SOMERSET REINSURANCE

Financial Condition Report

31 December 2022

Content

1. EXECUTIVE SUMMARY

This document is the Financial Condition Report of Somerset Reinsurance Ltd. (the "Company" or "Somerset Re") for the year ending 31 December 2022. This report was produced in accordance with the requirements set out in the Insurance (Public Disclosure) Rules 2015 and in the Insurance (Group Supervision) Rules 2011 (collectively "the Rules"). Set out below is a summary of the key information provided in this report:

- **Business –** The Company was incorporated in Bermuda on 18th September 2014 and licensed as a Class E insurer by the Bermuda Monetary Authority ("BMA") on 12th December 2014 to write Long-Term (life) Reinsurance. The Company is an Irish tax resident company and seeks to reinsure asset-intensive life and annuity business including whole life, interest-sensitive life, paid-up life and universal life, fixed deferred and equity-indexed deferred annuities, immediate annuities, structured settlements and pension businesses, which are expected to have predictable product liability cash flows. Other business that may be considered, to a limited degree, includes stand-alone mortality risk and financial and capital relief reinsurance coverages (together referred to as Structured Reinsurance Solutions (SRS)). Our focus is on writing reinsurance business, integrating our actuarial, investments, structuring and capital markets expertise to deliver reinsurance and capital management solutions for companies that look to manage risk levels and capital requirements.
- **Performance –** To date, the Company has successfully executed fifteen transactions, bringing total long term insurance liabilities to $5.8 billion as of 31st December 2022. Somerset Re has maintained its A-rating with Kroll Bond Rating Agency (KBRA) and AM Best, both with "positive" outlook, and its BBB+ rating with Standard & Poor's (S&P), with a "stable" outlook.
- **Governance structure –** The Board of Directors ("the Board") is committed to establishing and maintaining a sound corporate governance and risk management framework having regard to principles of corporate discipline, accountability, responsibility, compliance and oversight. Throughout the course of 2022 the Company has continued to enhance its governance and enterprise risk management frameworks to ensure these remain appropriate given the Company's size and complexity. Key changes include the formalization of additional policies and procedures and the continued development to the Company's risk appetite framework.
- **Risk profile –** The Company manages a range of risks typical to life insurers/reinsurers, including strategy, financial, investment, asset liability management, insurance and operational risk. To this end, the Board has formalized a risk appetite framework and risk reporting mechanisms to clearly articulate the Company's interest to take, mitigate or avoid risk, using quantitative and qualitative factors which align to the strategic objectives set out in the business plan.
- **Solvency –** The Company assesses its regulatory capital in line with the BMA's Economic Balance Sheet regime, hence, the results shown in this report are in line with that basis. The Company remains well capitalized.
- **Capital management –** The Company's Transitional Bermuda Solvency Capital Requirement ("BSCR") ratio for the year ending 2022 is 356% (2021: 319%). The ratio reflects the 10-year grade-in period to fully transition from the 2018 BSCR methodology to the 2019 revised methodology, which came into effect on 1st January 2019.
- **Subsequent event –** No subsequent events to report.

2. BUSINESS AND PERFORMANCE

a. Name of Insurer

Somerset Reinsurance Ltd.

b. Supervisors

Insurance Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditor

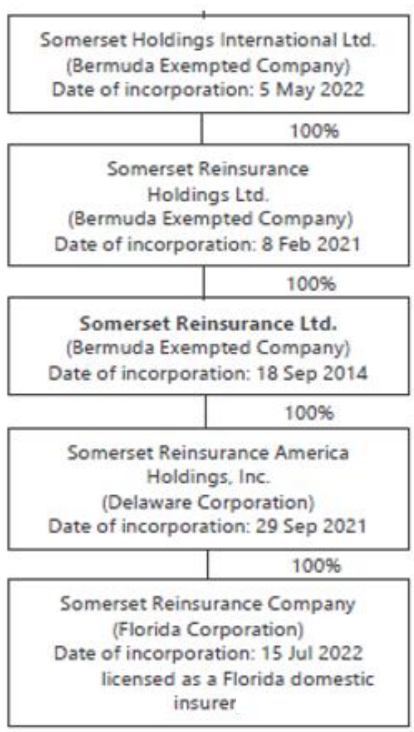
Statutory Reporting	GAAP Reporting
KPMG	KPMG
4 Par-la-Ville Road	4 Par-la-Ville Road
Hamilton HM 08	Hamilton HM 08
Bermuda	Bermuda

d. Ownership Details

The Company is privately owned by institutional and individual high net worth investors.

e. Group Structure

The Company is a reinsurance company incorporated under the laws of Bermuda and is licensed and regulated by the BMA. The group structure chart at 31st December 2022 is as shown below:



The Company focuses on writing reinsurance business only, integrating actuarial and capital markets expertise to deliver reinsurance and capital management solutions for companies that look to improve capital efficiency. Somerset Re blends strong capital markets, investments and insurance skills with a disciplined risk management process. The Company holds a Financial Strength Rating of A- with a Positive Outlook with AM Best, BBB+ with S&P with a Stable Outlook and an A- rating with a Positive Outlook with KBRA.

f. Insurance Business Written by Business Segment and by Geographical Region

The Company primarily offers treaty reinsurance coverage in the United States for Long-Term (life) business. This includes both life and annuity business. Gross premiums (in thousands) with respect to the life business written were $161,153K in 2022. The majority of Somerset Re's existing business written consists of deferred annuity business accounting for roughly 77% of the Company's total insurance provisions which is accounted for under the deposit accounting rules.

g. Performance of Investments, Material Income and Expenses Incurred

Performance of Investments for the Reporting Period

i. Overview

The Company invests in a combination of high quality diversified fixed income securities (fixed income bonds, mortgage-backed securities and asset-backed securities) and diversified multi-strategy investment portfolios.

