



# Martello Re

**Martello Re Limited**

**Financial Statements**

For the years ended December 31, 2023 and December 31, 2022

## **Index to Financial Statements**

Report of Independent Auditors.....	3
Balance Sheets .....	5
Statements of Income (Loss) and Comprehensive Income (Loss) .....	6
Statements of Shareholder’s Equity .....	7
1. Nature of Business	9
2. Basis of Presentation and Significant Accounting Policies	9
3. Investments	20
4. Fair Value	25
5. Deferred Acquisition Costs	31
6. Insurance Liabilities	31
7. Market Risk Benefits	35
8. Long-Term Debt	36
9. Equity	37
10. Income Taxes	38
11. Statutory Requirements	41
12. Related Parties	42
13. Contingencies, Commitments and Guarantees	42
14. Subsequent Events	42



April 25, 2024

## Report of Independent Auditors

To the Board of Directors and Shareholder of Martello Re Limited

### Opinion

We have audited the accompanying financial statements of Martello Re Limited (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income (loss) and comprehensive income (loss), of shareholder's equity and of cash flows for the years then ended, 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 years then ended 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 scepticism 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**

## Martello Re Limited

### Balance Sheets

<i>(U.S. dollars In thousands, except share and per share data)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost: 2023 - \$875,355 and 2022 - \$880,616; allowance for credit losses: 2023 - \$0)	\$ 870,694	\$ 842,554
Equity Securities, at fair value (cost: 2023 - \$64,058 and 2022 - \$20,000)	68,304	20,390
Policy Loans	24,880	26,905
Other Investments, at fair value	173,520	138,276
Mortgage Loans, at amortized cost (allowance for credit losses: 2023 - \$0)	29,471	54,498
Funds withheld at interest, at fair value	17,888,107	14,887,975
<b>Total investments</b>	<b>\$ 19,054,976</b>	<b>\$ 15,970,598</b>
Cash and cash equivalents (restricted cash: 2023 - \$34,480 and 2022 - \$0)	303,828	304,229
Accrued investment income	8,625	5,673
Deferred acquisition costs	378,765	318,740
Market risk benefit assets	14,104	11,806
Intercompany receivable	19	1,663
Income taxes receivable	12,291	12,291
Other assets	113,824	17,856
<b>Total assets</b>	<b>\$ 19,886,432</b>	<b>\$ 16,642,856</b>
<b>Liabilities and Shareholder's Equity</b>		
<b>Liabilities</b>		
Policy benefit reserves	\$ 540,010	\$ 102,267
Policyholder account balances	18,326,715	16,392,885
Market risk benefit liabilities	287,914	284,971
Long-term debt	221,000	221,000
Accounts payable and other accrued expenses	15,488	13,547
Intercompany payable	14,192	10,832
Other liabilities	94,423	99,009
<b>Total liabilities</b>	<b>\$ 19,499,742</b>	<b>\$ 17,124,511</b>
<b>Shareholder's Equity</b>		
Common stock; par value \$1 per share; 250,000 shares authorized and issued	250	250
Additional paid-in capital	1,690,742	1,468,242
Accumulated other comprehensive income (loss)	(27,571)	(3,488)
Retained earnings (accumulated deficit)	(1,276,731)	(1,946,659)
<b>Total Shareholder's Equity</b>	<b>386,690</b>	<b>(481,655)</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$ 19,886,432</b>	<b>\$ 16,642,856</b>

See accompanying notes to financial statements

## Martello Re Limited

### Statements of Income (Loss) and Comprehensive Income (Loss)

<i>(U.S. dollars in thousands)</i>	December 31, 2023	December 31, 2022
<b>Revenues</b>		
Premiums	\$ 613,058	\$ 114,054
Product fees and charges	44,050	40,599
Net investment income	994,497	550,563
Investment related gains (losses)	330,316	(2,226,508)
<b>Total Revenues</b>	<b>\$ 1,981,921</b>	<b>\$ (1,521,292)</b>
<b>Benefits and expenses</b>		
Insurance policy benefits (includes remeasurement gains (losses) 2023: \$2,385 and 2022 \$1,160)	462,443	27,471
Interest credited to policyholder account balances	507,888	277,483
Amortization of deferred acquisition costs	73,734	41,154
Change in the fair value of market risk benefits, net	(27,698)	(186,147)
Policy expenses	252,388	232,852
Interest and debt expense	15,858	5,680
Operating expenses	27,380	15,709
<b>Total benefits and expenses</b>	<b>\$ 1,311,993</b>	<b>\$ 414,202</b>
<b>Net income (loss) before income taxes</b>	<b>669,928</b>	<b>(1,935,494)</b>
Income tax benefit (expense)	-	(2,345)
<b>Net income (loss)</b>	<b>\$ 669,928</b>	<b>\$ (1,937,839)</b>
<b>Other comprehensive income (loss), net of tax</b>		
Unrealized gain (loss) on available-for-sale securities, net of tax)	26,947	(38,062)
Change in policy benefit reserves attributable to the discount rate	(22,687)	14,839
Change in market risk benefit attributable to instrument specific credit risk	(28,343)	19,735
<b>Total other comprehensive income (loss)</b>	<b>(24,083)</b>	<b>(3,488)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 645,845</b>	<b>\$ (1,941,327)</b>

See accompanying notes to financial statements

**Martello Re Limited**  
 Statements of Shareholder's Equity

<i>(U.S. dollars in thousands)</i>	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total shareholder's equity
<b>Balance at December 31, 2021</b>	<b>\$ 250</b>	<b>\$ 306,045</b>	<b>\$ -</b>	<b>\$ (8,820)</b>	<b>\$ 297,475</b>
Capital contributions	-	1,162,197	-	-	1,162,197
Net income (loss)	-	-	-	(1,937,839)	(1,937,839)
Other comprehensive income (loss)	-	-	(3,488)	-	(3,488)
<b>Balance at December 31, 2022</b>	<b>\$ 250</b>	<b>\$ 1,468,242</b>	<b>\$ (3,488)</b>	<b>\$ (1,946,659)</b>	<b>\$ (481,655)</b>
Capital contributions	-	222,500	-	-	222,500
Net income (loss)	-	-	-	669,928	669,928
Other comprehensive income (loss)	-	-	(24,083)	-	(24,083)
<b>Balance at December 31, 2023</b>	<b>\$ 250</b>	<b>\$ 1,690,742</b>	<b>\$ (27,571)</b>	<b>\$ (1,276,731)</b>	<b>\$ 386,690</b>

See accompanying notes to financial statements

# Martello Re Limited

## Statements of Cash Flows

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 669,928	\$ (1,937,839)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred acquisition costs	73,734	41,154
Investment related (gains) losses	(330,316)	2,226,508
Change in market risk benefit assets and liabilities	(27,698)	(186,147)
Other	(103,529)	4,661
Change in operating assets and liabilities:		
Accrued investment income	(2,952)	(5,673)
Deferred acquisition costs	(133,759)	(425,045)
Change in funds withheld at interest	(794,741)	(267,708)
Policy benefit reserves	(15,888)	(1,555)
Policyholder account balances	470,973	241,624
Accounts payable and other accrued expenses	1,941	2,382
Income tax receivable	-	(12,291)
Other assets and liabilities	4,486	11,455
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (187,821)</b>	<b>\$ (308,474)</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed maturity securities, available-for-sale	(145,932)	(1,166,370)
Sales, maturities and repayments of fixed maturity securities, available-for-sale	141,187	296,598
Purchase of equity securities	(13,402)	(20,000)
Purchase of mortgage loans	(2,893)	(52,065)
Sales, maturities and repayments of mortgage loans	27,919	-
Purchase of other investments	(253,725)	(139,571)
Sale of other investments	209,741	1,780
Change in policy loans, net	2,025	2,839
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (35,080)</b>	<b>\$ (1,076,789)</b>
<b>Cash flow from financing activities</b>		
Capital contributions	222,500	1,162,197
Issuance of long-term debt	-	221,000
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 222,500</b>	<b>\$ 1,383,197</b>
Net increase (decrease) in cash and cash equivalents	\$ (401)	\$ (2,066)
Cash and cash equivalents, as of beginning of year <sup>(1)</sup>	304,229	306,295
<b>Cash and cash equivalents, as of end of year <sup>(1)</sup></b>	<b>\$ 303,828</b>	<b>\$ 304,229</b>
<b>Supplemental information:</b>		
Cash paid for income taxes	\$ -	\$ 12,291
Cash paid for interest	\$ 15,793	\$ 1,595
Non-cash transactions:		
Day one deposits on insurance contracts under funds withheld at interest	\$ 430,944	\$ -
Day one deposits on investment contracts under funds withheld at interest	\$ -	\$ 14,821,313
Day one assets and liabilities assumed through coinsurance and modified coinsurance funds withheld agreements	\$ 430,944	\$ 14,756,161
Deposits on policyholder account balances included in funds withheld at interest	\$ 4,774,062	\$ 3,994,746
Withdrawals on policyholder account balances included in funds withheld at interest	\$ 3,311,205	\$ 2,031,683

