

BlackRock Enhanced Government Fund, Inc.  
Form N-CSR  
March 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES**

Investment Company Act file number: 811-21793

Name of Fund: BlackRock Enhanced Government Fund, Inc. (EGF)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock Enhanced Government Fund, Inc., 55 East 52<sup>nd</sup> Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 12/31/2016

Date of reporting period: 12/31/2016

Item 1 Report to Stockholders

ANNUAL REPORT

**BlackRock Enhanced Government Fund, Inc. (EGF)**

Not FDIC Insured   May Lose Value   No Bank Guarantee

**Section 19(a) Notice**

BlackRock Enhanced Government Fund, Inc.'s (EGF) (the Fund) amounts and sources of distributions reported are estimates and are being provided to you pursuant to regulatory requirements and are not being provided for tax reporting purposes. The actual amounts and sources for tax reporting purposes will depend upon the Fund's investment experience during the remainder of the fiscal year and may be subject to changes based on tax regulations. The Fund will provide a Form 1099-DIV each calendar year that will tell you how to report these distributions for federal income tax purposes.

**December 31, 2016**

	Total Cumulative Distributions for the Fiscal Year-to-Date			Total Per Common Share	% Breakdown of the Total Cumulative Distributions for the Fiscal Year-to-Date			
	Net Investment Income	Net Realized Capital Gains	Return of Capital		Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Common Share
EGF	\$ 0.397041		\$ 0.134959	\$ 0.532000	75%	0%	25%	100%

The Fund estimates that it has distributed more than its income and net-realized capital gains in the current fiscal year; therefore, a portion of your distribution may be a return of capital. A return of capital may occur, for example, when some or all of the shareholder's investment is paid back to the shareholder. A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with yield or income. When distributions exceed total return performance, the difference will reduce the Fund's net asset value per share.

Section 19(a) notices for the Fund, as applicable, are available on the BlackRock website <http://www.blackrock.com>.

**Section 19(b) Disclosure**

The Fund, acting pursuant to a U.S. Securities and Exchange Commission (SEC) exemptive order and with the approval of the Fund's Board of Directors (the Board), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the Plan). In accordance with the Plan, the Fund currently distributes fixed amounts of \$0.041 per share on a monthly basis.

The fixed amounts distributed per share are subject to change at the discretion of the Fund's Board. Under its Plan, the Fund will distribute all available investment income to its shareholders, consistent with its primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the Code). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code.

Shareholders should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the Plan. The Fund's total return performance on net asset value is presented in its financial highlights table.

The Board may amend, suspend or terminate the Fund's Plan at any time without prior notice to the Fund's shareholders if it deems such actions to be in the best interests of the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if the Fund's stock is trading at or above net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain a level distribution. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, decreased market volatility, companies suspending or decreasing corporate dividend distributions and changes in the Code.

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BLACKROCK ENHANCED GOVERNMENT FUND, INC.

DECEMBER 31, 2016

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## The Markets in Review

Dear Shareholder,

The year 2016 started on a fraught note with worries about slowing growth in China, plunging oil prices and sliding share prices. Then reflationary expectations in the United States helped drive a second-half global growth pick-up and big market reversals. As such, higher-quality asset classes such as Treasury bonds, municipals and investment grade credit prevailed in the first half of the year, only to struggle in the second. In contrast, risk assets sold off at the start of the year and rebounded in the latter half, with some asset classes posting strong year-end returns.

A key takeaway from 2016's market performance is that economics can trump politics. The global reflationary theme—governments taking policy action to support growth—was the dominant driver of 2016 asset returns, outweighing significant political upheavals and uncertainty. This trend accelerated after the U.S. election on expectations for an extra boost to U.S. growth via fiscal policy.

Markets were remarkably resilient during the year. Spikes in equity volatility after big surprises such as the U.K.'s vote to leave the European Union and the outcome of the U.S. presidential election were short-lived. Instead, political surprises and initial sell-offs were seized upon as buying opportunities. We believe this reinforces the case for taking the long view rather than reacting to short-term market noise.

