Enhanzed Reinsurance Ltd.

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2019 and 2018

Enhanzed Reinsurance Ltd, 3rd floor North, Kitson Building, 5 Reid Street, Hamilton HM 11, Bermuda
Tel: (441) 278 -8100 Fax: (441) 296-0895

Enhanzed Reinsurance Ltd.

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KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 8280
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Enhanzed Reinsurance Ltd.

We have audited the accompanying financial statements of Enhanzed Reinsurance Ltd**.** (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Enhanzed Reinsurance Ltd. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

Management has omitted certain disclosures related to short-duration contracts that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 28, 2020

Enhanzed Reinsurance Ltd.

Balance Sheet

As at December 31, 2019 and 2018
(Expressed in thousands of U.S. dollars, except share data)

	Note(s)	2019	2018
Assets			
Cash and cash equivalents		87,704	133,952
Fixed-income investments	3,4	37,467	21,520
Other investments	3,4	327,799	75,193
Funds withheld	3,4	851,148	824,790
Accrued investment income		248	131
Deferred charge asset		35,135	24,895
Other assets		3,179	12
Total assets		**1,342,680**	**1,080,493**
Liabilities			
Reserve for losses and loss adjustment expenses	6	826,118	849,686
Other liabilities		28,637	4,927
Subordinated notes		70,000	30,156
Total liabilities		**924,755**	**884,769**
Equity			
Common shares ($1.00 par, 4,380,650 authorized, 3,029,174 issued and outstanding)	7	3,029	1,864
Additional paid-in capital		325,148	201,313
Retained earnings (deficit)		89,748	(7,640)
Accumulated other comprehensive income		-	187
Total shareholders' equity		**417,925**	**195,724**
Total liabilities and shareholders' equity		**1,342,680**	**1,080,493**

The accompanying notes are an integral part of the financial statements

Enhanzed Reinsurance Ltd.

Statement of Operations and Comprehensive Income (Loss)

For the year ended December 31, 2019 and 2018
(Expressed in thousands of U.S. dollars, except share data)

	Note(s)	2019	2018
Income			
Premium income		6,734	-
Net investment income	4	116,326	11,877
Total income		**123,060**	**11,877**
Expenses			
Losses and loss adjustment expenses	6	19,746	14,916
Financing and interest expenses		1,896	201
Operating expenses		4,030	3,102
Total expenses		**25,672**	**18,219**
Net income (loss)		**97,388**	**(6,342)**
Other comprehensive income			
Adjustment in own credit risk		-	187
Total other comprehensive income		**-**	**187**
Comprehensive income (loss)		**97,388**	**(6,155)**

The accompanying notes are an integral part of the financial statements

Enhanzed Reinsurance Ltd.

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2019 and 2018
(Expressed in thousands of U.S. dollars, except share data)

	Note(s)	2019	2018
Common shares			
Common shares at beginning of year		1,864	250
Common shares issued during the year		1,165	1,614
Common shares at end of year	**7**	**3,029**	**1,864**
Additional paid in capital			
Additional paid-in capital at beginning of year		201,313	29,750
Contribution during the year		123,835	171,563
Additional paid-in capital at end of year	**7**	**325,148**	**201,313**
Retained earnings (deficit)			
(Deficit) at beginning of year		(7,640)	(1,298)
Net income (loss)		97,388	(6,342)
Retained earnings (deficit) at end of year		**89,748**	**(7,640)**
Accumulated other comprehensive income (loss)			
Accumulated other comprehensive income at beginning of period		187	–
Adjustment in own credit risk during the year		(187)	187
Accumulated other comprehensive income (loss) at end of period		**-**	**187**
Total shareholders' equity		**417,925**	**195,724**

The accompanying notes are an integral part of the financial statements

Enhanzed Reinsurance Ltd.

Statement of Cash Flows

For the year ended December 31, 2018
(Expressed in thousands of U.S. dollars)

	2019	2018
Cash flows provided by (used in) operating activities		
Net income (loss)	97,388	(6,342)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Net realized and unrealized (gains) loss on other investments and fixed income securities	(64,309)	-
Change in operational balance sheet items:		
Change in other assets and liabilities	20,154	862
Change in deferred charge assets	(10,239)	-
Change in funds withheld	(26,357)	(426,189)
Change in reserve for loss and loss expense	(23,569)	430,045
Net cash used in operating activities	**(6,933)**	**(1,624)**
Cash flows from investing activities		
Purchases of fixed income investments	(13,316)	(318)
Purchases of other investments	(191,000)	(75,000)
Net cash used in investing activities	**(204,316)**	**(75,318)**
Cash flows from financing activities		
Proceeds from subordinated notes	40,000	30,000
Proceeds from issuance of common shares	125,000	173,178
Net cash provided by financing activities	**165,000**	**203,178**
Change in cash and cash equivalents	(46,249)	126,236
Cash and cash equivalents at beginning of period	133,952	7,716
Cash and cash equivalents at end of period	**87,704**	**133,952**

Supplemental Information		
Interest paid in cash during the year	992	-
Taxes paid in cash during the year	-	-

The accompanying notes are an integral part of the financial statements

1. Organization

Enhanzed Reinsurance Ltd., formerly known as Allianz Re Bermuda Life Ltd. (“Enhanzed Re” or the “Company”) was incorporated in Bermuda on September 8, 2016 as a Bermuda exempted company, and obtained on April 1, 2017 a license from the Bermuda Monetary Authority (“BMA”) to operate as a Class E insurer and reinsurer under the Insurance Act 1978 (the “Act”).

