THE BERMUDA MONETARY AUTHORITY
Hamilton, Bermuda

FINANCIAL CONDITION REPORT

For the fiscal year ended December 31, 2016

KaylaRe

KAYLARE LTD., BERMUDA
BMA Registration Number 50616

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Company telephone number: (441) 296-8972

Approved Statutory and US GAAP Auditor

KPMG Audit Limited
Crown House | 4 Par-la-Ville Road
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Auditor's telephone number: (441) 295-5063

Group Supervisor

Bermuda Monetary Authority
BMA House | 43 Victoria Street
Hamilton | Bermuda

DECLARATION ON FINANCIAL CONDITION REPORT

To the best of our knowledge and belief, we the undersigned confirm that the Financial Condition Report fairly represents the financial condition of KaylaRe Ltd., in all material respects:

Chief Executive

Chief Financial Officer with oversight responsibilities for the actuarial, risk management, internal audit and compliance functions

Table of Contents

ITEM 1. BUSINESS AND PERFORMANCE

a) Description of Business

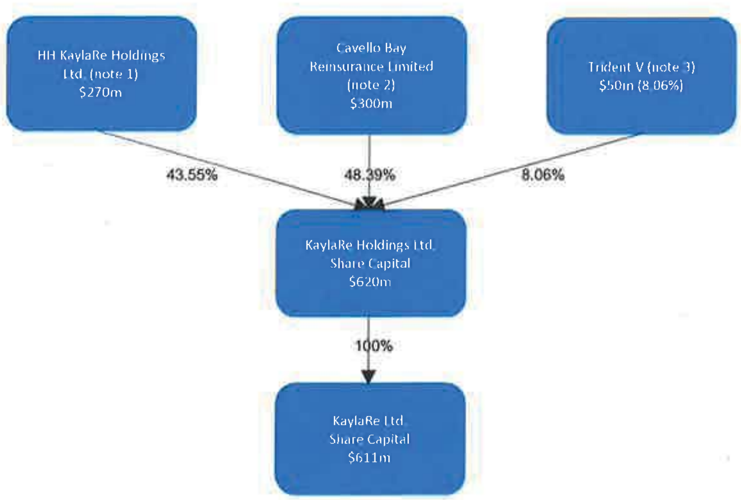
KaylaRe Ltd. ("KaylaRe" or the "Company"), a wholly owned subsidiary of KaylaRe Holdings Ltd., is a Bermuda reinsurance company offering a diversified range of specialty reinsurance solutions to the global insurance market. The Company was incorporated on September 17, 2015 and was issued with a Class 4 insurance licence by the Bermuda Monetary Authority ("BMA") effective December 2, 2016.

The Company's objective is to maximize expected risk adjusted returns for shareholders by combining a diversified lower volatility portfolio of specialty insurance risks with a diversified relative value investment strategy with favourable risk and reward characteristics across select asset classes, sectors and geographies.

b) Ownership Details

The Company raised $611.0 million of capital through the issuance of 1,000,000 common shares with a par value of $0.01 per share. KaylaRe Holdings Ltd. (the "Parent") acquired 100% of the Company's common shares during its capital raise. Cavello Bay Reinsurance Limited ("Cavello"), a wholly-owned subsidiary of Enstar Group Limited ("Enstar"), invested $300.0 million in the Parent during its launch and acquired approximately 48.4% of its common shares. HH KaylaRe Holdings Ltd., ("HH KaylaRe") a Cayman Islands exempted company wholly owned by Hillhouse Fund III, L.P., a Cayman Islands limited partnership, also invested $270 million in the Parent during its launch and acquired approximately 43.5% of its common shares. Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P. (collectively "Trident V"), managed by Stone Point Capital LLC ("Stone Point"), likewise invested $50 million in the Parent during its launch and acquired approximately 8.1% of its common shares.

c) Group Structure



Note 1: HH KaylaRe Holdings Ltd. is a Cayman Islands exempted company which is wholly owned by Hillhouse Fund III, L.P. a Cayman Islands limited partnership

Note 2: Cavello Bay Reinsurance Limited is a wholly-owned subsidiary of Enstar Group Limited

Note 3: Trident V comprises collectively Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P.

d) Insurance Business Written by Line of Business ($'000s)

KaylaRe offers a diversified range of specialty reinsurance solutions to the global insurance market. All premiums written (gross and net), relates to the StarStone Quota Share Treaty (refer to item 2 d). The following table shows gross and net premiums written by geographical area for the year ended December 31, 2016:

	LINE OF BUSINESS	GROSS PREMIUM WRITTEN	NET PREMIUM WRITTEN
1	United States	63,321	63,321
2	Europe (including United Kingdom)	28,389	28,389
3	Asia	2,787	2,787
4	Rest of World	14,564	14,564
	Total	**109,061**	**109,061**

e) Performance of Investments & Material Income & Expenses for the Reporting Period ($'000)

Performance of Investments for the Reporting Period

	INVESTMENT INCOME	MARKET VALUE	PERFORMANCE
Other	1,943	541,958	0.36%
Cash and cash equivalents	15	61,001	0%
Funds Held	0	319,259	0%
Investment Expenses	0		
Total	1,948	**922,218**	

f) Material Income & Expenses for the Reporting Period

KaylaRe's initial business model is to source reinsurance business primarily from Enstar Group Limited ("Enstar") and its subsidiaries ("affiliated business"). Enstar is a leading global insurance and reinsurance group (ticker symbol "ESGR"), with total assets of $14.9 billion and total shareholders' equity of approximately $2.9 billion as of March 31, 2017.

