SOTERIA REINSURANCE LTD.

Financial Statements

For the year ended December 31, 2023 and period from August 23, 2022 (date of incorporation) to December 31, 2022

SOTERIA REINSURANCE LTD.

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April 24, 2024

Report of Independent Auditors

To the Board of Directors and Shareholder of Soteria Reinsurance Ltd.

Opinion

We have audited the accompanying financial statements of Soteria Reinsurance Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, shareholder's equity and cash flows for the year ended December 31, 2023 and period from August 23, 2022 (date of incorporation) to December 31, 2022, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the year ended December 31, 2023 and period from August 23, 2022 (date of incorporation) to December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

SOTERIA REINSURANCE LTD.

Balance Sheets
(In thousands, except for par value)

	December 31, 2023	December 31, 2022
Assets		
Investments in related parties		
Investment fund	$ 1,255	$ —
Funds withheld at interest	398,526	—
Total investments	399,781	—
Cash and cash equivalents	66,854	25,300
Other assets	2,160	—
Total assets	$ 468,795	$ 25,300
Liabilities and Equity		
Liabilities		
Future policy benefits	$ 373,134	$ —
Reinsurance balances payable	9,421	—
Intercompany payable	11,178	—
Other liabilities	301	—
Total liabilities	394,034	—
Commitments and Contingencies (Note 11)		
Equity		
Common shares - par value $1.00 per share; authorized: 2023 and 2022 - 250,000 shares; issued and outstanding: 2023 and 2022 - 250,000 shares	250	250
Additional paid-in capital	70,000	25,000
Retained earnings	4,511	50
Total shareholder's equity	74,761	25,300
Total liabilities and equity	$ 468,795	$ 25,300

See accompanying notes to the financial statements.

On behalf of the Board:

DocuSigned by:
Ari Lindner
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Director

SOTERIA REINSURANCE LTD.

Statements of Income
(In thousands)

	Year Ended December 31, 2023	Period Ended December 31, 2022 (from Incorporation)
Revenues		
Premiums	$ 384,887	$ —
Net investment income	10,524	50
Net investment gains	14,435	—
Total revenues	409,846	50
Benefits and expenses		
Future policy and other policy benefits	391,736	—
Policy and other operating expenses	200	—
Other expenses	12,258	—
Total benefits and expenses	404,194	—
Income before provision for income tax	5,652	50
Provision for income tax expense	1,191	—
Net income	$ 4,461	$ 50

See accompanying notes to the financial statements.

SOTERIA REINSURANCE LTD.

Statements of Shareholder’s Equity
(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholder's Equity
Balance at August 23, 2022				
Net income	$ —	$ —	$ 50	$ 50
Issuance of common stock	250	—	—	250
Capital contributions received	—	25,000	—	25,000
Balance at December 31, 2022	$ 250	$ 25,000	$ 50	$ 25,300
Net income	—	—	4,461	4,461
Capital contributions received	—	45,000	—	45,000
Balance at December 31, 2023	$ 250	$ 70,000	$ 4,511	$ 74,761

See accompanying notes to the financial statements.

SOTERIA REINSURANCE LTD.

Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2023	Period Ended December 31, 2022 (from Incorporation)
Cash flows from operating activities		
Net income	$ 4,461	$ 50
Adjustments to reconcile net income to net cash provided by operating activities:		
Net investment income	(8,584)	—
Net investment gains	(14,435)	—
Amortization and depreciation	(260)	—
Changes in operating assets and liabilities:		—
Funds withheld at interest	(375,507)	—
Future policy benefits	373,395	—
Reinsurance balances payable	9,421	—
Intercompany payable	11,178	—
Other assets and liabilities	(1,860)	—
Net cash (used in) provided by operating activities	(2,191)	50
Cash flows from investing activities		
Purchases of:		
Investment funds	(1,255)	—
Net cash used in investing activities	(1,255)	—
Cash flows from financing activities		
Issuance of common stock	—	250
Capital contributions	45,000	25,000
Net cash provided by financing activities	45,000	25,250
Net increase in cash and cash equivalents	41,554	25,300
Cash and cash equivalents at beginning of period	25,300	—
Cash and cash equivalents at end of year	$ 66,854	$ 25,300
Supplementary information		
Cash paid for taxes	$ 3,300	$ —
Non-cash transactions		
Assets acquired through reinsurance agreement on a funds withheld basis	$ 384,887	$ —
Reserves assumed through reinsurance agreement on a fund withheld basis	370,245	—

See accompanying notes to the financial statements.

