

# Fleming Reinsurance Ltd.

Financial Condition Report (“FCR”)

For the twelve-month (12) period ending December 31, 2022

*As submitted to the Bermuda Monetary Authority on April 28, 2023*

*As revised and resubmitted February 2024*

## Contents

|        |   |    |
|--------|---|----|
| 1      | Executive Summary.....  | 5  |
| 1.1    | Name of Insurer .....   | 6  |
| 1.2    | Regulatory Supervisor .....   | 6  |
| 1.3    | Approved Auditor .....  | 6  |
| 1.4    | Ownership Details.....  | 6  |
| 1.5    | Group Structure .....   | 6  |
| 1.6    | Insurance business written by business segment.....   | 7  |
| 1.7    | Performance from underwriting activity .....  | 7  |
| 1.8    | Performance from investment activity .....  | 8  |
| 1.9    | Material Income and Expense .....   | 8  |
| 1.10   | Any other material information.....   | 8  |
| 2.     | Governance Structure .....  | 8  |
| 2.1    | Board and Senior Executives.....  | 9  |
| 2.1.1. | Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities .....                        | 9  |
| 2.2    | Remuneration Policy.....  | 10 |
| 2.3    | Pension and Early Retirement Schemes .....  | 10 |
| 2.4    | Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions..... | 10 |
| 2.5    | Fitness and Proprietary Requirements .....  | 10 |
| 2.5.1  | Fit and Proper Process in assessing the Board and Senior Executive .....  | 10 |
| 2.6    | Risk Management and Solvency Self-Assessment .....  | 13 |
| 2.6.1  | Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures .....                          | 13 |
| 2.6.2  | Risk Management Strategy .....  | 14 |
| 2.6.3  | Risk Policies .....   | 15 |
| 2.6.4  | Risk Management and Solvency Self-Assessment Systems Implementation.....  | 16 |
| 2.6.5  | Relationship between Solvency Self-Assessment, Solvency Needs & Capital and Risk Management.....                              | 17 |
| 2.6.6  | Solvency Self-Assessment Approval Process .....   | 17 |
| 2.7    | Internal Controls .....   | 17 |
| 2.7.1  | Internal Control System .....   | 17 |

|   |    |
|---|----|
| 2.7.2 Compliance Function .....   | 18 |
| 2.8 Internal Audit .....  | 18 |
| 2.9 Actuarial Function .....  | 18 |
| 2.10 Outsourcing.....   | 19 |
| 2.11 Other Material Information .....   | 19 |
| 3. Risk Profile.....  | 19 |
| 3.1 Material Risk .....   | 19 |
| 3.2 Mitigation of Risks.....  | 20 |
| 3.3 Material Risk Concentrations.....   | 21 |
| 3.4 Investment of assets in Accordance with the Prudent Person Principals .....   | 21 |
| 3.5 Stress and Scenario Testing .....   | 21 |
| 3.5.1 Assumed Risk .....  | 22 |
| 3.5.2 Operational Risk.....   | 22 |
| 4. Solvency Valuation.....  | 22 |
| 4.1 Valuation Bases and Assumptions .....   | 22 |
| 4.1.1. Valuation of Assets.....   | 22 |
| 4.1.2. Technical Provisions and Best Estimate .....   | 23 |
| 4.1.3 Reinsurance Recoverables from Reinsurance Contracts .....   | 24 |
| 4.1.4 Valuation Other Liabilities.....  | 24 |
| 4.1.5 Any Other Material Information .....  | 24 |
| 5. Capital Management.....  | 24 |
| 5.1 Overview .....  | 24 |
| 5.2 Eligible Capital.....   | 24 |
| 5.2.1. Capital Management Policy and Process for Capital Needs, How Capital is Managed and<br>Material Changes During the Reporting Period.....               | 24 |
| 5.2.2. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet<br>ECR and MSM Requirements of the Insurance Act: ..... | 24 |
| 5.2.3. Confirmation of Eligible Capital That is Subject to Transitional Arrangements.....   | 25 |
| 5.2.4. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of<br>Capital to Meet the ECR.....                        | 25 |
| 5.2.5. Identification of Ancillary Capital Instruments Approved by the Authority .....  | 25 |
| 5.2.6. Identification of Differences in Shareholder’s Equity as Stated in the Financial Statements<br>Versus the Available Capital and Surplus.....           | 25 |

|  |    |
|--|----|
| 5.3 Regulatory Capital Requirements .....  | 25 |
| 5.3.1 Economic Capital requirement and Minimum Margin of Solvency.....   | 25 |
| 5.3.2. Identification of Any Non-Compliance with the MSM and the ECR .....   | 25 |
| 5.3.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, The Remedial Measure and Their Effectiveness..... | 25 |
| 5.3.4. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance .....                               | 25 |
| 5.5 Approved Internal Capital Model .....  | 25 |
| 6. Subsequent Events.....  | 25 |

## I Executive Summary

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.

The FCR has been prepared in accordance with the Bermuda Monetary Authority's ("BMA") requirements of the Insurance (Public Disclosure) Rules 2015 and the Insurance (Group Supervision) Rules 2011. It covers the Business and Performance of Fleming Group and their Governance Structure, Risk Profile, Solvency Valuation and Capital Management.

In December 2018, the Company updated its license from a Class 3 to a Class 3A. Led by industry veteran Eric Haller, Fleming Re provides finality and liquidity solutions to insurance companies in the middle market, and targets long tail, low volatility lines including workers compensation, general liability, auto, and other opportunistic lines where liabilities are also quantifiable and limited.

