Enhanzed Reinsurance Ltd. (formerly known as Allianz Re Bermuda Life Ltd.)

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2018

Enhanzed Reinsurance Ltd.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Enhanzed Reinsurance Ltd. (formerly known as Allianz Re Bermuda Life Ltd.), which comprise the balance sheet as of December 31, 2018, and the related statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the year 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 audits. We conducted our audits 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 entity'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 entity'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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

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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 26, 2019

Enhanzed Reinsurance Ltd.

Balance Sheet

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

	Note(s)	2018
Assets		
Cash and cash equivalents		133,952
Fixed-income investments	3,4	21,520
Other investments	3,4	75,193
Funds withheld	3	824,790
Accrued investment income		131
Deferred charge asset		24,895
Other assets		12
Total assets		**1,080,493**
Liabilities		
Loss and loss adjustment expenses	5	849,686
Other liabilities		4,927
Subordinated notes, at fair value	4	30,156
Total liabilities		**884,769**
Equity		
Common shares ($1.00 par, authorized, issued and outstanding: 1,864,107)	6	1,864
Additional paid-in capital		201,313
Accumulated deficit		(7,640)
Accumulated other comprehensive income		187
Total shareholders' equity		**195,724**
Total liabilities and shareholders' equity		**1,080,493**

The accompanying notes are an integral part of the financial statements

Enhanzed Reinsurance Ltd.

Statement of Operations and Comprehensive Loss

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

	Note(s)	2018
Income		
Net investment income	3	11,676
Total income		**11,676**
Expenses		
Benefits and expenses	5	14,916
Operating expenses		3,102
Total expenses		**18,018**
Net income (loss)		**(6,342)**
Other comprehensive income		
Change in own credit risk		187
Total other comprehensive income		**187**
Comprehensive loss		**(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, 2018
(Expressed in thousands of U.S. dollars)

	Note(s)	2018
Common shares		
Common shares at beginning of year		250
Common shares issued during the year	6	1,614
Common shares at end of year		**1,864**
Additional paid in capital		
Additional paid-in capital at beginning of year		29,750
Contribution during the year		171,563
Additional paid-in capital at end of year		**201,313**
Accumulated deficit		
Accumulated deficit at beginning of year		(1,298)
Net loss		(6,342)
Accumulated deficit at end of year		**(7,640)**
Accumulated other comprehensive income (loss)		
Accumulated other comprehensive income at beginning of year		–
Change in own credit risk during the year – fair value of subordinated noted		187
Accumulated other comprehensive income (loss) at end of year		**187**
Total shareholders' equity		**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)

	Note(s)	2018
Cash flows from operations		
Net income (loss)		(6,342)
Adjustments to reconcile net loss to net cash from operating activities:		
Changes in funds withheld		(426,189)
Changes in loss reserves		430,045
Changes in other assets/ liabilities		862
Net cash provided by operating activities		**(1,624)**
Cash flows from investing activities		
Net investment purchases		(75,317)
Net cash provided by investing activities		**(75,317)**
Cash flows from financing activities		
Proceeds from issuance of common shares		173,178
Proceeds from subordinated notes		30,000
Net cash provided by financing activities		**203,178**
Change in cash and cash equivalents		126,236
Cash and cash equivalents at beginning of period		7,716
Cash and cash equivalents at end of period		**133,952**

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, 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. In December 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 will reinsure 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.

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 and Asbestos liabilities.

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").

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; and
- Valuation of 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. A DCA is reported on the balance sheet when the premium received is less than the estimated reserve assumed. The recovery method is used to amortize the DCA within the statement of operations. Changes in estimates of loss reserves assumed impact the determination of DCA on a retrospective basis.

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

2. Summary of significant accounting policies (continued)

2.3 Retroactive reinsurance (continued)

The DCA is tested for recoverability on an annual basis, utilizing assumptions related to estimated pay-out patterns associated with the liabilities assumed and investment returns.

2.4 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, 2018, the Company's losses and loss adjustment expense reserves include case reserves, reserves for losses incurred but not reported ("IBNR"), allocated and unallocated loss adjustment reserves.