*(1) Includes cash and cash equivalents and restricted cash*

*See accompanying notes to financial statements*



# Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

## 1. Nature of Business

Martello Re Limited (the “Company” or “Martello Re”), was incorporated as a Bermuda exempted company with limited liability on July 21, 2021, and licensed as a Class E insurer by the Bermuda Monetary Authority (“BMA”) under The Insurance Act 1978 (as amended) of Bermuda, effective December 13, 2021.

The Company is wholly owned by Martello Re Holdings Limited LLC (the “Holding Company”), a holding company incorporated in the State of Delaware, United States. Martello Re LP, a limited partnership registered in the State of Delaware, United States is the direct shareholder of the Holding Company which is ultimately held by long-term investors who have committed capital to Martello Re LP.

The Company is a reinsurer that supports asset-intensive life and annuity liabilities. The Company enters into reinsurance agreements with non-affiliated companies.

In February 2022, the Company executed a coinsurance funds withheld (“FWH”) reinsurance agreement covering \$14.2 billion of in-force fixed annuity and fixed index annuity (“FIA”) policies issued by Massachusetts Mutual Ascend Life Insurance Company (“MMALIC”) which continues to service all policies reinsured (“Reinsured Business”).

In March 2022, the Company executed a coinsurance FWH quota share agreement covering new flow business on multi-year guaranteed annuities (“MYGA”) from Massachusetts Mutual Life Insurance Company (“MMLIC”).

In March 2023, the Company executed a coinsurance FWH quota share agreement covering full or partial pension buy-out or terminal funding risk transfer (“PRT”) transactions from MMLIC.

In November 2023, the Company executed a modified coinsurance (“ModCo”) quota share agreement covering full or partial pension buy-out or terminal funding risk transfer (“PRT”) transactions from Metropolitan Tower Life Insurance Company (“MetLife”).

## 2. Basis of Presentation and Significant Accounting Policies

### Basis of Presentation

These financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Accounting policies that the Company believes are most dependent on the application of estimates and assumptions are related to the determination of:

- valuation of investments
- valuation of embedded derivatives associated with fixed indexed annuity policies
- valuation of market risk benefits
- valuation allowance on deferred tax assets

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

While the amounts included in the financial statements reflect management's best estimates and assumptions, the actual results could materially differ from the amounts reported in the financial statements.

These estimates are discussed further in the footnote disclosures below.

### **Significant Accounting Policies**

#### ***Fixed Maturity Securities***

Fixed maturity securities include corporate bonds, state and municipal bonds, collateralized loan obligations ("CLO"), asset backed securities ("ABS"), commercial mortgage-backed securities ("CMBS"), and residential mortgage-backed securities ("RMBS"). The Company classifies Fixed maturity securities as available-for-sale ("AFS") at the time of purchase and subsequently carries them at fair value.

Any unrealized gains and losses on AFS securities are included in Accumulated other comprehensive income (loss) ("AOCI"). The deferred income tax and allowance for credit loss consequences of unrealized gains and losses on AFS securities are also reported in AOCI, resulting in a net presentation within AOCI.

Interest income and prepayment fees are recognized when earned. Net investment income consists of interest income, including amortization of the premium or discount arising at acquisition and net of investment management expenses. Realized gains and losses are recorded in the statement of income (loss) in investment related (losses) gains using the specific identification method. Fixed maturities are evaluated for potential credit losses only when the fair value has declined below its amortized cost basis. The allowance for credit loss is established either by a charge to investment related (losses) gains in the statement of income (loss), for securities identified as credit impaired after purchase, or by a gross-up recognition of an initial allowance for purchased credit deteriorated ("PCD") securities.

The Company generally records security transactions on a trade date basis, with any unsettled trades recorded in Other assets or Other liabilities on the Balance sheets.

Accrued investment income represents interest income that is earned and receivable. It is presented separately within the Balance sheets.

Martello Re has elected the fair value option for CLO equity and ABS residual interests. Martello Re uses the market approach to value its CLO equity and ABS residual interests, initially recording them at exit price. Subsequently, any cash received reduces the book value of the security. Changes in fair value are recognized as Investment related (losses) gains on the Statements of income (loss).

#### ***Equity Securities***

Equity securities include common stock and non-redeemable preferred stock. Equity securities with readily determinable fair values will be measured at fair value with subsequent changes being reflected in Net income (loss). Dividend income is recorded in Net investment income when earned and unrealized holding gains and losses for these securities as well as realized gains and losses from the sale of equity securities is recorded in Investment related (losses) gains on the Statements of income (loss).

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

### ***Policy Loans***

Policy loans represent those loans that have been issued to contract holders in return for a claim on the Policyholder's account balance and are reported at the unpaid principal balances. Interest income is recorded as earned using the contractual interest rate and reported in Net investment income on the Statements of income (loss).

### ***Other Investments***

Other investments include limited partnerships and open-ended funds. The Company accounts for these investments using the equity method to determine the carrying value. Changes in the carrying value are presented in Investment related (losses) gains on the Statements of income (loss).

Generally, the underlying entities that the Company invests in are primarily investment companies, and the carrying value of the Company's equity method investments approximates fair value.

### ***Mortgage Loans***

Mortgage loans are held for investment, so they are reported on an amortized cost basis, net of allowance for credit losses, and any unamortized premiums or discounts on purchased loans. Net costs and fees associated with loan origination are deferred and amortized over the life of the related loan. Interest income is accrued on the principal amount of the loan based on its contractual interest rate and is recorded in Accrued investment income and the amount earned is recorded in Net investment income. The allowance for credit losses is established either by a charge to investment related (losses) gains in the statements of income (loss) or, for PCD mortgages, by a gross-up recognition of the initial allowance in the balance sheets.

### ***Accrued Investment Income***

In accordance with ASC 326-20-30-5A, the Company has made an accounting policy election not to measure an allowance for credit loss for accrued interest receivables because the Company writes off the uncollectible accrued interest receivable balance if they are aged over 90-days and receivables are outstanding for a very short period.

### ***Funds Withheld at Interest***

FWH represents a receivable for amounts contractually withheld and legally owned by ceding companies in accordance with FWH coinsurance and modified coinsurance reinsurance agreements in which the Company is the reinsurer. The assets are generally set equal to the regulatory reserve requirement of the cedant. The underlying agreements contain embedded derivatives as discussed below.