Founded by private equity sponsor Fleming Corp, Fleming Re is building a permanent carrier in the P&C runoff space with institutional co-investors seeking an attractive risk-adjusted returns with reinsurance industry exposure.

On May 5, 2022, Fleming raised capital with Altamont Capital Partners, which provides the Company with a significant amount of capital that will be used to facilitate acquisition of liabilities and further develop infrastructure.

The principal risks that are managed are Financial Risk, Insurance Risk, Legal/Litigation Risk, Operational Risk, Reputation Risk, and Strategic Risk through investment and the past underwriting activities of the Group's regulated subsidiaries. These risks are controlled through the application of a Risk Management framework. The policies, procedures, and internal controls we have in place assist Fleming Re in assessing, managing and controlling these exposures. The executives of the Company are closely involved in the operations and monitor results carefully.

### Capital Management

As at December 31, 2022 Fleming Re's regulatory capital requirements were assessed, under the BSCR-3B capital model, as follows:

|   | <b>2022</b>  |
|---|--------------|
| <b>Group Eligible Capital</b>               | \$32,643,000 |
| <b>Minimum Margin Solvency</b>              | \$5,605,000  |
| <b>Enhanced Capital Requirement</b>         | \$14,033,000 |
| <b>Bermuda Solvency Capital Requirement</b> | 233%         |

The Company’s shareholders have contributed \$35.3 million which has been issued of Common stock issued and funded into Fleming Holdings (Blocker) LLC. Of that, \$35 million of common stock has been contributed to Fleming Reinsurance Ltd. as of December 2022.

For further details on the Company’s Capital and Solvency Requirements please see section 5.

### I.1 Name of Insurer

Fleming Reinsurance Ltd. (“the Company”)

### I.2 Regulatory Supervisor

| Insurance Supervisor   |
|--|
| Bermuda Monetary Authority<br>BMA House<br>43 Victoria Street, Hamilton<br>Bermuda |

### I.3 Approved Auditor

| Statutory & GAAP Reporting   |
|--|
| PWC Bermuda<br>Washington House. 4th Floor<br>16 Church Street<br>Hamilton, HM 11<br>Bermuda |

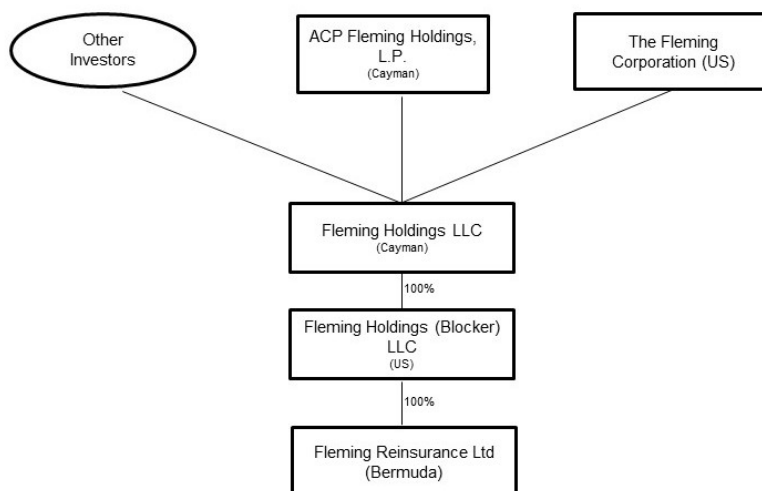
### I.4 Ownership Details

On May 5, 2022, there was a restructuring and recapitalization of the Company. Fleming Holdings (Blocker) LLC (Delaware), a company that is 100% owned by Fleming Holdings LLC (Cayman), which is majority-owned by Fleming Corp and ACP Insurance Management, LLC (Cayman), acquired 100% ownership of the Company, previously held by Fleming Re Holdings LLC (Delaware). Fleming Holdings (Blocker) LLC (Delaware) acquired the authorized and issued share capital of US\$120,000 consisting of 120,000 common shares of par value US\$1.00 each for a total consideration equal to the net book value of the Company prior to the share transfer.

The change in ownership provides the Company with a significant amount of capital that will be used to facilitate acquisition of liabilities and further develop infrastructure.

### I.5 Group Structure

Figure 1 – Corporate Structure



## I.6 Insurance business written by business segment

The Company, consisting of one segment, is a specialty carrier that acquires legacy portfolios and books of business within the mid-market property and casualty insurance sector. The Company focuses on retrospective coverages for longer duration P&C lines of business within the U.S. and international markets. In 2022, the Company primarily assumed business where risks originated from the U.S. The lines of business the Company is focused on are legacy P&C liabilities, primarily lines with longer tails.

The Company's strategy is to reinsure or acquire companies or reserve portfolios in the legacy or runoff property & casualty insurance and reinsurance market. The Company also seeks to provide insurance solutions for uninsured exposures that are consistent with its business plan (e.g., self-insured retentions involving prior policy periods). The Company's primary focus is to develop long-term strategic partnerships through recurring legacy transactions, but also provides traditional legacy solutions.

