
	Three Months Ended June 30, 2014	**% of Total Gross Premiums Written**	**Six Months Ended June 30, 2014**	**% of Total Gross Premiums Written**
		(in thousands of U.S. dollars)		
Marine Property	$ 5,877.2	14.7%	$ 13,909.7	15.9%
Property and Casualty Binding Authorities	6,900.4	17.3%	14,143.5	16.2%
Upstream Energy	7,898.9	19.8%	14,130.9	16.2%
Reinsurance	3,031.7	7.6%	8,842.6	10.1%
Accident and Health	2,447.6	6.1%	8,163.4	9.3%
Professional Liability	4,502.5	11.3%	8,637.3	9.9%
Non-marine Property	4,845.1	12.2%	8,749.2	10.0%
Aviation	1,730.1	4.3%	5,625.7	6.4%
War and Terrorism	2,623.2	6.7%	5,231.9	6.0%
Total	$ 39,856.7	100.0%	$ 87,434.2	100.0%

Gross premiums written were $39.9 million and $87.4 million for the three and six months ended June 30, 2014, respectively.

Net Premiums Earned:

The following table provides net premiums earned by line of business for the Atrium segment for the three and six months ended June 30, 2014:

Net Premiums Earned

	Three Months Ended June 30, 2014	% of Total Net Premiums Earned	Six Months Ended June 30, 2014	% of Total Net Premiums Earned
	(in thousands of U.S. dollars)			
Marine Property	$ 5,515.3	16.2%	$ 10,780.4	16.2%
Property and Casualty Binding Authorities	6,121.0	18.0%	11,627.6	17.4%
Upstream Energy	4,579.6	13.5%	9,595.1	14.4%
Reinsurance	2,803.2	8.2%	5,812.4	8.7%
Accident and Health	3,055.8	9.0%	6,998.1	10.5%
Professional Liability	3,901.2	11.5%	6,902.3	10.4%
Non-marine Property	3,619.8	10.6%	7,276.4	10.9%
Aviation	2,200.2	6.5%	3,966.1	6.0%
War and Terrorism	2,201.0	6.5%	3,677.5	5.5%
Total	$ 33,997.1	100.0%	$ 66,635.9	100.0%

Table of Contents

Fees and Commission Income:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(in thousands of U.S. dollars)	
Total	$ 5,474	$ 10,295

The Atrium segment earned fees and commission income of approximately $5.5 million and $10.3 million for the three and six months ended June 30, 2014, respectively. The fees represent management and profit commission fees earned by us in relation to Atrium s management of Syndicate 609.

Net Increase in Ultimate Losses and Loss Adjustment Expenses Liabilities:

For the three months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Atrium segment of $16.6 million, including net favorable prior period reserve development of $2.3 million due to claims improvement and reserve releases, largely related to our aviation and non-marine direct and facultative lines of business. A net increase in ultimate losses and loss adjustment expense liabilities for the current period of $18.9 million has been recorded based on expected loss ratios on current period earned premium.

For the six months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Atrium segment of $33.7 million, including net favorable prior period reserve development of $6.5 million due to claims improvement and reserve releases, largely related to our aviation and non-marine direct and facultative lines of business. A net increase in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 of $40.2 million has been recorded on expected loss ratios on current period earned premium.

There is no assurance that conditions or trends that have affected the development of our reserves in the past will continue, and prior period development may not be indicative of development in future periods.

Salaries and Benefits:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(in thousands of U.S. dollars)	
Total	$ 4,226	$ 7,759

Salaries and benefits for the Atrium segment were $4.2 million and $7.8 million for the three and six months ended June 30, 2014, respectively. For the three months ended June 30, 2014, these costs included salaries and benefits of $1.9 million, share grant costs of $1.9 million and discretionary bonus costs of approximately $0.4 million. For the six months ended June 30, 2014, the total of $7.8 million was comprised of salaries and benefits of $3.6 million, share grant costs of $2.3 million and discretionary bonus of $1.9 million. The share grant costs relate to the Atrium employee equity awards, which are described in Acquisitions . Expenses relating to the discretionary bonus plan will be variable and dependent on Atrium s overall profitability.

90

Table of Contents

General and Administrative Expenses:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(in thousands of U.S. dollars)	
Total	$ 3,990	$ 8,031

General and administrative expenses for the Atrium segment were $4.0 million and $8.0 million for the three and six months ended June 30, 2014, respectively. This was comprised of $3.3 million and $6.2 million related to Atrium and Arden for the three and six month periods ended June 30, 2014, respectively, and related primarily to office expenses and professional fees. In addition, expenses of $0.7 million and $1.8 million for the three and six months ended June 30, 2014, respectively, related primarily to the amortization of the definite-lived intangible assets in the Atrium segment holding companies.

Interest Expense:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(in thousands of U.S. dollars)	
Total	$ 1,204	$ 2,376

Interest expense for the Atrium segment of $1.2 million and $2.4 million was recorded for the three and six months ended June 30, 2014, respectively. The interest expense recorded in the segment was in respect of borrowings under our revolving credit facility that are recorded in the segment and 100% attributable to us.

Noncontrolling Interest:

	June 30, 2014	
	Three Months Ended	Six Months Ended
	(in thousands of U.S. dollars)	
Total	$ 1,293	$ 2,403

We recorded noncontrolling interest in earnings of the Atrium segment of $1.3 million and $2.4 million for the three and six months ended June 30, 2014. As of June 30, 2014, Trident, Dowling and Atrium management had a combined 41.54% noncontrolling interest in the Atrium segment.

Table of Contents

Torus Segment

Our Torus segment is comprised of the operations and financial results of Bayshore, a holding company that owns Torus and its subsidiaries. Results related to Torus run-off lines of business are included within our non-life run-off segment.

The following is a discussion and analysis of our results of operations for Torus for the three and six months ended June 30, 2014, which are summarized below. Because we acquired Torus on April 1, 2014, the results in this segment were the same for the three months and six months ended June 30, 2014, with the exception of general and administrative expenses, which is discussed below.

	Three Months Ended June 30 2014			Six Months Ended June 30 2014		
	Torus	Holding Companies	Total	Torus	Holding Companies	Total
	(in thousands of U.S. dollars)					
INCOME						
Net premiums earned	$ 138,239	$	$ 138,239	$ 138,239	$	$ 138,239
Fees and commision income						
Net investment income	1,365		1,365	1,365		1,365
Net realized and unrealized gains	3,218		3,218	3,218		3,218
	142,822		142,822	142,822		142,822
EXPENSES						
Net increase in ultimate losses and loss adjustment expense liabilities	80,340		80,340	80,340		80,340
Acquisition costs	29,602		29,602	29,602		29,602
Salaries and benefits	16,970	630	17,600	16,970	630	17,600
General and administrative expenses	13,136	11,907	25,043	13,136	12,800	25,936
Net foreign exchange losses	614	6	620	614	11	625
	140,662	12,543	153,205	140,662	13,441	154,103
EARNINGS (LOSS) BEFORE INCOME TAXES	2,160	(12,543)	(10,383)	2,160	(13,441)	(11,281)
INCOME TAXES	(394)		(394)	(394)		(394)
NET EARNINGS (LOSS)	1,766	(12,543)	(10,777)	1,766	(13,441)	(11,675)
Less: Net (earnings) lossattributable to noncontrolling interest	(905)	5,256	4,351	(905)	5,612	4,707
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 861	$ (7,287)	$ (6,426)	$ 861	$ (7,829)	$ (6,968)

Loss ratio[1]	58.1%	58.1%
Acquisition cost ratio[2]	21.4%	21.4%
Other operating expense ratio[3]	21.8%	21.8%
Combined ratio	101.3%	101.3%

(1) Loss ratio is obtained by dividing net increase in ultimate losses and loss adjustment expense liabilities by net premiums earned.

(2) Acquisition cost ratio is obtained by dividing acquisition costs by net premiums earned.

(3) Other operating expense ratio is obtained by dividing the sum of general and administrative expenses and salaries and benefits attributable to Torus by net premiums earned. Other operating expense ratio is a non-GAAP financial measure because it excludes the general and administrative and salaries and benefits expenses of the Torus holding companies. The most directly comparable

92

Table of Contents

GAAP financial measure would be to include these holding company expenses, which would result in a ratio of 30.8% and 31.5% for the three and six months ended June 30, 2014, respectively. See Non-GAAP Financial Measures for more information on this ratio.