The Company's diversified multi-strategy investment is a low volatility market neutral strategy that is expected to be uncorrelated with the fixed income market. The investment thesis for the combined approach seeks to reduce overall systemic market risk.

ii. Performance

2022 investment highlights are as follows:

($,000)	**YE2022**	**YE2021**
Fixed Income (total)	**738,968**	**892,166**
Non-US Government and Supranationals	1,967	2,680
US Government and Government Agency	20,684	0
Corporate Bond Securities	546,638	711,285
Municipal Securities	29,595	38,653
ResidentialMortgage Backed Securities	5,862	7,190

Commercial Mortgage Backed Securities	69,650	83,117
Asset Backed Securities	64,572	49,241
Funds Held Assets	**3,859,622**	**3,526,363**
Multi-Strategy	**312,268**	**360,524**

Book yields	**2022**	**2021**
Fixed Income	3.34%	2.51%
Funds Held Assets	3.92%	2.96%
Total	3.82%	2.87%

The multi strategy investment portfolio delivered a ~(3)% return in 2021.

Material Income and Expenses for the Reporting Period

The Company's main revenue source is investment income on fixed income assets and returns on the diversified multi-strategy investments. The Company's major expenses arise from interest credited to policyholders on fixed annuity and universal life policies and home office expenses. As the life reinsurance portfolio grows over time, these items will be supplemented by increasing premium revenues and cost of insurance charges and increasing benefit related expenses.

(Reported in thousand units)

Home Office Expense Type	**2022**	**2021**
Employee-related	$14,854	$12,362
Other	$30,380	$27,188
Total Home Office Expenses	**$45,234**	**$39,550**

h. Any Other Material Information

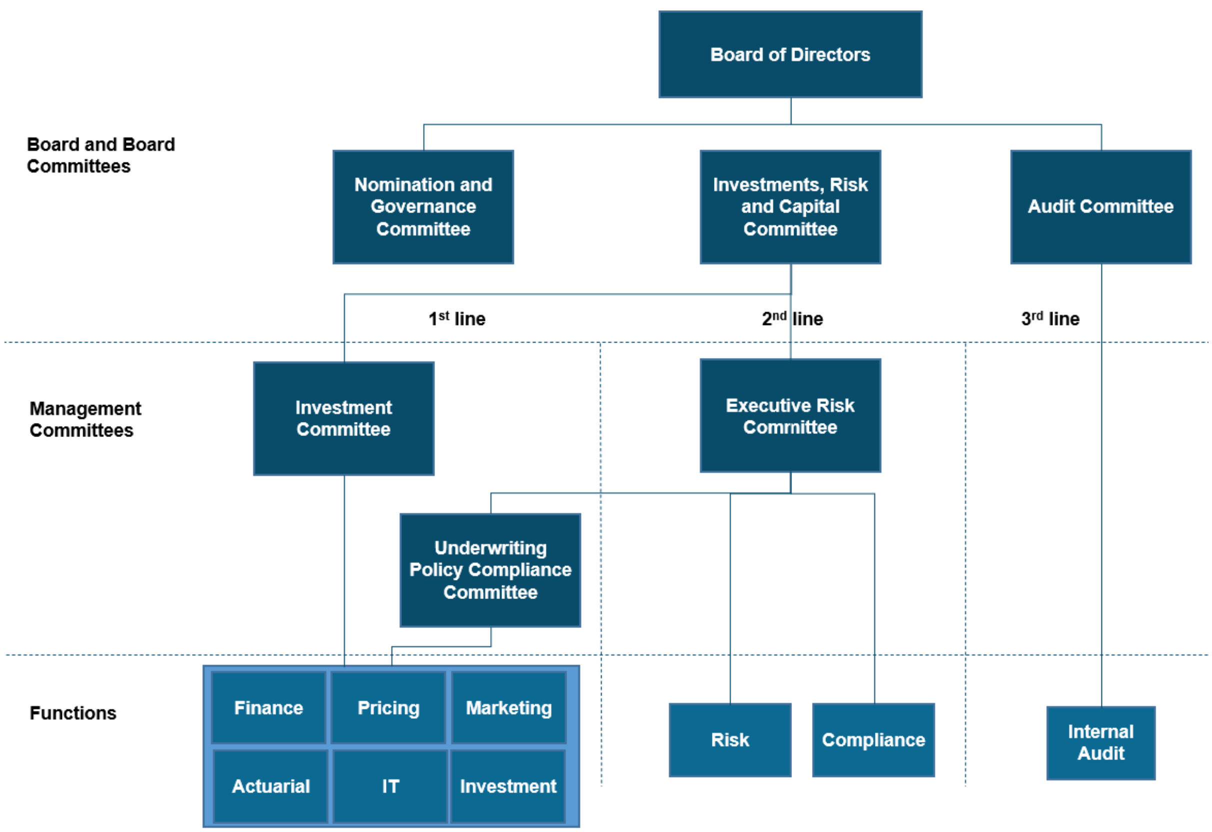
On 30th December 2022 certain investment entities managed and sponsored by Aquarian Holdings IV GP LLC, a Delaware limited liability company (together with its affiliates, "Aquarian") acquired 100% of the shares of Somerset Reinsurance Holdings Ltd. ("SRHL") by way of an interposition of a new Bermuda exempted holding company, Somerset Holdings International Ltd. ("the New Parent" or "SHIL") and a merger between a wholly owned subsidiary of New Parent, Sonar Merger Sub Ltd. and SRHL pursuant to section 104H of the Companies Act 1981, as amended (the "Merger"). As a result of the Merger, Aquarian now owns approximately 70% controlling interest in the New Parent located at Tenth Avenue, Floor 6, New York, NY 10014.