Through Enstar, KaylaRe has long-term access to a high-quality, diversified portfolio of low volatility specialty insurance risks and supporting infrastructure. Our Board and management team will also leverage Enstar's industry expertise to support the administration and execution of our business.

As well as growing affiliated business premiums and profitability, KaylaRe also aims to carefully and opportunistically build non-Enstar sourced reinsurance business.

KaylaRe reported a net loss of $6.4m for the period from September 17, 2105 (Date of Incorporation) to December 31, 2016, this being the first reporting period ("the period") for the Company. The most significant drivers of our financial performance for the period included:

Net underwriting income

The Company recognized the following net underwriting income amounts for the period:

Gross premiums written	$109.0 million
Net premiums earned	$nil
Net incurred losses and loss adjustment expenses	$(8.3) million
Acquisition costs	$(8.8) million

Net underwriting income is in respect of the following reinsurance business:

A continuous 35% Quota Share reinsurance treaty with StarStone Specialty Insurance Company, StarStone National Insurance Company, StarStone Insurance SE, StarStone Insurance Europe AG, SGL No.1 Limited and StarStone Corporate Capital 1 Limited (collectively "StarStone") with effect from January 1, 2016. Through this 35% QS treaty, StarStone ceded to KaylaRe the proportionate share of its ultimate net losses.

During the period ended December 31, 2016, StarStone ceded $117.5 million of premium earned, $75.0 million of net incurred losses and LAE and $42.5 million of acquisition costs to KaylaRe under the QS treaty. These amounts were accounted for by KaylaRe in accordance with retroactive reinsurance accounting. The unearned premiums of $109.0 million ceded by StarStone to KaylaRe as at December 31, 2016 has however been accounted for in accordance with prospective reinsurance accounting.

Effective October 1, 2016, KaylaRe entered into an excess of loss ("XoL") reinsurance agreement with Fitzwilliam Insurance Limited's ("Fitzwilliam") Segregated Account 24 ("FW#24"). Fitzwilliam is a wholly-owned subsidiary of Enstar and is licensed as a Class 3 Insurer under the Insurance Act and is also registered under the Segregated Accounts Companies Act 2000 ("SAC Act") as amended. The premium on the agreement was $115.95 million and is retained by FW#24 on a funds withheld basis. The attachment point and the limit on the agreement were set at $24.86 million and $140.81 million respectively.

Effective October 1, 2016, the Company also entered into a XoL reinsurance agreement with Fitzwilliam's Segregated Account 30 ("FW#30"). The premium on the agreement was $61.29 million and is retained by FW#30 on a funds withheld basis. The attachment point and the limit on the agreement were set at $13.14 million and $74.43 million respectively.

The Company has adopted retroactive accounting for these LPTs with the Fitzwilliam segregated accounts, whereby at the inception of each contract there are no premiums or losses recorded in the statement of operations for the period ended December 31, 2016. The Company has recorded the related amounts as funds held by reinsured companies and reserves for losses and LAE on its balance sheet.

Net investment income including unrealized gains

The Company recognized unrealized gains on other investments amounting to $1.94 million and investment income amounting to $0.02 million for the period. Unrealized gains for the period were predominantly derived from a fixed income fund and a multi-strategy hedge fund.

General and administrative expenses

Included with general and administrative expenses of $6.9 million for the period are servicing fees payable to the Reinsurance Manager of $6.8 million.

g) Any Other Material Information

The Company has engaged Enstar Limited (the "Reinsurance Manager"), a company incorporated in Bermuda and a wholly-owned subsidiary of Enstar Group Limited ("Enstar"), to act as its reinsurance manager pursuant to a Services Agreement, dated December 14, 2016. The Reinsurance Manager provides day-to-day underwriting and business sourcing services together with operational support to the Company, subject to the provisions of the Services Agreement and oversight by the Company's Executive Management and Board of Directors (the "Board").

The Company's investments are managed by a select group of established global investment managers including its primary investment manager, Hillhouse Capital Management, Ltd. ("Hillhouse"), a Cayman Islands exempted company, pursuant to an Investment Management Agreement, dated December 14, 2016.

Hillhouse acts as the exclusive investment manager of Hillhouse InRe Fund, L.P., a Cayman Islands exempted limited partnership (the "Partnership"), through which the capital contributions from KaylaRe are invested and managed.

The Company obtained a license from the Bermuda Monetary Authority to carry on business as a Class 4 insurer effective December 2, 2016. Accordingly, the Company did not commence insurance operations until mid-December 2016.

As at the reference date of December 31, 2016 for this Financial Condition Report, the Company had established the key governance, risk management and internal controls frameworks including a Board of Directors, Board Committees and an executive management team with Enstar Limited providing significant support services to the Company under the outsourcing Service Agreement.

The Company's operational resources, governance, risk management and internal controls processes will be further developed and enhanced throughout 2017 and beyond as the Company builds out its underwriting and operational capabilities.

ITEM 2. GOVERNANCE STRUCTURE

a) Board and Senior Executive Structure, role, responsibility and segregation of responsibilities

i) *Roles & Responsibilities*

NAME	BOARD POSITION	RESPONSIBILITIES
Dominic Silvester	Chairman of the Board and Non-Executive Director	Chairman of the Board Chairman of the Underwriting Committee Member of the Audit, Investment & Risk and Nominating & Compensation Committees
Nick Packer	Chief Executive Officer and Director	Executive Officer - Board Member. Member of the Investment & Risk and Underwriting Committees
Jie Liu	Non-Executive Director	Non-executive board member. Chairman of the Nominating & Compensation Committee Member of the Audit, Investment & Risk and Underwriting Committees
Nicolas Zerbib	Non-Executive Director	Non-executive board member. Chairman of the Investment & Risk Committee Member of the Audit, Nominating & Compensation and Underwriting Committees
Robin Mehta	Independent Director	Non-executive board member. Chairman of the Audit Committee. Member of the Investment & Risk, Nominating & Compensation and Underwriting Committees

NAME	SENIOR EXECUTIVE POSITION	RESPONSIBILITIES
Alan Turner	Chief Financial Officer	Chief Financial Officer

b) Remuneration Policy

As at December 31, 2016, all personnel performing actives on behalf of the Company were employees of the Reinsurance Manager under the terms of the Services Agreement.