On November 6, 2018 the Company changed its name to Enhanzed Reinsurance Ltd. and on December 11, 2018 the Company reorganized (“Reorganization”) and entered into a shareholder agreement with Cavello Bay Reinsurance Limited (“Cavello”), a Bermuda company and indirect, wholly-owned subsidiary of Enstar Group Limited (“Enstar”), HH ENZ Holdings, Ltd., a limited company incorporated in the Cayman Islands and under the management and control of Hillhouse Capital Management, Ltd. (“Hillhouse” or “Hillhouse related party”) and Allianz SE, a German company (“Allianz”). Enstar owns 47.4%, Hillhouse owns 27.7% and Allianz owns 24.9% of the Company. Enstar, Hillhouse and Allianz have made equity investment commitments in aggregate of $470 million to the Company. During the period ended December 31, 2019 and December 31, 2018 the Company issued subordinated notes to an affiliate of Allianz.

The Company has engaged Enstar Limited, a company incorporated in Bermuda and a wholly-owned subsidiary of Enstar to act as its reinsurance manager pursuant to a services agreement. The Company has also engaged Hillhouse to act as its primary investment manager while an affiliate of Allianz will also provide investment management services to the Company.

On December 13, 2018 the Company obtained an additional license from the BMA to also operate as a Class 4 insurer and reinsurer under the Act. Enhanzed Re reinsures life, non-life run-off and property casualty insurance business, initially sourced from its operating sponsors, Allianz and Enstar. The Company seeks to underwrite business to maximize diversification by risk and geography.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The term “ASC” used in these notes refers to Accounting Standard Codification issued by the United States Financial Accounting Standards Board (the “FASB”). Certain comparative figures have been reclassified to conform to the current period presentation of results; these reclassifications had no impact on earnings.

2.2 Use of estimates and judgements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts 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. While management believes the amounts included in the financial statements reflect management's best estimates and assumptions, actual results could differ from those estimates. The principal estimates recorded in the Company's financial statements include:

- Valuation of financial instruments including derivatives;
- Valuation of reserves for losses and loss adjustment expenses; and
- Deferred charge asset ("DCA").

2.3 Retroactive reinsurance

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. If, at the inception of a retroactive reinsurance contract, the estimated undiscounted ultimate losses payable are in excess of the premiums received, a DCA is recorded for the excess. The premium consideration that is received from the ceding companies may be lower than the undiscounted estimated ultimate losses payable. It is expected that profits will be generated from these retroactive reinsurance policies when taking into account the premium received and expected investment income, less contractual obligations and expenses. The DCA is amortized utilizing the recovery method to losses and loss adjustment expenses within the statement of operations.

2. Summary of significant accounting policies (continued)

2.3 Retroactive reinsurance (continued)

DCA amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized DCA and the amount of periodic amortization. DCA's are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

Premiums received as part of retroactive reinsurance agreements are not recorded within the statement of operations but are presented within the balance sheet.

2.4 Prospective reinsurance

Prospective reinsurance reimburses a ceding company for potential liabilities incurred as a result future insurable events covered by the underlying policies reinsured. Premiums received as part of prospective reinsurance are earned on a pro-rata basis over the period of coverage provided to the insured. Unearned premiums represent the portion of premiums written that relate to the unexpired period of coverage provided to the insured.

2.5 Reserve for losses and loss adjustment expenses

The Company establishes reserves for outstanding losses and loss expenses for what it estimates will be the future amount to be paid in settlement of its ultimate liabilities for claims arising under reinsurance contracts that have occurred at or before the balance sheet date. The estimation of ultimate losses and loss expense liabilities is a significant judgement made by management and is inherently subject to significant uncertainties.

At December 31, 2019 and December 31, 2018, the Company's reserve for losses and loss adjustment expense reserves include case reserves, reserves for losses incurred but not reported ("IBNR"), allocated loss adjustment expense ("ALAE") and unallocated loss adjustment expense ("ULAE") reserves.

Inherent in the estimate of ultimate reserve for losses and loss adjustment expenses are expected trends in claim severity and frequency and other factors that may vary significantly as claims are settled. Accordingly, ultimate losses and loss adjustment expenses may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes available, the reserves may be adjusted as necessary. Such adjustments, if any, are recorded in the statement of operations in the period in which they become known.