3. GOVERNANCE STRUCTURE

Roles, responsibilities and accountabilities for decision making are structured so that the Company manages and controls risks in line with the Three Lines of Defense principles, with supervision of these activities by the Board or its committees, thereby achieving effective segregation of duties. In particular:

- The first line of defense is responsible for the execution of the Board's strategy and for taking business and management decisions. This is primarily the responsibility of the Finance, Pricing and Underwriting, Actuarial and Investment functions.
- The second line of defense has responsibility for oversight and focuses on monitoring, challenging and providing insight to business functions using risk management tools and procedures. The Risk and Compliance functions reside within the second line of defense and are led by the Chief Risk Officer and the Head of Compliance, respectively. Both report to the Executive Risk Committee and the Board.
- The third line of defense is provided by the Internal Audit, an independent assurance function that evaluates and opines on the adequacy and effectiveness of both first and second line risk management approaches and tracks remediation progress. The Internal Audit Leader reports directly to the Chair of the Audit Committee and has unfettered access to the Board.

Set out below is a visual representation of the Company's Three Lines of Defense framework described above.



The Board provides overall oversight and direction to the implementation of the Company's enterprise risk management framework. To assist in exercising its responsibilities, the Board has established an Investment, Risk and Capital Committee, an Audit Committee and a Nomination and Governance

Committee. Each committee is comprised primarily of non-executive directors and the respective chairs are responsible for the effective operation of the committees and the fulfilment of their mandates as formally defined in their respective committee charters.

Management committees, including the Executive Risk Committee, Investment Committee and Underwriting Policy Compliance Committee, are the bodies through which the Chief Executive Officer (CEO) works with his executive team to implement the Board’s strategy. The roles and responsibilities of each committee are described in their respective charters, which are regularly reviewed to ensure they remain appropriate. In summary:

- **Investments, Risk and Capital Committee** - The primary purpose of the Investments, Risk and Capital Committee of the Board is to oversee the governance of significant risks, investment strategy security and performance, and capital adequacy throughout the Company and the establishment and ongoing monitoring of the Company’s risk profile, risk capacity and risk appetite.
- **Audit Committee** - assists the Board in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company’s compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of the Company's Internal Audit Leader and the performance, qualification and independence of the Company's independent auditors.
- **Nomination and Governance Committee** - assists the Board in its oversight of the Company’s corporate governance processes, and in ensuring the Company has suitable directors and executive management to oversee and implement the business strategy of the Company.
- **Executive Risk Committee** - this executive committee is responsible for reviewing the Company’s risk assessment results, evaluating compliance with risk limits and preferences, and regularly discussing improvements to the Company’s enterprise risk management framework.
- **(Executive) Investment Committee** - this executive committee is responsible for evaluating the current and prospective investment risk and return profiles, including portfolio liquidity and capital at risk exposures.
- **Underwriting Policy Compliance Committee** - this executive committee is responsible for reviewing management recommendations regarding all new reinsurance agreements and determining whether such recommendations are in compliance with the Company’s risk policy and underwriting guidelines and procedures.

a. Board and Senior Executive

i. <u>Board and Senior Executive Structure, Role, Responsibilities.</u>

The Board meets at least quarterly to execute its oversight responsibilities. This includes establishing the Company’s risk appetite and decision-making relating to certain matters which are considered of strategic importance. In line with the vision and with the assistance of the committees and senior management in the corporate strategic planning exercise, the Board establishes the corporate/business strategy and objectives with the interest of all stakeholders including shareholders in mind. The Board in particular considers the relevant legal, regulatory and supervisory requirements within which the Company operates. The strategy and objectives provide the business with sufficient guidelines for formulating goals for each unit, designing policies and procedures and for acquiring and allocating the resources needed to attain those objectives. As of year-end 2022, the Board consists of seven (7) directors with the CEO as the executive chairman.

The Board has delegated responsibility for day-to-day management of the Company in accordance with the strategy, objectives and policies set by the Board to the CEO. Other members of senior management which include the Chief Investment Officer, Chief Marketing Officer, Chief Financial Officer, Chief Risk Officer, Chief Underwriting Officer, and Head of Structured Reinsurance, assists the CEO in the exercise of his functions.

ii. <u>Remuneration Policy</u>

The Company's management remuneration policy provides for a fixed base salary along with an annual discretionary and performance-based bonus which varies in accordance with both the Company's and individual's performance. Additionally, senior management have received stock options and restricted shares to align executive remuneration with the interests of its common shareholders.

Non-executive Board members receive fees as remuneration for their work as directors and do not receive bonuses or stock options.

The CEO, working with external independent consultants, conducts periodic industry reviews of compensation policy and levels and reviews results with the Nomination and Governance Committee to ensure remuneration is appropriate and in line with the desired risk profile and the performance of the Company.

iii. <u>Pension or Early Retirement Schemes for Members, Board and Senior Employees</u>

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

iv. <u>Material Transactions with Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive</u>

On 30th December 2022, by virtue of his interest as the ultimate controller of Aquarian, Rudrabhishek Sahay became a significant shareholder controller of the Company. He is also a non-executive director of the Company.

b. Fitness and Proprietary Requirements

i. <u>Fit and Proper Process in assessing the Board and Senior Executive</u>

Five (5) members of the Board are elected by the sole shareholder and stand for re-election at each annual general meeting of the Company. Two (2) members are "designated" by shareholders per the terms of the shareholders' agreement.