Independent non-executive Board members receive a flat fee in accordance with established policies approved by the Board.

c) Pension or Early Retirement Schemes for Members, Board and Senior Employees

As at December 31, 2016, all personnel performing actives on behalf of the Company were employees of the Reinsurance Manager under the terms of the Services Agreement.

d) Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives

From time to time, we have participated in transactions in which one or more of our directors, executive officers or large shareholders has an interest. These transactions, called related-party transactions, require the approval of our Board, which reviews each transaction for fairness, business purpose, and reasonableness. Each transaction involving the Company and an affiliate entered into during 2016 was approved by our Board.

Below is an analysis of the significant transactions that we entered into with our related parties during the year ended December 31, 2016:

StarStone Quota Share ("QS") Treaty

On December 15, 2016, the Company entered into a continuous 35% QS treaty with StarStone Specialty Insurance Company, StarStone National Insurance Company, StarStone Insurance SE, StarStone Insurance Europe AG, SGL No.1 Limited and StarStone Corporate Capital 1 Limited (collectively "StarStone") with effect from January 1, 2016. Through this 35% QS treaty, StarStone ceded to KaylaRe the proportionate share of its ultimate net losses. Enstar and Stone Point, through its Trident V funds, own approximately 59.0% and 39.30% respectively, of the common shares in the StarStone entities.

The initial security provided by KaylaRe to StarStone under this QS treaty is by way of a funds withheld arrangement, as part of which StarStone is entitled to withhold payment of the proportionate share of the net premium and retain it as funds withheld to be applied to discharge KaylaRe's payment obligations as they fall due under the treaty.

Fitzwilliam LPTs from Segregated Accounts 24 and 30

Effective October 1, 2016, KaylaRe entered into an excess of loss ("XoL") reinsurance agreement with Fitzwilliam Insurance Limited's ("Fitzwilliam") Segregated Account 24 ("FW#24"). Fitzwilliam is a wholly-owned subsidiary of Enstar and is licensed as a Class 3 Insurer under the Insurance Act and is also registered under the Segregated Accounts Companies Act 2000 ("SAC Act") as amended. The premium on the agreement was $115.95 million and is retained by FW#24 on a funds withheld basis.

Effective October 1, 2016, the Company also entered into a XoL reinsurance agreement with Fitzwilliam's Segregated Account 30 ("FW#30"). The premium on the agreement was $61.29 million and is retained by FW#30 on a funds withheld basis.

d) Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives (continued)

Enstar Limited

Enstar Limited, a wholly-owned subsidiary of Enstar, acts as the Reinsurance Manager of the Company pursuant to a Services Agreement with the Company and the Parent. The Services Agreement commenced on December 14, 2016 with an initial term expiring on December 31, 2022. The term of the Services Agreement is however subject to rolling annual three-year renewal periods unless either the Company or the Reinsurance Manager provides written notice to the other party, about its intent not to renew, at least twelve (12) months prior to the initial renewal date and on or before any subsequent renewal date.

Hillhouse

Hillhouse acts as the exclusive investment manager of Hillhouse InRe Fund, L.P., a Cayman Islands exempted limited partnership (the "Partnership"), through which the capital contributions from KaylaRe are invested and managed. The Investment Management Agreement between the Partnership and Hillhouse commenced on December 14, 2016 and shall continue until the date on which the Partnership is dissolved, with no termination rights assigned to KaylaRe or the Partnership. Capital contributions by KaylaRe into the Partnership are subject to certain defined lock-up periods while withdrawals and distributions from the Partnership to KaylaRe are also subject to certain specific limitations.

Hillhouse does not receive any fees, salary or other compensation for the services rendered under the Investment Management Agreement with the Partnership. Instead, the Parent shall grant Hillhouse certain warrants from time to time, to purchase non-voting common shares in the Parent at a price of US$0.01 in the aggregate for all such non-voting shares relating to each warrant issued for each fiscal year (collectively the "Upside Warrants"). Each Upside Warrant issued to Hillhouse on any given date will be for a fixed number of non-voting shares calculated as per the terms of a Warrant Purchase Agreement entered into between the Parent and HH KaylaRe. All such Upside Warrants issued will be exercisable any time from their date of issuance through the earlier of the date of, (a) the Parent's initial public offering, (b) the dissolution of the Partnership, and (c) the date KaylaRe withdraws all of its capital accounts from the Partnership. For the period ended December 31, 2016 no such Upside Warrants had been issued by the Parent to Hillhouse.

Included in other investments at December 31, 2016, are amounts with a fair value of $350.0 million invested in the Partnership. Both the Partnership and Hillhouse are affiliates of HH KaylaRe.

Stone Point

Included in cash and cash equivalents at December 31, 2016, are amounts with a fair value of $25.0 million managed by Eagle Point Credit Management, LLC, an affiliate of Stone Point.

d) Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executives (continued)

Patcham Investment Funds Plc.