1. Organization

Soteria Reinsurance Ltd. (“Soteria”, the “Company”, “we”, “us” or “our”) is a Bermuda exempted company incorporated on August 23, 2022 as a wholly owned subsidiary of Soteria Reinsurance Holdings LLC (“Soteria Holdings”), a Delaware holding company which is in turn is wholly owned by FMR LLC. The Company was established with the objective of focusing on the reinsurance of retail annuities and other investment-oriented products.

Soteria is registered as a Class C long-term insurer with the Bermuda Monetary Authority (“BMA”) under the Insurance Act 1978, as amended (“Insurance Act”).

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

Use of Estimates

The preparation of the financial statements requires management to elect accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities as of the reporting date and revenues and expenses for the reporting period. Actual results could differ from the estimates included in the financial statements. Our principal estimates impact the following:

a. Embedded derivatives valuation
b. Future policy benefit reserves; and
c. Valuation allowances on deferred tax assets

Additional details around these principal estimates and assumptions are discussed in the significant accounting policies that follow and the related footnote disclosures.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are detailed as follows:

Cash and Cash Equivalents

Cash and cash equivalents include cash on 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. These assets are reported at cost plus accrued interest, which approximates fair value as they are subject to an insignificant risk of change in value.

Investment Funds

The Company is invested in an alternative investment in the form of a limited partnership that invests in a diversified portfolio of private equity funds. The investment fund does not meet the definition of a variable interest entity (“VIE”) or a voting interest entity (“VOE”) as the Company is not a primary beneficiary or have control through voting rights of the investment fund, respectively. Accordingly, the Company uses the equity method of accounting for the investment fund where the cost is recorded as an investment in the fund and a proportionate share of the operating results as indicated by the net asset value (“NAV”) in the investment fund financial statements is recorded within net investment income on the Statements of Income. The operating results are recorded on a lag based on when the fund information is available. Future contributions or distributions are recorded directly to the investment fund balance as an increase to the carrying value or a decrease due to return of capital, respectively.

Funds Withheld at Interest

Funds withheld at interest consist of receivables for amounts contractually withheld by a ceding company for business written on a funds withheld basis in which we are the assuming reinsurer. The assets equal to statutory reserves are withheld and legally owned by the ceding company but are kept separate from the general accounts. Any excess or shortfall is periodically settled. The funds withheld assets are retained by the ceding company to reduce potential credit risk, although all economic rights and obligations on the assets accrue to the Company.

The funds withheld agreement contains an embedded derivative related to the change in unrealized gain or loss on the underlying securities and is recorded in net investment gains on the Statements of Income. Any investment income earned on the underlying assets within funds withheld is recorded in net investment income on the Statements of Income.

Embedded Derivative

An embedded derivative is a derivative instrument that is embedded in a contract, known as the host contract. If it is determined that the characteristics of the embedded derivative are not clearly or closely related to the host contract and a separate instrument with the same terms would qualify as a standalone derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately at fair value.

The Company's reinsurance agreement written on a funds withheld basis contains an embedded derivative. The right to receive or the obligation to pay the total return on the assets supporting the funds withheld at interest represents a total return swap with a floating rate leg. The fair value of the embedded derivative is calculated as the unrealized gain or loss on the underlying assets and is included with the host contract within funds withheld at interest on the Balance Sheets. The change in the fair value of the embedded derivative is reported within net investment gains on the Statements of Income.

Reinsurance

The Company assumes insurance contracts from an affiliated insurer on a funds withheld basis. Reinsurance accounting is applied to the business assumed as risk transfer is deemed to have been met. To meet risk transfer requirements, the reinsurance agreement must provide indemnification against a more than nominal risk of loss or liability relating to insurance risk which includes mortality and/or morbidity risk.

The assets and liabilities assumed under the funds withheld reinsurance agreement are presented gross on the Balance Sheets. The change in assumed reserves and benefits are presented net in future policy and other policy benefits on the Statements of Income. The fair value of the consideration received for the business assumed is included within premiums on the Statements of Income as risk transfer has been met. Refer to Note 6 for further information on our reinsurance agreement.

