



# Financial Condition Report

*Soteria Reinsurance Ltd.*

*For the financial year ended on 31<sup>st</sup> December 2023*

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## 1. Executive Summary

### 1.1. Business and Performance

This Financial Condition Report has been prepared in accordance with the Insurance (Public Disclosure) Rules 2015 as promulgated by the Bermuda Monetary Authority. It outlines the financial condition of Soteria Reinsurance Ltd. (“Soteria” or “Soteria Re” or “the Company”), including information about its corporate governance, risk profile, solvency valuation and capital management for the reporting period January 1, 2023 to December 31, 2023.

Soteria Re was incorporated as a Bermuda exempt company on July 10, 2023 and is registered as a Class C long-term insurer with the Bermuda Monetary Authority (“BMA”) in Bermuda.

To date, Soteria has executed on one reinsurance transaction with Fidelity Life Insurance Company (“FIL”) to reinsure a legacy Fixed Annuity block of business underwritten by FIL.

### 1.2. Governance Structure

The Board of Directors (“the Board”) is committed to establishing and maintaining a sound corporate governance and risk management framework having regard of principles of corporate discipline, accountability, responsibility, compliance, and oversight.

Soteria’s roles and responsibilities for risk taking activity are organized in alignment to the “Three lines of Defense” (“3 LoD”) principles to ensure appropriate segregation of duties and achieve effective governance and risk management.

Since inception, the Company has been building out its risk and governance frameworks in compliance with the BMA’s Insurance Code of Conduct, which includes the formalization of key policies across all functional areas and the development of the Company’s risk management and risk appetite frameworks.

### 1.3. Risk Profile

The risks faced by Soteria in the pursuit of its strategic objectives are grouped into standard risk categories to help the consistent identification, assessment, monitoring and reporting of risks across the organization.

The Board is committed to ensuring that risks are managed in line with the nature, scale, and complexity of the Company, with the aim of protecting and/or enhancing enterprise value in a coordinated and systematic way which encompasses all risk types.

A reporting mechanism has been established to ensure timely and effective reporting of risk to the appropriate governance level within the Company.

#### 1.4. Solvency Valuation

The Company evaluates assets and liabilities in line with the valuation principles outlined by the Bermuda Monetary Authority's "Guidance Note for Commercial Insurers and Insurance Groups Statutory Reporting Regime" for the reporting period.

#### 1.5. Capital Management

The Company's capital management objective is to maintain a strong capital base in order to support the business underwritten by the Company and to meet regulatory obligations at all times. The Company follows the BMA's guidance for determining regulatory capital requirements. The strategy is to maintain a prudent level of capital in excess of the minimum requirements which will support the risk and underwriting business model while optimizing costs and quality of capital.

As of 31<sup>st</sup> December 2023, the Company' Bermuda Solvency Capital Requirement ("BSCR") Ratio is 215%.

#### 1.6. Subsequent Events

The Company has performed an evaluation of events that have occurred subsequent to December 31, 2023 and through April 24, 2024 (the date the financial statements were available to be issued).

The Company submitted a request to FMR for the forgiveness of the intercompany payable outstanding as of December 31, 2023 owed to FMR for services provided pursuant to the administrative services and facilities agreement. The request was approved in March 2024 and accordingly the intercompany payable was reclassified to additional paid-in capital as a non-cash capital contribution.



## 2. Business and Performance

### 2.1. Name of the Reinsurer

Soteria Reinsurance Ltd.

### 2.2. Insurance Supervisor

BMA

BMA House

43 Victoria Street,

Hamilton HM12

Bermuda

### 2.3. Approved Auditor

GAAP and Statutory Reporting

PricewaterhouseCoopers Ltd.

Washington House, 4<sup>th</sup> floor

16 Church Street, Hamilton

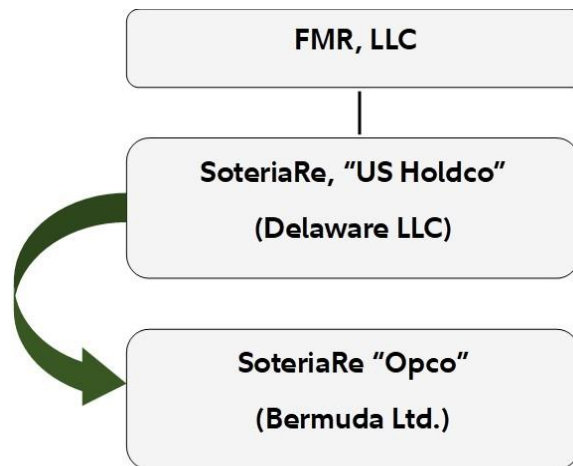
Bermuda

### 2.4. Ownership Details

The Company is 100% directly owned by Soteria Reinsurance Holdings LLC, a Delaware limited liability company which itself is a 100% wholly owned subsidiary of FMR LLC.

### 2.5. Group Structure

Soteria Reinsurance LLC ("Soteria HoldCo") is a Delaware Limited Liability Company and a 100% wholly owned subsidiary of FMR LLC. Soteria Reinsurance LLC is the 100% owner of Soteria Re, registered as a Bermuda exempted company limited by shares and registered as a Class C reinsurer.



Soteria Re was licensed by the BMA in July 2023 and its focus is on affiliated reinsurance of life and annuity products from Fidelity Life Insurance Company ("FILI"), a Utah domiciled insurer.

## 2.6. Insurance Business Written by Business Segment and by Geographical Region

The Company currently offers reinsurance coverage in the United States for single premium immediate annuities and operates out of one business segment. Gross premiums with respect to SPIA business reinsured was \$384.9M in 2023. No business was written in 2022.