## I.7 Performance from underwriting activity

In 2022, with consultation from outside advisors, the Company changed its presentation of assumed business within its financial statements to no longer report premiums or incurred losses at the date of transaction close. The table below shows underwriting activity for the year ended December 31, 2022.

|  | 2022      |
|--|-----------|
| Earned Premiums, net of reinsurance    | \$Nil     |
| Net losses and loss expenses           | \$713,932 |
| Deferred gain on reinsurance contracts | \$510,146 |
| Acquisition Costs                      | \$127,703 |
| Net Run-off Loss                       | \$331,489 |

### 1.8 Performance from investment activity

For 2022, the Company was holding cash deposits, investments and a funds withheld asset. Our investment portfolio consists of highly rated US Treasury, US Agency and Mortgage Backed securities. The effective duration of investments is 1.04 years with an effective yield of 1.5%. Our funds withheld receivable is structured with a stated crediting rate and does not have any exposure to any underlying investments.

|                                 | Market Value        |
|---------------------------------|---------------------|
| Cash and Cash based equivalents | \$52,657,663        |
| Investments                     | \$2,406,981         |
| Funds Withheld                  | \$18,279,546        |
| <b>Total</b>                    | <b>\$73,344,190</b> |

### 1.9 Material Income and Expense

During 2022 Fleming Re's main revenue source was Underwriting Activity as shown in section 1.7. Additional income was generated from Investment Income of \$395,746.

Fleming Re's most significant expenses related to the G&A expenses of \$4,433,653 for the Company.

### 1.10 Any other material information

Not applicable

## 2. Governance Structure

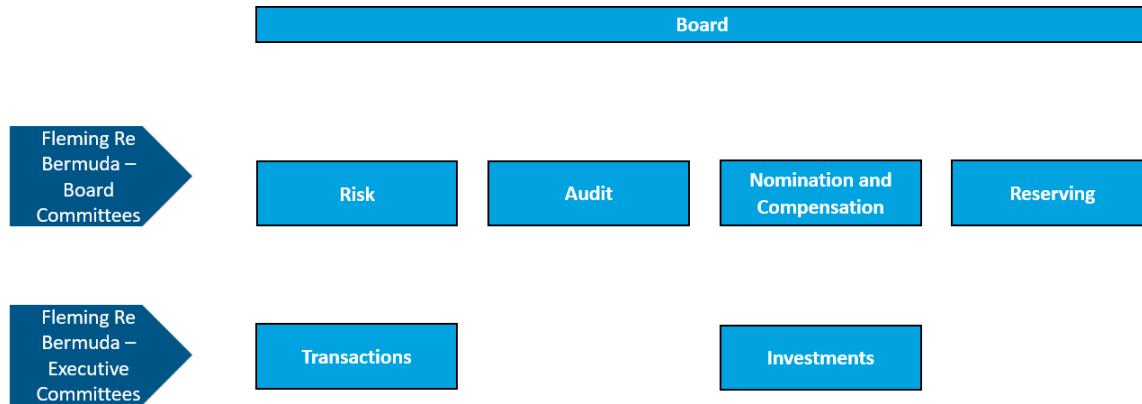
Governance of the Company relies on four cornerstones:

- 1) A Corporate Governance Framework, aligned with the Company's strategic objectives, providing oversight by the Board, clear ownership and accountability for risks, appropriate independence to various risk stakeholders as well as clear escalation and reporting channels.
- 2) A Risk Management Framework which includes a defined Risk Appetite framework. For each risk, limits and operational checkpoints as well as functional identification, measurement, mitigation and monitoring processes are documented. This Risk Management Framework also explains the roles and responsibilities of stakeholders holding the functions as defined within the Governance Framework.
- 3) An Internal Control Framework, defining the processes required to manage the Company in accordance with its Governance and Risk Management frameworks.
- 4) A Risk Register combining operational and risk management processes to deliver a descriptive analysis of all material risks threatening at least one of the Company's strategic objectives.

Figure 2 - Group Governance Structure



## Group Governance Structure



### FUNCTION OVERVIEW



## 2.1 Board and Senior Executives

### 2.1.1. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities

The Board of Directors (the “Board”) and management are committed to good governance. The Board’s role is to exercise oversight in relation to the organization and is set out in our Bye-laws. These set out the roles and responsibilities of the Board. We believe the Company has a strong governance framework and we will continue to evaluate and reassess.

The Key components are set forth in the following documents:

- 1) Our Bye-laws
- 2) Board Terms of Reference
- 3) Corporate Governance Framework
- 4) Risk Management Framework
- 5) Code of Conduct
- 6) Committee Charters

The Board meets on a Quarterly basis and currently consist of four members. The Directors of the Company's Board are listed as follows:

| Name           | Experience |
|----------------|------------|
| Stephen Minor  | 20+ years  |
| Eric Haller    | 20+ years  |
| Martin Dolan   | 35+ years  |
| Nicholas Frost | 25+ years  |

The Board of Directors has delegated its authority to committees as shown in the Group Governance Structure and each committee has their own Charter.

## 2.2 Remuneration Policy

The Nomination & 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.

## 2.3 Pension and Early Retirement Schemes

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

## 2.4 Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

Altamont Capital Partners are the majority shareholder in the Company. Representatives from the shareholders sit on the Board of Fleming Holdings LLC, but not on the Board of the Company.

## 2.5 Fitness and Proprietary Requirements

### 2.5.1 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.

The Board and Senior Management have considerable experience in Underwriting, Finance, Reinsurance, Actuarial, and Claims across various jurisdictions. They provide valued oversight and input to the operations and risk management of the Company. Because directors play such an important role in the Company, their recruitment demands a correspondingly systematic and professional approach. The Board's objective is to have a number and mix of directors to ensure that there is an appropriate level of experience, knowledge, skills and expertise commensurate with the nature, scale and complexity of the Company's business.