Among its responsibilities, the Nomination and Governance Committee is responsible to identify and recommend director nominees and to ensure the Board and its committees are fit and proper to perform their duties. Any new director or member of executive management must be appointed only with approval by the Board, in line with the provisions in the Company's Bye-laws.

Function and business unit heads are authorized to hire middle management and other staff to ensure there is sufficient expertise to achieve their respective objectives and responsibilities.

ii. <u>Professional Qualifications, Skills and Expertise of the Board and Senior Executives</u>

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

<u>Board</u>

Jeffrey Burt – Chairman and Chief Executive Officer

Mr. Burt was appointed Board Chairman and CEO in 2020, following the retirement of Patrick Kelleher. Mr. Burt was previously President of Hannover Re US and a member of the Strategic Council. Under his leadership, Hannover Re US became an industry leader in the provision of structured reinsurance solutions. Mr. Burt guided the ongoing expansion of Hannover Re US, with the founding in 2014 of Hannover Life Reassurance Company of America (Bermuda) Ltd., and in 2018 of its structured reinsurance affiliate Kubera Insurance (SAC) Ltd. Jeff previously served as President and CEO of both companies.

Jeff is a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries.

Tom Barry – Non-Executive Director and Audit Committee Chair

Tom is an actuary and former CEO of Canada Life in Ireland. He is now a non-executive director and has served on the boards of life insurance, reinsurance and asset management companies. He has a deep understanding and knowledge of all aspects of life insurance, particularly risk management, product pricing and finance. During his long career with Canada Life, he also served at different times as CFO, chief actuary and as Chairman of their German subsidiary. He is currently Chair of Audit with Ireland's second largest insurer and Chair of Risk with the Irish subsidiary of a European insurer. Other roles during his career included Secretary of the Society of Actuaries in Ireland and President of the Irish Insurance Federation.

He studied Mathematics at University College Dublin and University of Texas at Austin. He also completed the General Manager Program at Harvard.

Stephen Robb – Executive Director and Chief Financial Officer

Mr. Robb joined Somerset Re in February 2020 and was previously EVP and Chief Financial Officer for AXA XL, the P&C and specialty risk division of AXA. In this role, he was responsible for all financial and actuarial matters, as well as the investment function of the company, and led a team of over 1,000 employees. In addition, he managed all Tax activities and Global Treasury functions to include capital, cash, FX, collateral, and liquidity management. Mr. Robb joined XL as VP SEC Reporting in 2004 and progressively moved into positions of increasing responsibilities to include SVP Accounting Policy, Chief Accounting Officer and Group Controller, before being named Chief Financial Officer in March 2017. Prior, he was with PricewaterhouseCoopers in Bermuda as Senior Manager and Insurance Industry Group Leader, where he specialized in financial services, particularly insurance and reinsurance companies, with major clients to include ACE, Montpelier Re, Everest Re and White Mountains. Prior he was Manager and then Supervisor in their Insurance Group and began his career with then Pricewaterhouse in Montreal 1994 as Senior Accountant.

Mr. Robb graduated with a Bachelor of Science Degree in Neuroscience from McGill University.

Rudrabhishek Sahay – Non-Executive Director

Rudrabhishek Sahay is the Founder and Managing Partner of Aquarian. Previously, Mr. Sahay was Co-Founder, Senior Partner, and an owner of 54 Madison Partners LLC. Before 54 Madison, he was a Senior Partner of Cain Hoy Enterprises, a private investment company, where he focused on real estate investments. Before Cain Hoy, Mr. Sahay was a founding member of the Principal Investment group at Guggenheim Partners, LLC ("Guggenheim Partners"), a diversified financial services firm with over $270 billion in assets under management. In this capacity, Mr. Sahay completed over $3 billion in private equity transactions, almost all in the insurance industry. Mr. Sahay was involved with the creation, acquisition or oversight of six different insurance companies, managing in excess of $100 billion in assets. He was also involved with identifying and structuring investments for the insurance company balance sheets to maximize capital efficiency.

Mr. Sahay was also the Co-Head of Guggenheim Partners' Growth Equity platform and was a founding member of Guggenheim Partners' Real Estate Private Equity business, where he completed nearly $1 billion in real estate development and financing. Prior to joining Guggenheim Partners, Mr. Sahay worked with H.I.G. Capital ("H.I.G."), a private investment firm with over $35 billion in assets under management. While at H.I.G., Mr. Sahay was responsible for transaction execution, portfolio management and deal origination. At H.I.G., he served as a member of the Board of Directors of Stant USA, a diversified Tier 1 automotive parts manufacturer of cooling and fuel systems.

In addition, Mr. Sahay worked with former Secretary of State Madeleine Albright to evaluate emerging market investments through her private investment fund, Albright Capital Management LLC. Mr. Sahay was also an investment professional at Jupiter Partners LLC, a middle-market private equity firm investing in leading businesses in the consumer, specialty retail, business services and healthcare sectors. At Jupiter Partners LLC, Mr. Sahay served on the Board of Directors of H-G Holdings, Inc., an outsourced travel and expense processor that was sold to Concur Technologies in 2007. He has also served as a consultant for the Boston Consulting Group, where he was involved in numerous domestic and international engagements with Fortune 100 clients.