## 2.7. Performance of Investments

The primary investment objective for assets backing reserves is to seek to generate income, preserve capital, and match cash flows to the liability profile. The goal for assets in the surplus account is to optimize risk-adjusted return with acceptable level of volatility while maintaining sufficient liquidity for adverse scenarios.

The table below summarizes the Company's investment income and realized losses by asset class generated for the financial year ending December 31, 2023:

Investment Income (US\$'s in thousands)	2023
Funds Withheld Assets	\$8,584
Cash and Cash-Equivalents	1,940

Investment Income (US\$'s in thousands)	2023
<b>Net Investment Income</b>	<b>\$10,524</b>

Investment Related Losses (US\$'s in thousands)	2023
<b>Funds Withheld Assets</b>	<b>(\$3,448)</b>
<b>Total Investment Losses</b>	<b>(\$3,448)</b>

## 2.8. Material Income and Expenses Incurred

See below for the Company's sources of income and expenses based on US GAAP:

<i>(US\$ in thousands)</i>	Year Ended December 31, 2023	Period from August 23, 2022 (Date of Incorporation) to December 31, 2022
<b>Revenues</b>		
Premiums	\$384,887	\$—
Net investment income	10,524	50
Net investment gains	14,435	—
<b>Total revenues</b>	<b>409,846</b>	<b>50</b>
<b>Benefits and expenses</b>		
Future policy and other policy benefits	391,736	—
Policy and other operating expenses	200	—
Other expenses	12,257	—
<b>Total benefits and expenses</b>	<b>404,193</b>	<b>—</b>
Income before provision for income tax	5,652	50
Provision for income tax expense	1,191	—
<b>Net income</b>	<b>\$4,461</b>	<b>\$50</b>





## 2.9. Any Other Material Information

N/A

### 3. Governance Structure

In accordance with the requirements of the Insurance Code of Conduct (the “Code”) issued by the BMA under the Insurance Act 1978 and its related regulations as amended (the “Act”), the Company is required to establish and maintain a sound corporate governance and risk management framework having regard to, without limitation, principles of corporate discipline, accountability, responsibility, compliance, and oversight.

#### 3.1. Board and senior executives

##### *3.1.1. The Board of Directors*

The Board ensures the Company is effectively directed and managed and conducted in a sound and prudent manner with integrity, due care, and the professional skills that are appropriate.

The Board’s roles and responsibilities are formalized in the Bye-Laws and include:

- setting the Company’s governance, risk management, investment strategy, and internal control frameworks,
- reviewing and approving the Company’s various policies and procedures,
- overseeing the management team’s performance and key business objectives and
- reviewing the Company’s business and financial results.

The Board has delegated the following authority and responsibilities (under its oversight) to its committees to assist it in discharging its responsibilities:

- **Audit Committee:** The Audit Committee is responsible for, among other things, oversight of financial reporting and the audit process for the Company, including internal audit and the performance, qualification, and independence of the Company’s independent auditor.
- **Investment Committee:** The Investment Committee is responsible for oversight of the Company’s investment strategy, investment performance and Asset-Liability Management (“ALM”).
- **Risk Committee:** The Risk Committee is responsible for, among other things, assisting the Board with the development, implementation, and oversight of the Company’s risk management policies and procedures.

The Company recognizes that independent, non-executive directors play a vital role in bringing external views, experience, and perspective to the Company. To this end, Soteria

Re’s Board and Board-level Committees comprise two independent, non-executive directors along with other senior management personnel of Fidelity.

The composition of these groups within the Company is as follows:

Function	Composition
<b>Board</b>	Catherine Sheridan (independent, non-executive Director) Barclay Simmons (independent, non-executive Director) Michael Wilens (non-executive Director) Bart Grenier (non-executive Director) Ari Lindner (executive Director)
<b>Audit Committee</b>	Catherine Sheridan (Chair) Barclay Simmons Ari Lindner
<b>Investment Committee</b>	Barclays Simmons (Chair) Bart Grenier Ari Lindner
<b>Risk Committee</b>	Catherine Sheridan (Chair) Michael Wilens Ari Lindner

### 3.1.2. Senior Management

Soteria Re’s executive management team comprises five positions as of December 31, 2023: Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Risk Officer and Chief Operating Officer. We note that the Company’s Chief Actuary joined the Company in January 2024.

Soteria Re’s management team is responsible for all the day-to-day operations of the Company, implementation of the Board’s strategy and of the Company Risk Management Framework (“RMF”).

As of December 31, 2023 the Company has established a Management Investment Committee to support the Chief Investment Officer with the oversight of the Company’s investment

strategy, investment performance and asset liability matching. Additional management committees will be considered as the Company continues to grow in size and complexity.

Additional details regarding the professional qualifications, skills, and expertise of the Board and senior executives to carry out their functions are provided in Section 3.2.

### *3.1.3. Remuneration Policy and Practices*

The Company's management remuneration policy provides for a fixed base salary along with an annual discretionary bonus which varies in accordance with both the Company's and the individual's performance. Additionally, management participate in a shares program with Soteria Re's parent company FMR LLC. Independent, Non-executive Board members receive fees as remuneration for their work as directors and do not receive bonuses or stock options. The CEO in partnership with the Head of HR conducts periodic industry reviews of compensation policy and levels.

### *3.1.4. Supplementary Pension or Early Retirement Schemes*

The Company provides all employees with pension benefits. Bermuda employees, participate in a defined contribution plan. US Employees participate in a 401k plan. The Company does not have any early retirement schemes. There is no pension plan for independent, non-executive Board members.