The Board works with Management to ensure that key roles within the organization are filled by employees who are demonstrably qualified for their role. Employees go through a number of checks and balances to ensure the Board makes informed decisions about the suitability of a potential staff member.

#### **Stephen Minor—Executive Director**

Stephen is the founder of Fleming Corp., an independent private equity sponsor focused on financial institutions, utilities, and tactical opportunities in long term asset classes where permanent capital affords an advantage. Previously, he was a Principal at Torch Hill Investment Partners, a Washington DC-based private equity fund. Prior to Torch Hill, Stephen worked for Deutsche Bank in NY in the securitization and debt products group. He has served as a Director on the boards of All Coast, UniGas, Artel, Fleming Re, and Fleming Properties. Stephen attended the US Naval Academy, graduated from Vanderbilt University and received an MBA from Georgetown.

#### **Eric Haller – Director and CEO**

Eric has over 20 years of senior industry experience at international insurers. Prior to Fleming Re, Eric was the CFO & CRO of Safe Harbor Re, a Bermuda-based long-term reinsurer providing runoff solutions and reinsurance to the life and annuity market. Eric has been responsible for overseeing all aspects of corporate reinsurers, including business development, underwriting, treasury, accounting, tax, risk and regulatory compliance functions. He also developed and executed strategic operating decisions across entire organizations. Prior to joining Safe Harbor Re, Eric led the North American M&A team at Randall & Quilter (AIM: RQIH). Prior to R&Q, he headed the Strategic Planning Group at Athene, the Apollo backed reinsurer, and worked at XL Capital in their Investment Management Group and began his career with Deloitte & Touché.

#### **Martin Dolan – Independent Director**

Martin has been a senior insurance banker for over 27 years and has worked globally, including in Europe, the UK, Bermuda and the US. He has served with Lloyds of London, Equitas, AIG and other various regulators which include the State of Wisconsin. His current position is at Dolan & Company, where he is the senior principal.

**Nicholas Frost – Director**

Nick has a significant amount of experience with run-off insurance companies. He has previously served on the Transaction Committee of a run-off company that approved 15 transactions during his tenure. Nick is President of the Davies Captive Management operations in Bermuda. Nick has over 25 years' experience in the insurance industry and has specialized in captives in Bermuda since 1988. He is a member of the Institute of Chartered Accountants in England & Wales and a member of the Board of Directors of the Bermuda Captive Network, formerly Bermuda Insurance Managers Association.

**Other Senior Executives:****Chief Actuarial Officer - Louis Gariépy**

Mr. Gariépy has more than 30 years of actuarial and insurance industry experience. Mr. Gariépy is a former Chief Actuary at Chubb Bermuda (formerly ACE Bermuda), Chief Risk Officer at Chubb Tempest Re (formerly ACE Tempest Re) and a former Chief Actuary - Reserving for Liberty Mutual – Commercial division. Mr. Gariépy also held various roles with the Equator Re (QBE), Zurich Group, RLI Insurance and the Wyatt Company (now part of Willis Towers Watson). Most recently, Mr. Gariépy was Chief Actuary of Premia Re Bermuda prior to joining Fleming Reinsurance in March 2022. Mr. Gariépy holds a B.S. in Actuarial Science from Laval University and an MBA from the Edinburgh Business School, Heriot-Watt University. Mr. Gariépy is also a Fellow of the Casualty Actuarial Society and the Canadian Institute of Actuaries and a member of the American Academy of Actuaries.

**Chief Technology Officer – Benjamin Bomhoff, Jr**

Information Technology leader with 23 years of experience as a senior technology leader and over 40 years in a variety of IT positions in the insurance industry.

**Chief Claims Officer – Mark Aussicker**

Mark has significant claim and risk management experience working on behalf of insurance carriers, managing general agents and third-party administrators.

**Head of M&A – Daniel Linden**

Certified Public Accountant and Chartered Financial Analyst with significant experience with multinational clients in a broad spectrum of industries.

The Nomination & Compensation Committee has reviewed the independence of each of our Directors and deems Mr. Dolan to be an independent Board member.

## 2.6 Risk Management and Solvency Self-Assessment

### 2.6.1 Risk Management Process & Procedures to Identify, Measure, Manage and Report on Risk Exposures

Fleming Re views risk management as a key component of its business activities. 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 ensure that every effort is made to manage risk appropriately in order to maximize potential opportunities and minimize the adverse effects of risk.

The objectives of the risk management policy in Fleming Re may be summarised as follows:

- 1) To confirm and communicate Fleming Re's commitment to risk management as well as to assist in achieving its strategic and operational goals and objectives.
- 2) To formalise and communicate a consistent approach to managing risk for all Fleming Re's activities and to establish a common reporting protocol aligned to group reporting.
- 3) To ensure that all significant risks to Fleming Re are identified, assessed and where necessary attended to and reported to relevant audit, risk and compliance committees as well as the group audit, risk and compliance committee where necessary.
- 4) To assign accountability to all staff for the management of risks within their areas of control.
- 5) To provide a commitment to staff that risk management is a core management capability.

Fleming Re's Risk Committee has the responsibility for the risk management processes and procedures. The role of the Committee is to encourage and safeguard the highest standards of integrity in the risk management framework, processes and monitoring, having regard to laws and regulations applicable to the Group and the requirements of the BMA.