Future Policy Benefits

We assume immediate annuities with life contingencies, which are classified as nonparticipating long-duration contracts. The liabilities for these contracts are computed using the net premium method which requires the use of cash flow assumptions related to expenses, investment yields and policyholder longevity determined at the time of inception on a best estimate basis. The investment yield assumption is specific to our expected earned rate on the underlying asset portfolio supporting the reserves, which was 6.05% as of December 31, 2023. We base our assumption regarding expenses based on contractually stipulated terms and policyholder longevity on industry standard data and historical experience, where available.

The cash flow assumptions are locked-in at contract inception and include a provision for adverse deviation. The Company periodically reviews actual experience relative to original estimates to determine if the reserve continues to be adequate as part of our annual loss recognition testing. A premium deficiency is deemed to exist if the current reserves are not sufficient to cover the present value of expected future benefits and expenses. As of December 31, 2023 there was no premium deficiency identified as part of our loss recognition testing.

The liabilities calculated are recorded within future policy benefits on the Balance Sheets. Changes in future policy benefits are recorded within future policy and other policy benefits on the Statements of Income.

Recognition of Revenues and Related Expenses

The net consideration received for business assumed related to our long-duration contracts that pass risk transfer are recognized as revenue when due from the ceding company and placed within funds withheld at interest. Since the reinsured policies are immediate annuities with life contingencies, any excess between the fair value of the consideration received and the liabilities assumed is deferred as a deferred profit liability. The deferred profit liability is amortized in relation to policyholder benefits into income. The deferred profit liability is recognized in future policy benefits on the Balance Sheets and amortized through future policy and other policy benefits on the Statements of Income.

The Company is required to pay an expense allowance under the reinsurance agreement that relate to the maintenance of existing reinsured policies. The expense allowance is expensed as incurred within policy and other operating expenses on the Statements of Income.

Income Taxes

Income taxes are accounted for using the asset and liability method under which deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to the differences between the financial statement carrying amounts and the tax basis of existing assets, liabilities and tax credit carry forwards. The effect on deferred taxes from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company applies a more-likely-than-not recognition threshold for all tax uncertainties as the Company is permitted to recognize only those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the relevant taxing authorities.

Recently Issued Accounting Pronouncements

Targeted Improvements to the Accounting for Long Duration Contracts ("LDTI")

Changes to US GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Update ("ASU") to the FASB Accounting Standards Codification ("ASC"). ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts ("ASU 2018-12"), was issued by the FASB in 2018. ASU 2019-09 was subsequently issued to defer ASU 2018-12 by one year, which was deferred further by another year with the issuance of ASU 2020-11.

LDTI amends certain key areas related to the accounting and disclosure for long-duration insurance and investment contracts and include the following:

- <u>Future policy benefits:</u> Cash flow assumptions used to measure the liability for future policy benefits are required to be reviewed at least annually and updated if necessary. As the liability for future policy benefits will incorporate updated cash flow assumptions, a provision for adverse deviation is no longer required and loss recognition testing is eliminated for traditional and limited-payment contracts. Changes in the remeasurement of the liability associated with updated cash flow assumptions are required to be recognized in net income. Further, the discount rate has changed from an expected investment yield to an upper-medium grade fixed-income instrument yield which the industry has interpreted as a Single A rating and is required to be updated each reporting period. Changes in the liability for future policy benefits due to changes in the discount rate is recognized in other comprehensive income ("OCI").
- <u>Market risk benefits:</u> Contract features that guarantee benefits that provide protection to the policyholders from and expose companies to other-than-nominal capital market risk are now classified as market risk benefits and are required to be measured at fair value.
- <u>Deferred acquisition costs:</u> The amortization of deferred acquisition costs and certain other balances are to be amortized on a constant level basis over the expected term of the contracts, which is a departure from amortizing based on gross profits or gross margins. Deferred costs are no longer subject to impairment testing but are required to be written off for unexpected contract terminations.
- <u>Disclosure requirements:</u> The update introduces new and enhanced disclosure requirements around the liability for future policy benefits, policyholder account balances, separate account liabilities, market risk benefits and deferred acquisition costs.