Asset returns varied widely in 2016. Perceived safe assets such as government bonds and low-volatility shares underperformed the higher-risk areas of the market. And the reversal of longstanding trends created opportunities, such as in the recovery of value stocks and commodities.

We expect some of these trends to extend into 2017 and see the potential for more flows into risk assets this year. Learn more by reading our market insights at [blackrock.com](http://blackrock.com).

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Rob Kapito

President, BlackRock Advisors, LLC

### Total Returns as of December 31, 2016

	6-month	12-month
U.S. large cap equities (S&P 500® Index)	7.82%	11.96%
U.S. small cap equities (Russell 2000® Index)	18.68	21.31
International equities (MSCI Europe, Australasia, Far East Index)	5.67	1.00
Emerging market equities (MSCI Emerging Markets Index)	4.49	11.19
3-month Treasury bills (BofA Merrill Lynch 3-Month U.S. Treasury Bill Index)	0.18	0.33
U.S. Treasury securities (BofA Merrill Lynch 10-Year U.S. Treasury Index)	(7.51)	(0.16)

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U.S. investment grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index)	(2.53)	2.65
Tax-exempt municipal bonds (S&P Municipal Bond Index)	(3.43)	0.77
U.S. high yield bonds  (Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	7.40	17.13

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

## Option Over-Writing

In general, the goal of the Fund is to provide shareholders with current income and gains. The Fund seeks to pursue this goal primarily by investing in a portfolio of U.S. Government and U.S. Government Agency securities and utilizing an option over-writing strategy in an effort to enhance the Fund's distribution rate and total return performance. However, these objectives cannot be achieved in all market conditions.

The Fund writes call options on individual U.S. Government and U.S. Government Agency securities or on baskets of such securities or on interest rate swaps (swaptions), and may write call options on other debt securities. When writing (selling) a call option, the Fund grants the counterparty the right to buy an underlying reference security or enter into a defined transaction (e.g., a swap contract, in the case of the swaption) at an agreed-upon price (strike price) within an agreed upon time period. The Fund receives cash premiums from the counterparties upon writing (selling) the option or swaption, which along with net investment income and net realized gains, if any, are generally available to support current or future distributions paid by the Fund. During the option term, the counterparty may elect to exercise the option if the market value of the underlying reference security or underlying contract rises above the strike price, and the Fund is obligated to sell the security or contract to the counterparty at the strike price, realizing a gain or loss. If the option remains unexercised upon its expiration, the Fund realizes gains equal to the premiums received.

Writing call options and swaptions entails certain risks, which include but are not limited to, the following: an increase in the value of the underlying security above the strike price can result in the exercise of a written option (sale by the Fund to the counterparty) when the Fund might not otherwise have sold the security; exercise of the option by the counterparty may result in a sale below the current market value and in a gain or loss realized by the Fund; writing call options and swaptions limits the potential appreciation on the underlying interest rate swap or security and the yield on the Fund could decline; if current market interest rates fall below the strike price, the counterparty could exercise a written swaption when the Fund might not otherwise have entered into an interest rate swap; the Fund is bound by the terms of the underlying interest rate swap agreement upon exercise of the option by the counterparty which can result in a loss to the Fund in excess of the premium received. As such, an option over-writing strategy may outperform the general fixed income market in rising or flat interest rate environments (when bond prices are steady or falling) but underperform in a falling interest rate environment (when bond prices are rising).

The Fund employs a plan to support a level distribution of income, capital gains and/or return of capital. The goal of the plan is to provide shareholders with consistent and predictable cash flows by setting distribution rates based on expected long-term returns of the Fund. Such distributions, under certain circumstances, may exceed the Fund's total return performance. When total distributions exceed total return performance for the period, the difference reduces the Fund's total assets and net asset value per share (NAV) and, therefore, could have the effect of increasing the Fund's expense ratio and/or reducing the amount of assets the Fund has available for long-term investment. In order to make these distributions, the Fund may have to sell portfolio securities at less than opportune times.