Enstar Investment Management Limited, a wholly-owned subsidiary of Enstar acts as the Investment Advisor to Patcham Investment Funds Plc. ("Patcham"), an open-ended umbrella investment company with variable capital and segregated liability between its sub-funds and which is organized under the laws of Ireland as a public limited company pursuant to the Companies Act 2014. Patcham has obtained approval from the Central Bank of Ireland to establish two sub-funds namely, the Patcham Balanced Fund and the Patcham Global Fixed Income Fund.

Included in other investments at December 31, 2016 is an amount of $90.31 million invested in the Patcham fixed income fund.

e) Fitness and Proprietary Requirements

i) *Fit and Proper Process in assessing the Board and Senior Executive*

The KaylaRe Board believes that all of its directors have demonstrated professional integrity, ability and judgment, as well as leadership and strategic management abilities in their previous careers.

The Board comprises representatives of the 3 shareholders of the Company, together with an independent non-executive director and the Chief Executive Officer.

In accordance with the Fit and Proper Policy, the KaylaRe Board of Directors and Executive Officers and Senior Managers, including personnel undertaking those roles for the company subsidiaries under a services or other agreement (collectively referred to as "Covered Persons") are assessed against outlined criteria in order to be deemed to have the necessary qualities, competencies and experience to perform their duties and carry out the responsibilities required of their position in an effective manner.

ii) *Board and Senior Executives Professional Qualifications, Skills and Expertise*

(1) Board Members

Dominic F. Silvester:

KaylaRe Officer Title: Chairman of the Board & Non-Executive Director

Biographical Information

Dominic Silvester has served as Chairman of the Board of KaylaRe since its launch. Mr. Silvester is also Chief Executive Officer and director of Enstar Group Limited, a role he has held since Enstar's formation in 2001. In 1993, Mr. Silvester began a business venture in Bermuda to provide run-off services to the insurance and reinsurance industry. In 1995, the business was assumed by Castlewood Limited, which is now a subsidiary of Enstar Group Limited. From 1988 until 1993, Mr. Silvester served as the Chief Financial Officer of Anchor Underwriting Managers Limited.

Nick Packer:

KaylaRe Officer Title: Chief Executive Officer and Director

Biographical Information

Nick Packer was appointed Chief Executive Officer and director of KaylaRe in December 2016. Mr. Packer brings nearly 30 years of industry experience to KaylaRe, having previously served as Executive Vice President and the Joint Chief Operating Officer of Enstar Group Limited since its formation in 2001. From 2014 to 2016, Mr. Packer also served as Chairman and Chief Executive Officer of StarStone, Enstar's underwriting subsidiary. Mr. Packer, a co-founder of Enstar, joined Mr. Silvester in 1993 to a run-off business venture in Bermuda, which was assumed by Castlewood in 1995 and is now a subsidiary of Enstar Group Limited.

Jie Liu:

KaylaRe Non-Executive Director

Biographical Information

Jie Liu has served as a non-executive director of KaylaRe since its launch. Mr. Liu has significant experience working in the financial industry, particularly in asset management relating to fixed income, cross-border transactions, insurance, reinsurance, investment funds, public equity, private equity and other types of asset classes. He currently serves as Managing Director at Hillhouse Capital Management, Ltd. Prior to joining Hillhouse, Mr. Liu spent more than 10 years in the financial industry in North America where he was Head of Credit and a Senior Portfolio Manager at Sentry Investments, a leading Canadian asset manager.

Nicolas Zerbib:

KaylaRe Non-Executive Director

Biographical Information

Nicolas Zerbib has served as a non-executive of KaylaRe since its launch. Mr. Zerbib is also a Senior Principal of Stone Point and a member of the Investment Committees of the Trident Funds. He also serves as a director of a number of portfolio companies of the Trident Funds, including Alliant Insurance Services, The ARC Group, Freepoint Commodities, Hodges-Mace Holdings, LTCG, NXT Capital, Privilege Underwriters, StoneRiver Group and Yadkin Financial Corporation. Prior to joining Stone Point in 1998, Mr. Zerbib was an Analyst at Goldman, Sachs & Co.

Robin Mehta:

KaylaRe Independent Director

Biographical Information

Robin Mehta has served as an independent director of KaylaRe since its launch. Mr. Mehta has extensive experience working in the captive, brokerage and financial areas of the insurance/reinsurance industry. He currently serves as the Executive Managing Director of Beecher Carlson Bermuda (Brown and Brown), where he is responsible for all Bermuda operations, sales and marketing and alternative risk. Prior to rejoining Beecher Carlson in 2010, he served as CFO of Hiscox Insurance Company (Bermuda) Ltd. from 2006–2009, where he directed all finance and operational activities.

(2) Executive Officers:

Nick Packer:

Title: Chief Executive Officer

Biographical Information

See above.

Alan Turner:

Title: Chief Financial Officer

Biographical Information

Alan Turner was named Chief Financial Officer of KaylaRe in December 2016. Since January 2016, Mr. Turner was previously Chief Projects Officer of Enstar (EU) Limited. Prior to that, he served as Chief Executive Officer of Enstar (EU) Limited for nearly ten years, responsible for oversight of all of Enstar's UK & European run-off operations. Mr. Turner was also a director of a number of Enstar's UK subsidiaries and a Management Board member of Enstar's Swiss-domiciled subsidiary. Mr. Turner holds an ACA Chartered Accountant qualification with the Institute of Chartered Accountants in England and Wales.

f) Risk Management & Solvency Self-Assessment

i) *Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures*

Our enterprise risk management ("ERM") framework, consists of numerous processes and controls that are overseen by our Board of Directors and its committees, prior to implementation within the organization. This framework outlines the process by which risk is identified, measured, evaluated and reported so that strategic, operational and financial objectives are met.