2.6 Cash and cash equivalents

Cash equivalents include highly liquid instruments, such as money market funds and other time deposits with commercial banks and financial institutions which have maturities of less than three months from the date of purchase.

2.7 Financial instruments and net investment income

Fixed Income securities

The Company classifies all of its fixed-income investments as trading carried at fair value with changes in fair value included in net investment income.

2. Summary of significant accounting policies (continued)

2.7 Financial instruments and net investment income (continued)

Other Investments

Other investments include an investment in a limited partnership fund (“ENZ RE Fund”) managed by Hillhouse which is also stated at fair value, which ordinarily will be the most recently reported net asset value (“NAV”) as advised by the respective fund manager or administrator. The ENZ RE Fund is carried at fair value with changes in fair value included in net investment income.

Funds Withheld Assets

Under funds withheld (“FWH”) arrangements, the reinsured companies hold retained funds that would otherwise have been remitted to the Company. While the assets in the FWH are legally owned by the ceding company, the Company is subject to the investment performance and has all economic rights and obligations on the FWH in a fashion similar to invested assets held directly by the Company. The FWH balance is carried at cost and is credited with premiums and investment income, with losses payable and acquisition costs being deducted. The investment returns on the funds held balance are recognized in net investment income. At December 31, 2019 the FWH asset is representative of amounts receivable from Allianz and Cavello. At December 31, 2018, the FWH asset is representative of amounts receivable from Allianz.

In instances where the Company is the beneficiary of actual investment returns generated by assets supporting FWH assets, reinsurance agreements written on a FWH coinsurance or Modified Co-Insurance basis may contain embedded derivatives. At December 31, 2018, FWH assets recorded by the Company had a fixed crediting rate and there was no embedded derivative associated with the transaction. With effect from April 1, 2019, $529 million of the FWH asset in relation to certain A&E liabilities were backed by underlying investments in a portfolio of fixed income securities. With effect from October 1, 2019, $50 million of the FWH asset in relation to certain A&E liabilities were backed by underlying investments in a portfolio of fixed income securities. As a result of the aforementioned transactions as at December 31, 2019 the Company is the beneficiary of the investment returns generated by those underlying fixed income securities and has determined that these contracts contain embedded derivatives as defined by *ASC 815 – Derivatives and Hedging*. The methodology and assumptions used to estimate the fair value of the embedded derivative are consistent with those described within *Note 2.8 Fair value measurement*. The fair value of embedded derivatives on FWH agreements are computed as the unrealized gain (loss) on the underling assets and included in funds withheld on the balance sheet. The change in the fair value of the embedded derivatives is recorded in net investment income.

Subordinated notes

Subordinated notes are issued to an affiliate at par value for a fixed coupon rate payable biannually. The subordinated notes are carried at par value with finance expenses, in relation to the stated coupon rates, being recognized within the statement of operations. The proportion of incurred by not paid coupon costs are recorded within other liabilities on the balance sheet.

2.8 Fair value measurement

The Company uses pricing services to obtain the fair value measurements for the majority of its investment securities. Based on management's understanding of the methodologies used, these pricing services only produce an estimate of fair value if there is observable market information that would allow them to make a fair market value estimate. The Company does not adjust prices from pricing services. The following is a description of the valuation techniques and inputs used to determine fair values for financial instruments carried at fair value, as well as the general classification of such instruments pursuant to the fair value hierarchy.

2. Summary of significant accounting policies (continued)

2.8 Fair value measurement (continued)

The Company's pricing services determine fair value in accordance with current accounting guidance, which defines fair value and establishes a three level fair value hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Fair value is defined as the price that the Company would receive to sell an asset or would pay to transfer a liability in an orderly transaction between market participants at the measurement date. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The hierarchy is broken down into three levels as follows:

- **Level 1** - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.
- **Level 2** - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- **Level 3** - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally Company generated inputs and are not market based inputs.

Fair values for other investments, including investments in investment funds and limited partnerships are based on their respective NAV and are excluded from the level 1, 2 and 3 fair value hierarchy.

2.9 Foreign exchange

The Company's reporting currency is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the balance sheet date with the resulting foreign exchange gains and losses included net investment income. Non-monetary assets and liabilities are not revalued. Foreign currency revenues and expenses are translated at transaction date exchange rates.

2.10 Recent accounting pronouncements

The FASB issues period updates in the form of Accounting Standards Updates (“ASU”). The Company has evaluated the impact of ASU’s recently adopted and those issued but not yet adopted.

Recently adopted accounting pronouncements

In August 2016, the FASB issued ASU 2016-15 *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which aims to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018. The adoption of the ASU 2016-15 has had no material retrospectively applied impact to the Company's Statement of Cash Flows.

In November 2016, the FASB issued ASU 2016-18 *Restricted Cash* (“ASU 2016-18”), which provides new presentation and disclosure guidance for restricted cash and restricted cash equivalents as well as any other cash balances segregated on the balance sheet within the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018. The adoption of the ASU 2016-18 has had no material retrospectively applied impact to the Company's Statement of Cash Flows as the Company does not have restricted cash equivalents or other cash balances segregated on the Balance Sheet.

