Enstar Group LTD
Form 10-Q
August 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
Commission File Number 001-33289

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨	Non-accelerated filer	¨	Smaller reporting company	¨	Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As at July 30, 2018, the registrant had outstanding 17,947,289 voting ordinary shares and 3,509,682 non-voting convertible ordinary shares, each par value $1.00 per share.

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For the Period Ended June 30, 2018

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2018 (unaudited) and December 31, 2017

	June 30, 2018	December 31, 2017
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 259,396	$ 180,211
Fixed maturities, trading, at fair value	6,428,929	5,696,073
Fixed maturities, available-for-sale, at fair value (amortized cost: 2018 — $168,565; 2017 — $208,097)	169,321	210,285
Equities, trading, at fair value	130,404	106,603
Other investments, at fair value	1,768,333	913,392
Other investments, at cost	—	125,621
Total investments	8,756,383	7,232,185
Cash and cash equivalents	819,709	955,150
Restricted cash and cash equivalents	363,884	257,686
Funds held - directly managed	1,229,896	1,179,940
Premiums receivable	573,773	425,702
Deferred tax assets	13,230	13,001
Prepaid reinsurance premiums	196,052	245,101
Reinsurance balances recoverable	1,157,438	1,478,806
Reinsurance balances recoverable, at fair value	837,373	542,224
Funds held by reinsured companies	259,432	175,383
Deferred acquisition costs	128,781	64,984
Goodwill and intangible assets	219,865	180,589
Other assets	647,396	831,320
Assets held for sale	—	24,351
TOTAL ASSETS	$ 15,203,212	$ 13,606,422
LIABILITIES		
Losses and loss adjustment expenses	$ 5,387,021	$ 5,603,419
Losses and loss adjustment expenses, at fair value	3,221,366	1,794,669
Policy benefits for life and annuity contracts	108,963	117,207
Unearned premiums	754,046	583,197
Insurance and reinsurance balances payable	354,100	236,697
Deferred tax liabilities	14,983	15,262
Debt obligations	439,610	646,689
Other liabilities	524,882	972,457
Liabilities held for sale	—	11,271
TOTAL LIABILITIES	10,804,971	9,980,868
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	471,093	479,606
SHAREHOLDERS’ EQUITY		

Ordinary shares (par value $1 each, issued and outstanding 2018: 21,439,272; 2017: 19,406,722):		
Voting Ordinary shares (issued and outstanding 2018: 17,929,590; 2017: 16,402,279)	17,930	16,402
Non-voting convertible ordinary Series C Shares (issued and outstanding 2018 and 2017: 2,599,672)	2,600	2,600
Non-voting convertible ordinary Series E Shares (issued and outstanding 2018: 910,010 and 2017: 404,771)	910	405
Preferred Shares:		
Series C Preferred Shares (issued and held in treasury 2018 and 2017: 388,571)	389	389
Series D Preferred Shares (issued and outstanding 2018: 16,000)	400,000	—
Treasury shares, at cost (Series C Preferred shares 2018 and 2017: 388,571)	(421,559)	(421,559)
Additional paid-in capital	1,808,063	1,395,067
Accumulated other comprehensive income	10,604	10,468
Retained earnings	2,098,484	2,132,912
Total Enstar Group Limited Shareholders' Equity	3,917,421	3,136,684
Noncontrolling interest	9,727	9,264
TOTAL SHAREHOLDERS' EQUITY	3,927,148	3,145,948
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	$ 15,203,212	$ 13,606,422