### *3.1.5. Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive.*

The Company is indirectly wholly owned and controlled by FMR LLC. During 2023 and 2022, the Company received \$45M and \$25M respectively in capital contributions from FMR LLC. No material transactions were executed with Board members, Senior Executives or any individual who exerts significant influence over the Company.

## **3.2. Fitness and Propriety Requirements**

### *3.2.1. Fit and Proper Process in assessing the Board and senior executives*

Soteria is committed to building sustainable value and meeting regulatory expectations by appointing fit and proper persons who possess the character, experience, integrity, skills and competence to carry out their roles and responsibilities effectively in the best interests of the Company, its customers and additional stakeholders.

The Company adheres to a Fit and Proper Policy to ensure it meets its obligations under the BMA’s Fitness and Propriety framework. The Fit and Proper Policy documents the criteria and establishes the guidelines and procedures to assess the fitness and propriety of Board members, senior executives, controllers, officers and third-party providers.

The Company reviews a number of factors when assessing the fitness and propriety of a person to perform a particular duty or function. The most important considerations will be the person’s:

- Competence and experience; and
- Soundness of judgement, integrity (including financial integrity) and reputation.

The Board is ultimately responsible for ensuring that persons responsible for the oversight and management of the business of the Company are fit and proper and that there is implemented a culture that places a high value on appointing fit and proper persons.

### *3.2.2. Professional Qualifications, Skills, and Expertise of the Board and Senior Executives*

The qualifications, skills, and expertise of the Board and senior executives are outlined below:

Board Members	Professional Qualifications, Skills and Expertise
<p><b>Michael Wilens</b> <i>Non-Executive Director and Chairman of the Board</i></p>	<ul style="list-style-type: none"> <li>• Mr. Michael Wilens serves on the board of directors of FMR LLC, Fidelity Investment’s parent company, and oversees Fidelity’s Private Investments group.</li> <li>• Prior to this role, Mr. Wilens headed Fidelity’s Asset Management organization, overseeing Fidelity Management &amp; Research Company, Pyramis Global Advisors, and Strategic Advisers, LLC. Before joining Fidelity, Mr. Wilens spent eleven years at Thomson Reuters in roles that included CEO of Westlaw and CTO of the corporation. Earlier, Mr. Wilens was CEO of Groupe Lagardère’s Legion, cofounder and COO of HCIA, and founder of COSI.</li> <li>• Mr. Wilens received a bachelor of science and master of science degree in electrical engineering and computer science from MIT and an MBA from the University of Michigan.</li> </ul>

Board Members	Professional Qualifications, Skills and Expertise
<p><b>Barclay Simmons</b></p> <p><i>Independent Non-Executive Director</i></p>	<ul style="list-style-type: none"> <li>Barclay Simmons is Founder, Chairman and Chief Executive Officer of Rose Investment Limited, a Bermuda-based advisory business. Previously, Mr. Simmons was Chief Executive Officer of ASW Law Limited and an investment banker with Goldman Sachs in NY. He also served as Lead Director and then Chairman of the Board of the Bank of N.T. Butterfield &amp; Son Limited, where he served from 2011 to 2017—from its ownership by private equity to after its IPO—having led a co-investment in the bank on the behalf of the Bermuda Pension Fund. He also serves as a director at FIL Limited and Eight Roads Limited, the international public and private investing platforms of Fidelity.</li> <li>Mr. Simmons served on the board of the Bermuda Monetary Authority for nine years and has spent 14 years as a member, and now Chairman, of the Public Funds Investment Committee responsible for Bermuda’s pension funds.</li> <li>He attended the University of Kent at Canterbury (LLB (Hons)), the Inns of Court School of Law (Barrister), the Royal Military Academy Sandhurst (TACC) and Harvard Business School (MBA).</li> </ul>

**Board Members**
**Professional Qualifications, Skills and Expertise**
**Catherine Sheridan**

*Independent Non-Executive Director*

- Catherine M. Sheridan is a nonexecutive board member of Fidelity International, a dynamic multinational organization that offers comprehensive investment products and investment management services—including mutual funds, pension management, and fund platforms—to private and corporate investors. Ms. Sheridan also advises insurance enterprises on their insurance and risk operations, and on accounting, financial, and tax considerations.
- Before joining Fidelity, Ms. Sheridan pursued a 35-year career in public accounting at KPMG, rising to partner in the firm’s Atlanta office and then relocating to the Bermuda office in 2002 to become partner-in-charge of KPMG’s tax practice. As a member of the Executive Committee, she was actively involved with the strategic planning and governance of the firm and the management of its earnings.
- Ms. Sheridan has more than three decades of experience with U.S. federal tax and accounting issues as well as international tax and accounting issues, with a focus on financial services—specifically, the investment-fund arena and the global reinsurance industry. She has extensive experience assisting organizations with the restructuring of reinsurance and investment-fund operations while addressing financial implications and tax efficiencies.
- Ms. Sheridan earned her bachelor of business administration from Emory University and an Executive Leadership Education Certificate in Insurance from Wharton. She is a member of the Georgia Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