Recently issued but not yet adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02 *Leases* (“ASU 2016-02”) and then subsequently issued a number of ASU’s to amend and clarify the guidance in relation to the FASB Lease topic. ASU 2016-02 principally amended the treatment of operating leases to require the recognition on the balance sheet a right of use assets and corresponding lease obligations. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the guidance; however, it is not expected to have a material impact on the Company’s financial statements.

2. Summary of significant accounting policies (continued)

2.10 Recent accounting pronouncements (continued)

In June 2016, the FASB issued ASU 2016-13 *Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")* and then issued further ASU's regarding codification improvements to the issued guidance. ASU 2016-13 provides new guidance to improve the financial reporting by requiring earlier recognition of credit losses on financial instruments. The guidance is applicable to financial assets such as debt securities, loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost as well as certain other off-balance sheet credit exposures. The Company's invested assets, principally fixed income and other investments are measured at fair value through net income and thus would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as funds withheld and other assets, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of the guidance; however, it is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-12 *Targeted Improvement to the Accounting for Long-Duration Contracts* ("ASU 2018-12") and subsequently issued further ASU's serving to defer the effective date of implementation. ASU 2018-12 provides improved guidance on insurance revenue recognition, claim and benefit liability recognition, and acquisition cost deferability as well as augmented disclosure requirements for long-duration contracts. The Company has not yet written any long-duration business however, as a BMA Class E insurer and reinsurer under the Act, may in the future write such policies. ASU 2018-12 is effective for fiscal years beginning after December 15, 2023. The Company is currently evaluating the impact of the guidance; however, it is not expected to have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-13 *Disclosure Changes – Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 modified disclosure requirements for fair value measurement to improve the effectiveness of the notes to the financial statements. The changes included removing the reason for changes between Level 1 and Level 2; the policy for changes between levels; the valuation process for Level 3 fair value measurements; and unrealized gain losses on Level 3 fair value measurements. ASU 2018-13 also modified existing disclosure requirements eliminating the need for non-public companies to complete a Level 3 fair value measurement roll-forward schedule by simply disclosing transfers in and out, and purchases and sales of Level 3 assets and liabilities. Finally, for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. As ASU 2018-13 primarily affects disclosures surrounding Level 3 assets and liabilities which the Company does not currently hold, accordingly the impacts of ASU 2018-13 are anticipated to be minimal. The Company is currently evaluating the final impact of the guidance; however, it is not expected to have a material impact on the Company's financial statements.

In October 2018, the FASB issued ASU 2018-17 *Targeted Improvements to Related Party Guidance for Variable Interest Entities* ("ASU 2018-17"). ASU 2018-17 provides incremental guidance on variable interest entity guidance for legal entities under common control as well as indirect interests held through related parties in common control arrangements being considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. While the Company does participate in a variable interest entity it is not considered to be under common control and accordingly the incremental guidance provided by ASU 2018-17 is not expected to impact the Company significantly. The Company is currently evaluating the final impact of the guidance; however, it is not expected to have a material impact on the Company's financial statements.

(Expressed in thousands of U.S. dollars, except share data)

3. Significant new business

Significant new business in 2018

Effective December 31, 2018 the Company entered into a loss portfolio transfer on a funds withheld basis with an affiliate of Allianz. Through the agreement, the Company provides reinsurance for risks related to workers' compensation ("WC") and asbestos and environmental ("A&E") liabilities.

Significant new business in 2019

Effective January 1, 2019 the Company entered into a series of catastrophe excess of loss programs on a funds withheld basis with an affiliate of Allianz. Through the agreement, the Company provides reinsurance for risks related to global natural catastrophe perils.

Effective October 1, 2019 the Company entered into a quota share agreement on a funds withheld basis with Cavello. Through the agreement, the Company provides reinsurance for risks related to A&E liabilities.

4. Financial instruments

4.1 Funds withheld embedded derivatives

On April 1, 2019 the funds withheld balance in relation the Allianz transaction, described in *Note 3 – Significant new business,* moved from a fixed crediting rate to a variable rate of return on an underlying portfolio of fixed income investments. Additionally, on October 1, 2019 the funds withheld balance in relation to the Cavello transaction, described in *Note 3 – Significant new business,* was initiated as a variable rate of return on an underlying portfolio of fixed income investments. These variable returns reflect the economics of the fixed income investment portfolios underlying the funds withheld asset and qualifies as an embedded derivative in accordance with *ASC 815 – Derivatives and Hedging*. Management have recorded the aggregate value of the funds withheld, at cost, and the embedded derivative as a single amount on the balance sheet. The below table illustrates the fair value of the derivative instruments and resultant gain or loss recognized within the balance sheet and statement of operations:

Affiliated cedant	**Balance Sheet location**	**2019 Fair value**	**2018 Fair value**
Allianz	Funds withheld	23,652	-
Cavello	Funds withheld	(293)	-
Total		**23,359**	**-**