(4) Our combined ratio is the sum of: (i) our loss ratio, (ii) our acquisition cost ratio and (iii) our other operating expense ratio (which is a non-GAAP financial measure, as described in footnote 3). Our historical combined ratio may not be indicative of future underwriting performance.

For the Torus segment, we reported net loss, before net loss attributable to noncontrolling interest, of approximately $10.8 million for the three months ended June 30, 2014.

The results were primarily driven by:

(i) net underwriting result of $28.3 million (net premiums earned of $138.2 million less $80.3 million in net increase in losses and loss adjustment expense liabilities and $29.6 million of acquisition costs);

(ii) net investment income and net realized and unrealized gains of $4.6 million; partially offset by

(iii) salaries and benefits and general and administrative expenses totaling $42.6 million;

(iv) foreign exchange losses of $0.6 million; and

(v) income taxes of $0.4 million.

Noncontrolling interest in the net loss of the Torus segment of $4.3 million resulted in net loss attributable to Enstar Group Limited of $6.4 million for the three months ended June 30, 2014.

Gross Premiums Written:

The following table provides gross premiums written by line of business for the Torus segment for the three months ended June 30, 2014:

	Gross Premiums Written	
	Three Months Ended June 30, 2014	% of Total Gross Premiums Written
Property	$ 45,854.9	26.9%
Marine & Excess Casualty	31,955.3	18.7%
Aviation and Space	22,950.4	13.4%
Non-U.S. Management and Professional Liability	8,161.1	4.8%
Accident and Health	2,927.8	1.7%
	7,360.3	4.3%

U.S. Management and Professional Liability		
Healthcare	8,845.6	5.2%
U.S. Casualty	34,095.0	20.0%
Workers Compensation	8,495.1	5.0%
Total	$ 170,645.5	100.0%

93

Table of Contents

Net Premiums Earned:

The following table provides net premiums earned by line of business for the Torus segment for the three months ended June 30, 2014:

	Net Premiums Earned	
	Three Months Ended June 30, 2014	% of Total Net Premiums Earned
Property	$ 26,008.0	18.8%
Marine & Excess Casualty	26,868.6	19.4%
Aviation and Space	17,880.5	12.9%
Non-U.S. Management and Professional Liability	10,231.1	7.4%
Accident and Health	2,581.7	1.9%
U.S. Management and Professional Liability	6,884.5	5.0%
Healthcare	8,223.1	5.9%
U.S. Casualty	17,020.0	12.3%
Workers Compensation	3,920.3	2.8%
Other	18,621.4	13.6%
Total	$ 138,239.2	100.0%

Net Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

For the three months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Torus segment of $80.3 million principally due to an increase in estimates of net ultimate losses related to the current period, which has been recorded based on expected loss ratios on current period earned premium.

There is no assurance that conditions or trends that have affected the development of our reserves in the past will continue, and prior period development may not be indicative of development in future periods.

Salaries and Benefits:

Salaries and benefits costs for the Torus segment were $17.6 million for the three months ended June 30, 2014. The salary and benefit expense was related primarily to $15.2 million of direct expense for employees of Torus, inclusive of discretionary bonus costs accrued of approximately $1.8 million, and $0.6 million of costs associated with employee share awards granted to certain Torus employees in the period.

General and Administrative Expenses:

General and administrative expenses for the Torus segment were $25.0 million and $25.9 million for the three and six months ended June 30, 2014, respectively. The amounts for the six month period ended June 30, 2014 were comprised of $13.1 million directly incurred by Torus operations, $10.0 million relating to management fee expenses charged by

our non-life run-off segment to Bayshore and $2.8 million of acquisition related expenses incurred by Bayshore.

Noncontrolling Interest:

We recorded noncontrolling interest in the net loss of the Torus segment of $4.3 million and $4.7 million for the three and six months ended June 30, 2014. As of June 30, 2014, Trident and Dowling held a combined 41.02% noncontrolling interest in the Torus segment.

Life and Annuities Segment

Three Months Ended June 30, 2014

The following is a discussion and analysis of the results of operations for our life and annuities segment for the three months ended June 30, 2014 and 2013 which are summarized below:

	Three Months Ended June 30,	
	2014	**2013**
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 27,596	$ 34,380
Fees and commission income	13	
Net investment income	9,952	10,072
Net realized and unrealized gains (losses)	4,263	(10,681)
	41,824	33,771
EXPENSES		
Life and annuity policy benefits	27,732	25,562
Acquisition costs	3,958	3,920
Salaries and benefits	2,394	1,061
General and administrative expenses	2,761	4,532
Interest expense	432	460
Net foreign exchange (gains) losses	(78)	47
	37,199	35,582
EARNINGS (LOSS) BEFORE INCOME TAXES	4,625	(1,811)
INCOME TAXES	(1,555)	(8)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 3,070	$ (1,819)

For the life and annuities segment, net earnings (loss) attributable to Enstar Group Limited increased by $4.9 million, from $(1.8) million for the three months ended June 30, 2013 to $3.1 million for the three months ended June 30, 2014.

Net Premiums Earned:

	Three Months Ended June 30,		
	2014	***Variance***	**2013**

	(in thousands of U.S. dollars)		
Term life insurance	$ 7,478	*$ (1,566)*	$ 9,044
Assumed life reinsurance	6,229	*(449)*	6,678
Credit life and disability	13,889	*(4,769)*	18,658
	$ 27,596	*$ (6,784)*	$ 34,380

Net premiums earned were $27.6 million and $34.4 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in net premiums earned is the result of the run-off of policies during the period. The premiums in our life and annuities segment are expected to reduce by approximately 15 to 20% per annum as the blocks of business continue to run-off and policies lapse. We recorded acquisition costs for the three months ended June 30, 2014 and 2013 of approximately

Table of Contents

$4.0 million and $3.9 million, respectively, associated with premiums earned by Pavonia. Substantially all of the net premiums earned in the three months ended June 30, 2014 and 2013 relate to the U.S. and Canadian business of the Pavonia companies.

For our life and annuities business, although we no longer write new business, our strategy differs from our non-life run-off business, in particular because we are unable to shorten the duration of the liabilities in this business through either early claims settlement, commutations or policy buy backs. Instead, we will hold the policies associated with the life and annuities business to their natural maturity or lapse and will pay claims as they fall due. We aim to earn profits in this segment through investments and operating efficiencies.

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Three Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	***Variance***	**2013**	**2014**	***Variance***	**2013**
	(in thousands of U.S. dollars)					
Total	$ 9,952	*$ (120)*	$ 10,072	$ 4,263	*$ 14,944*	$ (10,681)

Net investment income for the life and annuities segment for each of the three months ended June 30, 2014 and 2013 was $10.0 million.

Net realized and unrealized gains (losses) for the three months ended June 30, 2014 and 2013 were $4.3 million and ($10.7) million, respectively. The increase in net realized and unrealized gains of $14.9 million was primarily due to unrealized gains on fixed maturity investments in respect of the Pavonia companies. The gains were mostly due to marginal declines in the longer end of the U.S. yield curve versus increases in yields in the previous year.

The current operations of one of the Pavonia companies relates solely to periodic payment annuities. We have a long duration held-to-maturity investment portfolio to manage the cash flow obligations of these annuities. This held-to-maturity portfolio is carried at amortized cost and as such we would not anticipate any unrealized gains or losses on the portfolio. The carrying value of the held-to-maturity portfolio comprises approximately 70% of the Pavonia investments. The remaining 30% of our Pavonia investments comprise fixed maturity investments classified as trading securities, which relate to our non-periodic payment annuity business.

Annualized Returns

The table below presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses), earned by the life and annuities segment on its cash and investments for the three months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	**2013**	**2014**	**2013**
			(in thousands of U.S. dollars)	

Cash and fixed maturity investments	4.29%	(0.18)%	$ 1,304,140	$ 1,382,679
Other investments and equities	5.99%	%	15,478	
Combined overall	4.31%	(0.18)%	$ 1,319,618	$ 1,382,679

The average credit ratings of our fixed maturity investments of our life and annuities segment as at both June 30, 2014 and 2013 were A+.