The final tax characterization of distributions is determined after the fiscal year and is reported in the Fund's annual report to shareholders. Distributions can be characterized as ordinary income, capital gains and/or return of capital. The Fund's taxable net investment income or net realized capital gains (taxable income) may not be sufficient to support the level of distributions paid. To the extent that distributions exceed the Fund's current and accumulated earnings and profits, the excess may be treated as a non-taxable return of capital. Distributions that exceed the Fund's taxable income but do not exceed the Fund's current and accumulated earnings and profits may be classified as ordinary income, which is taxable to shareholders.

A return of capital distribution does not necessarily reflect the Fund's investment performance and should not be confused with yield or income. A return of capital is a return of a portion of an investor's original investment. A return of capital is not taxable, but it reduces a shareholder's tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent disposition by the shareholder of his or her shares. It is possible that a substantial portion of the distributions paid during a calendar year may ultimately be classified as return of capital for income tax purposes when the final determination of the source and character of the distributions is made.

The Fund intends to write call options and swaptions to varying degrees depending upon market conditions. Please refer to the Schedule of Investments and the Notes to Financial Statements for details of written call options and swaptions.



## Fund Summary as of December 31, 2016

### Fund Overview

BlackRock Enhanced Government Fund, Inc.'s (EGF) (the Fund) investment objective is to provide shareholders with current income and gains. The Fund seeks to achieve its investment objective by investing primarily in a portfolio of U.S. Government securities and U.S. Government Agency securities, including U.S. Government mortgage-backed securities that pay interest in an attempt to generate current income, and by employing a strategy of writing (selling) call options on individual or baskets of U.S. Government securities, U.S. Government Agency securities or other debt securities held by the Fund in an attempt to generate gains from option premiums.

No assurance can be given that the Fund's investment objective will be achieved.

### Performance and Portfolio Management Commentary

Returns for the 12 months ended December 31, 2016 were as follows:

	Returns Based On	
	Market Price	Net Asset Value
EGF <sup>1,2</sup>	0.54%	0.98%
BofA Merrill Lynch 1-3 Year US Treasury Index	N/A	0.89%
Citigroup Government/Mortgage Index	N/A	1.26%

<sup>1</sup> All returns reflect reinvestment of dividends and/or distributions.

<sup>2</sup> The Fund's discount to NAV widened during the period, which accounts for the difference between performance based on price and performance based on NAV.

N/A Not applicable as the index does not have a market price.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles. The following discussion relates to the Fund's absolute performance based on NAV:

#### What factors influenced performance?

Performance is reviewed on an absolute basis due to the Fund's unique strategy, which entails writing call options on individual or baskets of U.S. government securities or interest rates. The index returns listed above are for reference purposes only, as these indices do not reflect an option writing strategy.

The Fund's positions in agency mortgage-backed securities, including 30-year and 15-year pass-throughs, contributed to performance. Allocations to capital securities, commercial mortgage-backed securities (CMBS) and non-agency mortgage-backed securities also added value.

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The Fund's option overlay strategy, which it utilized as a means to manage risk against long positions in U.S. Treasuries, was the primary detractor from performance.

The use of swaptions (options to enter into interest-rate swaps) detracted once yields started to rise in the second half of the year. Swaptions continue to be an efficient interest rate management tool, and they should be viewed in the context of their overall contribution to risk reduction and performance.

### **Describe recent portfolio activity.**

Seeing the potential for elevated market volatility in 2016, the investment adviser maintained a low level of risk in the Fund during the first half of the year. As the market sold off in January and February, the Fund increased its exposure to government securities, mainly U.S. Treasuries, while reducing its position in agency mortgage-backed securities. The investment adviser also slightly increased the Fund's leverage to generate additional yield as the market priced in expectations for an interest rate increase by the U.S. Federal Reserve ( Fed ).

Later in the first half, the investment adviser further increased the Fund's allocation to U.S. Treasuries in expectation of rising volatility stemming from the United Kingdom's referendum on its membership in the European Union. The Fund also reduced exposure to agency mortgages (15- and 30-year pass-throughs) during this time.

Early in the second half, the Fund increased the amount of options it was writing as a percentage of total assets in order to generate more income. The investment adviser also reduced overall portfolio duration ahead of the U.S. election on the view that market volatility would increase. (Duration is a measure of interest rate sensitivity.)