Affiliated cedant	**Statement of Operations location**	**2019 Fair value**	**2018 Fair value**
Allianz	Net investment income	23,652	-
Cavello	Net investment income	(293)	-
Total		**23,359**	**-**

The following tables summarize the asset type, credit ratings, and maturities of the underlying portfolio of fixed income investments for the treaties that the Company receives a variable rate of return as described in *Note 4.1 Funds withheld embedded derivatives*:

Funds withheld underlying fixed income portfolio asset types:

	2019 Fair value	**2019 %**
Asset backed securities	14,798	2.5%
Collateralized loan obligations	37,948	6.7%
Commercial paper	2,221	0.4%
Corporate debt securities	234,805	41.3%
Government	75,774	13.3%
Mortgage backed securities	182,860	32.1%
Municipal	20,783	3.7%
Total	**569,189**	**100.0%**

(Expressed in thousands of U.S. dollars, except share data)

4. **Financial instruments** (continued)

4.1 Funds withheld embedded derivatives (continued)

Funds withheld underlying fixed income portfolio credit ratings:

	2019 Fair value	2019 %
AAA	118,909	20.9%
AA	174,241	30.6%
A	94,824	16.6%
BBB	155,164	27.3%
BB or lower	26,051	4.6%
Total	**569,189**	**100.0%**

Funds withheld underlying fixed income portfolio maturities:

	2019 Fair value	2019 %
Due in one year or less	4,400	0.8%
Due in one through five years	51,277	9.0%
Due in five through ten years	159,372	28.0%
Due after ten years	354,140	62.2%
Total	**569,189**	**100.0%**

4.2 Investments by asset type

The following table represents the Company's investments by asset type:

	2019 Fair value	2019 %	2018 Fair value	2018 %
Fixed income investments				
Government	8,601	2.4%	3,989	4.2%
Municipal	1,341	0.4%	1,704	1.8%
Commercial mortgage backed securities	5,577	1.5%	3,694	3.8%
Corporate debt securities	21,948	6.0%	12,134	12.5%
Fixed-income investments	**37,467**	**10.3%**	**21,520**	**22.3%**
Other investments				
Limited partnership fund	327,799	89.7%	75,193	77.7%
Other investments	**327,799**	**89.7%**	**75,193**	**77.7%**
Investments	**365,266**	**100.0%**	**96,713**	**100.0%**

The limited partnership fund aims to deliver superior risk-adjusted returns across market cycles through a diversified asset allocation strategy and is managed by Hillhouse. Capital contributions by the Company into the ENZ RE Fund are subject to certain defined lock up periods while withdrawals and distributions from to the Company are also subject to certain specific limitations.

(Expressed in thousands of U.S. dollars, except share data)

4. **Financial instruments** (continued)

4.4 Net investment income components

The following table presents the components of net investment income:

	2019	2018
Fixed-income investments	2,673	(371)
Other investments	61,606	193
Funds withheld	52,034	7,226
Financial liabilities	-	4,998
Other & Investment expenses	13	(169)
Net investment income	**116,326**	**11,877**

4.5 Fixed income investments by asset rating

The following table represents the Company's total fixed income investments by asset rating.

	2019 Fair value	2019 %	2018 Fair value	2018 %
AAA	13,743	36.7%	2,338	10.8%
AA	2,940	7.8%	6,972	32.4%
A	5,051	13.5%	4,600	21.4%
BBB	12,885	34.4%	6,997	32.5%
BB or lower	2,848	7.6%	614	2.9%
Fixed-income investments	**37,467**	**100.0%**	**21,520**	**100.0%**

4.6 Fixed income investments by contractual maturity

The table below shows fair value of the Company's total fixed income investments by contractual maturity. Actual maturities may differ in individual cases from the contractual maturities because issuers may have the right to call or prepay obligations with or without penalty.

	2019 Fair value	2019 %	2018 Fair value	2018 %
Due in one year or less	400	1.1%	650	3.0%
Due after one through five years	7,201	19.2%	6,192	28.8%
Due after five through ten years	11,284	30.1%	4,989	23.2%
Due after ten years	13,005	34.7%	5,995	27.8%
Commercial Mortgage Backed Securities	5,577	14.9%	3,694	17.2%
Fixed-income investments	**37,467**	**100.0%**	**21,520**	**100.0%**

4.7 Pledged investments

The Company, from time to time, is required to pledge certain of its assets to be held in trust as security or for the benefit of cedants and policyholders to facilitate the accreditation of the Company as alien reinsurer by certain regulators. The table below shows the value of other investments pledged as collateral:

	2019	2018
Other investments – pledged as collateral	30,100	-
Total	**30,100**	**-**

(Expressed in thousands of U.S. dollars, except share data)

5. Fair value measurements

At December 31 the Company’s financial instruments are generally measured at fair value between Levels 1, 2 and 3. The Company’s other investments are measured at fair value using NAV as a practical expedient and have not been classified with the fair value hierarchy described but disclosed as a separate line item as NAV:

	December 31, 2019				
	Level 1	Level 2	Level 3	NAV	Total fair value
Fixed-income investments	–	37,467	–	–	37,467
Other investments	–	–	–	327,799	327,799
Funds Withheld – underlying fixed income portfolios	–	23,359	–	–	23,359
Total investments	**–**	**60,826**	**–**	**327,799**	**388,125**

	December 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total fair value
Fixed-income investments	–	21,520	–	–	21,520
Other investments	–	–	–	75,193	75,193
Funds Withheld embedded derivative	–	–	–	–	–
Total investments	**–**	**21,520**	**–**	**75,193**	**66,557**

The 5.50% subordinated notes due 2031 were carried at amortized cost of $70.0 million and 30.1 million for December 31, 2019 and December 31, 2018, respectively. The fair value of the subordinated notes based on observable market inputs was $78.0 million and $30.1 million for December 31, 2019 and December 31, 2018, respectively. Other financial instruments carrying value approximates fair value.

There were no transfers of investments between levels as at December 31, 2019 or December 31, 2018.

(Expressed in thousands of U.S. dollars, except share data)

5. Fair value measurements (continued)

The below table summarizes the fair value, unfunded commitments, permitted redemption frequency, redemption notice period, and any redemption restrictions for the Company's other investments that are measured at fair value using NAV as a practical expedient:

December 31, 2019

	Fair value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restrictions[1]
Other investments	327,799	-	Monthly	30 days	15,617
Total	**327,799**	-			

December 31, 2018

	Fair value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Redemption Restrictions[1]
Other investments	75,193	-	Monthly	30 days	10,012
Total	**75,193**	-			

[1] Redemptions of restricted assets, asset for which there is no readily ascertainable market, cannot be withdrawn without the approval by the general partner of the ENZ Re Fund. As at December 31, 2019 and 2018 the restricted assets disclosed represent side-pocketed investments within the ENZ Re Fund.

(Expressed in thousands of U.S. dollars, except share data)

6. Reserve for losses and loss adjustment expenses

Reserve for losses and loss adjustment expense summaries

The reserve for losses and loss adjustment expense, also referred to as loss reserves, represent the Company's estimate of the gross future amount to be paid in settlement of its ultimate liabilities for claims arising under reinsurance contracts that have occurred at or before the balance sheet date. The Company recognizes loss reserves in three main categories:

- *Case loss reserves* – represent loss reserves for reported unpaid losses and loss adjustment expenses and include allocated loss adjustment expenses which are linked to the settlement of individual claim or loss;
- *IBNR loss reserves* – represent loss reserves for losses and loss adjustment expenses that have not yet been reported, under reported, or development on known claims, and claims that are reopened; and
- ULAE loss reserves – represent loss reserves for the Company's estimate of future costs to administer the claims and settlement processes.

The following table summarizes the loss reserves as at December 31, 2019 and December 31, 2018 by the stated categories:

	2019	**2018**
Case loss reserves	559,684	503,971
IBNR loss reserves	252,719	333,866
ULAE loss reserves	13,715	11,849
Total	**826,118**	**849,686**

The following table provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the years ended December 31, 2019 and December 31, 2018:

	2019	**2018**
Reserves for losses and loss adjustment expenses, beginning of year	849,686	-
Reserve for losses and loss adjustment expense assumed in the year	59,914	849,686
Increase (decrease) in net reserves for losses and loss adjustment expense in respect of losses occurring in:		
Current year	3,007	-
Prior years	13,136	-
Total net incurred losses and loss adjustment expenses	**16,143**	**-**
Net losses and loss adjustment expenses paid in respect of losses occurring in:		
Current year	-	-
Prior years	(99,625)	-
Total net paid losses and loss adjustment expenses	**(99,625)**	**-**
Reserves for losses and loss adjustment expenses, end of year	**826,118**	**849,686**

For the year ended December 31, 2019 the Company recorded a $16.1 million in incurred losses. These relate predominately to $10.6 million in favourable development on certain WC liabilities offset by unfavourable development of $23.4 million on certain A&E liabilities. Other movements comprise paid losses of $99.6 million and reserve for losses and loss adjustment expenses assumed in the year of $59.9 million.

6. Reserve for losses and loss adjustment expenses (continued)

For the year ended December 31, 2018 the Company recorded a net increase to reserve for losses and loss adjustment expenses of $849.7 million. This overall increase is solely attributable to the assumption of WC, and A&E liabilities during the period. Additionally, as a part of the Reorganization of the Company during the year ended December 31, 2018 an existing reinsurance agreement with Allianz Life Insurance Company of North America was recaptured. The Company had provided reinsurance coverage for certain individual fixed annuities through that agreement. As part of the recapture, the Company recorded $10.8 million as a charge to the statement of operations, which was made up of $37.8 million for a write-off of acquisition expenses and $27.0 million for adjustment to benefit reserves that had been recorded on the balance sheet.