The Company assumes business from well-capitalized insurers. The Company analyzes recent trends in arbitration and litigation outcomes in disputes, if any, with its ceding entities. The Company monitors ratings and evaluates the financial strength of its ceding entities by analyzing their financial statements. In addition, the funds withheld assets and reinsurance receivable (funds withheld receivable) balance due from each ceding entity is evaluated as part of the overall monitoring process. Recoverability of reinsurance receivable balances, including funds withheld assets, is evaluated based on these analyses. In the event of a ceding company's insolvency, Martello Re would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to Martello Re is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances against amounts owed to it from the ceding company. The credit risk associated with these receivables is deemed to not be significant.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

### ***Credit Losses – Available-for-Sale Securities***

The Company derives estimated credit losses for AFS fixed maturity securities by comparing expected future cash flows to be collected to the amortized cost of the security. Estimates of expected future cash flows consider among other things, macroeconomic conditions as well as the financial condition of the issuer, near-term and long-term prospects for the issuer, and the likelihood of the recoverability of principal and interest.

For structured securities including CLO, CMBS and RMBS, Martello Re will discount expected future cash flows using GAAP book yield that is based on anticipated prepayments and the estimated economic life of the securities. Where information for such cash flow estimates is limited or deemed not reliable, fair value is considered the best estimate of the recoverable value. The estimated recoverable value is subject to a floor equal to the fair value of the security.

The company evaluates AFS securities with a fair value that has declined below amortized cost to determine how the decline in fair value should be recognized. If the Company determines, based on the facts and circumstances related to the specific security, that the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, any existing allowance for credit loss is reversed and the amortized cost of the security is written down to fair value. The decline in fair value is reported as a realized investment loss in the Statements of income (loss) as the difference between carrying value and fair value. If neither of these conditions exist, the Company evaluates whether the decline in fair value has resulted from a credit loss or other factors.

For AFS fixed maturity securities in an unrealized loss position that the Company does not intend to sell, and will not be required to sell, the Company considers the extent to which the fair value is less than amortized cost, then compares the present value of cash flows expected to be collected from the security to the amortized cost basis of the security.

If upon completion of this analysis it is determined that a credit loss exists, an allowance for credit loss is established equal to the amount by which the present value of expected cash flows is less than amortized cost, limited by the amount by which fair value is less than amortized cost.

In periods subsequent to the recognition of a credit loss, the Company continues to reassess the expected cash flows of the AFS security at each subsequent measurement date as necessary.

Amounts representing credit losses are reported as realized investment losses in Investment related (losses) gains on the Statements of income (loss). Amounts related to all other factors are included as a component of Other comprehensive income (loss) ("OCI"), net of the related income tax benefit and are recorded within AOCI on the Balance sheets.

The previous amortized cost basis less the credit loss recognized in earnings shall become the new amortized cost basis of the AFS security and shall not be adjusted for subsequent recoveries in fair value. The amortized cost basis shall be adjusted subsequently for accretion and amortization.

### ***Fair Value***

ASC 820, *Fair Value Measurement*, defines fair value for financial reporting, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (i.e., Level 1) and the

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

lowest priority to unobservable inputs (i.e., Level 3). In accordance with ASC 820 for fair value measurements and disclosures, assets and liabilities recorded at fair value on the Balance sheets are categorized as Level 1, 2 and 3.

See *Note 4. Fair Value* for further discussion on the basis of hierarchy, methodology and assumptions in estimating fair value.

### **Embedded Derivatives**

ASC 815, *Derivatives and Hedging*, states that when an embedded derivative is separated from a hybrid instrument, the accounting for the host contract should be based on the accounting guidance that is applicable to similar contracts that don't contain the embedded derivative. The separated derivative would be accounted for as a derivative instrument under ASC 815, consistent with the accounting for a freestanding derivative. That is, the embedded derivative is classified on the Balance sheets as an asset or liability at fair value with any changes in its fair value recognized in Investment related (losses) gains in the Statements of income (loss).

The FWH coinsurance and ModCo coinsurance agreements with ceding companies result in embedded derivatives as the assets backing the liabilities are retained by the ceding companies, but the underlying value of the assets are not closely related to factors of the host contract. The Company has identified the embedded derivatives as a total return swaps under which one party (the cedant) transfers the economic risks and rewards associated with an underlying asset to another counterparty (the Company). The transfer of risks and rewards is affected by an exchange of cash flows that mirrors change in the value of the underlying assets and any income derived from the underlying assets. The cedants make periodic payments to the Company comprising of the coupons/interest from the underlying assets and, either periodically or at maturity of the swap, an amount equivalent to the appreciation in the market value of the underlying assets. The economic effect for the Company is equivalent to that derived from owning the assets. As the FWH and ModCo accounts are transferred at fair value, the embedded derivative will have zero value as of the effective date. The funds received as part of these transactions and retained by the cedants are classified as modified coinsurance and coinsurance funds withheld at interest at fair value FWH on the Balance sheets. The carrying amount of the FWH asset accounts is maintained with an aggregate carrying value at least equal to the FWH amount in accordance with the applicable reinsurance agreements. Absent any changes in the composition of assets included within the account, the FWH account is set equal to the fair value of the assets as of the date of the reinsurance transactions. Incremental assets required to be funded into the FWH account would then be recorded at their purchase price, which approximates fair value.

Subsequent to the effective date of the transactions, the embedded derivative is measured as a total return swap with a floating leg. This is equal to the change in fair value from the effective date of the transactions for assets that were in existence as of this date and the change in fair value since the acquisition date for any assets acquired and included within the FWH account subsequent to the effective date of the transactions. The FWH at interest includes the fair value of the embedded derivatives, and the change in fair value of the embedded derivatives are recognized in Investment related (losses) gains on the Statements of income (loss).

FIA contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain equity market indices. The equity market option is an embedded derivative. The benefit reserve is equal to the sum of the fair value of the embedded derivative and the host (or guaranteed) component of the contracts. The fair value of the embedded derivatives represents the present value of cash flows attributable to the indexed strategies.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

The embedded derivative cash flows are based on assumptions for future policy growth, which include assumptions for expected index credits on the next policy anniversary date, future equity options costs, volatility, interest rates and policyholder behavior assumptions including lapses and the use of benefit riders. The embedded derivative cash flows are discounted using a rate that reflects the Company credit rating. The host contract is established at contract inception as the initial account value less the initial fair value of the embedded derivative and accreted over the policy's life. Changes in the fair value of embedded derivatives associated with fixed indexed annuities are included in Interest credited to policyholder account balances on the Statements of income (loss).

### **Reinsurance**

The Company assumes insurance and investment contracts under coinsurance FWH and ModCo agreements including in-force and new flow business. Certain coinsurance FWH and ModCo treaties are secured by assets held in trust for the benefit of the applicable ceding company. In-force reinsurance consists only of policies that were issued by the ceding company prior to the inception of the reinsurance contract. New flow business is structured such that new policies are issued subsequent to the inception of the reinsurance contract.

The Company applies the same measurement and accounting guidance for deferred acquisition costs, policyholder liabilities and other related balances for contracts assumed through reinsurance consistent with those contracts directly written with policyholders.

The Company has no ceded reinsurance agreements.

### **Cash and Cash Equivalents**

Cash and cash equivalents include liquid short-term securities, with investments purchased with a maturity at acquisition of less than 90 days from the date of acquisition. Included amounts are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The carrying amount for cash and cash equivalents equals fair value.

In connection with the reinsurance agreements with MMLIC and MetLife PRT, Overcollateralization Trusts ("OC Trusts") were established for the sole benefit of the cedants to further secure the obligations of the Company as Reinsurer. Cash and cash equivalents also include restricted cash held in the OC Trusts as part of certain reinsurance agreements for the benefit of the cedants. As of December 31, 2023 and 2022, the Company held restricted cash with a carrying value of \$34,480 and \$0, respectively.

### **Long-Duration Contracts**

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts* ("LDTI"). The objective of this guidance is to improve, simplify and enhance the financial reporting of long-duration contracts by providing financial statement users with useful information in a timely and transparent manner. The primary changes include: (i) more timely recognition of assumption changes in the policy benefit reserves and use of a current rate for discounting of future cash flows; (ii) standardization and improvement in the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts (referred to as market risk benefits); (iii) simplification of the amortization of deferred acquisition costs; and (iv) enhanced disclosures.