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Six Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	$228,812	$155,571	$399,031	$304,469
Fees and commission income	8,352	18,667	16,683	30,581
Net investment income	66,469	49,417	132,788	98,156
Net realized and unrealized gains (losses)	(54,418)	51,877	(197,448)	110,396
Other income	6,294	10,856	22,934	23,054
	255,509	286,388	373,988	566,656
EXPENSES				
Net incurred losses and loss adjustment expenses	92,819	9,620	112,353	87,512
Life and annuity policy benefits	(160)	4,289	(206)	3,988
Acquisition costs	53,334	30,355	83,442	51,176
General and administrative expenses	102,612	106,490	197,872	208,958
Interest expense	8,922	7,573	16,933	14,441
Net foreign exchange gains (losses)	(5,519)	7,122	349	10,837
Loss on sale of subsidiary	—	9,609	—	9,609
	252,008	175,058	410,743	386,521
EARNINGS (LOSS) BEFORE INCOME TAXES	3,501	111,330	(36,755)	180,135
INCOME TAXES	(3,646)	(4,731)	(3,818)	(1,802)
NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(145)	106,599	(40,573)	178,333
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	—	(4,871)	—	(4,500)
NET EARNINGS (LOSS)	(145)	101,728	(40,573)	173,833
Net loss (earnings) attributable to noncontrolling interest	8,389	(11,542)	7,607	(28,967)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED ORDINARY SHAREHOLDERS	$8,244	$90,186	$(32,966)	$144,866
Earnings (Loss) per ordinary share attributable to Enstar Group Limited:				
Basic:				
Net earnings (loss) from continuing operations	$0.40	$4.90	$(1.65)	$7.71
Net loss from discontinued operations	—	(0.25)	—	(0.23)
Net earnings (loss) per ordinary share	$0.40	$4.65	$(1.65)	$7.48
Diluted:				
Net earnings (loss) from continuing operations	$0.40	$4.87	$(1.65)	$7.66
Net loss from discontinued operations	—	(0.25)	—	(0.23)
Net earnings (loss) per ordinary share	$0.40	$4.62	$(1.65)	$7.43
Weighted average ordinary shares outstanding:				
Basic	20,462,788	19,387,650	19,938,815	19,381,225
Diluted	20,671,232	19,511,429	20,140,367	19,506,077

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2018 and 2017

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(expressed in thousands of U.S. dollars)			
NET EARNINGS (LOSS)	$(145)	$101,728	$(40,573)	$173,833
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on fixed income investments arising during the period	(1,351)	1,693	(1,697)	2,379
Reclassification adjustment for net realized gains (losses) included in net earnings	21	(102)	51	(251)
Unrealized gains (losses) arising during the period, net of reclassification adjustments	(1,330)	1,591	(1,646)	2,128
Change in currency translation adjustment	176	2,315	1,401	4,257
Total other comprehensive income (loss)	(1,154)	3,906	(245)	6,385
Comprehensive income (loss)	(1,299)	105,634	(40,818)	180,218
Comprehensive (income) loss attributable to noncontrolling interest	8,745	(12,333)	7,989	(30,415)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$7,446	$93,301	$(32,829)	$149,803

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2018 and 2017

	Six Months Ended June 30,	
	2018	2017
	(expressed in thousands of U.S. dollars)	
Share Capital — Voting Ordinary Shares		
Balance, beginning of period	$ 16,402	$ 16,175
Issue of shares	1,528	19
Conversion of Series C Non-Voting Convertible Ordinary Shares	—	192
Balance, end of period	$ 17,930	$ 16,386
Share Capital — Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 2,600	$ 2,792
Conversion to Ordinary Shares	—	(192)
Balance, end of period	$ 2,600	$ 2,600
Share Capital — Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 405	$ 405
Issue of shares	505	—
Balance, beginning and end of period	$ 910	$ 405
Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Shares		
Balance, beginning and end of period	$ 389	$ 389
Share Capital — Series D Perpetual Noncumulative Preferred Shares		
Balance, beginning of period	$ —	$ —
Issue of shares	400,000	—
Balance, end of period	$ 400,000	$ —
Treasury Shares (Series C Preferred shares)		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 1,395,067	$ 1,380,109
Issue of voting ordinary shares	413,204	66
Issuance costs of preferred shares	(10,518)	—
Amortization of share-based compensation	10,310	6,157
Balance, end of period	$ 1,808,063	$ 1,386,332
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ 10,468	$ (23,549)
Currency translation adjustment		
Balance, beginning of period	11,171	(18,993)
Change in currency translation adjustment	1,410	4,253
Balance, end of period	12,581	(14,740)
Defined benefit pension liability		
Balance, beginning and end of period	(3,143)	(4,644)
Unrealized gains (losses) on available-for-sale investments		
Balance, beginning of period	2,440	88
Change in unrealized gains (losses) on available-for-sale investments	(1,274)	685
Balance, end of period	1,166	773
Balance, end of period	$ 10,604	$ (18,611)
Retained Earnings		

Balance, beginning of period	$ 2,132,912	$ 1,847,550
Net earnings (losses) attributable to Enstar Group Limited	(32,966)	144,866
Accretion of redeemable noncontrolling interests to redemption value	111	(1,015)
Cumulative effect of change in accounting principle	(1,573)	4,882
Balance, end of period	$ 2,098,484	$ 1,996,283
Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)		
Balance, beginning of period	$ 9,264	$ 8,520
Contribution of capital	49	—
Net earnings attributable to noncontrolling interest	414	898
Balance, end of period	$ 9,727	$ 9,418