The Risk Committee is listed as follows:

| Name          | Position                |
|---------------|-------------------------|
| Martin Dolan  | Independent Director    |
| Stephen Minor | Executive Director      |
| Eric Haller   | Executive Director      |
| Louis Gariépy | Chief Actuarial Officer |
| Daniel Linden | Head of M&A             |
| Mark Aussiker | Chief Claims Officer    |

The Risk Committee convenes quarterly and reports to the Board. The Risk Committee, consisting of five members, is responsible for setting risk limits, monitoring and enforcing compliance with risk limits, and setting the risk management policies and procedures of the Company. The Risk Committee is responsible for performing ongoing oversight and monitoring compliance for the material risks of the Company.

- Ensure that the company has an effective risk management system in place that is proportionate to the nature, scale and complexity of the risks inherent in the business. This

should be reviewed at least annually and should cover risk identification, measurement, response and monitoring.

- Provide oversight and advice to the Board on the current risk exposures of the company and future risk strategy.
- Provide advice to the Board on risk appetite.
- Provide advice to the Board on all company policies relating to risk management.
- Provide advice to the Board on the management of internal capital to cover the risks of the company.

### 2.6.2 Risk Management Strategy

It is critical that the Company implements appropriate risk tolerance levels in order to balance the acquiring of assets and assumption of liabilities. The Company applies risk charges to all aspects of its operations in accordance with generally accepted actuarial standards.

The principal objective of the Company is to provide run-off solutions for captives, insurance and reinsurance companies and other insurance-related companies requiring surplus relief, risk capacity and risk protection by assuming low volatility liabilities.

This is supported by the Company's governance objectives, to ensure an effective corporate governance structure and risk management framework are in place, meeting all statutory and regulatory requirements and international best standards. Further detail on the Company's strategic and governance objectives are below:

| Strategic Objectives   | Governance enabling Strategic Objectives  |
|--|---|
| <b>Financial: Close profitable run-off transactions within our risk tolerances and underwriting guidelines.</b>        | <ol style="list-style-type: none"> <li>1) Protect the interests of shareholders and generate long term value.</li> <li>2) Establish an RMF that can scale to accommodate an increase in growth and complexity.</li> </ol>   |
| <b>Business Development: Establish a broad network of intermediaries and create innovation to the run-off industry</b> | <ol style="list-style-type: none"> <li>1) Ensure intermediaries are reputable and known in the industry.</li> <li>2) Ensure innovation to the industry does not generate additional risk. Board Committees will be involved in this process.</li> </ol>             |
| <b>Operational: Develop best in class infrastructure, internal resources and external resources.</b>                   | <ol style="list-style-type: none"> <li>1) Focus on internal training and accountability as well as clearly defining responsibilities.</li> <li>2) External resources should be reputable, and all relationships are in line with our outsourcing policy.</li> </ol> |
| <b>Information: Remain aware of trends in</b>  | <ol style="list-style-type: none"> <li>1) Establish a culture of transparency within the organization</li> </ol>  |

|  |  |
|--|--|
| <p><b>the insurance market, emerging markets that possess new risks, and new methods of conducting business.</b></p> | <p>and ensure goals, principles and processes are understood.</p> <p>2) Create open channels of communication to identify and report any abuses, conflicts of interest but also to identify areas for improvement. This will be in line with our Code of Conduct, Employee Handbook and our Whistle Blower and Anti-Money Laundering Policies.</p> |
|--|--|

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

- Financial
- Insurance
- Legal/Litigation
- Operational
- Reputational
- Strategic

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.

### 2.6.3 Risk Policies

The Company has documented its risk appetite framework within the Risk Management Policy. 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 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.

In addition to the risk appetite and policies, controls and monitoring tools have been created to ensure risks are managed appropriately. The risk register is used to document all risks that the business

assumes it may take and assess the current risk profile.

We are also embedding risk awareness throughout the Company to ensure we take a proactive approach in educating employees. We encourage ongoing training and briefings for our employees and hold an annual training session. All employees are further required to read and sign:

- Code of Conduct
- Employee Handbook

Further all employees must be aware of all other company policies including AML, ATF, IT Policy and Data Security.

#### 2.6.4 Risk Management and Solvency Self-Assessment Systems Implementation

The Company has set up a Corporate Governance Framework based on following principles:

- The Board of Directors is the focal point of the governance system and is ultimately accountable and responsible for the performance and conduct of the Company and, as such, must have at its disposal all required capabilities to achieve its duties. The Board has delegated its authority to various committees to assist with these duties.
- An embedded Compliance Function reporting to the Risk Committee aims to ensure the continuous compliance of the Company with all legal, regulatory and administrative requirements.
- An appropriate segregation of duties in order to enable the various risk management, internal audit, actuarial and compliance function to perform independent risk and business control, mitigation, monitoring and reporting tasks. These functions are carried out by the board committees in conjunction with management oversight of outsourced service providers.
- A meaningful and practical approach in documenting policies and strategies to formalize all processes and ensure efficiency, fit and proper and best-in-class criteria.
- Structured reporting processes to enable an appropriate escalation of risks issues to the Board of Directors in order to ensure a clear and comprehensive information process allowing the Board to perform an efficient and prudent conduct of business in line with the strategic objectives.