**Board Members****Professional Qualifications, Skills and Expertise****Bart Grenier***Non-Executive Director*

- Mr. Bart Grenier is head of Asset Management for Fidelity Investments, a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing, and other financial products and services to institutions, financial intermediaries, and individuals. Mr. Grenier is also a member of Fidelity's Executive Committee. In this role, he oversees Fidelity's investment divisions, which collectively manage \$3.2 trillion in retail and institutional assets on behalf of individual investors, intermediaries, and institutions worldwide. In addition to overseeing Fidelity's Equity, High Income & Alternatives, Fixed Income, and Global Asset Allocation investment divisions, Mr. Grenier is also responsible for Asset Management's functional support areas, including operations, compliance, technology, fiduciary oversight, board support, human resources, and finance.
- Prior to this appointment, Mr. Grenier served as global head of Asset Management at Fidelity International Limited (FIL) in London. He returned to Fidelity in 2017 as head of Investment Solutions and Innovation. Mr. Grenier originally joined Fidelity in 1991 and, through the mid-2000s, held several senior roles in Asset Management that included, at various times, leadership of the Asset Allocation, High Income, Fixed Income, Money Market, Income Growth, Value, Equity Trading, and Strategic Advisers teams. Mr. Grenier left Fidelity in 2005 to become CIO and managing director at DB Advisors, a division of Deutsche Asset Management. From 2011 until 2017, he was chairman, CEO, and CIO at The Boston Company Asset Management (now part of BNY Mellon Asset Management).
- Mr. Grenier earned his bachelor of science degree in chemical engineering from California State Polytechnic University-Pomona and his master of science degree in management from Rensselaer Polytechnic Institute.



Board Members	Professional Qualifications, Skills and Expertise
<p><b>Ari Lindner</b> <i>President</i></p>	<ul style="list-style-type: none"> <li>• Ari Lindner has over 30 years of experience in the life insurance and reinsurance industry, including over 20 years in senior leadership roles. He has successfully built life reinsurance companies into generators of meaningful long-term income—the largest of which produced over \$200m of annual operating income at its peak.</li> <li>• Mr. Lindner most recently served as CEO of Converge US, leading the company to record profitability and achieving over 50% annualized growth in its assumed reinsurance. Prior to joining Converge, he led the development and growth of customized life and annuity reinsurance transactions as SVP of Munich Re Markets. Mr. Lindner additionally spent 15 years at ACE Group where he was primarily responsible for building and leading their life reinsurance companies in Bermuda and the US.</li> <li>• Mr. Lindner is a graduate of the Wharton School at the University of Pennsylvania where he earned a Bachelor of Science in Economics with a concentration in Actuarial Science. He is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries</li> </ul>

Senior Executives	Professional Qualifications, Skills and Expertise
<p><b>Ari Lindner</b> <i>President</i></p>	<p>See above</p>

**Senior Executives Professional Qualifications, Skills and Expertise****John McLaughlin**

*Chief Financial  
Officer*

- Mr. John McLaughlin is Chief Financial Officer for Soteria Reinsurance with primary responsibility for accounting, treasury, tax, and financial planning and analysis. He brings over twenty-five years of experience leading finance organizations as well as an extensive background in business development and mergers and acquisitions. Most recently, he served as Head of Corporate Financial Planning & Analysis for Fidelity Investments, managing annual and multiyear financial planning and analysis for the firm while providing insights to senior leadership to support strategic and operational decision-making.
- Previously, he held leadership positions across several portfolio companies within Devonshire Investors, the private equity affiliate of Fidelity Investments, including Chief Financial Officer of Discovery Natural Resources, Global Chief Financial Officer (interim) of HR Access, and Chief Financial Officer of Backyard Farms. Mr. McLaughlin also served as Vice President, New Business Development for Devonshire Investors, identifying and executing early-stage venture investments, while managing strategic transactions for portfolio companies. Earlier in his career, Mr. McLaughlin led the finance organization for multiple businesses within Raytheon Technologies, as well as served as Director of Corporate Development (M&A) executing large strategic transactions for the company.
- Mr. McLaughlin received his MBA from the Wharton School of the University of Pennsylvania and holds an undergraduate degree in Finance and Operations from Boston College. He is a graduate of the Advanced Management Program at Harvard Business School and holds the Chartered Financial Analyst (CFA®) designation

**Senior Executives Professional Qualifications, Skills and Expertise****Sergi Turabelidze**

*Chief Investment  
Officer*

- Mr. Sergi Turabelidze is leading the investment management team as Chief Investment Officer of Soteria Reinsurance with over fifteen years of investment management experience. Most recently, Mr. Turabelidze was a Senior Vice President, Head of Investment Solutions, with the Reinsurance Group of America Incorporated (RGA) where he was responsible for all aspects of investment strategy for reinsurance and M&A transactions and led global teams of highly quantitative portfolio managers. During his tenure at RGA, his team evaluated over 300 transactions and closed over \$20 billion of deals across multiple currencies.
- Prior to that, Mr. Turabelidze was a Vice President at Goldman Sachs where he worked on portfolio structuring for a multibillion-dollar hedge fund. Earlier in his career, Mr. Turabelidze was a Portfolio Manager at NISA Investment Advisors where he managed pension portfolios in liability-driven investment strategies and a derivatives portfolio over \$300 billion.
- Mr. Turabelidze holds a Bachelor of Science in Business Administration (B.S.B.A.) in Finance from Washington University in St. Louis.

**Senior Executives Professional Qualifications, Skills and Expertise****Paolo Fiandesio***Chief Risk Officer*

- Mr. Paolo Fiandesio serves as Chief Risk Officer for Soteria Reinsurance, with more than 14 years of experience in the risk management industry. He previously served as Chief Risk Officer at Resolution Re, and as a risk manager at Somerset Reinsurance, where he was responsible for the design and implementation of risk management framework.
- Before joining Somerset, Mr. Fiandesio worked in management consulting at Ernst & Young for 10+ years, where he worked closely with Chief Risk Officers and executive management teams across continental Europe and the UK to design and implement risk management frameworks in compliance with Solvency II. While at EY Bermuda, Mr. Fiandesio was responsible for the delivery of risk and regulatory services, with a focus on assisting new reinsurance start-ups wanting to register under the Bermuda Insurance Act 1978 and its related regulations.
- Mr. Fiandesio has a bachelor's degree in International Markets Economics and a master's degree in Management of Financial Intermediates from Università del Piemonte Orientale A. Avogadro – Novara.