The Company will be required to adopt these updates on either a retrospective or modified retrospective basis on January 1, 2025, although early adoption is permitted. The Company does not plan to early adopt LDTI and is currently evaluating the impact of this guidance. Although there are currently no market risk benefits or deferred acquisition costs, the Company expects that there will be a significant impact on the financial statement from future adoption due to changes in future policy benefits.

Improvements to Income Tax Disclosures (ASU 2023-09)

The FASB issued ASU 2023-09, Improvements to Income Tax Disclosures, in December 2023 in response to requests from users of financial statements for enhanced disclosures to provide greater transparency about income tax information. The guidance provides for updated disclosures on income taxes primarily related to the rate reconciliation, income taxes paid, and disaggregation by federal, state, and foreign taxes. The Company is required to adopt these updates for fiscal years beginning after December 15, 2025; however, early adoption is permitted. The Company is currently evaluating the impact of this guidance.

3. Investments

Net Investment Income

Net investment income by asset class consists of the following:

(In thousands)	Year ended December 31, 2023	Period ended December 31, 2022
Funds withheld at interest	$ 8,584	$ —
Cash and cash equivalents	1,940	50
Total net investment income	$ 10,524	$ 50

Net Investment Gains (Losses)

Net investment gains (losses) by asset class consists of the following:

(In thousands)	Year ended December 31, 2023	Period ended December 31, 2022
Funds withheld at interest		
Realized losses	$ (3,448)	$ —
Change in embedded derivative	17,883	—
Total net investment gains	$ 14,435	$ —

Investment Fund

The investment fund portfolio consists of the Company's investment in an affiliated fund, the Fidelity Private Equity Multi-Strategy Fund II, that invests in a diversified portfolio of private equity funds. The investment fund does not specify the timing of distributions on the fund's underlying assets.

The carrying value by ownership percentage of the equity method investment fund is as follows:

	Year ended December 31, 2023		Period ended December 31, 2022	
(In thousands)	Carrying Value	Maximum Loss Exposure	Carrying Value	Maximum Loss Exposure
Ownership Percentage				
50% - 99%	$ —	$ —	$ —	$ —
3% - 49%	1,255	1,255	—	—
Less than 3%	—	—	—	—
Equity method investment funds	$ 1,255	$ 1,255	$ —	$ —

Funds Withheld at Interest

The funds withheld at interest represents the receivable for assets supporting the Company's fund withheld agreement that are contractually withheld by the ceding company. The total funds withheld at interest is comprised of a host contract and embedded derivative. Based on the terms of the agreement, the assets which are equal to the statutory reserves are held in a custodial account that are separate from the general accounts of the ceding company and are used to pay for policyholder claims and expense allowances. While the assets are legally owned by the ceding company, the Company is subject to the investment performance and retains the economic rights and obligations of the underlying assets as if they were held directly by the Company. There is a contractual right of offset to net the amounts we owe the ceding company with the amounts owing to us.

The following presents the underlying investment composition of the funds withheld at interest:

	December 31, 2023		December 31, 2022	
(In thousands)	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Fixed maturity investments				
CLOs	$ 17,603	4 %	$ —	— %
CMBS	37,686	10 %	—	— %
Corporate	319,300	80 %	—	— %
Cash and cash equivalents	13,947	3 %	—	— %
Other assets	9,990	3 %	—	— %
Total funds withheld at interest	$ 398,526	100 %	$ —	—

4. Fair Value

The Company categorizes financial assets and liabilities carried at fair value in its Balance Sheets based upon a three-level valuation hierarchy. The hierarchy 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 liability cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgement, and considers factors specific to the asset or liability. Management seeks to maximize the use of observable inputs. The levels are described below:

Level 1 Unadjusted quoted prices for identical assets and liabilities in an active market.

Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

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 or liability, and are based on the best available information, some of which is internally developed.

Net Asset Value Investment funds are typically measured using NAV as a practical expedient in determining fair value and are not classified in the fair value hierarchy. The Company's carrying value includes its ownership percentage as indicated by the NAV in the investment fund financial statements, which are received on a lag. The underlying investments of the investment fund may have significant unobservable inputs.

There are three main approaches to measuring fair value of assets and liabilities: the market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities; 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.