The Company adopted LDTI and applied the guidance to its long-duration contracts as the Company initially recognized these contracts during 2022. As a result, LDTI modified retrospective and retrospective transition guidance and related disclosures are not applicable.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

The Company disaggregates its disclosures on long-duration contracts at the product level as it reflects management's views on its business. The three disaggregated categories include:

- Deferred Annuities – consists of FIAs, FDAs and related MRBs and other features.
- SPIA – consists of life contingent and non-life contingent SPIAs.
- PRT – consists of life contingent annuities.

Refer to detailed discussions below describing the Company's application of LDTI on its deferred acquisition costs and policy liabilities.

### ***Deferred Acquisition Costs ("DAC")***

Acquisition costs are defined as those costs related directly to the successful acquisition of new or renewal insurance contracts. Such costs include ceding commissions, fees, and other acquisition-related costs.

Incremental costs that were incurred to successfully acquire contracts are deferred to DAC. Future contract renewal costs are not capitalized or amortized until incurred. Those costs that are not deferred to DAC are expensed as incurred.

DAC is amortized on a constant level basis approach over the expected term of the related contracts. DAC is grouped consistent with those used in estimating the related liabilities for these contracts. DAC amortization is calculated at the end of the reporting period, incorporating actual experience. Changes in future best estimate assumptions are applied in the amortization rate prospectively.

The Company's investment contracts have significant revenue streams such as surrender charges. As a result, DAC on investment contracts is not amortized applying an interest method.

### ***Internal Replacements of Long-duration Contracts***

An internal replacement is defined as a modification in product benefits, features, rights, or coverages that occurs by a contract exchange; by amendment, endorsement, or rider to a contract; or by the election of a benefit, feature, right, or coverage within the contract. If the modification does not substantially change the contract or go beyond the agreed upon reinsurance parameters, the Company does not change the accounting and amortization of existing DAC and related actuarial balances.

If the modification represents a substantial change, the related DAC is written off.

### ***Policyholder Account Balances***

Policyholder account balances are comprised of single premium immediate annuities ("SPIA") without life contingencies, and fixed deferred annuities ("FDA"), which includes MYGA, and FIA. The account balance for the SPIA without life contingencies is measured as the present value of future payments. The account balance for a FDA is measured at the stated account value before any applicable surrender charges. Additionally, for FIA, there is an associated embedded derivative that is bifurcated from the host contract and measured at fair value, refer above for *Embedded derivatives*. For additional information regarding policyholder account balances, see *Note 6. Insurance Liabilities*.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

### ***Policy Benefit Reserves***

The Policy benefit reserve includes life contingent SPIA and PRT products classified as limited payment contracts. The reserve is measured as the present value of estimated future policy benefits and related expenses less the present value of future net premiums.

Limited payment contracts are similar to traditional long-duration contracts except that the premium payment period is significantly shorter than the period in which benefits are expected to be paid. As a result, a deferred profit liability (“DPL”) is recognized to represent the portion of gross premiums received in excess of the net premiums and is recorded in the Policy benefit reserves on the Balance sheets. This results in revenues being deferred and recognized over the lifetime of the contracts.

The Company acquires contracts through assumed reinsurance only. For in-force reinsurance agreements, the Company groups contracts in a single-issue year as of the date of inception of the reinsurance agreement. For PRT, grouping is by contract since the mortality is very different depending on the contract. New flow business agreements are grouped by issue year applying the “look through” approach to the underlying contracts.

The Company performs an annual in-depth review and updates the cash flow assumptions used in the measurement of the policy benefit reserve during the third quarter. Trending of experience and high-level assessment of assumptions is performed quarterly, with updates made more frequently if deemed necessary.

The discount rate for policy benefit reserves is updated at the end of each reporting period using an upper-medium grade fixed income instrument yield that maximizes the use of observable market inputs. When there are unobservable tenors, the last observable market rate is held constant. A reference portfolio of upper-medium grade fixed income yields, commonly referred to as single “A” rated corporate bond yields, is used to match the duration characteristics of the reserve. The yield curves utilized by the Company are published by third-party pricing services.

The locked-in accretion rate is set at contract acquisition for in-force business. For new flow business, during the open cohort year, the accretion curve is updated at each reporting period and then locked-in at the end of the year.

The effect of changes to the policy benefit reserve due to changes in the discount rates is recognized in change in policy benefit reserves attributable to the discount rate on the Statements of comprehensive income (loss). The change in the liability resulting from updating cash flow assumptions is recognized in Insurance policy benefits on the Statements of Income (loss).

### ***Market Risk Benefits***

Market risk benefits (“MRBs”) are defined as contracts or contract features that both provide protection to the policyholder from other-than-nominal capital market risk and expose the Company to other-than nominal capital market risk. MRBs must provide a benefit to the policyholder in addition to the policyholder account balance or shortfall of the contract holder’s account balance from the contract holder to the insurance entity, with such transfer exposing the insurance entity to capital market risk that would otherwise have been borne by the contract holder (or beneficiary).



## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

The Company has features associated with the FIA and FDA products assumed that are classified as MRBs. These features include guaranteed minimum death benefits (“GMDB”), guaranteed minimum withdrawal benefits (“GMWB”), return of premium (“ROP”) features, and two-tier annuitization guarantees. MRBs are recorded at fair value measured on an individual contract basis using an option-based valuation model. Fees collectible from policyholders for the Company’s current general account products include explicit rider fees. The type and amount of these fees vary depending on the specific product features and fees are only attributed in the model if deemed collectible from the policyholder.

Changes in fair value are recognized in Change in the fair value of market risk benefits, net on the Statements of Income (loss) each period with the exception of the portion of the change in fair value due to a change in the instrument-specific credit risk, which is recognized in Change in market risk benefit on the Statements of comprehensive income (loss). Derecognition of MRBs occurs when the contract terminates due to surrender, death, or annuitization, or the account value is exhausted.

### ***Intercompany Receivable and Payable***

Intercompany receivable from and payable to affiliated companies is primarily comprised of non-reinsurance related amounts receivable/payable.

See *Note 12. Related Parties* for further details about transactions with affiliated companies.

### ***Long-Term Debt***

Long-term debt has contractual or expected maturities greater than one year and the balance at the end of the period is recorded as a liability under long-term debt on the Balance sheets.

See *Note 8. Long-Term Debt* for further details.

### ***Premium Recognition***

Premium revenue is recognized over the period of coverage when due from policyholders for limited payment contracts. Gross premiums in excess of net premiums are deferred and recorded as DPL. DPL is amortized in relation to the lifetime of the contract. The Company accrues interest on the unamortized DPL balance.

Premiums collected for investment contracts are reported as deposits to Policyholder account balances on the Balance sheets. Additionally, premiums include index credit reimbursements received on the Company’s FIA products assumed.

### ***Product fees and charges***

Product fees and charges represent revenues recognized from policy charges for administration, explicit riders and surrender fees charged to policyholders. Product fees and charges are recognized as revenues in the period in which they are assessed against policyholders unless the fees are designed to compensate the Company for services to be provided in the future. Those fees are recognized as a liability for unearned revenue and are recognized in income over the period benefited using the same assumptions and factors used to amortize DAC. The Company currently does not have any fees that need to be recognized as a liability for unearned revenue.

### ***Other Comprehensive (Loss) Income***

Comprehensive (loss) income includes both Net income (loss) and other items of OCI comprised of Unrealized gains and losses on fixed maturity securities classified as AFS.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

In addition, the Company recognizes in OCI any changes in the fair value of the MRBs attributable to instrument specific credit risk and any changes in policy benefits reserve estimate as a result of changes in the discount rate assumption.