**Senior Executives Professional Qualifications, Skills and Expertise****Scott Selkirk***Chief Actuary*

- Mr. Scott Selkirk is Chief Actuary for Soteria Reinsurance, where he is responsible for all actuarial functions including the valuation of existing liabilities and the pricing of new reinsurance opportunities. Mr. Selkirk has over 25 years of experience in the life insurance and reinsurance industry, including most recently serving as the Chief Underwriting Officer at Somerset Reinsurance. During his tenure at Somerset, he played a pivotal role in the company's entry into the reinsurance market and was responsible for underwriting hundreds of reinsurance transactions.
- Before joining Somerset, Mr. Selkirk held key positions responsible for both pricing and client relationship management at two Bermuda-based reinsurance firms, serving as Head of Pricing at Standard Life of Canada's Bermuda Branch and Vice President at ACE Tempest Life Re. Prior to relocating to Bermuda in 2007, Mr. Selkirk worked for New York Life, ING, and MetLife where he held various actuarial roles, mainly focused on product development working closely with distribution.
- Mr. Selkirk is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. Mr. Selkirk graduated with a Bachelor of Arts degree in Statistics from Boston University.

**Senior Executives Professional Qualifications, Skills and Expertise****Maxine Hensel**

*Chief Operating Officer and Head of Business Development*

- Ms. Maxine Hensel led the internal business case development of Soteria Reinsurance and is serving as the Chief Operating Officer and Head of Business Development. She brings over seventeen years of related professional experience in strategic advisory and structured finance banking. Most recently, Ms. Hensel was a Senior Vice President of the Asset Management division in Fidelity Consulting where she led the strategic development of all Asset Management consulting projects and executed on priority initiatives for the firm.
- Prior to that, Ms. Hensel was at McKinsey & Company where she led creative problem solving and analysis for strategic and operational initiatives across various industries. Earlier in her career, Ms. Hensel worked at Lehman Brothers where she led the deal execution process and structured securities for monthly \$1 billion-plus transactions.
- Ms. Hensel graduated from the Wharton School of Business at the University of Pennsylvania and holds an undergraduate degree in Economics and Applied Math from Yale University.

### 3.3. Risk Management and Solvency Assessment

#### 3.3.1. Soteria Re's Risk Management Process

The Board is committed to ensuring that risks are managed in line with the nature, scale, and complexity of the Company, with the aim of protecting and/or enhancing enterprise value in a coordinated and systematic way which encompasses all risk types.

The purpose of risk management at the Company is twofold. The first is to ensure that risks are identified and that their potential to cause loss or generate profit is understood. The second purpose is to ensure that the appropriate level of capital is held to cover the potential impact of risk from all sources.

Risk management is a continuous process grounded on key phases as presented below:



**Risk Identification** - Everyone at Soteria has responsibility to identify risks within their area and engage to ensure they are properly managed. Process owners across the Company are responsible for identifying the risks impacting their respective processes and for ensuring appropriate controls are in place to manage the risk to an acceptable level, as per the Company's risk appetite.

**Risk Assessment** - For quantifiable risks such as market, insurance, credit and liquidity, the Company determines its capital position using the Bermuda Solvency Capital Requirement ("BSCR") framework. The BSCR is calculated using the capital factors set by the BMA. With respect to non-quantifiable risks, which include strategic risk, model risk, compliance risk and cyber risk, the Risk function works with each process owner to qualitatively assess the risks through the annual risk and control assessment exercise.

**Risk Management** - As a result of the regular risk assessment process, there will be risks which are being managed in line with risk limits, some approaching the limit and some will be in breach. Existing risks that have progressed beyond the risk appetite, will be managed in line with their assessment and escalated to the appropriate governance forum to ensure visibility is provided at the right levels with respect to mitigating actions being implemented to bring the risk exposure within appetite.

**Risk Reporting and Monitoring** - At least quarterly, the CRO produces a report (the "CRO Report") to provide the Board Risk Committee ("BRC") with a summary view of the risk profile,

with a focus on the Company's compliance with the limits and tolerances defined in the Company's risk appetite framework. More frequent sensitivity reports are generated as deemed appropriate based on existing market volatility levels.

### *3.3.2. Risk Management and Solvency Self-Assessment Systems Implementation*

Risk Appetite is an expression of Soteria's desire or willingness to seek, tolerate or avoid risk, using qualitative and quantitative factors / metrics, in alignment to its strategic objectives. Setting an appropriate risk appetite and integrating it into business decisions is an important aspect to ensure risks are taken within an appropriate level of authority.

Soteria's risk appetite is set and reviewed by the Board at least annually or more frequently in case of material changes to the Company's risk profile, as presented by the CRO.

At least quarterly, the CRO produces a report (the "CRO Report") to provide the BRC with a summary view of the risk profile, with a focus on the Company's compliance with the limits and tolerances defined in the Company's risk appetite framework.

At least annually, the Risk function will agree on a suite of scenario tests to be performed as part of the Commercial Insurers Solvency Self-Assessment ("CISSA") process.

### *3.3.3. Relationship between the solvency self-assessment, solvency needs, and capital and risk management systems*

Soteria's Capital Management Policy defines the target capital coverage ratio once all quantifiable risks have been measured in alignment to the BSCR framework.

On a quarterly basis, Soteria determines its overall capital position taking into account all quantifiable risks. In addition, particularly with respect to asset-related risks, the Company performs regular stress / sensitivity testing to determine the potential impact that a deterioration in risk exposure may have on its capital and liquidity position.