Mr. Sahay is also a founding investor of Salus Finance LLC, a healthcare expense management platform.

Mr. Sahay received an M.B.A., with honors, from The Wharton School of the University of Pennsylvania and an A.B., cum laude, from Harvard University.

Michael H. Winkler – Non-Executive Director

Michael Winkler started his professional career as an actuary in Winterthur Life and worked there in product development, ALM and other areas. After having worked in Swiss Re for four years, he re-joined Winterthur and became responsible for the technical part of the group's life units around the globe. In 2007, Mr. Winkler joined Munich Re group and built up a life team in New Re in Zurich, focusing on financing transactions and Variable Annuity reinsurance. He built up New Re's reputation as a specialized life reinsurer and is a well-known speaker in conferences.

In 2014, Mr. Winkler established his own advisory firm RefinSol, providing specialized consulting for Financial Solutions.

Joan Collins – Non-Executive Director and Nomination and Governance Committee Chair

Ms. Collins is an independent non-executive Director and has extensive life reinsurance experience. She previously held the position of Chief Executive Officer and Executive Director at Achmea Reinsurance Ireland Limited 2011-2013 and prior to that was responsible for business development and underwriting.

She graduated with honours from the University of Limerick with a BA in Insurance and European Studies and has a MBA from Smurfit Business School, University College Dublin. She is an Associate of the Chartered Insurance Institute and holds a Diploma in Company Direction from the Institute of Directors.

Enda Murphy – Non-Executive Director and Investment, Risk and Capital Committee Chair

Enda Murphy is an Insurance Consultant and non-executive director. After 35 years in the Industry Enda retired from RGA as Executive Vice President in 2017 where he was Managing Director of its European operations, and COO of its international business. In that role Enda gained an understanding and familiarisation with most forms of life, annuity and asset intensive structured reinsurance contracts on a global basis. As executive director of many of the group's global subsidiaries, Enda was approved by several international Regulators and gained a deep understandings of business development strategies. Audit, Risk, and Investment issues. Prior to joining RGA, Enda was founding Managing Director of De Laga Landen Re (part of the Rabo Bank group) and Canada Life Reinsurance where he developed the business targeting European and North American markets using subsidiaries in Ireland, Bermuda and Barbados. Previously Enda was Financial Controller of Canada Life Ireland where he was a founding Director of Canada Life Europe selling life insurance from Ireland into the German market.

By background and training, Enda is a Chartered Accountant and studied Business and Economics at Trinity College Dublin followed by internship at PWC. He is a former Director of DIMA (the Dublin Insurance Managers Association).

Senior Executives

Jeffrey Burt – Chief Executive Officer

See biography in Board section.

Clark Jeffries – Chief Investment Officer

Clark was appointed as Chief Investment Officer in 2021, following the resignation of Josh Braverman. Clark was previously a Managing Director in the investment banking division of Bank of America, with coverage responsibilities for clients across the life, property and casualty, and insurance services sectors. Clark also has significant experience in analysis and optimization of life insurance investment portfolios. Other experience includes the underwriting of numerous investment grade debt, high yield, and equity offerings. Clark joined Bank of America in 2014 and was previously a member of the financial institutions group within the investment banking division of Citi.

Clark majored in Finance at the University of Texas at Austin, graduating with a Bachelor of Business Administration with Honors.

Brian G. Holland – Chief Marketing Officer

Mr. Holland has over 30 years of experience building and leading insurance organizations. Most recently, Mr. Holland was a founding member and served from 2011 to March 2013 as Senior Vice President of the Life Solutions Group at Willis Re, responsible for building Willis Re's entry into life and annuity reinsurance and was responsible for all deal originations. From 2003 – 2011, Mr. Holland served as Principal at Mann Conroy Eisenberg & Associates, LLC. From 2000 to 2003, Brian served as Executive Vice President and member of the Board of Directors at Annuity & Life Re America. He was responsible for developing the start-up US Life reinsurance operations for one of the pioneers in the offshore non-U.S. life reinsurance market. As Chief Marketing Officer, he secured 29 new reinsurance clients in the first 24 months of operation and the group grew to $115 billion of life insurance in force. Prior to joining Annuity & Life Re, Mr. Holland was Vice President, Domestic and International Risk Management and Global Chief Marketing Officer at ING Re, as well as being responsible for developing ING Re's entry into the Bermuda and Japan markets.

Mr. Holland also held senior marketing and underwriting positions at Transamerica Re and General Re. He received his Bachelor of Science degree in Business Management /Marketing from Providence College, Providence, RI.

Stephen Robb – Chief Financial Officer

See biography in Board section.

Scott Selkirk – Chief Underwriting Officer

Mr. Selkirk was previously Managing Director and Head of Pricing and has been responsible for managing the pricing process at Somerset Re since the inception of the Company. Before joining Somerset Re, Mr. Selkirk was Head of Pricing at Standard Life of Canada's Bermuda Branch where he led the evaluation of all new reinsurance opportunities and was responsible for client relationship management. He was Vice President at ACE Tempest Life Re, where he was involved in all aspects of new business including pricing, client relations and treaty negotiation, covering both variable annuity guarantee and traditional life reinsurance solutions. 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, and worked closely with distribution teams to bring innovative and sophisticated life insurance solutions to market.

He is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries and graduated with a Bachelor of Arts degree in Statistics from Boston University.