### ***Income Taxes***

The Company accounts for income taxes under the provisions of authoritative guidance (ASC 740 – *Income Taxes*). ASC 740 requires the recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to become accruable or realizable. When the assessment indicates that it is more likely than not that a portion of a deferred tax asset will not be realized in the foreseeable future, a valuation allowance against deferred tax assets is recorded. The Company recognizes the tax benefits from uncertain tax positions only when the position is more likely than not to be sustained on examination by the relevant taxing authorities, based on the technical merits of the position. For those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax ("CIT") Act of 2023 which established a 15 percent income tax on net taxable income of Bermuda entities effective from January 1, 2025. The CIT Act applies to multinational ("MNE") groups with gross revenue of at least 750 million Euros in two out of the four previous fiscal years. As of December 31, 2023, the Company is not an in-scope entity as it does not meet the gross revenue threshold.

The CIT regime commences on January 1, 2025. However, MNE Groups that meet the limited international presence requirements are temporarily excluded from this regime until January 1, 2030. The Company operates only in Bermuda and the United States and does not have tangible assets with a net book value exceeding 50 million Euros outside of Bermuda or the United States. Therefore, even if the Company were to meet the gross revenue threshold, the Company has a limited international presence and would be excluded from the CIT regime until January 1, 2030.

The CIT regime provides for a one-time tax rebasing to fair value for all assets and liabilities of Bermuda tax resident entities and permanent establishments held as of September 30, 2023. This is referred to as the economic transition adjustment ("ETA"). The Company may opt to forego the ETA and, if such election is made, the Company would be allowed an opening tax loss carryforward ("NOL") equal to the net taxable losses, if any, arising in the five fiscal years preceding the commencement date (January 1, 2030 for the Company). As of December 31, 2023, the Company has decided to opt out of the ETA. However, the Company will reassess whether an ETA adjustment is more appropriate given the Company's tax profile and future regulation changes. Since the commencement date for the Company is no earlier than January 1, 2030, the Company will start tracking net taxable loss from January 1, 2025.

### ***Recent Accounting Pronouncements Adopted in 2023***

#### ***Financial Instruments – Credit Losses***

On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. ASU 2016-13 requires the use of the current expected credit losses ("CECL") impairment model for broad scope of financial instruments, including financial assets

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

measured at amortized cost (which includes loans, held-to-maturity debt securities and trade receivables), net investment in leases, and certain off-balance sheet credit exposures. The CECL model requires the immediate recognition of estimated expected credit losses over the life of the financial instrument. The estimate of expected credit losses considers not only historical information, but also current and future economic conditions and events. the Company adopted this standard on January 1, 2023 on a prospective basis. The adoption of this standard did not have an impact on the Company's financial statements.

Refer to *Note 3. Investments* for more information on credit losses.

### ***Recently Issued Accounting Pronouncements***

#### *Income Taxes – Improvements to Income Tax Disclosures*

In December 2023, the FASB issued ASU No. 2023-09, *Improvements to Income Tax Disclosures*. The intent of the standard is to enhance the transparency and usefulness of income tax disclosures by requiring disaggregated information about an entity's effective tax rate reconciliation and income taxes paid. The effective date of this standard for the Company is annual periods beginning after December 15, 2025 and interim periods therein. The guidance is applied on a prospective basis with the option to apply retrospectively. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements.

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### 3. Investments

#### AFS Securities

The following tables represents the amortized cost and fair value of the Company's AFS investments by asset type:

(U.S. dollars In thousands)	December 31, 2023				
	Amortized Cost	Allowance for Credit Losses*	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate	\$ 565,602	\$ -	\$ 7,175	\$ (15,407)	\$ 557,370
State and municipal	10,200	-	601	-	10,801
CLO	-	-	-	-	-
ABS	123,004	-	1,231	(2,736)	121,499
Residual tranche CLO and ABS, under the fair value option	13,582	-	6,450	-	20,032
CMBS	70,747	-	1,056	(950)	70,853
RMBS	92,220	-	304	(2,385)	90,139
<b>Total AFS securities</b>	<b>\$ 875,355</b>	<b>\$ -</b>	<b>\$ 16,817</b>	<b>\$ (21,478)</b>	<b>\$ 870,694</b>

\*The Company adopted the CECL model in 2023, which replaces the previous incurred loss impairment methodology. It requires the immediate recognition of estimated expected credit losses through an allowance for credit losses over the life of the financial instrument. The Company did not have any credit losses in 2023.

(U.S. dollars In thousands)	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate	\$ 556,589	\$ 2,224	\$ (29,182)	\$ 529,631
State and municipal	10,200	412	-	10,612
CLO	16,000	-	-	16,000
ABS	141,464	88	(7,738)	133,814
CMBS	63,705	-	(2,398)	61,307
RMBS	92,658	503	(1,971)	91,190
<b>Total AFS securities</b>	<b>\$ 880,616</b>	<b>\$ 3,227</b>	<b>\$ (41,289)</b>	<b>\$ 842,554</b>

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

The amortized cost and fair value of AFS securities are shown by contractual maturity below:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 76,327	\$ 76,943
Due after one year through five years	454,141	445,953
Due after five years through ten years	45,334	45,275
Due after 10 years	-	-
CLO, ABS, CMBS and RMBS	299,553	302,523
<b>Total AFS securities</b>	<b>\$ 875,355</b>	<b>\$ 870,694</b>

  

	<b>December 31, 2022</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 30,704	\$ 32,014
Due after one year through five years	453,170	429,926
Due after five years through ten years	67,735	62,687
Due after ten years	15,179	15,616
CLO, ABS, CMBS and RMBS	313,827	302,310
<b>Total AFS securities</b>	<b>\$ 880,616</b>	<b>\$ 842,554</b>

Actual maturities can differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

### Unrealized Losses on AFS Securities

The following tables summarize the fair value and gross unrealized losses for AFS securities aggregated by asset type and length of time the fair value has remained below amortized cost:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>
Corporate	\$ 143,022	\$ (2,323)	\$ 287,750	\$ (13,084)	\$ 430,772	\$ (15,407)
State and municipal	-	-	-	-	-	-
CLO	-	-	-	-	-	-
ABS	43,021	(551)	62,541	(2,185)	105,562	(2,736)
Residual tranche CLO and ABS, under the fair value option	-	-	-	-	-	-
CMBS	18,413	(420)	9,141	(530)	27,554	(950)
RMBS	37,880	(474)	22,346	(1,911)	60,226	(2,385)
<b>Total AFS securities</b>	<b>\$ 242,336</b>	<b>\$ (3,768)</b>	<b>\$ 381,778</b>	<b>\$ (17,710)</b>	<b>\$ 624,114</b>	<b>\$ (21,478)</b>

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(U.S. dollars In thousands)</i>						
Corporate	\$ 529,631	\$ (29,182)	\$ -	\$ -	\$ 529,631	\$ (29,182)
State and municipal	-	-	-	-	-	-
CLO	-	-	-	-	-	-
ABS	133,814	(7,738)	-	-	133,814	(7,738)
CMBS	61,307	(2,398)	-	-	61,307	(2,398)
RMBS	91,190	(1,971)	-	-	91,190	(1,971)
<b>Total AFS securities</b>	<b>\$ 815,942</b>	<b>\$ (41,289)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 815,942</b>	<b>\$ (41,289)</b>

The unrealized losses on AFS securities can primarily be attributed to changes in market interest rates since acquisition. The Company did not recognize the unrealized losses in the Statement of income (loss) as the intent is to hold these securities and it is not more likely than not that the Company will be required to sell a security before the recovery of its amortized cost.

As described in *Note 2. Basis of Presentation and Significant Accounting Policies*, the Company was required to establish OC Trusts for the sole benefit of the cedants to further secure the obligations of the Company as Reinsurer. The OC Trusts held assets with a carrying value of \$122,863 and \$51,042 for the years ended December 31, 2023 and December 31, 2022, respectively, which are part of AFS securities.

#### *Allowances for Credit Losses:*

Adopted by the company in 2023, the CECL model replaces the incurred loss impairment methodology. It requires the immediate recognition of estimated expected credit losses through the allowance for credit loss account over the life of the financial instrument. The company has recorded no credit losses for 2023 and no impairment losses for 2022.