Scenarios defined as part of the CISSA process are focused on the most material risk drivers to Soteria and consider events which would likely occur over the course of the business plan and could materially impact the ability to meet the Company's strategic objectives.

Stress and scenario testing results are documented in the CISSA Report and discussed with the Risk Committee of the Board prior to submitting the CISSA Report to the BMA.



#### *3.3.4. Solvency self-assessment approval process*

The Board approves the CISSA Report, as presented by the CRO, at least annually, in line with the process described above.

### 3.4. Internal Controls

#### *3.4.1. Internal Control System*

The Company has in place systems, processes, policies, and procedures to ensure controls are designed and operated appropriately to mitigate risks across the Company's processes.

Internal controls are documented and are designed to ensure segregation of duties between preparer and reviewer.

The Company regularly reviews the adequacy and effectiveness of internal controls to ensure they remain proportionate given the nature, size, and complexity of the business.

#### *3.4.2. Compliance function*

The Compliance function is responsible for monitoring regulatory changes in the relevant jurisdictions and ensuring that the organization adheres to internal policies, external regulations, industry standards, and ethical guidelines. The Compliance function assists the line of business teams in executing their responsibilities in accordance with the Company's policies and procedures.

The Chief Risk Officer is the person accountable for implementing the Company's Compliance function and is supported by FMR's Compliance and Legal representatives to deliver on day-to-day responsibilities.

### 3.5. Internal Audit

The Board recognizes that in the management of risk within complex and/or large organizations, an internal audit function represents an important line of defense within the corporate governance framework of a company. In this context, the Company established an internal audit process overseen by the Audit Committee.

The Internal Audit itself is performed by FMR's Corporate Audit function pursuant to the Company's shared services agreement with FMR LLC.

Soteria's Internal Audit function reports into the Audit Committee of the Board, with direct access to the Board. The function will perform annual reviews in order to evaluate the

adequacy and effectiveness of the Company's procedures and controls to ensure compliance with regulatory requirements and sufficient management of operational and financial risk.

### 3.6. Actuarial Function

As of 31<sup>st</sup> December 2023, before the Company onboarded the Chief Actuary, Willis Towers Watson ("WTW") performed the pricing and reserving function. WTW's work is reviewed by the Board until such time as the actuarial team has been hired. The Chief Actuary was onboarded on January 1<sup>st</sup>, 2024 and conducted a full internal review of year end reserve valuation methodology and underlying assumptions.

### 3.7. Outsourcing

Outsourcing risk is the risk of financial loss, reputational damage or business disruption arising from the inadequate selection, contracting or management of third parties.

The Board understands that while the responsibility for certain roles can be outsourced to third parties or affiliates, this does not remove the accountability from the Company to ensure that any risks arising from such arrangements are managed in line with local requirements. To this end, all outsourced roles / activities are governed by formal service agreements and are subject to the Company's own standards on governance and internal controls. These include:

- Extensive due diligence process carried out on all vendors prior to onboarding. This is aimed at ensuring each vendor meets governance standards in the areas of sanctions compliance, financial strength, cyber security, etc.
- At least annual evaluation of all key external vendors, which includes an evaluation of risk, criticality, replaceability, and performance against service level agreements. More frequent reviews may be performed as needed;
- Baseline contract standards which include termination provisions in the event of non-compliance with the terms set out in the relevant service agreement; and
- Annual business continuity review process to identify and remediate single points of failure across external vendors.

### 3.8. Other material information

N/A

## 4. Risk Profile

### 4.1. Material Risks

The risks faced by Soteria in the pursuit of its strategic objectives are grouped into standard risk categories to help the consistent identification, assessment, monitoring, and reporting of risks across the organization. Using standard risk categories enables risks to be aggregated to determine their overall impact on the organization.

Risk type	Description
<b>Strategic Risk</b>	<i>Risk of failure in the Company's strategic planning and implementation, leading to inability to meet its objectives</i>
<b>Insurance Risk</b>	<i>Risk of adverse developments impacting insurance liabilities, leading to an increase in or change in the timing of the contractual reinsurance settlements</i>
<b>Market Risk</b>	<i>Risk of losses due to factors that affect the overall performance of our investment portfolio (e.g., interest rate, spreads, etc.)</i>
<b>Credit Risk</b>	<i>Risk of losses due to deterioration on the credit quality of assets, leading to defaults and downgrades</i>
<b>Liquidity Risk</b>	<i>Risk of insufficient cash / cash-like resources to meet obligations as they fall due, such as collateral top-ups or reinsurance settlements</i>
<b>Compliance / Legal Risk</b>	<i>Risk of financial loss due to fines arising from inability to meet compliance obligations with our regulators and contractual partners</i>
<b>Outsourcing Risk</b>	<i>Risk of financial loss, reputational damage or business disruption arising from the inadequate selection, contracting or management of third parties</i>
<b>Model Risk</b>	<i>Risk of inadequate decisions as a result of incorrect or misused model outputs and reports</i>
<b>Operational Risk</b>	<i>Risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events that could impact business operations</i>
<b>Cyber Risk</b>	<i>Risk of loss or harm arising from a malicious attack that impacts the confidentiality or integrity of electronic data or the availability of systems</i>
<b>Climate Change risk</b>	<b>Physical risks:</b> <i>Risk of operational disruption to the Company's processes as a result of severe weather conditions</i>

Risk type	Description
	<b>Transition risks:</b> Risk of loss arising from the uncertainty created by the global shift towards a more sustainable, net-zero economy

#### 4.2. Risk Mitigation across the Company

The Board has adopted a comprehensive set of Risk Management Policies and has charged the CRO with establishing oversight processes to ensure that all risks to which the Company is exposed are well understood and managed.