Fleming Re has chosen the “three lines of defense” governance model, which leads to the following general governance framework throughout the Company.

| 1 <sup>st</sup> Line of Defense                                | 2 <sup>nd</sup> Line of Defense                                     | 3 <sup>rd</sup> Line of Defense  |
|--|---|--|
| <b>Risk and control embedded in the business</b>               | <b>The oversight Function</b>                                       | Provides independent assurance   |
| Primary accountability within the context of the management of | The 2 <sup>nd</sup> line represents functions defining, developing, | The 3 <sup>rd</sup> line challenges the design and effectiveness of risk |



|   |   |   |
|---|---|---|
| <p>day-to-day operations. The first line of defense ensures that operations are carried out correctly and that risk exposures are managed, controlled and reported in accordance with the risk appetite and risk policies set out by the board.</p> | <p>implementing and maintaining risk frameworks, policies and procedures independent of operations. It defines the business guidelines and oversees the operations.</p> <p>It monitors and ensures that operations, policies and strategies are adequately aligned.</p> | <p>management, compliance, control and governance processes.</p> <p>In order to achieve the necessary independence and objectivity, Internal Audit is an independent function that reports directly to the Audit Committee.</p> |
|---|---|---|

### 2.6.5 Relationship between Solvency Self-Assessment, Solvency Needs & Capital and Risk Management

The Company will follow an internal process to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. This solvency self-assessment will require analyzing all reasonably foreseeable and relevant material risks (i.e., underwriting, credit, market, operational, liquidity risks, etc.) that could have an impact on the Company's ability to meet its policyholder obligations. Senior Management will review this actuarial assessment of their current and future risks which will articulate their own judgment about risk management and the adequacy of their capital position. This enterprise wide valuation is not a one-off exercise, it is a continuous evolving process and will be a component of the Company's risk management framework (RMF).

### 2.6.6 Solvency Self-Assessment Approval Process

The Chief Actuarial Officer will conduct periodic risk analytic reviews to measure and manage the risk capital needs for the Company. An annual internal actuarial risk assessment report will be prepared for and vetted by Senior Management and presented to the Board for approval and subsequently distributed to relevant 3<sup>rd</sup> party reviewers (i.e., auditors, rating agencies, regulators, and investors).

## 2.7 Internal Controls

### 2.7.1 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.

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.

### 2.7.2 Compliance Function

The Company has a dedicated Compliance Officer to support the Board and Management team with their responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory report and public disclosure requirements in order to avoid potential exposure to legal penalties, financial forfeiture and material loss caused by lack of compliance.

Compliance risk is mitigated by the following:

- 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 dedicated Compliance Officer and Senior Management who each have over 20 or more years of experience – are familiar with and monitor developments in local laws and regulations.
- Work with third party service providers such as its external auditors and tax advisors – PwC; Bermuda counsel – Appleby; U.S. counsel – Sidley Austin, Virtual Chief Information Security Officer – Cyber Chain Alliance and Davies as our Principal Representative and Insurance Manager who support and advise us when and if needed.
- 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 to ensure they are abreast with developments.

The compliance function reports to and is subject to oversight by the Risk Committee and Audit Committee. We educate employees that they must comply with all laws and regulations as laid out in our Code of Conduct and Employee Handbook. We seek to continually improve the methods and evaluation of risks and that we identify and update practices within the organization.

### 2.8 Internal Audit

The Company implemented its internal audit function during 2021 and will continue to build upon that infrastructure in 2023.

### 2.9 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 their corresponding risk margin.

The Company's Chief Actuarial Officer is Mr. Louis Gariépy.

The Company's Loss Reserve Specialist is Karl Goring of Milliman, Inc.

The Company has established an effective actuarial function based on the nature, scale, complexity, and profile of risks to which it is exposed.

## 2.10 Outsourcing

The Company has appointed the following service providers:

- Davies Captive Management Limited (“Davies”) - Insurance Manager, Principal Representative and Segregated Account Representative
- Karl Goring of Milliman, Inc – Loss Reserve Specialist
- PWC - Independent auditor
- Clarien Corporate Services Limited - Company Secretary
- Appleby (Bermuda) Limited – Legal Advisors
- Conning – Investment managers
- Soteria – IT service providers
- Cyber Chain Alliance – Virtual Chief Information Security Officer (vCISO)

## 2.11 Other Material Information

No other material information to report.

# 3. Risk Profile

## 3.1 Material Risk

Fleming Re’s principal risk areas that make up our RMF are Financial, Insurance, Legal/Litigation, Operational, Reputational and Strategic. These risks are identified in section 2.6.2 and discussed below:

FINANCIAL RISK; includes Investment, Liquidity & Concentration Risk, Credit Risk, and Market Risk

### Investment, Liquidity & Concentration Risk

A significant amount of the Company’s investments will be held to support transactions that require over-collateralization. These will be managed by an external investment manager and will have conservative guidelines associated with them and may be more restrictive than the optimal portfolio outlined below.

To accomplish the organization’s investment objectives for asset-liability matching, based on its time horizon, risk tolerances, performance expectations, and asset class preferences, an optimal portfolio was identified by the Investment Committee. This comprises diverse portfolios of high-quality, investment grade or higher debt instruments, avoiding high concentration to any large exposures, that are sufficiently marketable for sale in order to have satisfactory liquidity to pay claims and commutations and pursue acquisitions consistent with the Company’s business objectives.

The Investment Manager is authorized to utilize portfolios within certain strategic asset allocations as approved by the Investment Executive Committee, from time to time.

The Company’s manages its credit risk by leveraging the investment capabilities of its portfolio manager, Conning Inc. The investment manager’s asset allocations are set within the investment policy, investing in investments of high credit quality and significant diversification.

To mitigate any counter-party credit risk, the Company only transacts with insurers and reinsurers rated A- and above.

