

**Financial Condition Report
For the twelve month (12) period ending 31st December 2018**

Fleming Reinsurance Ltd., a Bermuda limited liability company incorporated on March 6, 2015 and licensed as a Class 3 insurance company on May 21, 2015 under the Insurance Act 1978 and its related regulations, each as amended (Insurance Act). Historically, the Company was used to write P&C insurance coverage primarily for related party subsidiaries of Fleming Corp.

In December 2018, the Company updated its license from a Class 3 to a Class 3A as it is expanding its operations to become a leading specialist legacy liability reinsurer.

I. Business and Performance

a. Name of Insurer:
Fleming Reinsurance Ltd. (“the Company”)

b. Supervisors:

<u>Insurance Supervisor</u> Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda	<u>Group Supervisor:</u> Bermuda Monetary Authority BMA House 43 Victoria Street, Hamilton Bermuda
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c. Approved Auditor:

<u>Statutory Reporting:</u> PWC Bermuda Washington House. 4th Floor 16 Church Street Hamilton, HM 11 Bermuda	<u>GAAP Reporting:</u> PWC Bermuda Washington House. 4th Floor 16 Church Street Hamilton, HM 11 Bermuda
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d. The Company is a wholly owned subsidiary of Fleming Re Holdings LLC and ultimately owned by Fleming Corp.

e. Group Structure:
 The following provides details of the Company in the Group structure:
 The Company is wholly owned by Fleming Re Holdings LLC. (“Fleming Holdings”), a Delaware holding company. The common shareholder of Fleming Holdings is Fleming Corp. Fleming Corp. holds all the voting shares of Fleming Holdings.

Fleming Corp (“FC”) is the private equity sponsor of the Company, whose principals have directly contributed capital to the Company

- f. The Company writes the following lines of business:
The Company is a specialty run-off carrier targeting the mid-market insurance sector. The lines of business the Company is focused on are legacy P&C liabilities, primarily lines with longer tail such as Workers Comp and General Liability.

- g. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

For 2018, the Company was only holding cash deposits. Our funds withheld receivable is structured with a stated crediting rate and does not have any exposure to any underlying investments.

Material Income & Expenses for the Reporting Period

During 2018 the material income was generated by the legacy transaction that was closed prior to yearend. The most significant expenses related to the G&A expenses for the Company.

- h. Any Other Material Information

The Company upgraded its license to a 3A and closed the first legacy transaction in December 2018.

II. **Governance Structure**

The Company's governance structure is established to:

- Ensure the enterprise risk management is maintained at high standards;
- Ensure the business is operating in an efficient and effective manner; and
- Align control procedures for units within the organization based on the risks they carry.

The Company's governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. The Company has developed and adopted Terms of Reference for the Board of Directors to promote the effective functioning of the Board and set forth a common set of expectations for how the Board should perform its functions. Under the Terms of reference, the Board may, from time to time, designate one or more committees as required, to include an audit committee, nominations committee, investment committee, compensation committee, risk committee and capital and transaction committee.

- a. Board and Senior Executive

- i. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities.

The Board of Director's (the Board) role is to exercise oversight in relation to the organization.

The Company carries out all of the underwriting, risk management and operational decision making in Bermuda. The Company holds all Board of Directors meetings in Bermuda to ensure that key decisions are made in Bermuda in compliance with the

BMA's Insurance Code of Conduct and the Insurance Act. Furthermore, two of the Company's directors and the majority of its service providers (as set out below) are based in Bermuda.

The Board consists of 3 directors, their roles and responsibilities are outlined in the Company's By-Laws and comply with the regulatory requirements of Bermuda and comply with the Company's Terms of Reference for the Board.

ii. Remuneration Policy:

The Compensation Committee has the delegated authority of the Board as set out in the Terms of Reference including responsibility for overseeing, on behalf of the Board the compensation of senior executives of the Company. Including setting goals and objectives for senior executives and evaluating performance with respect to such goals and objectives.

iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees:

The Compensation Committee is responsible for approving all remuneration benefits and follows guidelines set out in the Employee Handbook. For 2019 Fleming has a registered pension plan with BF&M.