The Board has also formalized a risk management strategy with supporting risk appetite statements, preferences, and limits to ensure risks associated with the Company’s business strategy and plans are well understood and resources to mitigate these risks should they arise are in place.

Risk owners are responsible to ensure the controls in place to manage the inherent risk remain adequate and effective. In the event of a change in the inherent risk exposure, risk owners should review the controls in place against such risk and ensure they continue to be adequate and effective.

As a result of the regular risk assessment process, there will be risks which are being managed in line with risk limits, some approaching the limit, and some may be in breach.

If any existing risks have progressed beyond the risk appetite, they will be managed in line with their assessment and escalated to the appropriate governance forum to ensure visibility is provided at the right levels with respect to mitigating actions being implemented to bring the risk exposure within appetite.

#### 4.3. Material Risk Concentrations

The Company has limits in place to manage material risk concentrations as they relate to asset-types, credit quality, and counterparties within the asset portfolio. As of 31 December 2023, the Company is in compliance with these limits and is not exposed to material risk concentrations.

#### 4.4. Investment in Assets in Accordance with the Prudent Person Principle

The Board has adopted an Investment Policy Statement (“IPS”) which details the investment limits, risk constraints, and governance for the management of Soteria’s consolidated investment portfolio.

The primary investment objective for assets backing reserves is to generate income, preserve capital, and match cash flows to the liability profile. The goal for assets in the surplus account is to optimize risk-adjusted return with acceptable level of volatility while maintaining sufficient liquidity for adverse scenarios. All accounts are subject to the constraints specified in the IPS.

The CIO is accountable for the consolidated IPS, with ultimate oversight by the Board. The IPS is reviewed at least annually, with any changes needing to be recommended by the CIO and approved by the Board.

It is the responsibility of the Soteria Portfolio Management team to ensure that assets under management comply with this policy on a consolidated basis. The Soteria Operations team is responsible for implementing the rules and maintaining the processes to monitor the compliance of this policy. The Soteria Portfolio Management team will work with internal and external investment teams to ensure any risk limit violations are resolved or exceptions are approved on a timely basis.

A compliance report detailing violations, exceptions, and resolutions is produced each month end and a summary is presented to the Investment Committee of the Board at regular meetings. In the event of a limit violation as of any month end, the Soteria Portfolio Management team has ninety calendar days from that month end to either (i) remedy the violation or (ii) obtain a waiver from the Investment Committee of the Board. Waivers can be granted indefinitely or for a pre-specified period.

#### 4.5. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company's Risk Appetite and Limit Policy sets clear and formal boundaries for risk taking so that actual risk exposure remains within known, acceptable, and controlled levels. Various stress tests are performed to evaluate the adequacy of the Company's capital and liquidity whilst ensuring that regulatory requirements are met.

The Company defines Risk Capacity as the total amount of risk the Company can assume before breaching constraints with regulators and counterparties. Risk capacity is defined using stress and scenario testing to inform the amount of capital Soteria should hold to enable it to withstand adverse events.

#### 4.6. Other Material Information

N/A

## 5. Solvency Valuation

### 5.1. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset

The Company has considered the valuation principles outlined by the Bermuda Monetary Authority's "Guidance Note for Commercial Insurers and Insurance Groups Statutory Reporting Regime" for the reporting period when calculating the values of assets included on its Economic Balance Sheet.

Fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The Company determines the fair value of assets in accordance with the following hierarchy:

- **Level 1:** Unadjusted quoted prices for identical assets in an active market.
- **Level 2:** Quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the asset.
- **Level 3:** Prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. The inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset, and are based on the best available information, some of which are internally developed.

The Company has an investment in an affiliated investment fund that is measured using net asset value ("NAV") as a practical expedient in determining fair value. The Company's carrying value includes its ownership percentage as indicated by the NAV in the investment fund financial statements, which is received on a lag. The underlying investments of the investment fund may have significant unobservable inputs.

The hierarchy above gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable valuation inputs (Level 3). If the inputs used to measure a financial asset or liabilities cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement.

There are three main approaches to measuring the fair value of assets: the market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets; the income approach, which uses valuation techniques to convert future amounts to a single, discounted amount; and the cost approach, which reflects the amount that would be required currently to replace the service capacity of an asset.

The valuation methods and assumptions used for the valuation of each asset class are set out below:

- **Cash and cash equivalents:** Cash and cash equivalents consist of cash at banks and in hand and certain money market securities held in the ordinary course of business which are highly liquid investments and can be readily convertible to known amounts of cash. The carrying amount of cash equals fair value. The fair value of cash equivalents is based on quoted market prices. These assets are classified as Level 1.
- **Funds held by ceding insurers:** The fair value of the embedded derivative is estimated based on the change in the fair value of the assets supporting the funds withheld receivable under our funds withheld agreement. The fair value is classified as Level 2 based on the valuation methods used for the underlying assets.
- **Sundry assets:** Relate to the amount of deductible temporary differences expected to be recovered from the Internal Revenue Service, using the federal tax rate that is enacted at the end of the reporting period. The amount recognized is in conformity with GAAP principles for tax purposes and the Company has determined that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

## 5.2. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

Technical Provisions are defined as the sum of a best estimate of the Company's liabilities and a risk margin. The Company adopted the valuation principles outlined in the BMA's "Guidance Notes for Commercial Insurers and Insurance Groups Statutory Reporting Regime" when determining the value of its technical provisions included on its Economic Balance Sheet.