There were no financial liabilities measured at fair value as of December 31, 2023. The following fair value hierarchy table presents information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2023:

	December 31, 2023			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Investments in related parties				
Funds withheld at interest - embedded derivatives	$ —	$ 17,883	$ —	$ 17,883
Cash and cash equivalents	66,854	—	—	66,854
Total assets measured at fair value	$ 66,854	$ 17,883	$ —	$ 84,737

There were no financial liabilities measured at fair value as of December 31, 2022. The following fair value hierarchy table presents information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2022:

	December 31, 2022			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 25,300	$ —	$ —	$ 25,300
Total assets measured at fair value	$ 25,300	$ —	$ —	$ 25,300

There were no Level 3 assets or liabilities at fair value held by the Company as of and for the years ended December 31, 2023 and December 31, 2022 (from incorporation).

Fair Value Valuation Methods

Cash and cash equivalents

The carrying amount for cash and cash equivalents is equal to its fair value. These assets are classified as Level 1.

Funds withheld at interest - embedded derivative

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.

5. Derivatives

The Company has an embedded derivative arising from its funds withheld agreement that is required to be bifurcated from the host contract and carried at fair value. The embedded derivative is recorded within funds withheld at interest on the Balance Sheets with changes in its fair value recorded within net investment gains on the Statements of Income. As the funds withheld agreement was executed in 2023, both the fair value and change in fair value is $17.88 million as of December 31, 2023 and for the year ended December 31, 2023, respectively.

6. Reinsurance

Effective July 1, 2023 and signed on August 15, 2023, the Company entered into a funds withheld agreement with an affiliated entity, Fidelity Investments Life Insurance Company ("FILI"), to reinsure an in-force block of single premium immediate annuities. The following summarizes the effect of reinsurance on premiums and future policy and other policy benefits on the Statements of Income:

(In thousands)	Year ended December 31, 2023
Premiums	
Reinsurance assumed	$ 384,887
Total premiums	$ 384,887
Future policy and other policy benefits	
Reinsurance assumed	$ 391,736
Total future policy and other policy benefits	$ 391,736

The following summarizes the reinsurance agreement with FILI at inception:

(In thousands)	Year ended December 31, 2023
Liabilities assumed	$ 370,245
Less: Assets received[1]	381,761
Net cost of reinsurance[2]	$ (11,516)

[1]*Includes an adjustment for cash flows between the effective date of July 1, 2023 and the signing date of August 15, 2023.*

[2]*Recorded as deferred profit liability and included within future policy benefits on the Balance Sheets.*

Reinsurance typically provides recapture rights on the part of the ceding company for certain events of default. The Company's reinsurance agreement requires that assets be placed in a custody account for the benefit of the ceding company. The required minimum assets are defined by the agreement and are determined by statutory reserves. At December 31, 2023 the minimum required assets were $381.69 million. While the ceding company owns the assets placed in custody, their use is restricted based on the custody agreement terms and should there be a decline in the statutory book value of the assets, the Company may be required to contribute additional assets to the custody account to meet the minimum required amount.

7. Equity

Common Shares

The Company has issued one class of common shares, which represents 100% of the total voting power and all those shares are legally and beneficially owned by Soteria Holdings. As of December 31, 2023 and December 31, 2022, we had 250,000 shares with a par value of $1.00 each authorized, of which 250,000 shares were issued. No shares remained undesignated and unissued.

8. Income Taxes

Under current Bermuda law, the Company is not subject to any income or capital gains taxes. The Company, however, intends to make an election under Internal Revenue Code ("IRC") §953(d) to be taxed as a U.S. insurance company and accordingly the Company will file a standalone U.S. federal income tax return.

Income tax expense (benefit) consists of the following:

(In thousands)	**Year ended December 31, 2023**	**Period ended December 31, 2022**
Current	$ 3,351	$ —
Deferred	(2,160)	—
Income tax expense (benefit)	$ 1,191	$ —

There are no other taxes owing in any other jurisdiction. The Company's effective income tax rate was 21% which is consistent with the federal statutory income tax rate for the year ended December 31, 2023.

Current income tax payable is included within other liabilities on the Balance Sheets. The deferred tax asset is included within other assets on the Balance Sheets.