The Board of Directors and its committees have risk oversight responsibility and play an active role in overseeing the management of the risks we face. The Investment & Risk Committee has responsibility for the oversight of ERM, reviews our overall risk appetite, ERM methodologies and oversees the execution of our ERM objectives. Among its other responsibilities, the Investment & Risk Committee is also responsible for overseeing investment-related risks, including those related to the cash and investment portfolio and investment strategy, overseeing corporate governance-related risks and also reviews and approves the annual Commercial Insurer's Solvency Self-Assessment ("CISSA") report. The Audit Committee, chaired by an independent director, oversees the accounting and financial reporting-related risks. The Underwriting Committee is responsible for the oversight of underwriting strategy and oversees the underwriting risks. The Nominating & Compensation Committee oversees compensation-related risks

The risk management function is currently outsourced to Enstar Limited under the Services Agreement as the Company is still in its formative stage. The risk management function is charged with working with the Company's senior executive management team to assess all significant risk issues, review and evaluate the current and emerging risks to which the Company is exposed, and monitor and oversee the guidelines and policies that govern the processes by which the Company identifies, assesses and manages its exposure to risk.

The overall objective of our ERM framework is to support good risk governance, support the achievement of business objectives, and provide overall benefits to us by adding value to the control environment and contributing to an effective business strategy, efficiency in operations and processes, strong financial performance, reliable financial reporting, regulatory compliance, a good reputation with key stakeholders, business continuity planning, and capital planning.

ii) *Risk Management and Solvency Self-Assessment Systems Implementation*

Accountability for the implementation and oversight of risk appetite and processes is the responsibility of the Company's executive management team. The Investment & Risk Committee and the Board receive regular risk management information to support risk governance.

The Company has a risk register documenting its risk landscape with risk and control owners assigned, which is maintained through a risk management software system. The Enstar Limited information technology department maintains risk registers with more detailed IT and information security-specific risks under the Services Agreement. We recognize the importance of information technology and management of data in supporting the business, and we utilize a number of technology platforms to assist in our ERM framework, underwriting, investments, financial and regulatory reporting processes and procedures across our organization.

We conduct the risk assessment process for the Company on a quarterly basis. The assessment process utilizes a risk management software system. Under the Services Agreement, the Enstar Limited risk management department reviews these risk assessments, discusses them with executive management and reports to the Board.

Our risk appetite considers material risks relating to, among other things, strategic risk, insurance risk, market risk, liquidity risk, credit/counterparty risk, operational risk, and regulatory/reputational risk. Our risk appetite represents the amount of risk that we are willing to accept compared to risk metrics based on our shareholders equity, capital resources, potential financial loss, and other risk-specific measures. Risk levels are monitored and any deviations from pre-established levels are reported in order to facilitate responsive action.

The ERM process is managed based on the major categories of risk within our business (strategic, insurance, market, liquidity, credit/counterparty, operational, regulatory/reputational). The ERM program is a dynamic process, with updates continually being made as a result of changes in our business, industry and the economic environment.

iii) *Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management*

The Solvency Self-Assessment ("SSA") process is the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks that the Company faces or may face and to determine the capital necessary to ensure that overall solvency needs are met at all times. Consequently, the SSA framework is fully integrated into our broader ERM framework.

Within the CISSA framework, the key elements informing the SSA process include:

i. Overall solvency needs taking into account the specific risk profile, approved risk appetite and tolerance limits and the business strategy of the Company;

ii. Considering all reasonably foreseeable material risks across all risk categories that the Company is or could be exposed to, taking into account a forward looking analysis of potential future changes in the risk profile due to the business strategy or the economic and financial environment and any stresses thereon;

iii. Significance with which the risk profile of the Company deviates from the assumptions underlying the Bermuda Solvency Capital Requirements model and other capital modelling exercises;

iv. Considering the nature and quality of capital or other resources appropriate to cover the risks identified and compliance, on a continuous basis, with relevant capital requirements; and

v. The internal control and risk-management systems and approved risk appetite and tolerance limits.

The SSA is an integral part of the business strategy and decision making process. The SSA would be re-performed following significant changes in the Company's risk profile.

iv) *The Solvency Self-Assessment Approval Process*

The Enstar Limited risk management function prepares and presents the quarterly ERM and annual SSA reports to the Company's executive management, the Investment & Risk Committee and the Board. At least annually, they confirm that the risk profile is:

- appropriate relative to the business and that all known material risks within scope of the risk management process have been regularly reviewed and remain within risk appetite either with or without mitigation and that these risks have been sufficiently captured within the CISSA; and

- that the Company is adequately capitalized and has sufficient liquidity.

On a quarterly basis various standard stress tests within the investment portfolio are performed; this analysis has been considered as part of our forward looking assessment.

g) Internal Controls

i) *Internal Control System*

The Company's day to day business activities are underpinned by controls which are designed to ensure processes are performed in accordance with the Company's policies and procedures and which help ensure that risk is both monitored and managed within the approved risk appetite. Controls which operate in the business will be subject to periodic independent assessment of both design and operational effectiveness. Where deficiencies are identified they will be reported to the Board and appropriate sub-committees, with remediation activities and status updates also being provided.

ii) *Compliance Function*

At this formative stage in the Company's development, the compliance function is currently outsourced to Enstar Limited under the Services Agreement.