As the yield curve steepened late in the period (reflecting underperformance for longer-term debt), the investment adviser implemented a steepening bias in the portfolio. The Fund also established a long position in the two- to five-year part of the curve based on the investment adviser's belief that the Fed may be slow to raise rates.

### **Describe portfolio positioning at period end.**

The Fund continued to employ an options writing strategy as a way to manage duration and generate incremental yield. The Fund remained overweight in high-coupon agency mortgage-backed securities.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

**Fund Information**

Symbol on New York Stock Exchange ( NYSE )	EGF
Initial Offering Date	October 31, 2005
Current Distribution Rate on Closing Market Price as of December 31, 2016 (\$13.20) <sup>1</sup>	3.73%
Current Monthly Distribution per Common Share <sup>2</sup>	\$0.041
Current Annualized Distribution per Common Share <sup>2</sup>	\$0.492
Economic Leverage as of December 31, 2016 <sup>3</sup>	20%

<sup>1</sup> Current Distribution Rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate consists of income, net realized gains and/or a return of capital. See the Section 19(a) Notice on page 2 for the estimated actual sources and character of distributions. Past performance does not guarantee future results.

<sup>2</sup> The distribution rate is not constant and is subject to change. A portion of the distribution may be deemed a return of capital or net realized gain.

<sup>3</sup> Represents reverse repurchase agreements as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to reverse repurchase agreements, minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 9.

**Market Price and Net Asset Value Per Share Summary**

	<b>12/31/16</b>	<b>12/31/15</b>	<b>Change</b>	<b>High</b>	<b>Low</b>
Market Price	\$ 13.20	\$ 13.65	(3.30)%	\$ 14.09	\$ 13.04
Net Asset Value	\$ 13.88	\$ 14.29	(2.87)%	\$ 14.45	\$ 13.81

**Market Price and Net Asset Value History For the Past Five Years**

**Overview of the Fund's Total Investments**

<b>Portfolio Composition</b>	<b>12/31/16</b>	<b>12/31/15</b>
U.S. Government Sponsored Agency Securities	57%	62%
U.S. Treasury Obligations	36	33
Short-Term Securities	3	5
Preferred Securities	2	3
Asset-Backed Securities	2	2
Non-Agency Mortgage-Backed Securities	1	1
Options Written	(1)	<sup>1</sup>
TBA Sale Commitments		(6)

<sup>1</sup> Includes a less than 1% holding in Options Written.

<b>Credit Quality Allocation<sup>2,3</sup></b>	<b>12/31/16</b>	<b>12/31/15</b>
AAA/Aaa <sup>4</sup>	97%	96%
BBB/Baa	2	2
BB/Ba	1	2

<sup>2</sup> For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either Standard & Poor's (S&P) or Moody's Investors Service (Moody's) if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

<sup>3</sup> Excludes Preferred Securities, Short-Term Securities and Options Written.

<sup>4</sup> The investment adviser evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors, individual investments and/or issuer. Using this approach, the investment adviser has deemed U.S. Government Sponsored Agency Securities and U.S. Treasury Obligations as AAA/Aaa.

## Derivative Financial Instruments

The Fund may invest in various derivative financial instruments. These instruments are used to obtain exposure to a security, commodity, index, market, and/or other asset without owning or taking physical custody of securities, commodities and/or other referenced assets or to manage market, equity, credit, interest rate, foreign currency exchange rate, commodity and/or other risks. Derivative financial instruments may give rise to a form of economic leverage and involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the

counterparty to the transaction or illiquidity of the instrument. The Fund's successful use of a derivative financial instrument depends on the investment adviser's ability to predict pertinent market movements accurately, which cannot be assured. The use of these instruments may result in losses greater than if they had not been used, may limit the amount of appreciation the Fund can realize on an investment and/or may result in lower distributions paid to shareholders. The Fund's investments in these instruments, if any, are discussed in detail in the Notes to Financial

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Statements.

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## The Benefits and Risks of Leveraging

The Fund may utilize leverage to seek to enhance the distribution rate