Enstar Group LTD
Form 10-K
February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary shares, par value $1.00 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 ý 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of June 30, 2015 was approximately $1.47 billion based on the closing price of $154.95 per ordinary share on the NASDAQ Stock Market on that date. Shares held by officers and directors of the registrant and their affiliated entities have been excluded from this computation. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 25, 2016, the registrant had outstanding 16,151,293 voting ordinary shares and 3,130,408 non-voting convertible ordinary shares, each par value $1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to its 2016 annual general meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

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Enstar Group Limited
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2015

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report and the documents incorporated by reference contain statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of our management, as well as the markets for our ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as "estimate," "project," "plan," "intend," "expect," "anticipate," "believe," "would," "should," "could," "seek," "may" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward looking statements should, therefore, be considered in light of various important factors, including those set forth in this annual report and the documents incorporated by reference, which could cause actual results to differ materially from those suggested by the forward looking statements. These factors 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;
- the risk that ongoing or future industry regulatory developments will disrupt our business, affect the ability of our subsidiaries to operate in the ordinary course or to make distributions to us, 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;
- 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;
- loss of key personnel;
- the ability of our subsidiaries to distribute funds to us and the resulting impact on our liquidity;
- our ability to comply with covenants in our debt agreements;
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management’s discretion;
- operational risks, including system, data security or human failures and external hazards;
- risks relating to our acquisitions, including our ability to continue to grow, successfully price acquisitions, evaluate opportunities, address operational challenges, support our planned growth and assimilate acquired companies into our internal control system in order to maintain effective internal controls, provide reliable financial reports and prevent fraud;
- 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;

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- 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 or withdrawal, cyclicality of demand and pricing in the insurance and reinsurance markets;
- our ability to implement our strategies relating to our active underwriting businesses;
- 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 investments in life settlements contracts, including that actual experience may differ from our assumptions regarding longevity, cost projections, and risk of non-payment from the insurance carrier;
- risks relating to the performance of our investment portfolio and 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 Risk Factors that are included in Item 1A below. 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.

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PART I

ITEM 1. BUSINESS

Company Overview

Enstar Group Limited ("Enstar") is a Bermuda-based holding company, formed in 2001. Enstar is a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through its network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Enstar is listed on the NASDAQ Global Select Market under the ticker symbol "ESGR". In this report, the terms "Enstar," "the Company," "us," and "we" are used interchangeably to describe Enstar and our subsidiary companies.

Our fundamental corporate objective is growing our net book value per share. We strive to achieve this primarily through growth in net earnings from both organic and accretive sources, including the completion of new acquisitions, the effective management of companies and portfolios of business acquired, and the execution of active underwriting strategies.

Enstar focuses on the acquisition and management of insurance and reinsurance companies in run-off, and the acquisition and management of portfolios of insurance and reinsurance business in run-off. Since formation, we have completed the acquisition of over 70 insurance and reinsurance companies and portfolios of business. Although achieving growth through strategic acquisitions is our primary focus, we also provide management, consulting and other services to the insurance and reinsurance industry globally.

In recent years, Enstar has diversified further, and we now operate two specialty active underwriting businesses:

- Atrium Underwriting Group Limited and its subsidiaries ("Atrium"), which manage and underwrite specialist insurance and reinsurance business for Lloyd’s Syndicate 609; and
- StarStone Insurance Bermuda Limited and its subsidiaries ("StarStone") (formerly known as the Torus group), which is an A.M. Best A- rated global specialty insurance group with multiple underwriting platforms.

Business Strategy

Enstar aims to maximize growth in net book value per share by employing the following strategies:

We Leverage Management’s Experience and Industry Relationships to Solidify Enstar’s Position in the Run-Off Market. Enstar leverages the extensive experience and relationships of our senior management team to solidify our position as a leading run-off acquirer and generate future growth opportunities.