96

Life and Annuity Policy Benefits:

	Three Months Ended June 30,		
	2014	*Variance*	2013
	(in thousands of U.S. dollars)		
Periodic payment annuity benefits paid	$ 15,315	*$*	$ 12,695
Reductions in periodic payment annuity benefit reserves	(7,271)		(6,406)
Net change in periodic payment annuity benefit reserves	8,044	*(1,755)*	6,289
Net life claims benefits paid	19,435		17,383
Net change in life claims benefit reserves	(3,640)		(612)
Amortization of fair value adjustments	3,893		2,502
Net ultimate change in life benefit reserves	19,688	*(415)*	19,273
Total	$ 27,732	*$ (2,170)*	$ 25,562

Life and annuity policy benefits were $27.7 million and $25.6 million for the three months ended June 30, 2014 and 2013, respectively. The increase is primarily attributable to periodic payment annuity benefits paid, mostly due to an increase in scheduled settlements processed in the period. Net ultimate change in life benefit reserves of $19.7 million in the three months ended June 30, 2014 was comprised of net life claims benefits paid of $19.4 million and amortization of fair value adjustments of $3.9 million, partially offset by net change in life claims benefit reserves of $3.6 million.

Salaries and Benefits:

	Three Months Ended June 30,		
	2014	*Variance*	2013
	(in thousands of U.S. dollars)		
Total	$ 2,394	*$ (1,333)*	$ 1,061

Salaries and benefits costs for the life and annuities segment were $2.4 million and $1.1 million for the three months ended June 30, 2014 and 2013, respectively. The increase for the three months ended June 30, 2014 was largely attributable to the transition of employees from the seller of Pavonia to us over the course of the three months ended June 30, 2013. Because individuals transitioned to us at various dates in 2013, the comparative period did not contain an entire three months of salaries and benefits for the Pavonia employees.

General and Administrative Expenses:

	Three Months Ended June 30,		
	2014	*Variance*	2013
	(in thousands of U.S. dollars)		
Total	$ 2,761	*$ 1,771*	$ 4,532

General and administrative expenses for the life and annuities segment were $2.8 million and $4.5 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in expenses for the three months ended June 30, 2014 is primarily attributable to non-recurring costs incurred in 2013 in relation to the transition of the Pavonia business. During the three months ended June 30, 2013, the Pavonia employees generally worked pursuant to a transition services agreement which was treated as general and administrative expenses by Pavonia.

Six Months Ended June 30, 2014

The following is a discussion and analysis of the results of operations for our life and annuities segment for the six months ended June 30, 2014 and 2013 which are summarized below:

	Six Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	$ 54,088	$ 35,121
Fees and commission income	34	
Net investment income	19,941	10,344
Net realized and unrealized gains (losses)	9,314	(10,839)
	83,377	34,626
EXPENSES		
Life and annuity policy benefits	54,541	26,322
Acquisition costs	7,558	3,901
Salaries and benefits	4,403	1,207
General and administrative expenses	5,113	6,244
Interest expense	886	475
Net foreign exchange (gains) losses	(67)	193
	72,434	38,342
EARNINGS (LOSS) BEFORE INCOME TAXES	10,943	(3,716)
INCOME TAXES	(3,841)	(28)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 7,102	$ (3,744)

For the life and annuities segment, net earnings (loss) attributable to Enstar Group Limited increased by $10.8 million, from $(3.7) million for the six months ended June 30, 2013 to $7.1 million for the six months ended June 30, 2014.

Net Premiums Earned:

	Six Months Ended June 30,		
	2014	*Variance*	2013
	(in thousands of U.S. dollars)		
Term life insurance	$ 15,423	*$ 5,638*	$ 9,785
Assumed life reinsurance	10,497	*3,819*	6,678

Credit life and disability	28,168	*9,510*	18,658
	$ 54,088	*$ 18,967*	$ 35,121

Net premiums earned were $54.1 million and $35.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase in net premiums earned is the result of three additional months of premiums from Pavonia in 2014 as compared to 2013 (we acquired Pavonia on March 31, 2013). We recorded acquisition costs for the three months ended June 30, 2014 and 2013 of approximately $7.6 million and $3.9 million, respectively, associated with premiums earned by Pavonia. Substantially all of the premiums earned relate to the U.S. and Canadian business of the Pavonia companies.

Table of Contents

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Six Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	***Variance***	**2013**	**2014**	***Variance***	**2013**
	(in thousands of U.S. dollars)					
Total	$ 19,941	$ 9,597	$ 10,344	$ 9,314	$ 20,153	$ (10,839)

Net investment income for the life and annuities segment for the six months ended June 30, 2014 and 2013 was $19.9 million and $10.3 million, respectively. The increase was primarily due to the inclusion of the Pavonia companies for the full six months for 2014. These cash and fixed maturity investments were acquired on March 31, 2013.

Net realized and unrealized gains (losses) for the six months ended June 30, 2014 and 2013 were $9.3 million and ($10.8) million, respectively. The increase in net realized and unrealized gains of $20.1 was primarily due to unrealized gains on fixed maturity investments in respect of the Pavonia companies. The gains were mostly due to marginal declines in the longer end of the U.S. yield curve versus increases in yields in the previous year.

Annualized Returns

The table below presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses)) earned by the life and annuities segment on its cash and investments for the six months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	**2013**	**2014**	**2013**
			(in thousands of U.S. dollars)	
Cash and fixed maturity investments	4.27%	(0.14)%	$ 1,324,532	$ 716,871
Other investments and equities	14.31%	%	13,703	
Combined overall	4.37%	(0.14)%	$ 1,338,235	$ 716,871

The average credit ratings of our fixed maturity investments for the life and annuities segment for both June 30, 2014 and 2013 was A+.

Table of Contents

Life and Annuity Policy Benefits:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Periodic payment annuity benefits paid	$ 28,705		$ 12,695
Reductions in periodic payment annuity benefit reserves	(14,506)		(6,406)
Net change in periodic payment annuity benefit reserves	14,199	*(7,910)*	6,289
Net life claims benefits paid	41,870		17,383
Net change in life claims benefit reserves	(9,219)		148
Amortization of fair value adjustments	7,691		2,502
Net ultimate change in life benefit reserves	40,342	*(20,309)*	20,033
Total	$ 54,541	*$ (28,219)*	$ 26,322

Life and annuity policy benefits were $54.5 million and $26.3 million for the six months ended June 30, 2014 and 2013, respectively. The increase is primarily attributable to the inclusion of the Pavonia business results for six months in 2014 as opposed to three months in 2013. The annuity business incurred some additional periodic payment annuity benefits in the six months ended June 30, 2014, relating to an increase in scheduled settlements processed during the period. Net ultimate change in life benefit reserves in the six months ended June 30, 2014 of $40.3 million was comprised of net life claims benefits paid of $41.9 million and amortization of fair value adjustments of $7.7 million, partially offset by net change in life claims benefit reserves of $9.2 million.

Salaries and Benefits:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 4,403	*$ (3,196)*	$ 1,207

Salaries and benefits costs for the life and annuities segment related to our life and annuities segment were $4.4 million and $1.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits expenses for the six months ended June 30, 2014 as compared to the same period in 2013 was primarily attributable to having six months of Pavonia expenses in 2014 as compared to three months in 2013. In addition, during the three months ended June 30, 2013, the Pavonia employees generally worked pursuant to a transition services agreement, which was treated as general and administrative expense by Pavonia.

General and Administrative Expenses:

	Six Months Ended June 30,		
	2014	***Variance***	**2013**
	(in thousands of U.S. dollars)		
Total	$ 5,113	*$ 1,131*	$ 6,244

General and administrative expenses for the life and annuities segment were $5.1 million and $6.2 million for the six months ended June 30, 2014 and 2013, respectively. The decrease in expenses for the six months ended June 30, 2014 is primarily attributable to non-recurring salary related transition costs incurred during the six months ended June 30, 2013.

Table of Contents

Liquidity and Capital Resources

Our capital management strategy is to preserve sufficient capital to enable us to make future acquisitions while maintaining a conservative investment strategy. As we are a holding company and have no substantial operations of our own, our assets consist primarily of investments in subsidiaries. The potential sources of the cash flows to Enstar as a holding company consist of dividends, advances and loans from our subsidiary companies. Most of those subsidiaries are regulated entities, and restrictions on their ability to pay dividends and make other distributions may apply.

At June 30, 2014, we had total cash and cash equivalents, restricted cash and cash equivalents and investments of $7.89 billion, compared to $6.56 billion at December 31, 2013. Our cash and cash equivalent portfolio is comprised mainly of cash, high-grade fixed deposits, commercial paper with maturities of less than three months and money market funds.

Reinsurance Balances Recoverable

Our acquired insurance and reinsurance subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. Our insurance and reinsurance subsidiaries remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.