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2018 and 2017

	Six Months Ended June 30, 2018	2017
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings (loss)	$ (40,573)	$ 173,833
Net loss from discontinued operations	—	4,500
Adjustments to reconcile net earnings (losses) to cash flows used in operating activities:		
Realized losses (gains) on sale of investments	7,661	(74)
Unrealized losses (gains) on investments	143,817	(88,304)
Other non-cash items	10,626	5,352
Depreciation and other amortization	17,593	18,797
Net change in trading securities held on behalf of policyholders	—	25,597
Sales and maturities of trading securities	1,983,155	2,225,349
Purchases of trading securities	(2,834,926)	(3,616,862)
Net loss on sale of subsidiary	—	9,609
Changes in:		
Reinsurance balances recoverable	(339,827)	(570,731)
Funds held by reinsured companies	(134,005)	(212,927)
Losses and loss adjustment expenses	1,209,709	1,646,721
Policy benefits for life and annuity contracts	(5,059)	64
Insurance and reinsurance balances payable	117,741	75,890
Unearned premiums	170,849	39,739
Other operating assets and liabilities	(419,311)	898
Net cash flows used in operating activities	(112,550)	(262,549)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	5,657	—
Sales and maturities of available-for-sale securities	44,112	45,932
Purchase of available-for-sale securities	(9,226)	(162)
Purchase of other investments	(462,336)	(67,516)
Redemption of other investments	324,633	152,650
Other investing activities	(7,841)	(9,708)
Net cash flows provided by (used in) investing activities	(105,001)	121,196
FINANCING ACTIVITIES:		
Issuance of preferred shares, net of issuance costs	389,482	—
Contribution by noncontrolling interest	49	—
Dividends paid to noncontrolling interest	—	(27,458)
Receipt of loans	374,069	489,100
Repayment of loans	(578,062)	(528,500)
Net cash flows provided by (used in) financing activities	185,538	(66,858)
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	2,770	636
NET DECREASE IN CASH AND CASH EQUIVALENTS	(29,243)	(207,575)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,212,836	1,318,645

CHANGE IN CASH OF BUSINESSES HELD FOR SALE	—	(6,319)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,183,593	$ 1,104,751
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$ 13,928	$ 6,538
Interest paid	$ 16,247	$ 8,959
Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	819,709	681,068
Restricted cash and cash equivalents	363,884	423,683
Cash, cash equivalents and restricted cash	$ 1,183,593	$ 1,104,751

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and December 31, 2017
(Tabular information expressed in thousands of U.S. dollars except share and per share data)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring items considered necessary for a fair presentation under U.S. GAAP. The results of operations for any interim period are not necessarily indicative of results of the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017. All significant inter-company transactions and balances have been eliminated. Results of operations for acquired subsidiaries are included from the date of acquisition. In these notes, the terms "we," "us," "our," or "the Company" refer to Enstar Group Limited and its consolidated subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings.

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

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

New Accounting Standards Adopted in 2018

Accounting Standards Update ("ASU") 2017-09, Stock Compensation - Scope of Modification Accounting

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

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

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

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

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

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

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

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

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

ASU 2016-01, Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many of the current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities, and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

In February 2018, the FASB also issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, which clarifies that entities should use a prospective transition approach only for equity securities they elect to measure using the new measurement alternative. The amendments also clarify that an entity that voluntarily discontinues using the measurement alternative for an equity security without a readily determinable fair value must measure that security and all identical or similar investments of the same issuer at fair value. Under this guidance, this election is irrevocable and will apply to all future purchases of identical or similar investments of the same issuer. The amendments also clarify other aspects of ASU 2016-01 on how to apply the measurement alternative and the presentation requirements for financial liabilities measured under the fair value option. The adoption of this guidance is contingent on the adoption of ASU 2016-01.

We adopted ASU 2016-01 on January 1, 2018 using the modified retrospective approach and recorded a cumulative-effect adjustment of $1.6 million to reduce opening retained earnings for certain of our other investments that were previously classified as available-for-sale securities and for which changes in fair value were previously included in accumulated other comprehensive income. We also adopted ASU 2018-03 following our adoption of ASU 2016-01 and this adoption did not have any impact on our consolidated financial statements and related disclosures.