The Company expensed $0.5 million and $4.1 million of federal excise tax on U.S. sourced treaty risk at inception of reinsurance agreements for December 31, 2019 and December 31, 2018, respectively.

Methodology for establishing reserve for losses and loss adjustment expense

Reserves for losses and loss adjustment expenses included amounts determined from reported claims, case reserves, and an amount based on historical loss experience and industry statistics for IBNR. The reserves cover various treaty types including WC, A&E, and catastrophe property business. Management considers the reasonableness of reserves for losses and loss adjustment expenses recommended by the Company's actuaries and actuarial services provided by service providers.

Case loss reserves are recognized for known claims, including the cost of litigation, when sufficient information has been reported to indicate the involvement of a specific treaty. Considerable judgement is used in estimating losses of reported claims on an individual claim basis based upon knowledge of the circumstances surrounding the claim, the severity of the injury or damage, the jurisdiction of the occurrence, the potential for ultimate exposure, the type of loss, and the historical experience with these loss types and circumstances relating to a particular claim. The reserves for losses and loss adjustment expenses are established by management based on reports from ceding companies and represent the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by management. Additionally, facts regarding current state of law and coverage litigation are considered in these assessments.

IBNR loss reserves are established by management based on actuarially determined estimates of ultimate losses and loss adjustment expenses. Generally accepted actuarial methodologies are utilized to estimate ultimate losses and loss adjustment expenses and are reviewed by management. In addition, the routine settlement of claims that deviate from the carried advised loss reserves, update to historical loss development information to which actuarial methodologies are applied often, resulting in revised estimates of ultimate losses and loss adjustment expenses. Annually, service providers are engaged to review managements reserves for losses and loss adjustment expense for reasonableness.

Estimates of the reserve for losses and loss adjustment expenses are reviewed and updated continually. Developed case law and claim histories are still evolving for such claims, especially because significant uncertainty exists about the outcome of coverage litigation and whether past claim experience will be representative of future claim experience. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in valuing WC, and A&E claims are not likely to be resolved in the near future. Ultimate values for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of potential losses for these claims. There can be no assurance that the reserves established by the Company will be adequate or will not be adversely affected by the development of other latent exposures.

In establishing the reserve for losses and loss adjustment expenses related to catastrophe excess of loss liabilities management establishes case loss reserves based on reports from brokers and cedants. IBNR loss reserves, where applicable, are established by management based on actuarially determined estimate of ultimate losses and loss adjustment expenses which includes expected trends in claim severity, frequency and other factors which may vary significantly as claims are settled.

Management believes that the assumptions used represent a realistic and appropriate basis for estimating the outstanding losses and loss adjustment expenses as of December 31, 2019 and December 31, 2018. However, these assumptions are subject to change and the Company regularly reviews and adjusts its reserves estimates and reserving methodologies taking into account all currently known information and updated assumptions related to unknown information.

(Expressed in thousands of U.S. dollars, except share data)

6. Reserve for losses and loss adjustment expenses (continued)

Loss development tables

Additional disclosure for the short duration contracts included in losses and loss adjustment expenses and related reserves for the year ended December 31, 2019 are presented below. The table sets the Company's ultimate incurred losses and loss adjustment expense which encompasses case, ALAE, IBNR, and ULAE reserves by accident year.

Incurred losses and loss adjustment expenses, net of reinsurance

Accident Year	Total Net Reserves Assumed in year	For the Years Ended December 31, 2018 (unaudited)	For the Years Ended December 31, 2019	December 31, 2019 IBNR and ULAE
2010 and prior	59,914	829,739	904,012	262,046
2011		10,680	11,457	2,356
2012		9,266	7,268	1,532
2013		-	-	-
2014		-	-	-
2015		-	-	-
2016		-	-	-
2017		-	-	-
2018		-	-	-
2019		-	3,007	500
	59,914		**925,744**	**266,434**

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance

Accident Year	For the Years Ended December 31, 2018 (unaudited)	For the Years Ended December 31, 2019
2010 and prior	-	97,020
2011	-	1,461
2012	-	1,145
2013	-	-
2014	-	-
2015	-	-
2016	-	-
2017	-	-
2018	-	-
2019	-	-
		99,625
	Total reserve for loss and loss adjustment expense	**826,118**

The Company provides reinsurance products and has determined that providing claims count information for assumed reinsurance is impractical as access to this information is not currently available to the Company. Owing to practicality reasons, the information for Company's historical average annual percentage payments has been omitted.

The Company's run-off business is unique within the reinsurance industry as new legacy reserve for losses and loss adjustment expenses are added through retroactive reinsurance agreements. Accordingly, it would not be appropriate to extrapolate redundancies or deficiencies into the future from the loss development tables presented above.

7. Share capital

The authorized share capital of the Company at December 31, 2019 consisted of 4,380,650 voting common shares of par value $1.00 per share, of which are 3,029,174 issued, fully paid and outstanding.