On an annual basis, both Torus and Atrium purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium s total third party reinsurance cover is with Lloyd s Syndicates or other highly rated reinsurers. The majority of Torus total third party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit.

As of June 30, 2014 and December 31, 2013, we had, excluding reinsurance recoverables related to our life and annuities segment, reinsurance balances recoverable of $1.50 billion and $1.33 billion, respectively. The increase of $165.6 million in reinsurance balances recoverable was primarily a result of the Torus acquisition, partially offset by commutations and cash collections made during the period ended June 30, 2014.

As at June 30, 2014, the reinsurance balances recoverable associated with the Company s life and annuities business consists of term life business ceded by Pavonia to reinsurers under various quota share arrangements. All of the reinsurers are rated A- and above by a major rating agency.

For both June 30, 2014 and December 31, 2013, the provision for uncollectible reinsurance recoverable relating to reinsurance balances recoverable was $338.6 million. To estimate the provision for uncollectible reinsurance recoverable, the balances are first allocated to applicable reinsurers using management judgment. As part of this process, ceded incurred but not reported (or IBNR) reserves are allocated by reinsurer. The ratio of the provision for uncollectible reinsurance recoverable to total non-life run-off reinsurance balances recoverable (excluding provision for uncollectible reinsurance recoverable) as of June 30, 2014 decreased to 18.1% as compared to 19.9% as of December 31, 2013, primarily as a result of reinsurance balances recoverable of Torus acquired during the year requiring minimal provisions for uncollectible reinsurance recoverable, and cash collections from reinsurers with minimal bad debt provisions.

Table of Contents

Cash Flows

The following table summarizes our consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 2014 and 2013:

Total cash provided by (used in):	**Six Months Ended June 30, 2014**	**2013**
	(in thousands of U.S. dollars)	
Operating activities	$ 324,197	$ (11,423)
Investing activities	(158,314)	(254,889)
Financing activities	217,104	225,260
Effect of exchange rate changes on cash	1,327	3,059
Net increase (decrease) in cash and cash equivalents	384,314	(37,993)
Cash and cash equivalents, beginning of period	643,841	654,890
Cash and cash equivalents, end of period	$ 1,028,155	$ 616,897

See Item 1. Financial Statements Unaudited Condensed Consolidated Statements of Cash Flows for the Six Month Periods Ended June 30, 2014 and 2013 for further information.

Operating

Net cash provided by our operating activities for the six month period ended June 30, 2014 was $324.2 million compared to net cash used of $11.4 million for the six month period ended June 30, 2013. This $335.6 million increase was due primarily to the following:

(i) a decrease in the net changes in assets and liabilities of $240.3 million between 2014 and 2013; offset by a

(ii) an increase of $256.5 million in sales and maturities of trading securities between 2014 and 2013; and

(iii) a decrease of $338.6 million in purchases of trading securities between 2014 and 2013.

Investing

Investing cash flows consist primarily of net proceeds on the sale and purchase of available-for-sale and other investments. Net cash used in investing activities was $158.3 million during the six month period ended June 30, 2014 compared to $254.9 million during the six month period ended June 30, 2013. The decrease of $96.6 million between 2014 and 2013 was due primarily to the following:

(i) a decrease of $321.5 million in net cash used for acquisitions between 2014 and 2013. During the six months ended June 30, 2014, we acquired cash balances in excess of cash used to fund acquisitions, as compared to the acquisitions we completed in 2013; partially offset by

(ii) a decrease of $81.2 million in the sales and maturities of available-for-sale securities between 2014 and 2013;

(iii) an increase of $93.4 million in the funding of other investments between 2014 and 2013; and

(iv) an increase of $71.0 million in the purchase of available-for-sale securities between 2014 and 2013.

Financing

Net cash provided by financing activities was $217.1 million during the six month period ended June 30, 2014 compared to $225.3 million during the six month period ended June 30, 2013. The decrease of $8.2 million in cash provided by financing activities was attributable primarily to the following:

(i) a decrease of $157.0 million in cash received attributable to bank loans between 2014 and 2013 due primarily to there being no acquisition borrowing required in 2014; and

(ii) an increase of $133.3 million in the repayment of bank loans between 2014 and 2013; and

(iii) a distribution of capital to noncontrolling interests of $10.0 million in 2014 compared to $nil in 2013; partially offset by

(iv) an increase in contributions by noncontrolling and redeemable noncontrolling interests of $290.3 million primarily associated with the Torus acquisition.

Investments

Aggregate invested assets, comprising cash and cash equivalents, restricted cash and cash equivalents, fixed maturity investments, equities and other investments, were $7.89 billion as of June 30, 2014 compared to $6.56 billion as of December 31, 2013, an increase of $1.3 billion. The increase in cash and invested assets resulted principally from the completion of the acquisition of Torus.

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities; (ii) available-for-sale portfolios of fixed maturity and short-term investments; and (iii) a held-to-maturity portfolio of fixed maturity investments. Our available-for-sale and trading portfolios are recorded at fair value.

Our held-to-maturity portfolio relates to our periodic payment annuities, business within our life and annuities segment. In an effort to match the expected cash flow requirements of the long-term liabilities associated with the business, we invest a portion of our fixed maturity investments in longer duration securities that we intend to hold to maturity. We classify these securities as held-to-maturity in our unaudited condensed consolidated balance sheet. This held-to-maturity portfolio is recorded at amortized cost. As a result, we do not record changes in the fair value of this portfolio, which should reduce the impact on shareholders equity of fluctuations in fair value of those investments.

The table below shows the aggregate amounts of our investments carried at fair value as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
	(in thousands of U.S. dollars)			
U.S. government and agency	$ 717,700	13.1%	$ 468,289	10.0%
Non-U.S. government	550,573	10.0%	562,516	12.1%
Corporate	2,343,759	42.7%	2,201,579	47.2%
Municipal	32,593	0.6%	41,034	0.9%
Residential mortgaged-backed	361,885	6.6%	235,964	5.1%
Commercial mortgage-backed	161,822	3.0%	114,637	2.5%
Asset-backed	457,420	8.3%	285,066	6.1%
Fixed maturity investments	4,625,752	84.3%	3,909,085	83.9%
Other investments	716,303	13.1%	569,293	12.2%
Equities U.S.	89,830	1.6%	115,285	2.5%
Equities International	57,312	1.0%	66,748	1.4%
Total investments	$ 5,489,197	100.0%	$ 4,660,411	100.0%

The table below shows the aggregate fair values of our investments classified as held-to-maturity as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
	(in thousands of U.S. dollars)			
U.S. government and agency	$ 19,171	2.3%	$ 18,132	2.3%
Non-U.S. government	45,473	5.4%	22,327	2.8%
Corporate	780,355	92.3%	759,100	94.9%
Total investments	$ 844,999	100.0%	$ 799,559	100.0%

As at June 30, 2014, we held investments on our balance sheet totaling $6.34 billion compared to $5.52 billion at December 31, 2013, with net unrealized appreciation included in accumulated comprehensive income of $3.3 million at June 30, 2014 compared to $3.1 million at December 31, 2013. As at June 30, 2014, we had approximately $3.6 billion of restricted assets compared to approximately $2.9 billion at December 31, 2013.

Across all our segments, we strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. If our liquidity needs or general liability profile unexpectedly change, we may adjust the structure of our investment portfolio to meet new business needs.

For our non-life run-off segment, our strategy of commuting our liabilities has the potential to accelerate the natural payout of losses. Therefore, we maintain a relatively short-duration investment portfolio in order to provide liquidity for commutation opportunities and avoid having to liquidate longer dated investments. Accordingly, the majority of our investment portfolio consists of highly rated fixed maturities, including U.S. government and agency investments, highly rated sovereign and supranational investments, high-grade corporate investments, and mortgage-backed and asset-backed investments. We allocate a portion of our investment portfolio to other investments, including private equity funds, fixed income funds, fixed income hedge funds, equity funds and a real estate debt fund. At June 30, 2014, these other investments totaled $716.3 million, or 11.3%, of our total balance sheet investments (December 31, 2013: $569.3 million or 10.3%).

Table of Contents

For our life and annuities segment, we do not commute our policy benefits for life and annuity contracts liabilities and, as a result, we maintain a longer duration investment portfolio that attempts to match the cash flows and duration of our liability profile. Accordingly, the majority of this portfolio consists of highly rated fixed maturity investments, primarily corporate bonds.