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

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

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

We adopted ASU 2014-09 and the related amendments, as codified in ASC 606 - Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective method with prior periods not being restated. Premium revenues and those related to our investment portfolios, which collectively comprise most of our total revenues, are within the scope of other FASB topics and therefore are excluded from the scope of the revenue recognition standard. For other revenue types, which are within the scope of the new guidance, we evaluated individual contracts against the provisions of the new guidance to identify any contracts where the timing and measurement of those revenues may differ based upon the new guidance. The adoption did not have a material impact on our consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017 describes accounting pronouncements that were not adopted as of December 31, 2017. Those pronouncements are not yet adopted unless discussed above in "New Accounting Standards Adopted in 2018." In addition, the following relevant pronouncements were issued during the six months ended June 30, 2018 or thereafter and are yet to be adopted.

ASU 2018-11, Targeted Improvements to ASC 842 - Leases and ASU 2018-10, Codification Improvements to ASC 842 - Leases

In July 2018, the FASB issued ASU 2018-11, which adds a transition option for all entities and a practical expedient only for lessors to the ASU 2016-02 - Leases guidance initially issued by the FASB in February 2016 and codified in ASC 842. The transition option which we will elect, allows entities to not apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can opt to continue to apply the legacy guidance in ASC 840 - Leases, including its disclosure requirements, in the comparative periods presented in the year they adopt the new leases standard. This means that entities that elect this option will only provide annual disclosures for the comparative periods because ASC 840 does not require interim disclosures. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The practical expedient provides lessors with an option to not separate the non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the revenue recognition standard in ASC 606 if the associated non-lease components are the predominant components.

In July 2018, the FASB also issued ASU 2018-10, which clarifies how to apply certain aspects of ASC 842. The amendments in the ASU address a number of issues in the new leases guidance, including (a) the rate implicit in the lease, (b) impairment of the net investment in the lease, (c) lessee reassessment of lease classification, (d) lessor reassessment of lease term and purchase options, (e) variable payments that depend on an index or rate, and (f) certain transition adjustments.

The amendments arising from both ASU 2018-11 and ASU 2018-10 have the same effective date and transition requirements as ASC 842, which we expect to adopt on January 1, 2019, when it becomes effective. Our implementation of the new leases standard taking into account these amendments to the guidance is ongoing, however we do not anticipate that the adoption of ASU 2016-02 and the amendments in ASU 2018-11 and ASU 2018-10 will have a material impact on our consolidated financial statements and related disclosures.

ASU 2018-09, Codification Improvements

In July 2018, the FASB issued ASU 2018-09, which affects a wide variety of Topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. The amendments in the ASU represent changes that clarify, correct errors in, or make minor improvements to the Codification. Ultimately, the amendments make the Codification easier to understand and apply by eliminating inconsistencies and providing clarifications. Some of the amendments in this ASU do not require transition guidance and are effective upon issuance of the ASU, while many of the amendments have transition guidance with effective dates for annual periods beginning after December 15, 2018. The adoption of the amendments in this ASU are not expected to have a material impact on our consolidated financial statements and related disclosures.

2. ACQUISITIONS

Overview

On May 14, 2018, the Company completed the previously announced transaction to acquire all of the outstanding shares and warrants of KaylaRe Holdings, Ltd. ("KaylaRe"). In consideration for the acquired shares and warrants of KaylaRe, the Company issued an aggregate of 2,007,017 ordinary shares to the shareholders of KaylaRe, comprising 1,501,778 voting ordinary shares and 505,239 Series E non-voting ordinary shares. Effective May 14, 2018, we consolidated KaylaRe into our consolidated financial statements, and any balances between KaylaRe and Enstar are now eliminated upon consolidation.

The completion of the KaylaRe transaction enhanced our group capital position and enabled the Company to assume full ownership of another platform from which we can provide non-life run-off solutions to our clients.

Refer to Note 20 - "Related Party Transactions" for additional information relating to KaylaRe.

Purchase Price

The components of the consideration paid to acquire all of the outstanding shares and warrants of KaylaRe were as follows:

Fair value of Enstar ordinary shares issued	$414,750
Fair value of previously held equity method investment	336,137
Adjustment for the fair value of preexisting relationships	37,169
Total purchase price	$788,056
Net assets acquired at fair value (excluding preexisting relationships)	$746,320

Excess of purchase price over fair value of net assets acquired	$41,736

The purchase price was allocated to the acquired assets and liabilities of KaylaRe based on their estimated fair values at the acquisition date. We recognized goodwill of $41.7 million on the transaction, primarily attributable to (i) the capital synergies from integrating KaylaRe into our group capital structure, (ii) investment management capabilities on a total return basis, and (iii) the incremental acquired capital to be utilized for future non-life run-off transactions.