The responsibilities of the compliance function include:

i. Providing assurance that the Company is in compliance with prevailing statutory requirements, guidelines, regulations and best practice;

ii. Developing, enhancing and maintaining the Company's compliance culture and ensuring resources, regular training, policies and procedures and systems to facilitate on-going compliance awareness;

iii. Overseeing the Company's compliance program that includes both training and assurance that the Company is in compliance with all internal policies and procedures, including the Employee Code of Conduct. Where violations or potential weaknesses are identified they are reported to the Board;

iv. Exercising general management oversight on compliance with the Company's Code of Conduct and related internal policies;

v. Provide appropriate guidance where compliance issues are escalated by management; and

vi. Provide a quarterly report on the compliance function key activities and issues.

h) Internal Audit

At this formative stage in the Company's development, the internal audit function is currently outsourced to Enstar Limited under the Services Agreement. The internal audit function provides independent and impartial assurance directly to the Audit Committee, the Board of Directors and senior executive management on the adequacy and effectiveness of the Company's system of risk management and the overall internal control environment.

Internal audit reviews take place according to a risk-based annual internal audit plan, drawn up by internal audit and agreed with the Board of Directors, the Audit Committee and senior executive management. To further support the internal audit function in the execution of its role, the acting head of internal the audit function has a direct reporting line to the Audit Committee. The function also has the complete and unrestricted right to obtain information (via both Company records and/or direct communication with staff), as necessary, to discharge its responsibilities. After each audit a report is provided to the Audit Committee highlighting the findings observed and agreed remediation activities. Remediation activities are tracked until closure. As appropriate, the internal audit function will co-source third parties to supplement its own resources.

i) Actuarial Function

At this formative stage in the Company's development, the actuarial function which has responsibility for reserving, pricing and capital modelling is currently outsourced to Enstar Limited under the Services Agreement.

Internal and external actuarial reserving estimates are reviewed by senior executive management and a report is provided to the Audit Committee to ensure that the loss reserving provisions are both reasonable and appropriate.

j) Outsourcing

i) *Outsource Policy and Key Functions that have been Outsourced*

The Company was granted its license to operate as a Class 4 insurer by the BMA effective December 2, 2016. Shortly thereafter, Enstar Limited was appointed the Reinsurance Manager and under the terms of the Services Agreement provides underwriting and reinsurance management services to the Company, including the provision of resources to service the needs of the Company. This agreement also includes the provision of key control functions comprising risk management, actuarial, compliance and internal audit services to the Company by Enstar Limited as described above. As the Company grows, it may build internal resource capacity with respect to these functions, as appropriate.

KaylaRe performs on-going monitoring of services provided by Enstar Limited with status updates being provided to the Board and relevant sub-committees on a periodic basis.

ii) *Material Intra-Group Outsourcing*

N/A

k) Other Material Information

N/A

ITEM 3. RISK PROFILE

a) Material Risks the Insurer is Exposed to During the Reporting Period

In addition to the strategic risk, insurance risk (comprising both underwriting and reserving risk) and market risk inherent in the business we operate, the other risks facing the Company currently include those related to 1) operational risk (including the outsourcing arrangements with Enstar Limited), 2) regulatory and reputational risk, 3) liquidity risk and 4) credit / counterparty risk.

b) Risk Mitigation in the Organisation

The identification, analysis, evaluation treatment and reporting of risks is performed by the risk management function as laid out within the ERM framework and suite of supporting policies including emerging risks. Risks and their assessment are reported to senior executive management and to the Board and Investment & Risk Committee. The mitigation activities performed by risk type are outlined below:

Strategic Risk

We manage strategic risk by utilizing a strategic business planning process involving both executive management and the Board of Directors. The annual business plan is reviewed and overseen by both executive management and the Board of Directors with actual performance, trends, and uncertainties monitored against the plan.

Insurance Risk

We manage exposure levels across risk categories to maintain them within the approved risk appetite. Underwriting risk management strategies may differ depending on the line of business involved and the type of account being reinsured. When building the initial underwriting portfolio we have mitigated underwriting risk through various controls and strategies, including our underwriting risk selection, diversification of our underwriting portfolios by class and geography. We utilize various pricing models (both internal and commercial models) to evaluate individual underwriting decisions within the context of business plans and overarching risk appetites. In some business lines we are exposed to multiple insured losses arising out of a single peril, such as a natural catastrophe event (for example, a hurricane, windstorm, tornado, flood or earthquake) or a man-made event (for example, war, terrorism, airplane crashes and other transportation-related accidents, or building fires). We model and manage our individual and aggregate exposures to these events and other material correlated exposures in accordance with our risk appetite. The incidence, timing and severity of catastrophes and other event types are inherently unpredictable, and it is difficult to estimate the amount of loss any given occurrence will generate. Accordingly, there is material uncertainty around our ability to measure exposures, which can cause actual exposures and losses to deviate from our estimates.

To monitor catastrophe risk, we review exceedance probability curves together with aggregated realistic disaster scenarios. We consider occurrence exceedance probability and aggregate exceedance probability, which reflect losses resulting from single or multiple events, from individual perils and in the aggregate.

We manage reserving risks through our reserving practices as well as through our claims management practices.

Market Risk

Through our investment portfolio, we are principally exposed to four types of market risk: interest rate risk, credit risk, equity risk and foreign currency risk. We manage market risk in a number of ways, including use of investment guidelines; regular reviews of investment opportunities; market conditions; portfolio duration; oversight of the selection and performance of external asset managers; regular stress testing of the portfolio against known and hypothetical scenarios; established tolerance levels; and, where possible, foreign currency asset/liability matching. Investments are managed by professional investment managers with portfolio oversight and reporting provided by our Reinsurance Manager and overseen by the Investment & Risk Committee.