The components of the Company's net deferred tax asset are as follows:

(In thousands)	**Year ended December 31, 2023**	**Period ended December 31, 2022**
Deferred tax assets		
Insurance liabilities	$ 3,946	$ —
Bermuda tax loss carryforward	1,835	—
Deferred compensation	295	—
Total deferred tax assets	6,076	—
Valuation allowance	(1,835)	—
Total deferred tax assets, net of valuation allowance	4,241	—
Deferred tax liabilities		
Funds withheld at interest	2,081	—
Total deferred tax liabilities	2,081	—
Net deferred tax asset	$ 2,160	$ —

The Company assessed whether a valuation allowance would be required on its deferred tax assets. With the exception of the Bermuda related deferred tax asset discussed further below, the Company believes it is more likely than not that the deferred tax assets will be realized and therefore no valuation allowance has been recorded.

The Inflation Reduction Act ("IRA") was adopted in the U.S. in 2022 and created a new corporate alternative minimum tax ("CAMT") that imposes a 15% minimum tax on the adjusted financial statement income of large corporations for taxable years beginning in 2023. Interim guidance was provided by the Internal Revenue Service ("IRS") describing regulations it intends to issue upon which taxpayers are entitled to rely on until the issuance of regulations. The Company is an applicable corporation subject to the CAMT for 2023 and future periods due to our affiliation with FMR; however, the Company does not expect to incur a CAMT liability for 2023.

The Corporate Income Tax Act of 2023 ("CIT") was enacted by the Bermuda government on December 27, 2023. The CIT will commence on January 1, 2025 and apply a statutory rate of 15% to the taxable income or loss of Bermuda tax resident entities and permanent establishments. Due to the foreign tax credit provisions contained in the CIT, the Company, as a deemed U.S. insurance company, is not expected to incur additional taxes. The deferred tax asset recorded for the year ended December 31, 2023 of $1.83 million relates to the opening tax loss carryforward balance as allowed by the CIT; however, under the incremental cash tax savings approach, a full valuation allowance has been recorded against the deferred tax asset resulting in no material impact to the financial statements as a result of the CIT.

The Company's U.S. federal income tax returns since inception are subject to examination by the taxing authorities. The Company does not have any unrecognized tax benefits at December 31, 2023. In the event the Company has unrecognized tax benefits, interest and penalties related to uncertain tax positions would be recorded through the provision for income tax expense on the Statements of Income. The Company regularly assesses the likelihood of additional tax assessments by jurisdiction and, if necessary, adjusts its tax reserves based on new information or developments.

9. Statutory Requirements

The Company is licensed by the BMA as a Class C long-term insurer and is subject to the insurance laws and regulations as promulgated by the Insurance Act. This includes being subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement ("BSCR") model, which is a standardized statutory risk-based capital model used to measure risk associated with the Company's assets and liabilities. The BMA implemented the Economic Balance Sheet ("EBS") framework contained in the BSCR for commercial insurers which was granted equivalency to the European Union's Directive (2009/138/EC)("Solvency II"). Under the Insurance Act, a Class C insurer is required to prepare and file the following sets of financial statements:

GAAP Financial Statements	Financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), US GAAP, or any other internationally recognized comprehensive base of accounting, for which the Company has elected to prepare US GAAP financial statements. The US GAAP financial statements are required to be audited and filed within four months from the end of the financial year and form the basis for the preparation of both the Statutory Financial Statements ("SFS") and EBS as described below.
Statutory Financial Statements	Equal to the GAAP financial statements adjusted for (a) prudential filters to eliminate non-admitted assets and adjustments to include certain assets and liabilities that are generally off-balance sheet under general purposes reporting and (b) any permitted practices as issued by the BMA to the Company. The SFS are required to be audited and filed within four months from the end of the financial year.
Economic Balance Sheet	A balance sheet whereby assets are measured and recorded based on fair value, with the US GAAP Balance Sheets serving as a starting point. The framework also requires the Company to estimate insurance technical provisions comprised of insurance related balances valued using best estimate cash flows and discounted using a risk-free rate with an illiquidity premium plus a risk margin to reflect the uncertainty of the underlying cash flows. The adjustment to the risk-free rate to discount technical provisions may be calculated by applying the standard approach or if approved by the BMA, the scenario-based approach. If the standard approach is used, the discount rate is prescribed by the BMA. Alternatively, if the scenario-based approach is used the derivation of the discount rate is based on the actual portfolio of assets assigned to the block of business, including any projected reinvestments, to determine market yields net of default costs. A set of interest rate stresses is then applied to determine the amount by which the market yields must be reduced to reflect interest rate risk and asset-liability mismatching. The resulting interest rate curve is reflected in the reserves.