Fair Value of Enstar Ordinary Shares Issued

The fair value of the Enstar ordinary shares issued was based on the closing price of $206.65 as at May 14, 2018, the date the transaction closed.

Number of Enstar Ordinary shares issued	2,007,017
Closing price of Enstar Ordinary shares as of May 14, 2018	$ 206.65
Fair value of Enstar Ordinary shares issued to shareholders of KaylaRe	$ 414,750

Fair Value of Previously Held Equity Method Investment

Prior to the close of the transaction, Enstar held a 48.2% interest in KaylaRe, which was accounted for as an equity method investment in accordance with ASC 323 - Investments - Equity Method and Joint Ventures. The acquisition of the remaining 51.8% equity interest in KaylaRe was considered a step acquisition, whereby the Company remeasured the previously held equity method investment to fair value. The Company considered multiple factors in determining the fair value of the previously held equity method investment, including, (i) the price negotiated with the selling shareholders for the 51.8% equity interest in KaylaRe, (ii) recent market transactions for similar companies, and (iii) current trading multiples for comparable companies. Based on this analysis, a valuation multiple of 1.05 to KaylaRe's carrying book value was determined to be appropriate to remeasure the previously held equity method investment at fair value. This resulted in the recognition of a gain of $16.0 million on completion of the step acquisition of KaylaRe, which was recorded in other income (loss) for the three and six months ended June 30, 2018.

Carrying value of previously held equity method investment prior to the close of the transaction	$ 320,130
Price-to-book multiple	1.05
Fair value of previously held equity method investment prior to the close of the transaction	$ 336,137
Gain recognized on remeasurement of previously held equity method investment to fair value	$ 16,007

Adjustment for the Fair Value of Preexisting Relationships

Enstar had contractual preexisting relationships with KaylaRe, which were deemed to be effectively settled at fair value on the acquisition date. The differences between the carrying value and the fair value of the preexisting relationships was included as part of the purchase price in accordance with ASC 805 - Business Combinations. The fair value of the balances relating to preexisting reinsurance relationships with KaylaRe was determined using a discounted cash flow approach and, where applicable, consideration was given to stated contractual settlement provisions, when determining the loss to be recorded on the deemed settlement of these preexisting relationships. The fair values of the balances arising from the non-reinsurance preexisting relationships with KaylaRe were deemed to equal their carrying values given their short-term nature and the expectation that they would all be settled within the next twelve months.

As a result of effectively settling all the contractual preexisting relationships with KaylaRe, the Company recognized a loss of $15.6 million which was recorded in other income (loss) in the three and six months ended June 30, 2018, as summarized below:

ASSETS	Carrying value	Fair value	Loss on deemed settlement
Funds held by reinsured companies	$386,793	$386,793	$ —
Deferred acquisition costs/Value of business acquired	33,549	40,268	6,719
TOTAL ASSETS	420,342	427,061	6,719
LIABILITIES			
Losses and LAE	339,747	333,205	(6,542)
Unearned premiums	105,602	105,602	—
Insurance and reinsurance balances payable	25,897	23,559	(2,338)
Other liabilities	1,864	1,864	—
TOTAL LIABILITIES	473,110	464,230	(8,880)
NET ASSETS (LIABILITIES)	$(52,768)	$(37,169)	$ 15,599

Fair Value of Net Assets Acquired and Liabilities Assumed

The following table summarizes the fair values of the assets acquired and liabilities assumed (excluding preexisting relationships) in the KaylaRe transaction at the acquisition date, which have all been allocated to the Non-life Run-off segment.

ASSETS	
Fixed maturities, trading, at fair value	$126,393
Other investments, at fair value	626,476
Total investments	752,869
Cash and cash equivalents	5,657
Premiums receivable	10,965
Deferred acquisition costs	275
Other assets	614
TOTAL ASSETS	$770,380
LIABILITIES	
Losses and LAE	$4,059
Unearned premiums	10,984
Insurance and reinsurance balances payable	13
Other liabilities	9,004
TOTAL LIABILITIES	24,060
NET ASSETS ACQUIRED AT FAIR VALUE	$746,320

The table below summarizes the results of the KaylaRe operations which are included in our condensed consolidated statement of earnings from the acquisition date to June 30, 2018:

Premiums earned	$5,381
Incurred losses and LAE	(4,960)
Acquisition costs	(135)
Underwriting income	286