The authorized share capital of the Company at December 31, 2018 consisted of 1,864,107 voting common shares of par value $1.00 per share, of which 1,864,107 were issued, fully paid and outstanding.

(Expressed in thousands of U.S. dollars, except share data)

8. Income taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Minister of Finance in Bermuda that in the event of any legislation enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until the year 2035.

9. Related party transactions

The following table summarizes the significant related party balances as at December 31, 2019:

	Enstar	Hillhouse	Allianz	Total
Assets				
Cash and cash equivalents	-	54,000	-	54,000
Other Investments	-	327,799	-	327,799
Funds withheld	49,941	-	801,207	851,148
Deferred charge asset	12,764	-	22,372	35,135
Other Assets	-	-	3,135	3,135
Liabilities				
Reserve for loss and loss adjustment expenses	59,300	-	766,818	826,118
Other liabilities	938	-	26,341	27,279
Subordinated notes			70,000	70,000

The following table summarizes the significant related party balances as at December 31, 2018:

	Enstar	Hillhouse	Allianz	Total
Assets				
Cash and cash equivalents	-	-	-	-
Other Investments	-	75,193	-	-
Funds withheld	-	-	824,790	824,790
Deferred charge asset	-	-	24,895	24,895
Other Assets	-	-	-	-
Liabilities				
Reserve for loss and loss adjustment expenses	-	-	849,686	849,686
Other liabilities	226	-	4,087	4,313
Subordinated notes	-	-	30,156	30,156

All related party balances relate to above mentioned underwriting, financing and service transactions with the Company's shareholders or their affiliates. During the year $774 and $86 in expenses were incurred in relation to service level agreements in place with affiliated entities for year ending December 31, 2019 and December 31, 2018, respectively.

10. Statutory financial information and dividend restrictions

Under the Act, as amended, and related regulations of Bermuda, Enhanzed Re is registered as a Class E and a Class 4 insurer, and is required to annually prepare and file statutory financial statements and a statutory financial return with the BMA. The Act also required Enhanzed Re to maintain minimum share capital and must ensure that the value of its assets exceeds the amount of its liabilities by an amount greater than the prescribed minimum solvency margins ("MSM") and enhanced capital requirement ("ECR") pertaining to its general business. At December 31, 2019 and December 31, 2018 all such requirements were met.

Enhanzed Re is also required under its Class 4 license to maintain a minimum liability ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. As of December 31, 2019 and December 31, 2018 Enhanzed Re met the minimum liquidity ratio.

10. Statistical financial information and dividend restrictions (continued)

Under the Act, Enhanzed Re is subject to capital requirements calculated using the Bermuda Solvency Capital Requirement model ("BSCR"), which is a standardized statutory risk-based capital model used to measure the risk associated with Enhanzed Re's assets, liabilities and premiums. Under the BSCR, Enhanzed Re's required statutory capital and surplus is referred to as the Enhanced Capital Requirements ("ECR"). The ECR is equal to the higher of the MSM or the BSCR model. The BSCR for relevant insurers for the period ended December 31, 2019 will not be filed with the BMA until April 30, 2020. Following receipt of the submission of Enhanzed Re's ECR, the BMA has the authority to impose additional capital requirements or capital add-ons, if it deems necessary. If an insurer fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2019 and December 31, 2018 Enhanzed Re met its ECR. The BSCR will be based on an Economic Balance Sheet ("EBS") derived from the Company's GAAP financial statements, with certain adjustments related to loss reserves, intangibles and contingencies, among others.

Enhanzed Re may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. Enhanzed Re is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus unless Enhanzed Re files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause the company to fail to meet its relevant margins. No dividends were paid for the period ended December 31,2019 or December 31, 2018.

11. Subsequent events

On March 11, 2020 the World Health Organization declared the 2019 novel coronavirus (“COVID-19”) a pandemic. COVID-19 is predicted to continue to cause a large number of illnesses or deaths which could impact the Company’s reinsurance operations as well as have significant consequences on the global economy and financial markets. Governmental and non-governmental organizations may not effectively combat the spread and severity of the pandemic resulting in continued public health deterioration and erosion of the global economy and financial markets. The financial markets have been extremely volatile in response to the developing pandemic and the equity markets, in particular, have experienced significant downward volatility.

The Company’s investment securities have been subject to these market fluctuations in the period subsequent to December 31, 2019 and are expected to continue to experience significant volatility as the situation progresses. To date, the Company has experienced $19.4 million devaluation in fixed-income securities, other income securities, and the portfolio of securities underlying the funds withheld assets.

Management have reviewed the reinsurance arrangements assumed and consulted with cedants to ascertain the impact of the pandemic upon the Company's reinsurance operations. Given the nature of uncertainty of the potential impacts of the pandemic an estimate of the impact on reinsurance operations cannot be made at this time, however changing regulatory and geopolitical situations could result in an impact to the Company’s liabilities and resultant reinsurance operation results.