iv. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

For 2018, Stephen Minor (Chairman of the Board) is the largest individual shareholder and also controls the voting shares (Common Stock) of the Company. Stephen is involved in the operations of the Company in his capacity as a Director.

b. Fitness and Proprietary Requirements

i. Fit and Proper Process in assessing the Board and Senior Executive

The Company appoints members of the Board based on the individual's expertise, work experience and professional judgment. The Board of Directors Term of Reference provides guidance for appointments to the Board. Fleming Re has developed and adopted this set of governance guidelines to promote the effective functioning of the Board and set forth a common set of expectations for how the Board should perform its functions.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

The Directors of the Company's Board are listed as follows:

- Eric Haller
- Stephen Minor
- Nicholas Frost

The Senior Executives of the Company are listed as follows:

- Eric Haller – Chief Executive Officer
- Nicholas Frost – Interim Chief Financial Officer
- Jennifer Titterton – Vice President of Operations

Mr. Haller has a significant amount of run-off experience as he was responsible for building the North American run-off platform for R&Q. During his tenure, R&Q closed 19 transactions in North America. Mr. Frost has specific run-off experience as he was a member of the R&Q Transaction Committee specifically tasked with approving all run-off transactions executed by R&Q. During his tenure, he reviewed 14 separate legacy liability transactions.

The Board and Senior Executive are professionals who have worked in the Industry for many years and bring with them a wealth of expertise. As the Company grows it will continue to build out our capabilities in line with our business objectives.

III. Risk Management and Solvency Self-Assessment

a. Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures

Risk management processes and procedures are managed at Board level in conjunction with Senior Management. The goal of the Company's risk management framework is to mitigate, as much as possible, the Company's risk exposure to minimize the impact of undesired and/or unexpected events.

The Company's risk management objectives are to:

- Establish the level of risk acceptable (risk appetite and risk tolerance);
- Identify the risks which represent a threat to the achievement of our strategic objectives;
- Identify, define and measure key risk indicators enabling an efficient monitoring of risks;
- Define and take appropriate actions to reduce the Company's risk exposure;
- Ensure the risk management framework is incorporated in day-to-day business processes;
- Review controls and mitigation actions to ensure they remain relevant and effective.

The key risks categories are summarized in the risk register along with specific risks which the Company has established including a risk description, risk evaluation and mitigating factors. The key risk categories are summarized below:

- Market
- Credit
- Liquidity
- Underwriting
- Operational

In addition to the above, an outsourcing policy defining the key criteria for service providers has been implemented. The policy details the relevant key components of the Company's Risk Management Framework and ensures that it:

- Contains clearly assigned overall risk management responsibilities;
- Defined to be consistent with the strategic objectives of the Company;
- Operate across all the activities of the Company; is a continuous approach which is referred to in all major decision-taking processes of the Company.

The Company has documented its risk appetite framework within the Underwriting and Investment Guidelines. These functional areas comprise most of the Company's risk at this point in its life cycle. The risk appetite framework will be updated as needed. In addition to these functional areas, the Company has documented policies to address the risk appetite of the operational functions of the Company

As soon as the tolerance levels defined in the Risk Appetite framework are exceeded as a result of any event that increases of the risk(s) the Company can be exposed to occur, the Risk Management Function defines appropriate corrective measures to reduce the risk within the limits acceptable the Company.

Any corrective measures together with an implementation plan will be submitted to the Board of Directors for approval.

IV. Internal Controls

a. Internal Control System

The Board and Senior Executives review and assess the effectiveness of the internal reporting and operating controls. Any material deficiencies are documented and resolution measures are implemented in a timely manner. The Board and Senior Management have developed policies and procedures requiring direct reporting of internal control weaknesses to them.

Direct reporting of findings to the Board and Senior Management:
Deficiencies are to be documented and resolution measures are implemented in a timely manner. It is the responsibility of our senior financial officers including our Chief Executive Officer to maintain reliable internal controls and assess their quality

b. Compliance Function

The Company's management team has the responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory report and public disclosure requirements.