The Company aims to match the currency and duration of assets to liabilities unless there is a particular strategic reason to not do so, such as where the reporting currency differs from the currencies of both the assets and liabilities, unless doing so increases the overall risk of the transaction. In those circumstances management would document the exception or rationale.

#### INSURANCE RISK; includes both Underwriting Risk and Reserving Risk

Our underwriting philosophy is based on Integrity, Transparency and Efficiency. Our focus will be on executing profitable transactions versus premium growth. The Company will be opportunistic and undertake transactions with appropriate risk/return profiles with an overall focus on risk management. This will be achieved by employing experts who understand the liabilities, various structures and can assess the risk appropriately. In addition, we will develop and maintain strong industry relationships to ensure sufficient deal flow and allow the Company to target appropriate transactions.

The Company's reserve risks stems either from a mis-underestimation of the absolute level of claims, or there are unforeseen trends in claims settlements emanating from one or more particular classes of risks. The Company will always look to reach the breakeven level on loss distribution. To satisfy this point on each transaction, the Company looks for the percentile confidence level of the reserve distribution to be between the 80<sup>th</sup> - 85<sup>th</sup> in order to complete the transaction.

#### LEGAL / LITIGATION RISK

All transactions are reviewed by legal experts to mitigate the risks for any potential litigation. The Company looks to avoid litigation on claims unless there is a thorough understanding of the underlying claim and the circumstances surrounding this, and the Company can get comfortable with the parameters of the claim and its own position in this regard.

#### OPERATIONAL RISK

This is the risk of loss from inappropriate or failed internal processes, personnel and systems. There are many sources of operational risk, including, but not limited to; processes and controls, staff and human capital management; regulatory and governance compliance; business continuity and outsourcing. These are typically not quantifiable nor subject to a risk budget and are mitigated and managed through a variety of risk management policies and operating guidelines which prescribe processes to identify, assess, monitor and control these risks on a day-to-day basis.

### **3.2 Mitigation of Risks**

Fleming Re encourages a disciplined risk culture by valuing integrity and setting high ethical standards, clear lines of responsibility and accountability, segregation of duties and control systems. Since the discipline of risk management includes not only the risk management functions but all areas of the Company, it is important to foster a strong risk culture within Fleming Re. As part of a sound risk culture at the Company, all employees need to be aware of the risks they face when performing their functions. This awareness implies an openness to regularly monitor and, if necessary, challenge existing concepts, procedures, and rules. Communication measures, training sessions, and further activities are designed and offered to increase risk awareness and to educate in dealing with risks and risk mitigation techniques.

Fleming Re's risk culture includes:

- "Tone from the top" as established through the Code of Conduct and governance processes, including the Board of Directors and other Board Committees
- Corporate values
- Risk philosophy
- Risk values

Ultimately however, risks are reported and monitored by the Risk Committee. The Committee ensures risks are kept within agreed limits.

### 3.3 Material Risk Concentrations

Underwriting guidelines clearly reflect the level and type of risk that Fleming Re is willing to take. Risk limits are overseen by the Board.

### 3.4 Investment of assets in Accordance with the Prudent Person Principles

Fleming Re's investments are managed by outsourced asset managers in accordance with the Investment Guidelines. Exposures are controlled by setting investments limits in line with the Company's risk appetite. The Investment guidelines are approved by the Board.

The assets are invested to maximize return within the Board's approved Risk appetite and requirements of the Prudent Person Principle. Investments are held at fair value, with changes in fair value recorded through the profit and loss account.

Investment goals that align with the Prudent Person Principle are:

- Maintain ability to meet liability payoff obligations and operating expenses as they become due.
- Preserve invested capital.
- Investments should adhere to regulatory framework and agreed investment guidelines.
- Earn attractive risk adjusted returns.

Fleming Re assumes only investment risks that it can properly identify, measure, respond, monitor, control and report while taking into consideration its capital adequacy and liquidity requirements. All investment guidelines have been approved not only by Fleming Re's Board, but also by applicable counterparties and are documented for each transaction.

Investment guidelines are drafted to be aligned with the risk tolerance limits and exposures and must be approved by the Investment Committee of Fleming Re's Board.

Subject to Investment Committee approval, third-party investment managers may be hired and are subject to strict guidelines specified in their investment management agreement. Third-party managers also are used to augment Fleming Re's internal investment monitoring and risk management systems.

### 3.5 Stress and Scenario Testing

Given the nature of run-off liabilities, the overall book will reduce in size assuming expected

performance and payout patterns. As such, solvency requirements will reduce over time unless impacted by deterioration. To assess the impact of potential deterioration, Fleming Re performs stress testing on a quarterly basis. The stress testing is focused on the investment portfolio and reserving process. Based on the procedures performed, the Board and 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.

### **3.5.1 Assumed Risk**

Fleming Re is a dedicated run off solution provider. Consequently, the Company will not retain any material Underwriting Risk and, by definition, will only assume and retain risk exposure that derives from loss payout variability (“Reserve Risk”).

As discussed above in the Reserve Risk section, Fleming Re has developed a proprietary internal actuarial model that provides a comprehensive surveillance structure that yields both force rankings of each deal separately and an aggregate risk index for the entire portfolio at any given evaluation date.