### Net Investment Income

Net investment income by asset class consists of the following:

	December 31, 2023	December 31, 2022
<i>(U.S. dollars In thousands)</i>		
AFS Securities	\$ 57,780	\$ 26,918
Equity Securities	121	-
Policy Loans	1,731	1,765
Other Investments	(2,308)	3,275
Mortgage Loans	4,425	1,842
Funds withheld at interest	983,759	571,193
Cash and Cash Equivalents	7,556	757
Investment Revenue	1,053,064	605,750
Less: Investment Expense	(58,567)	(55,187)
<b>Net Investment Income</b>	<b>\$ 994,497</b>	<b>\$ 550,563</b>

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### Investment Related (Losses) Gains

Investment related (losses) gains by asset class consists of the following:

<i>(U.S. dollars in thousands)</i>	December 31, 2023	December 31, 2022
<b>AFS Securities</b>		
Gross realized gains on investment activity	\$ 640	\$ 686
Gross realized losses on investment activity	(1,786)	(11,346)
Net change in unrealized gain (losses) on residual tranche CLO and ABS, under the fair value option	6,450	-
Net credit loss (provision) release	-	-
Net realized and unrealized gains (losses) on AFS securities	5,304	(10,660)
<b>Equity Securities</b>		
Net realized gains (losses)	-	-
Net change in unrealized gains (losses)	3,856	390
<b>Funds withheld at interest</b>		
Net realized gains (losses)	(446,394)	(503,118)
Net change in unrealized gains (losses)	746,901	(1,713,120)
<b>Other Investments</b>		
Net realized gains (losses)	2,187	-
Net change in unrealized gains (losses)	18,415	-
<b>Cash and Cash Equivalents</b>		
Net realized gains (losses)	(8)	-
Net change in unrealized gains (losses)	55	-
<b>Investment related gains (losses)</b>	<b>\$ 330,316</b>	<b>\$ (2,226,508)</b>

Proceeds from sales of AFS securities were \$141,187 and \$296,598 for the years ended December 31, 2023 and December 31, 2022, respectively.

### Mortgage Loans

The Company primarily invests in commercial mortgage loans on income producing properties. The commercial mortgage loan portfolio as of December 31, 2023 and December 31, 2022, respectively consists of a single commercial mortgage loan with a carrying value of \$29,471 and \$54,498 that matures in 2024. The loan was originated in the year 2022 for multi-family property type in the United States region. As of December 31, 2023, it is not 30 days or more past due.

The Company utilizes loan-to-value and debt service coverage ratio to assess the risk and quality of the commercial mortgage loan. The loan-to-value ratio is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A loan-to-value ratio in excess of 100% indicates the unpaid loan amount exceeds the value of the underlying collateral. The debt service coverage ratio is expressed as a proportion of a property's net operating income to its debt service payments. A debt service ratio of less than 1.0 indicates a property's operations do not generate enough income to cover debt payments.

As of December 31, 2023, the Company's loan to value and debt service coverage ratio is 54% and 1.00x respectively. As of December 31, 2022, the Company's loan to value and debt service coverage ratio was 53% and 1.00x respectively.

The Company evaluates the mortgage loans based on relevant current information to confirm if the property is performing at a consistent and acceptable level to secure the related debt. The Company did not recognize an expected credit loss for the years ended December 31, 2023 and 2022.

Accrued interest receivables are presented separately from the amortized cost basis of mortgage loans. An allowance for credit loss is generally not estimated on an accrued interest receivable, rather when a loan is placed in nonaccrual status the associated accrued interest receivable balance is written off with a corresponding reduction to net investment income. The accrued interest receivable on mortgage loans is

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

included in accrued investment income and totaled \$248 and \$247 at December 31, 2023 and 2022, respectively.

The allowance for credit loss is estimated using historical experience with similarly collateralized mortgage loans (e.g., similar LTVs), including prepayment experience, and the potential changes in the values of the underlying real estate properties.

The following table summarizes the mortgage loan portfolio by delinquency status:

<i>(U.S. dollars In thousands)</i>	<b>Commercial Mortgages</b>	
	<b>2023</b>	<b>2022</b>
Current (less than 30 days past due)	\$ 29,471	\$ 54,498
30 to 59 days past due	-	-
60 to 89 days past due	-	-
90 days or more past due	-	-
<b>Ending balance</b>	<b>\$ 29,471</b>	<b>\$ 54,498</b>

The Company had no loans in non-accrual status for the years ended December 31, 2023, and 2022 respectively.

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>
Beginning amortized cost of commercial mortgage loans in non-accrual status	\$ -
Ending amortized cost of commercial mortgage loans in non-accrual status	-
Amortized cost of commercial mortgage loans in non-accrual status without a related allowance for credit losses	-



## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

### 4. Fair Value

Fair value is the price that the Company would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. The Company prioritizes the inputs used in valuation techniques into the following three levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities that the reporting entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets,
- Observable inputs for identical or similar assets in markets that are not active, and
- Inputs other than quoted price that are observable for the asset or liability.

Level 3 – Prices or valuation techniques with unobservable inputs significant to the overall fair value estimate in situations where there is no or little market activity for the asset or liability. The Company uses critical assumptions and estimates about assumptions that a market participant would use in pricing the asset or liability. Level 3 valuations are based on market standard valuation methodologies, including discounted cash flows or other similar techniques.

Certain other investments are measured using the practical expedient, to estimate fair value by using the Net Asset Value (NAV) and are not classified in the fair value hierarchy. The carrying value reflects the Company's pro rata ownership percentage as indicated by NAV in the investment fund financial statements, which may be adjusted if the Company determines NAV is not calculated consistent with investment company fair value principles. The underlying investments of the investment funds may have significant unobservable inputs, which may include but are not limited to, comparable multiples and weighted average cost of capital rates applied in valuation models or a discounted cash flow model.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). In cases, the inputs used to measure fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company uses several valuation sources to determine fair values. Valuation sources can include quoted market prices; third-party brokers; third-party commercial pricing services; industry-standard, vendor modeling software that uses market observable inputs; and other internal modeling techniques based on projected cash flows. The assumptions and inputs of third-party commercial pricing services are periodically reviewed through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

# Martello Re Limited

## Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

The below tables represent the hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis:

(U.S. dollars in thousands)	December 31, 2023				
	Total	NAV	Level 1	Level 2	Level 3
<b>Assets</b>					
<b>AFS Securities</b>					
Corporate	\$ 557,370	\$ -	\$ -	\$ 535,388	\$ 21,982
State and municipal	10,801	-	-	10,801	-
CLO	-	-	-	-	-
ABS	121,499	-	-	121,499	-
Residual tranche CLO and ABS, under the fair value option	20,032	-	-	20,032	-
CMBS	70,853	-	-	70,853	-
RMBS	90,139	-	-	90,139	-
<b>Total AFS securities</b>	<b>\$ 870,694</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 848,712</b>	<b>\$ 21,982</b>
Equity securities	68,304	25,000	16,654	26,650	-
Other investments	173,520	37,206	-	15,719	120,595
Funds withheld at interest	17,888,107	181,686	859,855	16,464,657	381,909
Cash and cash equivalents	303,828	-	297,127	6,701	-
Market risk benefits assets	14,104	-	-	-	14,104
<b>Total assets measured at fair value</b>	<b>\$ 19,318,557</b>	<b>\$ 243,892</b>	<b>\$ 1,173,636</b>	<b>\$ 17,362,439</b>	<b>\$ 538,590</b>
<b>Liabilities</b>					
<b>Policyholder account balances</b>					
Embedded derivative	\$ 1,050,668	\$ -	\$ -	\$ -	\$ 1,050,668
Market risk benefits liabilities	287,914	-	-	-	287,914
<b>Total liabilities measured at fair value</b>	<b>\$ 1,338,582</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,338,582</b>