Our fixed maturity investments associated with our PPA business are primarily highly rated corporate bonds with which we attempt to match duration and cash flows to the liability profile for this business. As these fixed maturity investments are classified as held-to-maturity, we invest surplus cash flows from maturities into longer dated fixed maturities. As at June 30, 2014, the duration of our fixed maturity investment portfolio associated with our PPA business was shorter than the liabilities, as a significant amount of the liabilities extend beyond 30 years and it is difficult, due to limited investment options, to match duration and cash flows beyond that period.

Our fixed maturity investments associated with our non-PPA life business are primarily highly rated corporate bonds with which we attempt to match duration and cash flows to the liability profile for this business (the non-PPA life business has a short-duration liability profile). These fixed maturity investments are classified as trading, and therefore we may sell existing securities to buy higher yielding securities and funds in the future. As at June 30, 2014, the duration of our fixed maturity investment portfolio associated with our non-PPA life business was shorter than the liabilities, however, we have the discretion to change this in the future.

Fixed Maturity and Short-term Investments

The maturity distribution for our fixed maturity and short-term investments held as of June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014		December 31, 2013	
	Fair Value	% of Total	Fair Value	% of Total
	(in thousands of U.S. dollars)			
Due in one year or less	$ 910,138	16.6%	$ 871,881	18.5%
Due after one year through five years	2,488,274	45.5%	2,114,772	44.9%
Due after five years through ten years	431,073	7.9%	478,033	10.2%
Due after ten years	660,139	12.1%	608,291	12.9%
	4,489,624	82.1%	4,072,977	86.5%
Residential mortgage-backed	361,885	6.6%	235,964	5.0%
Commercial mortgage-backed	161,822	2.9%	114,637	2.4%
Asset-backed	457,420	8.4%	285,066	6.1%
Total	$ 5,470,751	100.0%	$ 4,708,644	100.0%

As at June 30, 2014 and December 31, 2013, our fixed maturity and short-term investment portfolios had an average credit quality rating of AA- and A+, respectively. At June 30, 2014 and December 31, 2013, our fixed maturity investments rated BBB or lower comprised 9.0% and 9.5% of our total investment portfolio, respectively.

At June 30, 2014, we had $238.6 million of short-term investments (December 31, 2013: $313.5 million). Short-term investments are managed as part of our investment portfolio and have a maturity of one year or less when purchased.

Short-term investments are carried at fair value.

Table of Contents

The following tables summarize the composition of the amortized cost and fair value of our fixed maturity investments, short-term investments, equities and other investments carried at fair value at the date indicated by ratings as assigned by major rating agencies.

June 30, 2014	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Ratec
				(in thousands of U.S. dollars)					
ed maturity d short-term estments									
3. ernment & ncy	$ 715,099	$ 717,700	13.1%	$ 875	$ 710,825	$ 6,000	$ 0	$ 0	$ (
n-U.S. ernment	540,169	550,573	10.0%	197,058	203,676	107,112	30,123	12,604	(
rporate	2,322,156	2,343,759	42.7%	131,032	646,638	1,161,387	350,492	32,090	22,120
nicipal	32,266	32,593	0.6%	8,757	15,927	7,909	0	0	(
sidential rtgage-backed	360,156	361,885	6.6%	28,071	321,598	10,309	497	1,405	5
mmercial rtgage-backed	161,939	161,822	3.0%	85,566	24,029	29,338	19,722	3,167	(
set-backed	455,664	457,420	8.3%	286,755	68,343	28,936	11,420	61,952	14
al fixed turity and rt-term estments	$ 4,587,449	4,625,752	84.3%	738,114	1,991,036	1,350,991	412,254	111,218	22,139
				16.0%	43.0%	29.2%	8.9%	2.4%	0.5
uities									
3.		89,830	1.6%	0	0	0	0	0	89,830
ernational		57,312	1.0%	0	0	0	0	0	57,312
al equities		147,142	2.6%	0	0	0	0	0	147,142
her estments									
vate equity ds		215,152	3.9%	0	0	0	0	0	215,152
ed income ds		223,445	4.1%	0	0	0	0	0	223,445
ed income ge funds		66,028	1.2%	0	0	0	0	0	66,028
uity fund		162,655	3.0%	0	0	0	0	0	162,655
		33,231	0.6%	0	0	0	0	0	33,231

al estate debt d								
O equities	10,800	0.2%	0	0	0	0	0	10,800
ner	4,992	0.1%	0	0	0	0	0	4,992
al other estments	716,303	13.1%	0	0	0	0	0	716,303
tal estments	$ 5,489,197	100.0%	$ 738,114	$ 1,991,036	$ 1,350,991	$ 412,254	$ 111,218	$ 885,584
			13.5%	36.3%	24.6%	7.5%	2.0%	16.1

106

Table of Contents

ecember 31, 2013	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Ra
				(in thousands of U.S. dollars)					
l maturity and -term tments									
government & y	$ 468,198	$ 468,289	10.0%	$ 4,391	$ 458,477	$ 434	$	$	$ 4,9
U.S. government	553,724	562,516	12.1%	215,224	208,322	115,423	11,095	12,452	
orate	2,197,955	2,201,579	47.2%	143,552	542,216	1,052,315	388,815	26,507	48,1
cipal	40,889	41,034	0.9%	8,500	25,355	7,179			
ential gage-backed	236,984	235,964	5.1%	12,596	204,217	7,507	3,960	809	6,8
mercial gage-backed	115,351	114,637	2.5%	38,081	31,893	29,631	8,826	6,206	
-backed	283,940	285,066	6.1%	207,146	34,808	13,260	4,733	7,174	17,9
fixed maturity hort-term tments	$ 3,897,041	3,909,085	83.9%	629,490	1,505,288	1,225,749	417,429	53,148	77,9
				16.1%	38.5%	31.3%	10.7%	1.4%	2
ties									
		115,285	2.5%						115,2
ational		66,748	1.4%						66,7
equities		182,033	3.9%						182,0
				0.0%	0.0%	0.0%	0.0%	0.0%	10
r investments									
te equity funds		161,229	3.5%						161,2
income funds		194,375	4.2%						194,3
income hedge		68,157	1.4%						68,1
y fund		109,355	2.3%						109,3
estate debt fund		32,113	0.7%						32,1
		4,064	0.1%						4,0
other investments		569,293	12.2%						569,2
				0.0%	0.0%	0.0%	0.0%	0.0%	10
investments		$ 4,660,411	100.0%	$ 629,490	$ 1,505,288	$ 1,225,749	$ 417,429	$ 53,148	$ 829,3
				13.5%	32.3%	26.3%	9.0%	1.1%	1

Table of Contents

The following tables summarizes the composition of the amortized cost and fair value of our held-to-maturity fixed maturity investments as at June 30, 2014 and December 31, 2013 by ratings as assigned by major rating agencies.

At June 30, 2014	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Rated
				(in thousands of U.S. dollars)					
Fixed maturity investments									
U.S. government & agency	$ 19,736	$ 19,171	2.3%	$ 6,468	$ 12,642	$ 0	$ 0	$ 0	$ 63
Non-U.S. government	45,943	45,473	5.4%	0	30,329	15,145	0	0	0
Corporate	787,556	780,355	92.3%	47,069	209,555	477,468	35,408	10,456	396
Total fixed maturity investments	$ 853,235	$ 844,999	100.0%	$ 53,537	$ 252,526	$ 492,613	$ 35,408	$ 10,456	$ 459
				6.3%	29.9%	58.3%	4.2%	1.2%	0.1%

At December 31, 2013	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Rated
				(in thousands of U.S. dollars)					
Fixed maturity investments									
U.S. government & agency	$ 19,992	$ 18,132	2.3%	$	$ 18,058	$	$	$	$ 74
Non-U.S. government	23,592	22,327	2.8%		22,327				
Corporate	815,803	759,100	94.9%	44,552	198,803	463,000	47,157	5,125	462
Total fixed maturity investments	$ 859,387	$ 799,559	100.0%	$ 44,552	$ 239,188	$ 463,000	$ 47,157	$ 5,125	$ 536
				5.6%	29.9%	57.9%	5.9%	0.6%	0.1%

Eurozone Exposure

At June 30, 2014, we did not own any investments in fixed maturity investments (which includes bonds that are classified as cash and cash equivalents) or fixed income funds issued by the sovereign governments of Portugal, Italy, Ireland, Greece or Spain. Our fixed maturity investments and fixed income funds exposures to Eurozone Governments (which includes regional and municipal governments including guaranteed agencies) as at June 30, 2014 by rating are highlighted in the following table:

	Ratings				
	AAA	AA	A	Not Rated	Total

	(in thousands of U.S. dollars)				
Germany	$ 50,062	$ 22,108	$	$	$ 72,170
Supranational	7,588	9,067			16,655
Netherlands	7,479	16,140	6,088		29,707
France		15,171	8,047		23,218
Finland	2,989				2,989
Belgium		25,822			25,822
Austria		1,791			1,791
	68,118	90,099	14,135	0	172,352
Euro Region Government Funds	0	0	0	12,336	12,336
	$ 68,118	$ 90,099	$ 14,135	$ 12,336	$ 184,688

Table of Contents

Our fixed maturity investments exposure to Eurozone Governments (which include regional and municipal governments including guaranteed agencies) as at June 30, 2014 by maturity date are highlighted in the following table. Our fixed income fund holdings have daily liquidity and are not included in the maturity table below.