The Board oversees that there are review mechanisms regarding the Company's compliance with all relevant laws, regulations, codes of conduct, industry standards and guidance notes. The Company's Senior Management monitor developments with local laws and regulations, in conjunction with third party service providers such as its external auditors and tax advisors –

PriceWaterhouseCoopers; Bermuda counsel – Appleby; U.S. counsel – Mayer Brown and Quest as our Principal Representative and Insurance Manager.

The Company participates in industry peer groups and organizations which discuss and consider compliance and regulatory issues. Management conducts periodic informational meetings with the Bermuda Monetary Authority. The Company is in the process of finalizing a Compliance Plan which will facilitate routine compliance monitoring on a risk adjusted basis.

c. Internal Audit

Given the size and early nature of the Company, an internal audit function is currently not considered necessary as the Company has not yet actively expanded operations in 2018. As we closed the first transaction at the end of 2018, the Company will implement a robust internal audit function in 2019.

d. Actuarial Function

The Company's actuarial function is responsible for setting, monitoring and adjusting technical provisions both premium and loss and loss expenses best estimates, and the risk margin. This is currently outsourced to Milliman on a transaction by transaction basis.

The Company's Loss Reserve Specialist is MidAtlantic Actuarial Services.

e. Outsourcing

The Company has appointed the following service providers:

- Quest Management Services Limited (“Quest”) - Insurance Managers and Principal Representative
- MidAtlantic Actuarial Services – Loss Reserve Specialist
- PWC - Independent auditor
- Omnium Corporate Services Limited - Company Secretary
- Appleby (Bermuda) Limited – Legal Advisors
- Fleming Corp – Investment managers
- Fireminds – IT service providers

f. Other Material Information

No other material information to report.

V. Solvency Valuation

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

Investments are valued at Market Value. Valuation bases of each asset class are based on United States Generally Accepted Accounting Principles (US GAAP); see attached 12/31/2018 Audited Financial Statements and Related Notes.

b. Valuation Basis, Assumptions and Methods to Derive the Value of Technical Provisions

Based on the Economic balance sheet workings. Rates are provided by the approved actuary.

c. Description of Recoverables from Reinsurance Contracts

There are current no reinsurance recoverables.

- d. Valuation Bases and Methods to Derive the Value of Other Liabilities
All liabilities are valued at Fair Value. Valuation bases of other liabilities are based on US GAAP; see attached 12/31/2018 Audited Financial Statements and Related Notes.
- e. Any Other Material Information
No additional material information to report.

VI. Capital Management

a. ELIGIBLE CAPITAL

- i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period
The primary capital management objective of the Company is to maintain a strong capital base to support the business and to meet regulatory capital requirements.

Given the over-collateralized nature of the business and strict investment guidelines associated with that collateral, the Company's assets are very liquid. The Company has significant sources of capital that is able to meet the needs of the upcoming year

- ii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act:
Eligible Capital – Tier 1 - \$5,110,000
ECR requirement - \$1,935,000
- iii. Confirmation of Eligible Capital That is Subject to Transitional Arrangements
The Company does not have eligible capital that is subject to transitional arrangements
- iv. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR
The Company does not have any factors affecting encumbrances on the availability and transferability of capital to meet the ECR.
- v. Identification of Ancillary Capital Instruments Approved by the Authority
The Company does not have any ancillary capital
- vi. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus
The Company does not have any difference in shareholders equity.

b. REGULATORY CAPITAL REQUIREMENTS

- i. ECR and MSM Requirements at the End of the Reporting Period

At the end of the reporting period, the Company's regulatory capital requirements were assessed as follows:

Requirement:	Amount:
Minimum Margin of Solvency	\$1,000,000 required \$4,875,000 actual

- ii. Identification of Any Non-Compliance with the MSM and the ECR
The Company was compliant with the MSM and ECR requirement at the end of the reporting period.
 - iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, The Remedial Measure and Their Effectiveness
The Company was compliant
 - iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance
The Company was compliant
- c. APPROVED INTERNAL CAPITAL MODEL

The Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

VII. SUBSEQUENT EVENTS

The Company has not had any subsequent events

DECLARATION

To the best of their knowledge and belief, the financial condition report fairly represents the financial condition of Fleming Reinsurance, in all material respects as at December 31, 2018.


Eric Hall
Chief Executive Officer


Nicholas Frost
Interim Chief Financial Officer