Yibo Hu – Chief Risk Officer

Yibo joined Somerset Re from the Bermuda Monetary Authority in 2022, where she was the Senior Manager leading multiple teams responsible for risk-based supervision and regulation of the Bermuda life insurance sector. She was a member of Licensing, Eligible Capital and Group Supervision committees and led a variety of relationships with industry associations and international regulators from the US, EU and Asia.

Prior to joining the BMA, Yibo was a Senior Product and Pricing Actuary in Generali Worldwide. Yibo held various risk and actuarial roles in Europe and Australia since 2006.

Yibo is a Fellow of the Institute and Faculty of Actuaries. She received a Master of Science degree in Actuarial Statistics from Australian National University.

Christopher Smith – Head of Structured Reinsurance

Mr. Smith was appointed the Head of Structured Reinsurance in 2021. Prior to joining Somerset Re, Mr. Smith was Global Head of Financial Solutions at SCOR Global Life Reinsurance in London, and prior to that Head of Group Corporate Finance (M&A) and Treasury at SCOR SE in Paris. Mr. Smith brings over 20 years of client-focused structured reinsurance in the Americas, Asia Pacific and Europe, focusing on client capital, liquidity, ratings and solvency optimization. Prior to reinsurance, Mr. Smith was a co-founding partner of Wafra Partners LLC, a private equity fund in New York City with an emphasis on financial institutions and technology, as well as an investment banker and non-executive board member.

Mr. Smith earned a Bachelor's Degree in Finance and Accounting from Florida State University.

c. Risk Management and Solvency Self-Assessment

i. <u>Risk Management Process and Procedures to Identify, Measure, Manage and Report on Risk Exposures</u>

The Risk Management Framework at the Company is grounded on four process steps:

- Risk identification;
- Risk measurement and management;
- Risk monitoring; and
- Risk reporting.

- **Risk identification** – On at least an annual basis the Risk function meets individually with each of the senior executives to identify risks. Additionally everyone in the Company has a responsibility to identify risks in their area, engage to ensure they are appropriately assessed, and ensure controls are put in place to manage the risks within our risk appetite. The risks identified are documented and maintained in the Risk Register.
- **Risk measurement and management** – In order to manage its risk exposure in line with the limits defined in the Risk Appetite Framework (RAF), the Company adopts quantitative methods to measure its exposure to risk with use of stress and scenario testing to determine the potential impact that an increase in risk exposure may have on its capital, earnings and liquidity position. For those risks where additional capital or liquidity is not considered effective mitigation, the Company measures its exposure through the implementation of risk management processes and procedures to ensure appropriate controls and tailored management activities.
- **Risk monitoring** – Existing risks that have progressed beyond the approved risk appetite level are managed in line with their risk assessment and escalated to the appropriate governance forum. This ensures visibility on key mitigating actions being implemented to bring the risk exposure within appetite is provided at the right levels.
- **Risk reporting** – a mix of monthly, quarterly and annual reporting is developed to monitor the Company's risk profile proportionately to the materiality of the risks being faced.

ii. <u>Risk Management and Solvency Self-Assessment Systems</u>

The Company's risk management framework is implemented and integrated into its operations through the systems, processes, procedures, and controls developed and documented by management.

Management information arising from the risk management process is used to complete Solvency Self-Assessments of the quantity and quality of capital required to support the Company's business goals given the amount of risk the Company has taken on (or plans to take on) and environmental factors.

The Solvency Self-Assessment is reviewed at least quarterly and when major transactions are considered to ensure that the Company's capital adequacy and liquidity resources are sufficient based on the risks to the Company that arise from its operations. The Company uses a combination of proprietary and third-party (vendor) models to determine the adequacy of capital.

iii. Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

The Solvency self-assessment process is a fundamental part of the Company's risk management framework which provides the overall framework for the identification, measurement, monitoring and reporting of risks. The process starts with the setting of the Company's risk appetite statements and tolerances, which are reviewed and updated at least annually as part of the business planning process. Risks are then identified and prioritized in line with the Company's risk appetite and their relative materiality to the business plan.

As the Company implements the business plan, the Risk function works collaboratively with other functional areas to perform quantitative and qualitative analysis of the most material risks to plan, reporting risk exposures against appetite at least quarterly to the Executive Risk Committee and the Investments, Risk and Capital Committee of the Board.

The Company's solvency self-assessment report (the "CISSA report") is the final output of the solvency self-assessment process, which provides a comprehensive description of risk management activities that occurred throughout the year and key expected developments going forward. Given the solvency self-assessment process is an ongoing process, the CISSA report is then used as an input to the risk appetite setting and business planning processes.

iv. Solvency Self-Assessment Approval Process

The development of the CISSA report is led by the Risk function in consultation with the relevant risk owners. Elements of the CISSA are reviewed and discussed in each meeting of the Executive Risk Committee and the Investments, Risk and Capital Committee. The CISSA report is reviewed by the Executive Risk Committee and the Investments, Risk and Capital Committee before being presented to the Board for approval.

d. Internal Controls

i. Internal Control System

The Company has systems, processes and procedures to ensure that data and reporting is reliable, organizational policies are adhered to, and adequate security measures are implemented. If any findings are found, they are documented and presented to the Audit Committee who monitors progress on remediation plans.

ii. Compliance Function

The Head of Compliance has responsibility to monitor regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory reporting and public disclosure requirements. The Head of Compliance monitors compliance with the Company's policies and procedures and adherence to the Company's Code of Business Conduct and Ethics.