Operational Risk

We seek to mitigate operational risks through the application of our policies and procedures and the internal control and compliance processes in place, including but not limited to business continuity, information security, financial reporting controls and ongoing oversight over the Reinsurance Manager.

Regulatory / Reputational Risk

We manage reputational risk through a focus on compliance with laws and regulations, adherence to our policies and procedures (including our Code of Conduct) and our internal controls, an established corporate governance framework and practices, and ongoing communication and engagement with external stakeholders and regulators.

Liquidity Risk

The investment portfolio is segmented so that low volatility and highly liquid assets are held that will meet short dated liabilities, medium and longer date liabilities will be invested to achieve higher risk-adjusted returns.

Credit / Counterparty Risk

In our fixed maturity and short-term investment portfolios, we attempt to mitigate credit risk through diversification and issuer exposure limitation.

c) Material Risk Concentrations

The Company has an investment policy governing asset class allocation within the core geographic regions of North America, Europe and Asia. Single-issuer exposures are tracked and reported to the Investment & Risk Committee on a quarterly basis.

The Company's underwriting activities have governance structures in place to ensure that appropriate oversight takes place with respect to product development, underwriting discipline and the placement and structure of reinsurance programs. The Underwriting Committee regularly monitors and ensures compliance with stated risk appetite and tolerance with respect to line of business concentration, single peril and peril accumulation.

d) Investments in Assets in Accordance With the Prudent Person Principles of the Code of Conduct

The investment portfolio is managed in accordance with both the Company's investment policy and portfolio-specific investment guidelines agreed with managers. The Company's investment objective is to realize high risk-adjusted appreciation in the value of its assets with a diversified asset allocation strategy. The Company seeks to achieve its investment objective primarily through a multi-asset class portfolio managed by leading third-party asset managers consisting of investment grade and below investment grade bonds and loans (including structured products), public and private equities, and diversified hedge fund investments. The investment portfolio of the Company is managed to provide capital preservation while maintaining sufficient liquidity, and to operate within defined risk tolerances.

In developing the Company's investment policy and portfolio-specific investment guidelines we have considered the Prudent Person Principles of the Code of Conduct. Collectively the investment policy and portfolio-specific investment guidelines outline target asset allocations, permitted asset classes, ratings limits, single-issuer limits, duration guidance and other constraints that impact the asset allocation. These guidelines are reviewed on an annual or ad-hoc basis if any significant deviations have occurred that affect the financial markets.

e) Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company performs various standard stress tests within the investment portfolio on a quarterly basis and on the underwriting portfolio at least on an annual basis.

Market Risk: designed to simulate interest rate shocks, market down turns, segment sell offs and inflationary/deflationary pressures are performed and reported to the Investment & Risk Committee. These standard investment stress tests are also used to evaluate potential changes in strategic direction with respect to the underlying investment allocation.

Insurance Risk exposure and associated concentration and aggregation is simulated principally through the use of proprietary models and scenario testing. These tests are designed to quantify both aggregate and single event perils and the potential for clash. In addition non-modelled risk scenarios (based on the Lloyds Realistic Disaster Scenarios) are run to enable localized focus within peril regions and to facilitate the identification and subsequent management of risk at a more granular level.

Based on this on-going analysis, management consider the Company to be appropriately capitalized with adequate liquidity to meet its liabilities and that risks to which the Company are exposed continue to be managed within our appetite.

ITEM 4. SOLVENCY VALUATION

a) Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

We measure fair value in accordance with ASC 820, Fair Value Measurements. Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The guidance dictates a framework for measuring fair value and a fair value hierarchy based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

Our other investments are all measured at fair value using NAV per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy.

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified within the fair value hierarchy.

Valuation Methodologies of Other Investments Measured at Fair Value

We perform ongoing due diligence processes with respect to the other investments carried at fair value in which we invest, which include a review of the managers of such investments. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported NAV.

Funds Held by Ceding Insurers

Under funds held arrangements, the reinsured companies have retained funds that would otherwise have been remitted to KaylaRe. The funds 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 and net unrealized gains in the statement of operations.

Deferred Acquisition Costs

Acquisition costs, consisting principally of commissions, brokerage expenses, certain premium taxes and fees incurred at the time a contract or policy is issued and that vary with and are directly related to the successful efforts of acquiring new insurance contracts or renewing existing insurance contracts, are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value by line of business based on the related unearned premiums, anticipated claims and claim expenses and anticipated investment income.

Acquisition costs also include profit commissions that are expensed when incurred. Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate indicates that a profit commission is probable under the contract terms.

b) Valuation bases, Assumptions and Methods to Derive the Value of Technical Provisions

Loss and Loss Expense Provisions

All reserves are initially established in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). We establish reserves for individual claims incurred and reported, as well as for incurred but not reported ("IBNR") claims.

The liability for losses and LAE includes an amount determined from reported claims and an amount for losses incurred but not reported ("IBNR"), determined using a variety of actuarial methods including consideration of historical loss experience, expected loss and LAE ratios where historical loss experience is not available, and industry statistics. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

Included in the liability for losses and LAE is an assumed provision for LAE relating to run-off costs projected to be incurred over the estimated duration of the run-off of certain assumed LPTs. This provision is assessed at each reporting date and provisions relating to future periods are adjusted to reflect any changes in estimates, including the impact of any acceleration of the run-off period that may be caused by commutations.

Provisions relating to the current period together with any adjustment to future run-off provisions are included in net incurred losses and LAE in the statement of operations.