Under the provisions of the Insurance Act, the value of the Company's assets must exceed the value of long-term business liabilities, established in conformity with the statutory balance sheet, by a specified amount, which should not be less than the Minimum Margin of Solvency ("MMS") floor. The MMS floor for a Class C insurer is the greater of (a) $500,000 (b) 1.5% of assets or (c) 25% of the Enhanced Capital Requirement ("ECR") as reported at the end of the relevant year.

The BSCR model is used to calculate the Company's ECR at the end of each relevant year. The ECR is a risk-based capital measure calculated by applying capital factors to capital and solvency return elements, including investments and other assets, operational risk, and long-term insurance risks, in order to establish an overall measure of capital and surplus for solvency purposes.

The ECR is equal to the higher of the BSCR and the MMS. The BMA requires all Class C insurers to maintain their capital at a target level which is 120% of the ECR and serves as a warning tool for the BMA should this not be met. The Company has met the minimum requirements.

The following table shows the Company's actual and required US GAAP, SFS and EBS capital and surplus and net income (loss):

	Year ended December 31, 2023		
(In thousands)	**GAAP**	**STAT**	**EBS**
Actual capital and surplus	$ 74,761	$ 56,878	55,606
Required capital[1]	N/A	6,764	27,287
BSCR ratio	N/A	N/A	215 %
Net income	4,461	(13,422)	N/A

[1]*For the SFS the required capital presented is the MMS and for EBS it is the ECR.*

A Class C insurer is required to disclose the composition of its capital based on a three-tiered capital system designed to assess the quality of capital resources that an insurer has to meet its capital requirements.Tier 1 is the highest quality capital and lesser quality capital is classified as either Tier 2 or Tier 3. The amounts of allowable capital within each tier is determined for each license by the Insurance Act.

The Company has applied for and received a directive (permitted practice) from the BMA whereby removing the effects of the Derivatives Implementation Group Statement 133 Implementation Issue No. B36 ("DIG B36") is permissible. For the period ended December 31, 2023, the net income in these financial statements differs to the net loss in the SFS by $17.88 million due to the permitted practice.

A Class C insurer must refrain from declaring or paying any dividends if it would cause the insurer to fail to meet its MMS or ECR. In addition, no dividends can be declared or paid in excess of 25% of the total statutory capital and surplus from the prior year unless the Company files an affidavit with the BMA attesting that the dividend would not cause the Company to fail to meet its relevant margins. No dividends can also be paid if it results in the Company's ECR falling below its target ratio. Further, no insurer can reduce its total statutory capital as set out in the prior year's financial statements by 15% or more unless it has received prior approval from the BMA. The Company has not declared or paid any dividends for the years ended December 31, 2023 and December 31, 2022 (from incorporation). As of December 31, 2023, the maximum distribution the Company was permitted to pay without prior approval of the BMA was $6.33 million.

10. Related Parties

FMR LLC and Soteria Reinsurance Holdings LLC

The Company is party to an administrative services and facilities agreement with FMR to provide services to the Company including accounting and tax, legal, human resources, risk, payroll, compliance, internal audit, treasury, global security, financial and other miscellaneous services, as well as making available sufficient office space to the Company. Soteria Holdings is also party to the administrative services and facilities agreement and employs all US based employees and incurs certain expenses in support of the Company. Pursuant to the agreement, the Company is required to compensate both FMR and Soteria Holdings for all services and facilities provided at cost plus a 10% mark-up, provided that all amounts incurred for services provided by third parties are to be charged only at cost. All amounts owed are to be paid at intervals agreed upon by all parties of the agreement. During the year ended December 31, 2023, the Company incurred $11.18 million related to the agreement with FMR and Soteria Holdings, with all amounts outstanding as of December 31, 2023. These expenses are recorded within other expenses on the Statements of Income and intercompany payable on the Balance Sheets. No amounts were incurred during the period ended December 31, 2022 (from incorporation).