e. Internal Audit

The Internal Audit Leader has the responsibility to develop and execute the Company's annual risk-based audit plan. The Company currently utilizes a third-party service provider to access subject matter experts and additional auditor resources on an as-needed basis.

f. Actuarial Function

The Company's Corporate Actuary, who also serves as the Approved Actuary, is responsible for setting, monitoring and adjusting actuarial reserves, including technical provisions which comprise both the best estimate liabilities (or reserves) and a risk margin. Any significant items affecting the technical provision are highlighted to the senior management team as well as the Board as part of the quarterly review of the BSCR.

g. Outsourcing

Outsourcing risk has three major components: selection risk, contracting risk and delivery risk. Selection risk addresses the choice of the best fit provider. To manage selection risks, the Company evaluates several alternative vendors, reviewing their capabilities, fitness to the business, reputation in the marketplace and all-in costs, in line with the Company's due diligence process set out in its Outsourcing Risk Policy.

Contracting risk is mitigated by evaluating the terms of the agreements, the specified services and related performance levels to be delivered, the ownership of records and processes, remedies for underperformance, exit strategies and length of the contracts, and security and backups.

Delivery risk is controlled by the ongoing monitoring of the services, including timeliness, provided by senior management of the areas being serviced, independent reconciliation of results with other sources where possible, periodic on-site visits and internal and external audit reviews.

Outsourced services are also reviewed regularly by management and the Board to determine whether they are appropriate or should be brought in-house.

h. Other Material Information

No other material information to report.

4. COMPANY RISK PROFILE

a. Material Risks the Insurer is Exposed to During the Reporting Period

Key to proper risk management is the identification of all possible detriments to regulatory and rating agency risk-based capital (herein referred to as "capital", "capital adequacy" or "capital at risk"), as well as negative impacts to financial strength and shareholder returns.

In particular, the key risks impacting the Company's ability to meet its strategic objectives are categorized below:

Risk Type	Risk description
Strategy Risk	The risk that the strategic plan is flawed or ineffective implementation not meeting business objectives, or lack of responsiveness to industry changes.
Financial Risk	The risk from ineffective liquidity or capital management to meet business objectives, or from budgeting and financial reporting errors.
Investment Risk	The risk from the quality of asset portfolio leading to increased capital requirements and financial loss.
Asset Liability Management Risk	The risk due to asset liabilities mismatch, or the business does not have sufficient liquid financial resources available to meet its obligations as they fall due.
Insurance Risk	The risk due to uncertainty associated with misestimation of insurance liabilities for new or existing business.
Operational Risk	The risk on business operation from inadequate or failed internal processes, people or systems, or from external events.

b. Risk Mitigation in the Organization

The Company controls risk through a variety of ways, but ultimately risks are reported and monitored centrally by the Chief Risk Officer, the chair of the Executive Risk Committee. The Risk function verifies that risks are either kept within agreed limits or temporary breaches for unique situations are appropriately escalated to the Executive Risk Committee and either approved or cured. Further, the Executive Risk Committee reviews the enterprise risk management framework and ensures the controls in place for managing the risk exposures are operating as intended. Through periodic reporting, the Board monitors the effectiveness of the enterprise risk management framework.

Additionally, the Company maintains a strong solvency capital position relative to its risk profile.

c. Material Risk Concentrations

The Company has policies governing risk concentrations in relation to counterparties, credit quality and sectors. These risks are addressed in the Company’s investment management policies and are monitored by both the Investment Committee and the Executive Risk Committee. Aside from highly rated sovereigns and associated sponsored agencies, the Company has a policy that prohibits exposure exceeding pre-defined thresholds to any one issuer in its fixed income portfolio (dependent on the type and quality of issuer, in any case not to exceed 1.25% in most cases). The Company manages credit risk exposure by limiting aggregate below investment grade assets to 12% of the entire fixed income portfolio. The fixed income portfolio in aggregate targets an A- rating and must maintain a minimum average credit rating of BBB+ at all times. The Company also has asset class and industry sector limits.

The Company's Underwriting Guidelines governs underwriting risk and is monitored by the Underwriting Policy Compliance Committee and the Board.

From an operational perspective, the Company aims at maintaining a diversified portfolio and client mix as it continues to deliver against the business plan approved by the Board.

d. Investment in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Company's investment portfolio is managed by the Investments function in accordance with the Company's Investment Management Framework ("the Framework") and its Asset Liability Management Policy. The Framework requires, among other guidelines, that the portfolio(s) backing reserves is invested in a manner expected to be reflective of the Company's risk tolerances and liquidity requirements to ensure that claims can be paid on a timely basis. The Company currently invests majority of surplus assets in its multi-strategy investment, which is highly diversified, highly liquid and has historically demonstrated a lower volatility and low correlation when compared with public equity markets (as proxied by the S&P 500 index). Management oversees the fund's volatility by monitoring rolling 1-year standard deviations as well as shorter term volatility measures.

The guidelines, as set out in the Framework, are reviewed on at least an annual basis to determine if any significant deviations have occurred that affect the financial markets and whether changes are warranted as a result of changes to the Company's risk appetite and tolerances.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company periodically performs various stress tests to determine the adequacy of capital/liquidity and ensure rating agency and regulatory requirements can be met. The tests performed relate to the quantifiable risk identified in section 4a.

Based on these results, management of the Company believes that it has sufficient capital and liquidity to comply with the contractual obligations of the organization and regulatory requirements.

5. SOLVENCY VALUATION

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

The Company uses valuation principles outlined by the BMA as revised from time to time. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents – includes cash time deposits and investments maturing within three months. The fair value of these holdings is determined by using mark to market valuation or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible, or mark to model valuation otherwise.