	By Maturity Date					
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years	Total
	(in thousands of U.S. dollars)					
Germany	$ 1,370	$ 12,943	$ 1,483	$ 20,511	$ 35,863	$ 72,170
Supranational			2,526	6,673	7,456	16,655
Netherlands	1,508		3,306	4,444	20,449	29,707
France			4,294	3,324	15,600	23,218
Finland		515		450	2,024	2,989
Belgium				2,738	23,084	25,822
Austria				653	1,138	1,791
	$ 2,878	$ 13,458	$ 11,609	$ 38,793	$ 105,614	$ 172,352

At June 30, 2014, we owned investments in corporate securities (which includes bonds that are classified as cash and cash equivalents) of issuers where the ultimate parent company was located within the Eurozone. This includes securities that were issued by subsidiaries whose location was outside of the Eurozone. Our exposures as at June 30, 2014 by country and listed by rating, sector and maturity date is highlighted in the following tables:

	Ratings				
	AAA	AA	A	BBB	Total
	(in thousands of U.S. dollars)				
Germany	$ 4,950	$ 1,444	$ 65,947	$ 10,584	$ 82,925
Belgium	2,698		42,376		45,074
Netherlands	10,944	55,381	29,165	7,297	102,787
France	7,579	28,261	18,223	8,816	62,879
Ireland	474	10,968			11,442
Spain				19,696	19,696
Italy			19,777	5,620	25,397
Luxembourg	5,900	4,633	721	637	11,891
Finland	454				454
	$ 32,999	$ 100,687	$ 176,209	$ 52,650	$ 362,545

	Sector						
	Financial	Energy	Industrial	Telecom	Utility	Other	Total
	(in thousands of U.S. dollars)						

Germany	$ 18,598	$ 1,406	$ 55,862	$ 3,418	$ 1,665	$ 1,976	$ 82,925
Belgium	1,370					43,704	45,074
Netherlands	60,450	13,494	18,187		213	10,443	102,787
France	19,831		34,170	425	4,666	3,787	62,879
Ireland	9,041					2,401	11,442
Spain	6,684			8,746	3,081	1,185	19,696
Italy	1,245	9,081	10,696		4,375		25,397
Luxembourg	721	4,633	637			5,900	11,891
Finland	454						454
	$ 118,394	$ 28,614	$ 119,552	$ 12,589	$ 14,000	$ 69,396	$ 362,545

Table of Contents

	By Maturity Date					
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years	Total
	(in thousands of U.S. dollars)					
Germany	$ 6,753	$ 3,707	$ 8,559	$ 25,093	$ 38,813	$ 82,925
Belgium			1,536	2,089	41,449	45,074
Netherlands	1,794	16,178	10,971	15,467	58,377	102,787
France	5,360	437	2,985	16,976	37,121	62,879
Ireland		2,621	1,359	2,244	5,218	11,442
Spain	4,455		3,302	5,959	5,980	19,696
Italy		2,621		1,245	21,531	25,397
Luxembourg				721	11,170	11,891
Finland				454		454
	$ 18,362	$ 25,564	$ 28,712	$ 70,248	$ 219,659	$ 362,545

Fixed maturity investments issued by companies located in the United Kingdom and Switzerland are not included in the tables.

None of the fixed maturity investments we owned at June 30, 2014 were considered impaired and we do not expect to incur any significant losses on these securities.

Loans Payable

Our long-term debt consists of loan facilities used to partially finance certain of our acquisitions and significant new business transactions, and our revolving credit facility, or the EGL Revolving Credit Facility, which can be used for permitted acquisitions and for general corporate purposes. We draw down on the loan facilities at the time of an acquisition or significant new business transactions although in some circumstances we have made additional draw-downs to refinance existing debt of the acquired company.

We made the following repayments and borrowings under our loan facilities during the six months ended June 30, 2014:

EGL Revolving Credit Facility

On March 26, 2014, we borrowed $70.0 million under the EGL Revolving Credit Facility. On May 27, 2014, we repaid $9.25 million of the outstanding principal under the EGL Revolving Credit Facility.

As of June 30, 2014, the unused portion of the EGL Revolving Credit Facility was approximately $55.5 million.

Clarendon Facility

On March 17, 2014, we repaid $13.0 million of the outstanding principal on the term facility related to our 2011 acquisition of Clarendon National Insurance Company, or the Clarendon Facility, reducing the outstanding principal as of June 30, 2014 to approximately $66.0 million.

SeaBright Facility

On June 25, 2014, we fully repaid the remaining $89.0 million of outstanding principal and accrued interest on the term facility related to the acquisition of SeaBright, or the SeaBright Facility. We had previously repaid $22.0 million of the outstanding principal on the SeaBright Facility on March 31, 2014.

Total amounts of loans payable outstanding, including accrued interest, as of June 30, 2014 and December 31, 2013 totaled $386.2 million and $452.4 million, respectively. As of June 30, 2014, all of the covenants relating to our two outstanding credit facilities (tthe Clarendon Facility and the EGL Revolving Credit Facility) were met.

Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2013 for a description of these credit facilities.

Aggregate Contractual Obligations

The following table shows our aggregate contractual obligations and commitments by time period remaining to due date as at June 30, 2014 and updates the table on page 114 of our Annual Report on Form 10-K for the year ended December 31, 2013:

	Payments Due by Period				
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
	(in thousands of U.S. dollars)				
Operating Activities					
Estimated gross reserves for losses and loss adjustment expenses [(1)]	$ 5,125.0	$ 1,131.8	$ 1,870.2	$ 829.8	$ 1,293.2
Policy benefits for life and annuity contracts [(2)]	2,611.1	83.4	152.0	138.6	2,237.1
Operating lease obligations	48.4	12.4	18.1	13.9	4.0
Investing Activities					
Investment commitments	115.6	47.9	60.4	7.3	
Financing Activities					
Loan repayments (including estimated interest payments)	391.3	391.3			
Total	$ 8,291.4	$ 1,666.8	$ 2,100.7	$ 989.6	$ 3,534.3

(1) The reserves for losses and loss adjustment expenses represent management s estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above.

The amounts in the above table represent our estimates of known liabilities as of June 30, 2014 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, reserves for losses and loss adjustment expenses recorded in the unaudited condensed consolidated financial statements as of

June 30, 2014 are computed on a fair value basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustment in the amount payable.

(2) Policy benefits for life and annuity contracts recorded in our unaudited condensed consolidated balance sheet as at June 30, 2014 of $1,241.9 million are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustments of the amount payable.

Table of Contents

Commitments and Contingencies

Investments

The following table provides a summary of our outstanding unfunded investment commitments as at June 30, 2014 and December 31, 2013:

June 30, 2014			December 31, 2013		
Original Commitments	Commitments Funded	Unfunded	Original Commitments	Commitments Funded	Unfunded
(in thousands of U.S. dollars)					
$ 311,000	$ 195,362	$ 115,638	$ 291,000	$ 176,760	$ 114,240

Guarantees

As at June 30, 2014 and December 31, 2013, we had, in total, parental guarantees supporting the obligations of our subsidiary, Fitzwilliam Insurance Limited, in the amount of $238.6 million and $228.5 million, respectively.

Acquisitions and Significant New Business

We have entered into a definitive agreement with respect to the Reciprocal of America loss portfolio transfer, which is expected to close by the end of 2014 and which is described above in Significant New Business.

Legal Proceedings

Refer to Item 1. Legal Proceedings of Part II of this Quarterly Report on Form 10-Q for a description of litigation matters.