Inherent in the estimate of ultimate 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 income in the period in which they become known unless it relates to a contract where DCA has been established, in which case such change will require the DCA to be updated which will impact the amortization of DCA over time. To the extent it becomes apparent that insufficient or excess DCA has been amortized to date, an adjustment will be made within the year in question.

2.5 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.

2.6 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.

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. Any change in fair value is included in net investment income. The ENZ RE Fund is carried at fair value through income in accordance with the guidance per ASU 2016-01, which was early adopted by the Company with effect from January 1, 2018.

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, 2018, the Funds Withheld asset is representative of amounts receivable from Allianz SE.

2. Summary of significant accounting policies (continued)

2.6 Financial instruments and net investment income (continued)

With effect from April 1, 2019 $529 million of the Funds Withheld asset were backed by underlying investments in a portfolio of fixed income securities. The Company is the beneficiary of the investment returns generated by those underlying fixed income securities.

In instances where the Company is the beneficiary of actual investment returns generated by assets supporting funds withheld assets, reinsurance agreements written on a FWH coinsurance or modco basis may contain embedded derivatives. At December 31, 2018, Funds withheld assets recorded by the Company had a fixed crediting rate and there was no embedded derivative associated with the transaction.

Subordinated notes

The Company has elected the fair value option for subordinated notes issued and records the financial liability at estimated fair value with qualifying changes in fair value recognized within the statement of operations. The portion of the total change in the fair value of the liability that results from a change in the instrument-specific credit risk is shown separately in accumulated other comprehensive income.

2.7 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. Based upon the Company understanding of the market inputs used in the pricing services, all applicable investments have been valued in accordance with GAAP. 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 valuation hierarchy.

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 net asset value ("NAV") and are excluded from the level 1, 2 and 3 fair value hierarchy.

2. Summary of significant accounting policies (continued)

2.8 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.

2.9 Recent accounting pronouncements

Recently issued but not yet adopted

In August 2018, the FASB issued ASU 2018-13, which aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing fair value measurement disclosures. This ASU is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2019.

In August 2018, the FASB issued ASU 2018-12, which changes how insurance entities recognize, measure, present and disclose long-duration contracts. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2020 and for all other entities for annual periods in fiscal years beginning after December 15, 2021, and interim periods in fiscal years beginning after December 15, 2022.

The company is in the process of evaluation the impact of the above noted standards on its financial statements.

Recently issued and adopted

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 the presentation of certain fair value changes for financial liabilities measured at fair value. The Company early adopted ASU 2016-01 with effect from January 1, 2018.

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 topics within the FASB's codification, including ASC 944 - Financial Services - Insurance, ASC 320 - Investments - Debt Securities, ASC 321 - Investments - Equity Securities and ASC 825 - Financial Instruments. However, while contracts within the scope of ASC 944 are excluded from the scope of the ASU, certain insurance-related contracts are in scope, 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. Subsequently, the FASB issued ASUs 2016-08, 2016-10 and 2016-12 that either made targeted amendments to or clarified the implementation of ASU 2014-09. The Company does not expect any significant impact as a result of adopting this standard as substantially all of the Company's revenues are from sources that are within the scope of other FASB topics, primarily ASC 944, ASC 320, ASC 321 and ASC 825, and therefore are excluded from the scope of the revenue recognition standard.

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

3. Financial instruments

3.1 Investments by asset type

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

	2018 Fair value	2018 %
Fixed income investments		
Government	3,988	4.2%
Municipal	1,704	1.8%
Commercial mortgage backed securities	3,694	3.8%
Corporate debt securities	12,134	12.5%
Fixed-income investments	**21,520**	**22.3%**
Other investments		
Limited partnership fund	75,193	77.7%
Other investments	**75,193**	**77.7%**
Investments	**96,713**	**100.0%**

The Limited partnership fund aims to deliver 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.

Funds withheld of $824,790 as at December 31, 2018 are representative of amounts receivable from Allianz SE, are carried at cost and include no embedded derivative.

3.2 Net investment income components

The following table presents the components of net investment income:

	2018
Fixed-income investments	(371)
Other investments	193
Funds withheld	7,226
Financial liabilities	4,797
Other & Investment expenses	(169)
Net investment income	**11,676**

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

3. Financial instruments (continued)

3.3 Fixed income investments by asset rating

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

	2018 Fair value	2018 %
AAA	2,338	10.8%
AA	6,972	32.4%
A	4,600	21.4%
BBB	6,997	32.5%
BB or lower	613	2.9%
Fixed-income investments	**21,520**	**100.0%**

3.4 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.