- Fixed Income Securities – are valued in accordance with mark to market principles where possible or quoted market prices in active markets for similar assets with adjustments to reflect differences if mark to market valuation is not possible. For fixed income securities that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with mark to model valuations.
- Diversified Multi-Strategy Investment – includes primarily marketable fixed income and common stock and are valued using the quoted market prices.
- Accounts Receivable and Premium Receivable – are recorded at a fair value and balances due in more than one year have been discounted at the relevant risk-free rate.
- Derivative instruments – are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

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

Insurance technical provisions comprise the sum of a best estimate liability, or reserve, and a risk margin. The best estimate reserve is determined as the highest asset requirement needed under the scenario-based approach to fund cash flows developed for each scenario. The risk margin, which reflects the uncertainty contained inherent in the underlying cash flows, is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period. There is limited level of uncertainty regarding the liability cash flows, due to the nature of the underlying business. There is some degree of uncertainty regarding the determination of assets needed to support the liability cash flows.

The best estimate insurance reserves also include provisions for incurred but unreported claims.

At 31st December 2022, the total Technical Provisions amounted to $4,774 million comprising the following (reported in thousand units):

Best Estimate Reserve for Unreported Claims	$2,689
Best Estimate Reserves - Life	$1,263,001
Best Estimate Reserves – Annuity	$3,508,500
Risk Margin	$21,124

c. Description of Recoverables from Reinsurance Contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims.

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

All other liabilities are valued on an IFRS basis and settlements not expected to be settled within a year, are discounted using the prescribed discount rates provided by the BMA as at 31st December 2022. Loans and Notes Payable are valued on an IFRS basis and Derivative Instruments are valued at quoted market prices. In the absence of an active market, prices are based on observable market inputs.

e. Any Other Material Information

No additional material information to report.

6. CAPITAL MANAGEMENT

a. Eligible capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The Company seeks to maintain a strong capital base to support the development of its reinsurance business and to meet regulatory requirements and target rating agency capital requirements at all times.

Required capital is calculated as the larger of the BSCR or selected rating agency capital requirements. These requirements help the Board to determine an annual risk budget, which defines the overall risk appetite for the Company and ensures that risk taking is reasonable in relationship to the Company's capitalization.

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

At the end of the reporting period, the Company's Eligible Capital for its Minimum Margin of Solvency (MSM) and Enhanced Capital Requirement (ECR) was categorized as follows:

(Reported in thousand units)

	2022	2021
Tier 1	557,619	512,111
Tier 2	0	206
Tier 3 (not eligible to satisfy MSM)	38,947	0
Total	**596,566**	**512,317**

iii. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

None.

iv. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

The Company has entered contracts with cedants that require the Company to fully collateralize estimates of its obligations as calculated by the cedant. Assets are held in trust or custody accounts for the benefit for the cedants. These assets are released to the Company upon the payment of the obligations. Interest income arising from these assets accrues to the Company.

v. **Identification of Ancillary Capital Instruments Approved by the BMA**

None.

vi. **Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus**

Other than the impact of employing statutory-based technical provision valuation techniques, significant differences between IFRS shareholder equity and available statutory capital and surplus include the reduction in available statutory capital for goodwill and other intangible assets.

b. Regulatory capital requirements

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

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

(Reported in thousand units)

Requirement	2022	2021
Total Capital (EBS)	596,566	512,317
Minimum Margin of Solvency	98,000[1]	79,117
Enhanced Capital Requirement (ECR)	197,744	189,365
ECR ratio	302%	271%
Transition ECR	167,579	160,587
Transition ECR ratio[2]	356%	319%

ii. **Identification of Any Non-Compliance with the MSM and the ECR**

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. **A Description of the Amount and Circumstances Surrounding the Non- Compliance, the Remedial Measures and Their Effectiveness**

Not applicable.

iv. **Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance**

Not applicable.

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[1] 2022 Minimum Margin of Solvency takes into account the removal of mark-to-market adjustments from Embedded Derivative in funds withheld and Fixed Income Securities-Available for Sale, as approved by the BMA.

[2] This represents the Transition BSCR requirement, which considers the 10-year grade-in period to transition from the "old" BSCR basis to the "new" one, effective on 1st January 2019.

c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used

Not applicable - the Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

ii. Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model

Not applicable.

iii. Description of Methods Used in the Internal Model to Calculate the ECR

Not applicable.

iv. Description of Aggregation Methodologies and Diversification Effects

Not applicable.

v. Description of the Main Differences in the Methods and Assumptions Used for the Risk Areas in the Internal Model Versus the BSCR Model

Not applicable.

vi. Description of the Nature & Suitability of the Data Used in the Internal Model

Not applicable.

vii. Any Other Material Information

Not applicable.

7. SUBSEQUENT EVENTS

No subsequent events to report.

8. DECLARATION OF FINANCIAL CONDITION

(Prepared in accordance with section 5 of the Insurance (Public Disclosure) Rules 2015)

For the year ending - December 31, 2022

We, the undersigned Chief Executive Officer and Chief Financial Officer of Somerset Reinsurance Ltd. ("the Company") declare that to the best of our knowledge and belief, the Financial Condition Report or the report on a significant event fairly represents the financial condition of the insurer in all material aspects.

Signed by Jeffrey Burt, Chief Executive Officer

April 27, 2023

Signed by Stephen Robb, Chief Financial Officer

April 27, 2023