Critical Accounting Policies

Our critical accounting policies are discussed in Management s Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

Off-Balance Sheet and Special Purpose Entity Arrangements

At June 30, 2014, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

Non-GAAP Financial Measures

In Segment Reporting Arden and Segment Reporting Torus above, we provide loss ratio, acquisition cost ratio, othe operating expense ratio, and the combined ratio in our discussions of the results for the Atrium and Torus segments in order to provide more complete information regarding our underwriting results for these businesses. The ratios are calculated by dividing the related expense by net earned premiums, and the combined ratio is the sum of these ratios. Our other operating expense ratio is considered to be a non-GAAP financial measure, which may be defined or calculated differently by other companies. We calculate this ratio by dividing the sum of general and administrative expenses and salaries and benefits attributable to Atrium/Arden and Torus, respectively, by net premiums earned.

Other operating expense ratio excludes the expenses of the holding companies within the segments, such as holding company general and administrative expenses and salaries and benefits expenses, if any, that are not attributable to Atrium, Arden and Torus, respectively. We believe this is the most useful presentation because the excluded expenses are not incremental and/or directly attributable to the individual underwriting operations at

these companies. The most directly comparable GAAP financial measure would be calculated by dividing the sum of all general and administrative expenses and salaries and benefits (if any) for the Atrium and Torus segments (including holding company expenses), respectively, by net premiums earned.

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, inter expect, anticipate, believe, would, should, could, seek, may and similar statements of a future or f nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward looking statements should, therefore, be considered in light of various important factors, including those set forth in this 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;

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

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 and uncertainty in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions, which could affect our investment portfolio, our ability to finance future acquisitions and our profitability;

losses due to foreign currency exchange rate fluctuations;

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

emerging claim and coverage issues;

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

continued availability of exit and finality opportunities provided by solvent schemes of arrangement;

loss of key personnel;

the ability of our subsidiaries to distribute funds to us and the resulting impact on our liquidity;

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 and external hazards;

- 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;

- risks relating to our acquisitions, including our ability to successfully price acquisitions, evaluate opportunities, address operational challenges, assimilate acquired companies into our internal control system, and support our planned growth;

- risks relating to our ability to obtain regulatory approvals, including the timing, terms and conditions of any such approvals, and to satisfy other closing conditions in connection with our acquisition agreements, which could affect our ability to complete acquisitions;

- risks relating to our life and annuities business, including mortality and morbidity rates, lapse rates, the performance of assets to support the insured liabilities, and the risk of catastrophic events;

- risks relating to our active underwriting businesses, including unpredictability and severity of catastrophic and other major loss events, failure of risk management and loss limitation methods, the risk of a ratings downgrade, cyclicality of demand and pricing in the insurance and reinsurance markets;

- our ability to implement our strategies relating to the active underwriting market;

- risks relating to our ability to structure our investments in a manner that recognizes our liquidity needs;

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

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

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

- changes in accounting policies or practices.

The factors listed above should be not construed as exhaustive and should be read in conjunction with the other cautionary statements and Risk Factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2013, as well as in Part II, Item 1A Risk Factors in this Quarterly Report on Form 10-Q and in the other materials filed and to be filed with the U.S. Securities and Exchange Commission. We undertake no obligation to publicly update or review any forward looking statement, whether to reflect any change in our expectations with

regard thereto, or as a result of new information, future developments or otherwise, except as required by law.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our balance sheets include a substantial amount of assets and, to a lesser extent, liabilities, whose fair values are subject to market risks. Market risk represents the potential for an economic loss due to adverse changes in the fair value of a financial instrument. Our primary market risks are interest rate risk, credit risk, equity price risk, and foreign currency exchange rate risk. The following provides an analysis of the potential effects that these market risk exposures could have on our future earnings. This analysis is based on estimated changes. Actual results could differ significantly from amounts stated below, and our analysis should not be construed as our prediction for future market events.

Table of Contents

Interest Rate Risk

We have calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on our cash and fixed maturity investments at June 30, 2014 and December 31, 2013. The modeling of this effect was performed on cash and fixed maturity investments classified as trading and available-for-sale. The results of this analysis are summarized in the table below.

Interest Rate Movement Analysis on Market Value

of Cash and Investments Classified as Trading and Available-for-Sale

	Interest Rate Shift in Basis Points				
At June 30, 2014	**-100**	**-50**	**0**	**+50**	**+100**
	(in millions of U.S. dollars)				
Total Market Value	$ 6,225	$ 6,200	$ 6,168	$ 6,131	$ 6,096
Market Value Change from Base	0.9%	0.5%	0%	(0.6)%	(1.2)%
Change in Unrealized Value	$ 57	$ 32	$ 0	$ (37)	$ (72)
At December 31, 2013	**-100**	**-50**	**0**	**+50**	**+100**
	(in millions of U.S. dollars)				
Total Market Value	$ 4,999	$ 4,979	$ 4,951	$ 4,919	$ 4,888
Market Value Change from Base	1.0%	0.6%	0%	(0.7)%	(1.3)%
Change in Unrealized Value	$ 48	$ 28	$ 0	$ (32)	$ (63)

Credit Risk

As a holder of fixed maturity investments and mutual funds, we also have exposure to credit risk as a result of investment ratings downgrades or issuer defaults. In an effort to mitigate this risk, our investment portfolio consists primarily of investment grade-rated, liquid, fixed maturity investments of short-to-medium duration and mutual funds. At June 30, 2014, approximately 55.5% of our fixed maturity investments and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2013: 51.4%) with 10.4% (December 31, 2013: 11.1%) rated BBB or lower. The portfolio as a whole had an average credit quality rating of AA- (December 31, 2013: A+). In addition, we manage our portfolio pursuant to guidelines that follow what we believe are prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers and, as a result, we do not believe we have significant concentrations of credit risk.

We also have exposure to credit risk as it relates to our reinsurance balances recoverable. Our acquired reinsurance subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. Our reinsurance subsidiaries remain liable to the extent that retrocessionaires do not meet their obligations under these agreements and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers.

As at June 30, 2014 and December 31, 2013, reinsurance balances recoverable with a carrying value of $342.8 million and $256.2 million, respectively, were associated with two and one reinsurers, respectively, which represented 10% or more of total non-life run-off reinsurance balances recoverable. One of the reinsurers accounting for $153.5 million of reinsurance balances recoverable as at June 30, 2014 was rated A+, while the remaining $189.3 million of reinsurance balances recoverable as at June 30, 2014 were secured by trust funds held for the benefit of our insurance and

reinsurance subsidiaries.

Table of Contents

Equity Price Risk

Our portfolio of equity investments, including the equity funds included in other investments (collectively, equities at risk), has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices and changes in this blend of indices would approximate the impact on our portfolio. The fair value of our equities at risk at June 30, 2014 was $309.8 million (December 31, 2013: $291.4 million). At June 30, 2014, the impact of a 10% decline in the overall market prices of our equities at risk would be $31.0 million (December 31, 2013: $29.1 million), on a pre-tax basis.

Foreign Currency Risk

Through our subsidiaries located in various foreign countries, we conduct our insurance and reinsurance operations in a variety of non-U.S. currencies. As the functional currency for the majority of our subsidiaries is the U.S. dollar, fluctuations in foreign currency exchange rates related to these subsidiaries will have a direct impact on the valuation of our assets and liabilities denominated in local currencies. All changes in foreign exchange rates, with the exception of non-U.S. dollar denominated investments classified as available-for-sale, are recognized currently in foreign exchange gains (losses) in our consolidated statements of earnings.

We have exposure to foreign currency risk due to our ownership of our Irish, U.K. and Australian subsidiaries whose functional currencies are the Euro, British pound and Australian dollar.

The foreign exchange gain or loss resulting from the translation of our subsidiaries financial statements (expressed in Euro, British pound and Australian dollar functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income in shareholders equity.

Our foreign currency policy is to broadly manage, where possible, our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with assets that are denominated in such currencies, subject to regulatory constraints, and to selectively use foreign currency exchange contracts. The matching process is carried out quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange gains and losses, which could adversely affect our operating results. We are, however, required to maintain assets in non-U.S. dollars to meet certain local country branch and regulatory requirements, which restricts our ability to manage these exposures through the matching of our assets and liabilities. In addition, we utilize foreign currency forward contracts to mitigate foreign currency risk.