Fidelity Investments Life Insurance Company

As described in *Note 6 - Reinsurance,* the Company entered into a funds withheld agreement with FILI, a wholly owned subsidiary of FMR, to reinsure an in-force block of single premium immediate annuities. See *Note 6 - Reinsurance* for further details.

Fidelity Institutional Asset Management LLC

Pursuant to the funds withheld agreement with FILI, the Company is responsible for all administrative expenses related to the establishment and maintenance of the funds withheld account, including the fees of any custodian and investment manager appointed, which also encompasses any sub-investment manager or sub-advisor fees. FILI appointed Soteria Holdings as investment manager and accordingly the two parties executed an Investment Management Agreement ("IMA"). Soteria Holdings subsequently executed a Sub-investment Management Agreement ("sub-IMA") with Fidelity Institutional Asset Management LLC ("FIAM"), a wholly owned subsidiary of FMR, to provide investment management services with respect to the funds withheld assets.

The investment management fees are calculated based on the average month-end assets at market value during the quarter and are charged based on 0.13 of 1% on the first $500 million of assets, 0.10 of 1% on the next $1 billion of assets, and 0.08 of 1% on any balance in excess of $1.5 billion. For the year ended December 31, 2023, the Company incurred investment management fees of $0.19 million with all amounts outstanding as of December 31, 2023. No amounts were incurred during the period ended December 31, 2022 (from incorporation). Investment management fees are included in other expenses on the Statements of Income and intercompany payable on the Balance Sheets.

Fidelity Fund and Investment Operations

The Company uses services provided by Fidelity Fund and Investment Operations ("FFIO"), a wholly owned subsidiary of FMR, which includes data services, fund operations, fund administration and middle office operations for its investments, including those investments within funds withheld at interest. Any amounts incurred in relation to these services are encompassed within the overall administrative services and facilities agreement with FMR as detailed above.

Private Equity Multi Strategy Fund II LP

As described in *Note 3 - Investments,* the Company has invested in the Fidelity Private Equity Multi-Strategy Fund II, an investment fund managed by FIAM. While the investment fund is managed by an affiliate, the fund does not invest in any affiliated private equity funds or any affiliated companies. As of December 31, 2023, the investment fund has committed to three unaffiliated private equity funds. See *Note 3 - Investments* for further details.

Fidelity International Limited

The Company holds a substantial amount of its cash in Fidelity International Limited ("FIL") money market accounts. While FIL is not a wholly owned subsidiary of FMR, both FIL and FMR have the same beneficial owners. For the year ended December 31, 2023 and period ended December 31, 2022 (from incorporation), the Company earned $1.92 million and $0.05 million, respectively, in interest income on its money market funds. As of December 31, 2023 and December 31, 2022, the Company had $54.16 million and $25.05 million, respectively, in the money market funds. Interest income is included in net investment income on the Statements of Income and the balances within the money market funds are included within cash and cash equivalents on the Balance Sheets.

The Company also leases office space in Bermuda from FIL. For the year ended December 31, 2023, the Company incurred lease expense of $0.03 million with all amounts still outstanding as of December 31, 2023. No amounts were incurred during the period ended December 31, 2022 (from incorporation). Rent expense is included in other expenses on the Statements of Income and other liabilities on the Balance Sheets.

11. Commitments and Contingencies

Commitments

The Company has made a commitment to invest a total of $10 million in its current investment fund, of which $8.7 million remains undrawn. We expect that our commitment will be invested over the next three years which corresponds to the anticipated investment period of the fund; however, the exact timing of the contributions are subject to counterparty request and are outside the control of the Company.

The Company has also made a commitment to invest a total of $5 million in a non-affiliated loan. No amounts have been drawn on this commitment as of December 31, 2023. We expect that our commitment will be invested over the next two and a half years which corresponds to the anticipated investment period of the funds; however, the exact timing of the contributions are subject to counterparty request and are outside the control of the Company.

Litigation

The Company may be involved in claims litigation arising in the ordinary course of business. As of December 31, 2023 and December 31, 2022, the Company is not involved in any litigation, including through the date the financial statements were issued.

12. 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.