We Engage in Highly Disciplined Acquisition, Management and Reinsurance Practices across a Diverse Portfolio of Loss Reserves. Enstar employs a disciplined approach when assessing, acquiring or managing portfolios of risk, which we believe minimizes risk and increases the probability of delivering positive operating results from the companies and portfolios acquired or managed. Enstar is highly selective in reviewing potential acquisition targets and management engagements. When considering any acquisition, we carefully analyze the target’s risk exposures, claims practices and reserve requirements.

We Aim to Profitably Underwrite Selected Specialty Lines to Enhance Future Growth Opportunities. Through our Atrium and StarStone segments, Enstar selectively underwrites in chosen specialty lines, with a focus on balancing risk exposures. Through Atrium and StarStone, the group’s underwriting activity grows organically; and when Enstar acquires run-off businesses, the group’s active underwriting companies are well-positioned to capture profitable active business in specialty lines previously identified as attractive.

We Manage Claims Professionally, Expeditiously, and Cost-Effectively. Enstar aims to manage claims made against group companies and portfolios in a professional and disciplined manner, drawing on in-house expertise to dispose of risks efficiently. Enstar strives to pay valid claims on a timely basis, while relying on well-documented policy terms and exclusions where applicable, and litigation when necessary, to defend against paying invalid claims.

We Seek to Commute Assumed Liabilities and Ceded Reinsurance Assets at a Discount to the Ultimate Liability. Using detailed claims analysis and actuarial projections, Enstar seeks to negotiate with policyholders, both in the non-life run-off insurance and reinsurance companies or portfolios that the group owns or manages, with a goal of commuting existing insurance and reinsurance liabilities at a discount to the ultimate liability.

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We Prudently Manage Investments and Capital. In managing investments and deploying group capital, Enstar strives to achieve superior risk-adjusted returns, while growing profitability and generating long-term growth in shareholder value.

Recent Developments and Strategic Growth Initiatives

Enstar transactions typically take the form of either acquisitions or portfolio transfers. In an acquisition, we acquire an insurance or reinsurance company and manage the run-off or continued underwriting of risk in its business lines. In a portfolio transfer, a reinsurance contract transfers risk from the initial insurance or reinsurance company to a company in the Enstar group. Enstar also enters into reinsurance to close ("RITC") transactions with Lloyd's of London ("Lloyd's") insurance and reinsurance syndicates in run-off, whereby a portfolio of run-off liabilities is transferred from one Lloyd's syndicate to another.

The substantial majority of Enstar's acquisitions have been in the non-life run-off business, which generally includes property and casualty, workers' compensation, asbestos and environmental, construction defect, marine, aviation and transit, and other closed business.

Following our acquisitions of Atrium and Starstone, in 2013 and 2014, respectively, Enstar has evolved from a stand-alone run-off consolidator to a more diversified insurance group with active underwriting capabilities. Enstar had several rationales for acquiring Atrium and StarStone:

- Atrium's and StarStone's underwriting businesses now provide Enstar with a new earnings stream, which reduces the impact of volatility in earnings from non-life run-off businesses, while concurrently offering the group new growth avenues.
- We believe that having active underwriting businesses enhances the group's overall ability to compete for new acquisition targets because the addition of active underwriting capabilities allows the group to acquire renewal rights or provide loss portfolio reinsurance in connection with such acquisitions. These capabilities can attract certain vendors, and may provide Enstar with additional flexibility in structuring proposed transactions.
- Having both run-off and active underwriting businesses within our group allows Enstar to evaluate an acquisition target not only for its fundamental run-off potential, but also for the ongoing value of its profitable business lines.

The management of claims and the control of expenses are Enstar's core competencies and active underwriting is a relatively new area for the group. Accordingly, we partnered with the Trident V funds ("Trident") (managed by Stone Point Capital LLC) in the acquisitions of the active underwriting businesses. Stone Point Capital is a financial services-focused private equity firm that has significant experience investing in insurance and reinsurance companies and other insurance-related businesses, which Enstar believes is valuable in our active underwriting joint ventures.

In each of the Atrium and StarStone transactions, Enstar has a 59.0% equity interest, Trident has a 39.3% equity interest, and Dowling Capital Partners, L.P. ("Dowling") has a 1.7% equity interest.