(U.S. dollars in thousands)	December 31, 2022				
	Total	NAV	Level 1	Level 2	Level 3
<b>Assets</b>					
<b>AFS Securities</b>					
Corporate	\$ 529,631	\$ -	\$ -	\$ 512,787	\$ 16,844
State and municipal	10,612	-	-	10,612	-
CLO	16,000	-	-	16,000	-
ABS	133,814	-	-	133,814	-
CMBS	61,307	-	-	61,307	-
RMBS	91,190	-	-	91,190	-
<b>Total AFS securities</b>	<b>\$ 842,554</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 825,710</b>	<b>\$ 16,844</b>
Equity securities	20,390	-	-	20,390	-
Other investments	138,276	49,012	-	6,455	82,809
Funds withheld at interest	14,887,975	65,898	420,205	13,968,794	433,078
Cash and cash equivalents	304,229	-	154,790	149,439	-
Market risk benefits assets	11,806	-	-	-	11,806
<b>Total assets measured at fair value</b>	<b>\$ 16,205,230</b>	<b>\$ 114,910</b>	<b>\$ 574,995</b>	<b>\$ 14,970,788</b>	<b>\$ 544,537</b>
<b>Liabilities</b>					
<b>Policyholder account balances</b>					
Embedded derivative	\$ 1,398,053	\$ -	\$ -	\$ -	\$ 1,398,053
Market risk benefits liabilities	284,971	-	-	-	284,971
<b>Total liabilities measured at fair value</b>	<b>\$ 1,683,024</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,683,024</b>

## Fair Value Valuation Methods

The Company uses the following valuation methods and assumptions to estimate fair value at each reporting period end:

### AFS securities

The Company obtains the fair value for marketable securities without an active market from third-party commercial pricing services and classifies them as Level 2 assets. The third-party commercial pricing services utilizes a variety of market observable information in the fair valuation techniques, including

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes corporate bonds, CLO, ABS, CMBS and RMBS.

The Company fair values their fixed maturity securities based on indicative broker quotes or by utilizing valuation models widely accepted by market participants. For certain fixed maturity securities, the valuation model uses significant unobservable inputs and are classified as Level 3 in the fair value hierarchy. Unobservable inputs used include, not limited to, discount rates, issuer specific credit adjustments, non-public financial information, projected earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers.

The Company fair values their privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, that is, securities with similar characteristics issued by another issuer. In some instances, the Company employs a matrix-based pricing model. Such models consider the current level of risk-free interest rates, corporate spreads, credit quality of the issuer and cash flow characteristics of the security. In addition, net worth of the borrower, value of collateral, capital structure of the borrower, presence of guarantees and the Company's evaluation of the borrower's ability to compete in its relevant market are considered as additional factors for fair value measurement. All privately placed fixed maturity securities are classified as Level 2 or 3 in the fair value hierarchy.

### *Equity securities*

The Company uses the quoted market prices in identical markets for publicly traded equity securities and classifies these as Level 1. Other private equity securities or securities that are not traded or actively traded on exchange are valued using the third-party commercial pricing services or brokers and are classified as Level 2 or 3.

### *Funds withheld at interest*

Funds withheld at interest includes the fair value of the embedded derivative, which is estimated based on the change in the fair value of the assets supporting the reinsurance agreements. As a result, the fair value level is based on the valuation methods used for the underlying assets and is classified as Level 1, 2, 3 or using the NAV practical expedient.

### *Cash and cash equivalents*

The carrying amount for cash equals fair value and is classified as Level 1. Cash equivalents includes liquid short-term securities with a maturity of three months or less that are classified as Level 2.

### *Market risk benefit assets and liabilities*

Market risk benefits are measured at fair value and are classified as Level 3 as unobservable inputs are used to measure MRBs. See *Note 2. Basis of Presentation and Significant Accounting Policies* for further discussion on measurement of MRBs.

### *Embedded derivative*

FIA contracts allow the policyholder to elect a fixed interest rate return or an equity market component for which interest credited is based on the performance of certain equity market indices. The equity market option is an embedded derivative. The embedded derivative is measured at fair value and is classified as Level 3 as unobservable inputs are used to measure the embedded derivative. See *Note 2. Basis of Presentation and Significant Accounting Policies* for further discussion on measurement of embedded derivative.

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### Level 3 Financial Instruments

The below table provides reconciliations for Level 3 assets and liabilities measured at fair value on a recurring basis. The tables below exclude market risk benefit assets and liabilities which include similar disclosures within *Note 7. Market Risk Benefits*.

The below tables represent the gross components of purchases, issuances, sales and settlements, net, and net transfers in (out) shown above:

(U.S. dollars In thousands)	December 31, 2023					
	Beginning balance	Unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending Balance
		Included in income	Included in OCI			
<b>Assets</b>						
AFS Securities						
Corporate	\$ 16,844	\$ 1,739	\$ (144)	\$ 3,543	\$ -	\$ 21,982
<b>Total AFS securities</b>	<b>16,844</b>	<b>1,739</b>	<b>(144)</b>	<b>3,543</b>	<b>-</b>	<b>21,982</b>
Other investments	82,809	21,638	-	16,148	-	120,595
Funds withheld at interest	433,078	597	-	99,856	(151,622)	381,909
<b>Total level 3 assets measured at fair value</b>	<b>\$ 532,731</b>	<b>\$ 23,974</b>	<b>\$ (144)</b>	<b>\$ 119,547</b>	<b>\$ (151,622)</b>	<b>\$ 524,486</b>
<b>Liabilities</b>						
Policyholder account balance						
Embedded derivative	\$ 1,398,053	\$ 23,954	\$ -	\$ (371,339)	\$ -	\$ 1,050,668
<b>Total level 3 liabilities measured at fair value</b>	<b>\$ 1,398,053</b>	<b>\$ 23,954</b>	<b>\$ -</b>	<b>\$ (371,339)</b>	<b>\$ -</b>	<b>\$ 1,050,668</b>

(U.S. dollars In thousands)	December 31, 2022					
	Beginning balance	Unrealized gains (losses)		Net purchases, issuances, sales and settlements	Net transfers in (out)	Ending Balance
		Included in income	Included in OCI			
<b>Assets</b>						
AFS Securities						
Corporate	\$ -	\$ -	\$ 1,328	\$ 15,516	\$ -	\$ 16,844
<b>Total AFS securities</b>	<b>-</b>	<b>-</b>	<b>1,328</b>	<b>15,516</b>	<b>-</b>	<b>16,844</b>
Other investments	-	(1,393)	-	84,202	-	82,809
Funds withheld at interest	-	(30,613)	-	463,691	-	433,078
<b>Total level 3 assets measured at fair value</b>	<b>\$ -</b>	<b>\$ (32,006)</b>	<b>\$ 1,328</b>	<b>\$ 563,409</b>	<b>\$ -</b>	<b>\$ 532,731</b>
<b>Liabilities</b>						
Policyholder account balance						
Embedded derivative	\$ -	\$ 14,161	\$ -	\$ 1,383,892	\$ -	\$ 1,398,053
<b>Total level 3 liabilities measured at fair value</b>	<b>\$ -</b>	<b>\$ 14,161</b>	<b>\$ -</b>	<b>\$ 1,383,892</b>	<b>\$ -</b>	<b>\$ 1,398,053</b>

### Significant Unobservable Inputs

Significant unobservable inputs occur when the Company cannot obtain or corroborate the quantitative detail of the inputs. This applies to AFS securities, equity securities, mortgage loans and certain derivatives, as well as embedded derivatives in liabilities. Additional significant unobservable inputs are described below.