The table below contains the Company's Technical Provisions as of 31<sup>st</sup> December 2023:

Technical Provisions (in \$US thousands)	2023
<b>Best Estimate Liability</b>	387,083
<b>Risk Margin</b>	10,299
<b>Technical Provisions</b>	397,382

The Best Estimate Liability is a probability-weighted average of future cash flows, discounted using the relevant interest rate term structure.

The Risk Margin reflects the uncertainty associated with the probability-weighted cash flows. Whilst in principle, the best estimate liability reflects the amount required on average to meet policyholder obligations and associated insurer expenses, the insurer also needs to hold additional funds to meet those situations where cash flows exceed those expected. The risk margin is intended to reflect the compensation that the insurer needs to bear this risk.

As of the date of this report, the Company utilizes the BMA's Standard Approach to derive the discount rate used in the discounting of its future liability cash flows.

The BMA's Standard Approach recognizes that most insurers have significant liabilities that are typically not fully liquid, all insurers will be permitted to include an adjustment to the risk-free rate to partially reflect the illiquidity premium implicit in the underlying assets held and avoid artificial volatility on their balance sheets. Discount rates for this approach are provided by the BMA.

### 5.3. Descriptions of Recoverables from Reinsurance Contracts

N/A

### 5.4. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

The Company follows valuation principles outlined by the BMA's "Guidance Note for Commercial Insurers and Insurance Groups Statutory Reporting Regime" when calculating the values of other liabilities included on its Economic Balance Sheet.

The valuation methods and assumptions used for the valuation of material other liabilities are set out below:

- **Insurance and reinsurance balances payable:** Relates to assumed business past due and consists of benefit payments and expense allowance owing to the cedant. The measurement basis is fair value, which is approximated by amortized cost, which is reasonable due to the short-term nature of the payable balance. No amounts are owing greater than one year.
- **Amounts due to affiliates:** Relates to non-reinsurance balances payable owing to FMR LLC. The measurement basis is fair value, which is approximated by amortized cost, which is reasonable due to the short-term nature of the amounts owing. No amounts are owing greater than one year.



## 5.5. Other Material Information

N/A

## 6. Capital Management

### 6.1. Eligible Capital

#### *6.1.1. Soteria's Capital Management Policy*

The Company's capital management objective is to maintain a strong capital base in order to support the business underwritten by the Company and to meet regulatory obligations at all times. The Company follows the BMA's guidance for determining regulatory capital requirements. The strategy is to maintain a prudent level of capital in excess of the minimum requirements which will support the risk and underwriting business model while optimizing costs and quality of capital.

Sound capital management principles and practices are important to the Company, and an important component of a sound capital management framework is a transparent methodology that measures risks accurately and allocates adequate capital to the risks assumed. This ensures the continuing ability of the Company to meet its obligations as they fall due while also maintaining the confidence of policyholders, creditors, and other stakeholders.

#### *6.1.2. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules*

As of December 31, 2023, all of the eligible capital used by the Company to meet the Minimum Solvency Margin ("MSM") and Enhanced Capital Requirement ("ECR") is Tier 1 Capital.

Eligible Capital Categorized by Tier (in \$US thousands)	2023
<b>Tier 1</b>	55,606
<b>Tier 2</b>	-
<b>Tier 3</b>	-
<b>Total</b>	55,606

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

The ECR is entirely covered by the Company's Tier 1 capital.

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

N/A

## 6.4. Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR

N/A

## 6.5. Ancillary capital instruments that have been approved by the Authority

N/A

## 6.6. Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus.

The difference between the total shareholder's equity in accordance with the US GAAP Financial Statements and the available statutory capital and surplus per the Statutory Financial Statements is due to the removal of the DIG B36 embedded derivative.

Under Section 6C of the Insurance Act, the Company obtained approval by the BMA to remove the impacts of the embedded derivatives on its funds withheld at interest. The below is a reconciliation between the two bases of accounting:

<i>(US\$ in thousands)</i>	December 31, 2023
Total shareholder's equity in accordance with US GAAP	\$74,761
Removal of embedded derivative excluded from total assets under Section 6C1	17,883
Statutory capital and surplus	<u>56,878</u>

## 6.7. Regulatory capital requirements

### 6.7.1. ECR and Minimum Margin of Solvency at the end of the reporting period

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

Description (in \$US thousands)	2023
<b>Statutory Economic Capital and Surplus</b>	55,606
<b>ECR Requirement</b>	25,824
<b>MSM Requirement</b>	6,764
<b>Transition BSCR ratio<sup>1</sup></b>	215%

### 6.7.2. Identification of any non-compliance with the Minimum Margin of Solvency and the ECR

The Company was compliant with the MSM and ECR requirements as at and during the year ended December 31, 2023.

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<sup>1</sup> Reflects impact of the transition from the 2018 year-end methodology to the 2019 year-end methodology

## **7. Approved Internal Capital Model**

N/A

## **8. Subsequent events**

The Company has performed an evaluation of events that have occurred subsequent to December 31, 2023 and through April 24, 2024 (the date the financial statements were available to be issued).

The Company submitted a request to FMR for the forgiveness of the intercompany payable outstanding as of December 31, 2023 owed to FMR for services provided pursuant to the administrative services and facilities agreement. The request was approved in March 2024 and accordingly the intercompany payable was reclassified to additional paid-in capital as a non-cash capital contribution.

## 9. Declaration

We, the undersigned, declare that to the best of our knowledge and belief, the financial condition report fairly represents the financial condition of the Company in all material respects as at December 31, 2023.



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Ari Lindner  
Chief Executive Officer  
Soteria Reinsurance Ltd



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Paolo Fiandesio  
Chief Risk Officer  
Soteria Reinsurance Ltd