Enstar has further expanded its portfolio of run-off businesses in recent years to include closed life and annuities, primarily through the acquisitions of the Pavonia companies in 2013 and National Suisse Assurance in 2015 (now renamed Alpha Insurance SA). In addition to increasing the group's portfolio diversification, we believe the addition of life and annuities businesses has the potential to provide a stable long-term earnings and cash flow stream that may counter some of the earnings volatility in the group's core non-life run-off business.

Recent Acquisitions and Significant New Business

Allianz SE

On February 17, 2016, we entered into a reinsurance agreement with Allianz SE ("Allianz") to reinsure portfolios of Allianz's run-off business. Pursuant to the reinsurance agreement, our subsidiary will reinsure 50% of certain portfolios of workers' compensation, construction defect, and asbestos, pollution, and toxic tort business originally held by Fireman's Fund Insurance Company, and in the process will assume net reinsurance reserves of approximately $1.1 billion. Affiliates of Allianz will retain approximately $1.1 billion of reinsurance premium as funds withheld collateral for the obligations of our subsidiary under the reinsurance agreement and we will transfer approximately $110.0 million to a reinsurance trust to further support our subsidiary's obligations. We have also provided a limited parental guarantee, which is subject to a maximum cap. The combined monetary total of the support offered by us through the trust and

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parental guarantee will initially be capped at $270.0 million. Consummation of the transaction is subject to final regulatory approval.

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

Doctors

On November 30, 2015, we completed the assignment and assumption of a portfolio of primarily workers' compensation business from The Doctors Company and its affiliates. Total assets and liabilities assumed were $29.5 million.

Nationale Suisse Assurance

On November 13, 2015, we acquired Nationale Suisse Assurance S.A. ("NSA") from Helvetia Group. NSA is a Belgium-based insurance company with non-life insurance and life insurance business. We changed the name of NSA to Alpha Insurance SA ("Alpha") at closing. The total consideration for the transaction was €32.8 million (approximately $35.2 million), which we financed from cash on hand.

Sun Life

On September 30, 2015, we entered into two 100% reinsurance agreements and a related administration services agreement with Sun Life Assurance Company of Canada and its U.S. branch (together, "Sun Life") pursuant to which we reinsured all of the run-off workers' compensation carve-out and occupational accident business of Sun Life. We assumed gross reinsurance reserves of $128.3 million, received total assets of $122.5 million and recorded a deferred charge of $5.8 million included in other assets. We transferred approximately $30.6 million of additional funds into trust to further support our obligations under the reinsurance agreements. We also provided limited parental guarantees, subject to an overall maximum of approximately $36.8 million.

Voya Financial Reinsurance (ReliaStar)

On May 27, 2015, we entered into two 100% reinsurance agreements and related administration services agreements with a subsidiary of Voya Financial Reinsurance ("Voya"), pursuant to which we reinsured all of the run-off workers' compensation and occupational accident assumed reinsurance business of the Voya subsidiary and that of its Canadian branch. Pursuant to the transaction, the Voya subsidiary transferred assets into two reinsurance collateral trusts securing our obligations under the reinsurance agreements. We assumed reinsurance reserves of $572.4 million, received total assets of $307.0 million and recorded a deferred charge of $265.4 million included in other assets. We transferred approximately $67.2 million of additional funds to the trusts to further support our obligations under the reinsurance agreements. We also provided a limited parental guarantee, subject to a maximum cap with respect to the reinsurance liabilities. As of December 31, 2015, the amount of the parental guarantee was $58.0 million.

Life Settlements (Wilton Re)

On May 5, 2015, we completed the acquisitions of two Delaware companies from subsidiaries of Wilton Re Limited ("Wilton Re") that own interests in life insurance policies acquired in the secondary and tertiary markets and through collateralized lending transactions. The total consideration for the transaction was $173.1 million, payable in two installments. The first installment of $89.1 million was paid on closing. The second installment of $83.9 million, due on the first anniversary of closing, is expected to be funded from cash on hand. Subsequent to the closing of this transaction, Canada Pension Plan Investment Board ("CPPIB"), the majority shareholder of Wilton Re, separately acquired certain voting and non-voting shares of Enstar, as described below.