	2018 Fair value	2018 %
Due in one year or less	650	3.0%
Due after one through five years	6,192	28.8%
Due after five through ten years	4,989	23.2%
Due after ten years	5,995	27.8%
CMBS	3,694	17.2%
Fixed-income investments	**21,520**	**100.0%**

4. Fair value measurements

At December 31, 2018 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:

	Level 1	Level 2	Level 3	NAV	Total fair value
Fixed-income investments	–	21,520	–	–	21,520
Other investments	–	–	–	75,193	75,193
Financial liabilities	–	(30,156)	–	–	(30,156)

5. Reserve for loss and loss adjustment expenses

During the year, 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 $10,792 as a charge to the statement of operations, which was made up of $37,761 for a write-off of acquisition expenses and $26,970 for adjustment to benefit reserves that had been recorded on the balance sheet.

As at December 31, 2018 losses and loss adjustment expenses on the balance sheet were represented by loss reserves assumed as part of the reinsurance agreement with Allianz SE. The reinsurance agreement was effective as of December 31, 2018, and as such, there was no movement between assumed loss reserves and the balance recorded on the balance sheet at December 31, 2018. The Company expensed $4,124 of Federal Excise Tax at inception of this reinsurance agreement.

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, 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.

Asbestos and Environmental

In establishing the reserves for losses and LAE related to asbestos and environmental claims, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy, and management can reasonably estimate its liability. In addition, reserves have been established to cover additional exposures on both known and unreported claims.

Estimates of the reserves 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 asbestos and environmental 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.

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

5. Reserve for loss and loss adjustment expenses (continued)

Additional disclosure for the short duration contracts included in losses and loss adjustment expenses and related reserves for the year ended December 31, 2018 is presented below. The table sets out the Company's reserves for loss and loss adjustment expenses, net of reinsurance as well as IBNR balances presented by accident year.

At December 31, 2018, the Company is party to one reinsurance agreement which was written on a retrospective basis i.e. covering events that have occurred in the past. This agreement was entered into by the Company during the current year and provides coverage on a quota-share basis for cedant's risks related to Workers' Compensation, Asbestos and Environmental liability. The Company has presented this agreement within the below loss tables on a prospective basis.

	Year ended December 31, 2018	
Accident year	**Net loss and loss adjustment expenses**	**Incurred-but-not-reported ("IBNR")**
2009	3,712	1,647
2010	6,099	2,410
2011	10,680	1,290
2012	9,267	3,948
2013	–	–
2014	–	–
2015	–	–
2016	–	–
2017	–	–
2018	–	–
Total	**29,758**	**9,295**

Total	29,758
All loss and loss adjustment expense reserves relating to 2008 and prior periods	819,928
Loss and loss adjustment expenses per Balance Sheet	**849,686**

Within the year ended December 31, 2018, there were no losses paid by the Company in connection with the assumed reinsurance agreement.

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.

6. Share capital

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, all of which are issued, fully paid and outstanding.

7. 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.

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

8. Related party transactions

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

	Enstar	Hillhouse	Allianz	Total
Funds withheld	–	–	824,790	824,790
Accrued investment income	–	–	(46)	(46)
Other Investments	–	75,193	–	–
Deferred charge asset	–	–	24,895	24,895
Reserve for loss and loss adjustment expenses	–	–	849,686	849,686
Other liabilities	226	–	4,133	4,359
Subordinated notes	–	–	30,156	30,156

All related party balances relate to above mentioned underwriting, financing and service transactions with the Company's owners or their affiliates.

9. 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, 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, 2018 Enhanzed Re met the minimum liquidity ratio.

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, 2018 will not be filed with the BMA until April 30, 2019. 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, 2018 Enhanzed Re met its ECR. The BSCR will be based on an Economic Balance Sheet ("EBS") derived from the Company's U.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, 2018.

10. Subsequent events

In January 2019, the Company has used some of it cash and cash equivalents balances to make further subscriptions to the ENZ RE Fund.