### **3.5.2 Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Given Fleming Re is in an early phase of development and has few employees, the primary operational risks relate to outsourcing. Outsourcing risk is mitigated by close engagement with all phases of the business by a management team experienced in the industry segment as well as an outsourcing policy, which help ensure that external service providers are among the best in class in the industry. As more staff are added, operational risk management focus will shift to risks arising from internal processes and people. As to regulatory and compliance risk, Fleming Re has in place a governance structure, a code of conduct and related compliance policies and the Company is committed to its stated underwriting objectives of Integrity, Transparency and Efficiency. Additionally, the operational risk program has close connection to and oversight by the board of directors. In 2023 Fleming Re will continue to review and refine its operational risk program to account for the growth of its transactions, staff and operations.

## **4. Solvency Valuation**

### **4.1 Valuation Bases and Assumptions**

#### **4.1.1. Valuation of Assets**

The Company has used the valuation principles outlined by Bermuda Monetary Authority’s “Guidance Note for Statutory Reporting Regime” for the reporting period’s statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date).

The fair value principles used for the assets are as follows:

Cash and Cash Equivalents – Cash and cash equivalents include deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and which have maturity dates of less than three months. The valuation basis for the Economic Balance Sheet is consistent with the US GAAP financial statements.

Quoted Investments – Quoted investments primarily consists of highly rated US Treasury, US Agency and Mortgage Backed securities. All quoted investments are held at fair value based on quoted prices in active markets that are readily and regularly available. The valuation basis for the Economic Balance Sheet is consistent with the US GAAP financial statements.

Funds Withheld - Funds held by ceding reinsurers are recorded at fair value. Funds held by cedants are a requirement of certain reinsurance contracts. These amounts are generally provided as cash and considered to represent fair value. Determination of fair value for funds held by cedants is after consideration of impairment of any amount's receivable. Funds Withheld has a stated crediting rate and does not have any underlying investment risks.

Deferred Tax Asset - Deferred tax balances are recognized in relation to all assets and liabilities that are recognized for solvency or tax purposes in conformity with US GAAP with a positive value only recognized where it is probable that future taxable profits will lead to the realization of the asset.

#### **4.1.2. Technical Provisions and Best Estimate**

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 term structure with an appropriate illiquidity adjustment. In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The Best Estimate provision for loss and loss expenses is based on US Generally Accepted Accounting Principles and adjusted for: 1) Prudence Margins, 2) Discounting, 3) Events not in data (“ENID”) and 4) ULAE

The best estimate for the premium provision is calculated by using the unearned premium provision on a US GAAP basis and applying expected future loss ratios, expense ratios and appropriate claims payout patterns to derive cash flows. The premium provision is the discounted best estimate of all future cash flows relating to future exposure arising from policies that the (re)insurer is obligated to at the valuation date. Hence the premium provision is calculated as the expected present value of future claims from future exposure, plus future expenses incurred to settle these claims, less future premium receivable in relation to future exposure.

At December 31, 2022, the total Technical Provisions amounted to \$36.397m comprising the following;

|  |           |
|--|-----------|
| Best estimate loss and loss expense provisions | \$34.383m |
| Risk margin                                    | \$2.014m  |

#### 4.1.3 Reinsurance Recoverables from Reinsurance Contracts

There are currently no reinsurance recoverables.

#### 4.1.4 Valuation Other Liabilities

The Company's liabilities follow the valuations principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis

Valuation bases of other liabilities are based on a US GAAP basis as other liabilities are short term in nature (less than one year) and therefore no discounting is required.

Accounts payable - These liabilities are not subject to valuation adjustment between US GAAP and Economic Balance Sheet. With these liabilities largely expected to be settled within one year, any fair value adjustment is not material.

#### 4.1.5 Any Other Material Information

No additional material information to report.

## 5. Capital Management

### 5.1 Overview

The 2022 capital structure supported operations and satisfied regulatory requirements.

### 5.2 Eligible Capital

#### 5.2.1. 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 are able to meet the needs of the upcoming year.

#### 5.2.2. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act:

As at December 31, 2022 Fleming Re's Eligible Capital was categorized as follows:

|        | 2022         |
|--------|--------------|
| Tier 1 | \$32,568,000 |
| Tier 2 | -            |
| Total  | \$32,568,000 |



### 5.2.3. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

The Company does not have eligible capital that is subject to transitional arrangements.

### 5.2.4. 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.

### 5.2.5. Identification of Ancillary Capital Instruments Approved by the Authority

The Company does not have any ancillary capital.

### 5.2.6. 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.

## 5.3 Regulatory Capital Requirements

### 5.3.1 Economic Capital requirement and Minimum Margin of Solvency

As at December 31, 2022, the regulatory capital requirements for ECR and MSM were:

| Year Ended December 31, 2022 |              |
|------------------------------|--------------|
| ECR                          | \$14,033,000 |
| MSM                          | \$5,605,000  |

### 5.3.2. 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.

### 5.3.3. A Description of the Amount and Circumstances Surrounding the Non-Compliance, The Remedial Measure and Their Effectiveness

The Company was compliant.

### 5.3.4. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

The Company was compliant.

## 5.5 Approved Internal Capital Model

The Company is evaluating the use of an internal capital model.

## 6. Subsequent Events

The Company has performed a review of events subsequent to December 31, 2022 through April 28, 2023, the date these financial statements were available for issuance.

There are no subsequent events to disclose.

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, 2022.

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Eric Haller  
Director

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Stephen Minor  
Director

**Signature:**   
**Email:** ehaller@flemingih.com

**Signature:**   
Stephen Minor (Feb 19, 2024 16:17 EST)  
**Email:** sminor@flemingreinsurance.com









# Fleming Re FCR 2022 Final revised

Final Audit Report

2024-02-19

|                 |  |
|-----------------|--|
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