The table below summarizes our net exposure as of June 30, 2014 and December 31, 2013 to foreign currencies for our subsidiaries whose functional currency is U.S. dollars:

June 30, 2014	**GBP**	**Euro**	**AUD**	**CDN**	**Other**	**Total**
		(in millions of U.S. dollars)				
Total net foreign currency exposure	$ 99.0	$ 92.0	$ 39.0	$ 28.0	$ 12.0	$ 270.0
Pre-tax impact of a 10% movement of the U.S. dollar (1)	$ 9.9	$ 9.2	$ 3.9	$ 2.8	$ 1.2	$ 27.0
December 31, 2013	**GBP**	**Euro**	**AUD**	**CDN**	**Other**	**Total**
		(in millions of U.S. dollars)				

Total net foreign currency exposure	$ 67.0	$ 18.0	$ 1.0	$ 16.0	$ (10.0)	$ 92.0
Pre-tax impact of a 10% movement of the U.S. dollar (1)	$ 6.7	$ 1.8	$ 0.1	$ 1.6	$ (1.0)	$ 9.2

(1) Assumes 10% change in U.S. dollar relative to other currencies

Table of Contents

The table below summarize our net exposure as of June 30, 2014 and December 31, 2013 to foreign currencies for our subsidiaries whose functional currency is Australian dollars:

June 30, 2014	**Euro**	**GBP**	**CDN**	**USD**	**NZD**	**Total**
	(in millions of Australian dollars)					
Total net foreign currency exposure	$ 3.7	$	$ (1.0)	$ 50.5	$ 2.9	$ 56.1
Pre-tax impact of a 10% movement of the Australian dollar (1)	$ 0.3	$	$ (0.1)	$ 5.1	$ 0.3	$ 5.6
December 31, 2013	**Euro**	**GBP**	**CDN**	**USD**	**NZD**	**Total**
	(in millions of Australian dollars)					
Total net foreign currency exposure	$ 4.0	$ 1.0	$ (2.0)	$ 43.0	$ 3.0	$ 49.0
Pre-tax impact of a 10% movement of the Australian dollar (1)	$ 0.4	$ 0.1	$ (0.2)	$ 4.3	$ 0.3	$ 4.9

(1) Assumes 10% change in Australian dollar relative to other currencies

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has 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, 2014. 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 required to be disclosed by us 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 U.S. Securities and Exchange Commission 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, 2014. Based upon that evaluation there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014 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.

Item 1A. RISK FACTORS

Our results of operations and financial condition are subject to numerous risks and uncertainties described in Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. We believe that the risk factors identified in our Annual Report on Form 10-K have not materially changed, except as set forth below.

Our expansion into the active underwriting business (through our acquisitions of Atrium and Torus) presents certain new risks and uncertainties described below, as well as others that we may encounter, which could cause a material adverse effect on our business, financial condition and results of operations.

Underwriting is inherently a matter of judgment, involving important assumptions about matters that are unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. In addition to the risks and uncertainties that impact all of our business segments, our Atrium and Torus active underwriting businesses expose us to risks that include, but are not limited to, those set forth below. Any of these risks could result in underperformance of the active underwriting businesses compared to our expectations, and could also have a material adverse effect on our business, financial condition and results of operations:

- Exposure to claims arising out of unpredictable natural and man-made catastrophic events (including hurricanes, windstorms, tsunamis, severe weather, earthquakes, floods, fires, droughts, explosions, environmental contamination, acts of terrorism, war or political unrest) and changing climate patterns and ocean temperature conditions, which could adversely affect our earnings and financial condition and cause substantial volatility in our results of operations for any fiscal quarter or year;

- Failure of our risk management and loss limitation methods, or our catastrophe risk modeling processes, to adequately manage our exposure to losses or provide sufficient protection against losses from catastrophes;

The intense competition for business in this industry, including from major global insurance and reinsurance companies and underwriting syndicates with greater experience and resources than us, or as a result of industry consolidation;

Dependence on a limited number of brokers, managing general agents and other third parties to support our business, both in terms of the volume of business we will rely on them to place and the credit risk we will assume from them;

118

Susceptibility to the effects of inflation due to premiums being established before the ultimate amounts of losses and loss adjustment expense are known;

Susceptibility of the reinsurance we underwrite to the quality of the original underwriting decisions made by the ceding companies, which may lead us to inaccurately assess the risks we assume; and

The cyclical nature of the insurance and reinsurance business, which has historically been characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of underwriting capacity permitted more favorable premium levels. An increase in premium levels is often offset by an increasing supply of underwriting capacity (via new entrants, market instruments, structures, or additional commitments by existing insurers) that may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our active underwriting services, as well as our ability to purchase reinsurance, and could cause our earnings to decrease and our results of operations to fluctuate significantly from period to period.

We face challenges to realizing the expected benefits of acquisitions, which may cause underperformance relative to our expectations, unforeseen liabilities and expenses, integration difficulties and other challenges, any or all of which could have a material adverse effect on our business, financial condition or results of operations.

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

funding cash flow shortages that may occur if anticipated revenues are not realized or are delayed, or if expenses are greater than anticipated;

the value of assets being lower than expected or diminishing because of credit defaults or changes in interest rates, or liabilities assumed being greater than expected;

integrating financial and operational reporting systems and internal controls, including assurance of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and our reporting requirements under the Securities Exchange Act of 1934, as amended (or the Exchange Act);

establishing satisfactory budgetary and other financial controls;

leveraging our existing capabilities and expertise into the business acquired and establishing synergies within our organization;

funding increased capital needs and overhead expenses;

integrating technology platforms;

obtaining and retaining management personnel required for expanded operations;

fluctuating foreign currency exchange rates relating to the assets and liabilities we may acquire;

goodwill and intangible asset impairment charges; and

complying with applicable laws and regulations.

In particular, our ability to integrate and successfully operate the Torus companies will be a key component to our continued success. Torus added approximately 500 new employees (as compared to the approximately 739 employees we had as of December 31, 2013) and a number of new offices in

various countries. The Torus group forms a new operating segment for us. In addition to the risks discussed above, the potential challenges of integrating Torus and achieving the anticipated benefits include implementing business and underwriting plans for Torus, establishing operating efficiencies, managing expenses, retaining key employees, improving systems, and working effectively with our joint venture partners. We must also assimilate the Torus companies into our internal control system, including by ensuring their compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and our reporting requirements under the Exchange Act, as of December 31, 2015. Failure to effectively achieve this could result in us reporting a material weakness in our internal controls over financial reporting.

Item 6. EXHIBITS

The information required by this item is set forth on the exhibit index that follows the signature page of this report.

Table of Contents

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 11, 2014.

ENSTAR GROUP LIMITED

By: /s/ Richard J. Harris
Richard J. Harris
Chief Financial Officer, Authorized Signatory and
Principal Accounting and Financial Officer

121

Exhibit Index

Exhibit No.	Description
3.1	Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 to the Company s Form 10-K/A filed on May 5, 2011).
3.2(a)	Bye-Law Amendments adopted June 10, 2014 (incorporated by reference to Annex A to the Company s Definitive Proxy Statement filed on April 29, 2014).
3.2(b)*	Fourth Amended and Restated Bye-Laws of Enstar Group Limited.
3.3	Certificate of Designations for the Series A Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on April 21, 2011).
3.4	Certificate of Designations for the Series B Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on July 9, 2013).
10.1	Registration Rights Agreement, dated April 1, 2014, among Enstar Group Limited, FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P., FR Torus Co-Investment, L.P. and Corsair Specialty Investors, L.P. (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on April 4, 2014).
10.2	Shareholder Rights Agreement, dated April 1, 2014, among Enstar Group Limited, FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P., FR Torus Co-Investment, L.P. and Corsair Specialty Investors, L.P. (incorporated by reference to Exhibit 10.2 of the Company s Form 8-K filed on April 4, 2014).
10.3*	Amended and Restated Bayshore Shareholders Agreement, dated May 8, 2014, among Bayshore Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., and Dowling Capital Partners I, L.P.
10.4*	Amended and Restated Northshore Shareholders Agreement, dated May 8, 2014, among Northshore Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., and Dowling Capital Partners I, L.P.
10.5*	Form of Stock Appreciation Right Award Agreement pursuant to the 2006 Equity Incentive Plan.
10.6*	Form of Restricted Stock Award Agreement pursuant to the 2006 Equity Incentive Plan.
15.1*	KPMG Audit Limited Letter Regarding Unaudited Interim Financial Information.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	

	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data Files.

* filed herewith
** furnished herewith
denotes management contract or compensatory arrangement