Sussex Insurance Company (formerly known as Companion Property and Casualty Insurance Company)

On January 27, 2015, we completed the acquisition of Companion Property and Casualty Insurance Company ("Companion") from Blue Cross and Blue Shield of South Carolina, an independent licensee of the Blue Cross Blue Shield Association. Companion is a South Carolina-based insurance group with property, casualty, specialty and workers' compensation business, and has also provided fronting and third-party administrative services. The total consideration for the transaction was $218.0 million in cash, which was financed 50% through borrowings under a Term Facility Agreement with National Australia Bank Limited and Barclays Bank PLC (the "Sussex Facility") and 50% from cash on hand. We changed the name of Companion to Sussex Insurance Company ("Sussex") following the acquisition, and the company is operating as part of our Non-life Run-off segment. In addition, StarStone is renewing certain business from Sussex.

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Reciprocal of America

On January 15, 2015, we completed a loss portfolio transfer reinsurance transaction with Reciprocal of America (in Receivership) ("Reciprocal") and its Deputy Receiver relating to a portfolio of workers' compensation business that has been in run-off since 2003. The total insurance reserves assumed were $162.1 million with an equivalent amount of cash and investments received as consideration.

The tables below sets forth summaries of acquisitions and significant new business in excess of $50 million in acquired assets that we have signed or completed since January 1, 2015. For a more detailed explanation of these transactions, as well as transactions completed in 2014 and 2013, refer to "Note 3 - Acquisitions" and "Note 4 - Significant New Business" in the notes to our consolidated financial statements included within Item 8 of this Annual Report on Form 10-K.

Acquisitions (January 1, 2015 - Present)

Company Name	Purchase Price	Assets Acquired	Liabilities Acquired	Goodwill	Segment	Primary Nature of Business
Alpha Insurance SA (formerly Nationale Suisse Assurance)	$35.2 million	$234.5 million	$199.3 million	Nil	Non-life Run-off and Life and Annuities	European non-life and life insurance
Wilton Re Life Settlements	$173.1 million	$173.6 million	$0.5 million	Nil	Life and Annuities	Life settlement policies
Sussex Insurance Company (formerly Companion)	$218.0 million	$1.6 billion	$1.4 billion	Nil	Non-life Run-off	U.S. property, casualty, specialty and workers' compensation

Significant New Business (January 1, 2015 - Present)

Company Name	Purchase Price	Assets Acquired	Liabilities Acquired	Deferred Charge	Segment	Primary Nature of Business
Allianz SE	N/A	$1.1 billion	$1.1 billion	Nil	Non-life Run-off	U.S. workers' compensation, construction defect, asbestos, pollution and toxic tort
Sun Life Assurance Company of Canada and its U.S. branch	N/A	$122.5 million	$128.3 million	$5.8 million	Non-life Run-off	U.S. and Canadian workers' compensation carve-out and occupational accident
Voya Financial Reinsurance (ReliaStar)	N/A	$307.0 million	$572.4 million	$265.4 million	Non-life Run-off	U.S. and Canadian workers' compensation carve-out and occupational

Reciprocal of America (in Receivership)	N/A	$162.1 million	$162.1 million	Nil	Non-life Run-off	accident U.S. workers' compensation reinsurance

Other Transactions

Aligned Re

We announced in December 2015 that we had agreed in principle to act as reinsurance manager for a newly-formed Bermuda company, Aligned Re Ltd. ("Aligned Re"), which is expected to be funded with third-party capital alongside anticipated investments from Enstar and certain of our affiliates, including $100.0 million that Enstar has already invested. UBS O'Connor LLC is expected to act as investment manager for Aligned Re. StarStone is expected to purchase reinsurance via quota share agreements with Aligned Re. In addition, certain Enstar run-off subsidiaries are expected to enter into loss portfolio transfer agreements with Aligned Re.