Once U.S. GAAP provisions have been determined, insurance technical provisions for our Economic Balance Sheet ("EBS") are calculated in accordance with the methodology prescribed by the Bermuda Monetary Authority ("BMA") as further described below.

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows which is calculated using a cost of capital approach and a risk-free discount rate. The risk-free discount rates are prescribed by the BMA for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using U.S. GAAP reserves as the starting point and then performing a series of adjustments:

- Removal of prudence margins;
- Incorporation of expected reinsurance counterparty defaults;
- Incorporation of Events not in Data ("ENIDs");
- Other adjustments related to consideration for investment expenses, etc.; and
- Discounting of cash flows.

The best estimate for the premium provision is calculated by using the unearned premium reserve on a U.S. GAAP basis, adjusting for bound but not incepted ("BBNI") business and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows which are then discounted.

Unearned Premium Reserve

Reinsurance premiums written are earned on a pro-rata basis over the period the coverage is provided. Where prospective and retroactive provisions are included within a single reinsurance contract, where practicable, these provisions are accounted for separately. Practicability requires a reasonable basis for allocating the reinsurance premiums to the risks covered by the prospective and retroactive portions of the contract, considering all amounts paid or deemed to have been paid regardless of the timing of payment. If separate accounting for prospective and retroactive provisions included within a single reinsurance contract is impracticable, the contract is accounted for as a retroactive contract provided the conditions for reinsurance accounting are met.

For assumed reinsurance contracts, written premium is recognized based on estimates of ultimate premiums provided by the ceding companies. Initial estimates of written premium are recognized in the period in which the risks incept. Changes in reinsurance premium estimates are expected and may result in adjustments in future periods. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Unearned premiums represent the portion of premiums written that relate to the remaining term of the underlying policies in force.

c) Description of Recoverables from Reinsurance Contracts

As at December 31, 2016 KaylaRe had no retrocession reinsurance agreements in place and as such recorded a reinsurance balance recoverable of $nil.

d) Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Other liabilities comprise insurance and reinsurance balances payable, amounts due to affiliates and accounts payable and accrued liabilities. All of these liabilities are carried at cost.

ITEM 5. CAPITAL MANAGEMENT

a) Eligible Capital

i) *Capital Management Policy & Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period*

The Company's capital resources as at December 31, 2016 comprised shareholders' equity of $604.5 million. Based on our current loss reserves position, our portfolio of in-force reinsurance business and our investment positions, we believe we are well capitalized.

The Company aims to generate cash flows from its insurance operations and investments and preserve sufficient capital to support future underwriting. Currently, given the formative stages of the Company's development, our strategy is to retain any net earnings and not to pay dividends.

The Company holds capital at, or in excess, of the BMA regulatory capital requirement.

We expect our future cash flows, together with our existing capital base, to be sufficient to meet cash requirements and to operate our business.

ii) *Eligible Capital Categorised by Tiers in Accordance With the Eligible Capital Rules*

	ACTUAL DEC 31, 2016
Tier 1	684,309
Tier 2	0
Tier 3	0
Total	**684,309**

ELIGIBLE CAPITAL	$000	$000
Fully paid common shares	1,000	
Contributed surplus	610,001	
Statutory Economic Surplus	73,308	
Total Tier 1 Capital		684,309
Total Eligible Capital		**684,309**

iii) *Eligible Capital Categorised by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act*

	LIMITS	MSM	ECR	MINIMUM MARGIN OF SOLVENCY	ENHANCED CAPITAL REQUIREMENT
Tier 1	Min	80%	60%	684,309	684,309
Tier 2	Max	20%	40%	0	0
Tier 3			15%	0	0
Total				684,309	684,309

All Eligible Capital of the Group is classified as Tier 1 capital.

iv) *Confirmation of Eligible Capital That is Subject to Transitional Arrangements*

N/A

v) *Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR*

N/A

vi) *Identification of Ancillary Capital Instruments Approved by the Authority*

N/A

vii) *Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus*

RECONCILIATION OF US GAAP TO BSCR (EBS) CAPITAL	$000
Shareholders' Equity per Financial Statements	604,527
Net reclassification of investments held at cost to fair value	0
Remove non-admitted Prepaid Expenses	0
Remove non-admitted Goodwill	0
Remove non-admitted Value Of Business Acquired	0
Redeemable non-controlling interest	0
Bermuda Statutory Capital and Surplus	**604,527**
Net discount on general business technical reserves	79,782
Net discount on long term business technical reserves	0
BSCR (EBS) Statutory Economic Capital and Surplus	**684,309**
Encumbered assets not securing policy holder obligations	0
Group Eligible Capital	**684,309**

b) Regulatory Capital Requirements

i) *ECR and MSM Requirements at the end of the reporting period:*

	AMOUNT	RATIO
Minimum Margin of Solvency	100,000	684%
Transitional Enhanced Capital Requirement	0	0%
Enhanced Capital Requirement	305,843	224%

ii) *Identification of Any Non-Compliance with the MSM and the ECR*

N/A

iii) *A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness*

N/A

iv) *Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance*

N/A

c) Approved Internal Capital Model to derive the ECR

i) *Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used*

N/A

ii) *Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model*

N/A

iii) *Description of Methods Used in the Internal Model to Calculate the ECR*

N/A

iv) *Description of Aggregation Methodologies and Diversification Effects*

N/A

v) ***Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model***

N/A

vi) ***Description of the Nature & Suitability of the Data Used in the Internal Model***

N/A

vii) ***Any other Material Information***

N/A

ITEM 6. SUBSEQUENT EVENTS

There are no subsequent events to report.