#### *AFS securities and Other Investments*

The Company uses discounted cash flow models for certain AFS securities and Other Investments to calculate the fair value. The discount rate is treated as a significant unobservable input as the credit spread includes adjustments made to the base rate. The base rate represents a reference rate for securities with similar characteristics. An increase in the discount rate can lower the fair value and a

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

decrease in the discount rate can increase the fair value. As of December 31, 2023, for certain AFS securities, the discount rate was 20% with a weighted average discount rate of 20%, for Other Investments, discount rates ranged from 9% - 20% with a weighted average discount rate of 15% and for FWH, discount rates ranged from 6% - 10% with a weighted average discount rate of 8%. As of December 31, 2022, for certain AFS securities, including FWH, discount rates ranged from 5.7% - 8.2% with a weighted average discount rate of 7.2% and for Other Investments, including FWH, discount rates ranged from 8.5% - 20.0% with a weighted average discount rate of 16.4%. This excludes assets for which fair value is provided by independent broker quotes.

#### *Policyholder account balance liabilities*

The Company utilizes significant unobservable inputs to measure the fair value of the FIA embedded derivative of the Policyholder account balance liabilities. Such unobservable inputs include:

1. Nonperformance risk: The Company uses the credit spread for the contracts issued, relative to the US Department of the Treasury curve based on credit ratings from publicly traded insurance companies as of the valuation date. This represents the Company's credit risk for use in the estimate of the fair value of embedded derivatives. As of December 31, 2023 and December 31, 2022, respectively, the nonperformance risk ranged from 20 to 168 and 0 to 201 basis points.
2. Option budget: The Company assumes future hedge costs in the derivative's fair value estimate. The level of option budgets determines the future costs of the options and impacts future policyholder account value growth. As of December 31, 2023 and December 31, 2022, respectively, the option budget assumption ranged from 1.1% - 3.6% and 1.1% - 3.3%.
3. Policyholder behavior: The Company regularly reviews the lapse and surrender rate assumptions. In 2023, the Company implemented a Generalized Linear Model ("GLM") lapse and surrender assumption based on recent experience. As of December 31, 2023, the assumed lapses ranged from 5.0% - 42.2% for policies without an MRB feature and 3.0% to 19.3% for policies with an MRB feature. As of December 31, 2022, the base lapse assumption ranged from 0.15% - 90% for policies without an MRB feature and 0.15% to 13.5% for policies with an MRB feature.

#### **Fair Value of Financial Instruments Not Carried at Fair Value**

The below tables represent the Company's financial instruments not carried at fair value on the Balance sheets:

(U.S. dollars in thousands)	December 31, 2023					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
<b>Financial assets</b>						
Policy loans	\$ 24,880	\$ 24,880	\$ -	\$ -	\$ 24,880	\$ -
Mortgage loans	29,471	29,471	-	-	29,471	-
<b>Total financial assets not carried at fair value</b>	<b>\$ 54,351</b>	<b>\$ 54,351</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 54,351</b>	<b>\$ -</b>
<b>Financial liabilities</b>						
Policyholder account balances	\$ 17,276,047	\$ 17,352,210	\$ -	\$ -	\$ -	\$ 17,352,210
Long-term debt	221,000	221,000	-	-	221,000	-
<b>Total financial liabilities not carried at fair value</b>	<b>\$ 17,497,047</b>	<b>\$ 17,573,210</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 221,000</b>	<b>\$ 17,352,210</b>

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

(U.S. dollars In thousands)	December 31, 2022					
	Carrying Value	Fair Value	NAV	Level 1	Level 2	Level 3
<b>Financial assets</b>						
Policy loans	\$ 26,905	\$ 26,905	\$ -	\$ -	\$ 26,905	\$ -
Mortgage loans	54,498	54,498	-	-	-	54,498
<b>Total financial assets not carried at fair value</b>	<b>\$ 81,403</b>	<b>\$ 81,403</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,905</b>	<b>\$ 54,498</b>
<b>Financial liabilities</b>						
Policyholder account balances	\$ 14,994,832	\$ 14,925,979	\$ -	\$ -	\$ -	\$ 14,925,979
Long-term debt	221,000	221,000	-	-	221,000	-
<b>Total financial liabilities not carried at fair value</b>	<b>\$ 15,215,832</b>	<b>\$ 15,146,979</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 221,000</b>	<b>\$ 14,925,979</b>

The Company estimates the fair value for financial instruments not carried at fair value using the same methods and assumptions as those carried at fair value. The financial instruments presented above are reported at carrying value on the Balance sheets, whereas in the case of Policy loans, Mortgage loans, and Long-term debt, the carrying amount approximates the fair value.

#### *Policyholder account balance liabilities*

The carrying and fair value of policyholder account balance liabilities above include FIA and FDA without insurance risks (mortality or morbidity), and payout annuities without life contingencies. The FIA embedded derivative is excluded as they are carried at fair value. The fair value is determined using a discounted cash flow model at current market risk-free interest rates, plus the Company's nonperformance risk less a risk margin to reflect uncertainty inherent in the projected cash flows.

#### *Fair-value option*

The following table summarizes financial instruments for which the fair value option has been elected:

(U.S. dollars In thousands)	December 31, 2023	December 31, 2022
<b>Assets</b>		
Residual tranche CLO and ABS	\$ 20,032	\$ -
<b>Total assets</b>	<b>\$ 20,032</b>	<b>\$ -</b>

The following table summarizes the net realized and unrealized gains (losses) recognized on financial instruments for which the fair value option has been elected:

(U.S. dollars In thousands)	December 31, 2023	December 31, 2022
<b>Assets</b>		
Residual tranche CLO and ABS	\$ 6,450	\$ -
<b>Total assets</b>	<b>\$ 6,450</b>	<b>\$ -</b>

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### 5. Deferred Acquisition Costs

The assumptions used to project the DAC amortization basis are consistent with the best estimate assumptions used in the liability calculations. The best estimate assumptions were reviewed and updated in 2023. There were updates to the lapse, mortality, and annuitization rates, which impacted the constant level amortization base.

The following table presents a roll forward of deferred policy acquisition costs related to long duration contracts for the years ended December 31, 2023 and 2022:

<i>(U.S. dollars in thousands)</i>	<b>Deferred Annuities</b>
<b>Balance at December 31, 2021</b>	<b>\$ -</b>
Effect of changes from model refinements	-
Reinsured business	254,859
Capitalization related to MYGA	105,035
Amortization expense	(41,154)
<b>Balance at December 31, 2022</b>	<b>\$ 318,740</b>
Effect of changes from model refinements	-
Reinsured business	-
Capitalization related to MYGA	133,759
Amortization expense	(73,734)
<b>Balance at December 31, 2023</b>	<b>\$ 378,765</b>

### 6. Insurance Liabilities

#### Policy Benefit Reserves

Mortality is the significant assumption input, in addition to current and interest accretion discount rates, to the calculation of the Company's policy benefit reserves. In 2023, the Company refined the mortality assumption, with the biggest change being the addition of future mortality improvements. The assumption update resulted in lower mortality rates which increased reserves.

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

The following tables presents the balances and changes in the policy benefit reserves and a reconciliation of the net policy benefit reserves to the Policy benefit reserves line in the Balance sheets:

<i>(U.S. dollars In thousands)</i>	Single Premium Immediate Annuities	Pension Risk Transfer	Total
<b>Present value of expected policy benefits</b>			
Liability for policy benefit reserves at December 31, 2022	\$ 100,678	\$ -	\$ 100,678
Beginning balance at original discount rate	115,517	-	115,517
Effect of changes in cash flow assumptions	6,345	-	6,345
Effect of actual variances from expected variances	(2,385)	-	(2,385)
<b>Adjusted balance at December 31, 2022</b>	<b>119,477</b>	<b>-</b>	<b>119,477</b>
Issuances	11,385	415,059	426,444
Interest accrual	3,040	3,606	6,646
Benefit payments	(16,714)	(5,996)	(22,710)
<b>Ending balance at original discount rate</b>	<b>117,188</b>	<b>412,669</b>	<b>529,857</b>
Effect of changes in discount rate assumptions	(11,735)	19,583	7,848
<b>Balance at December 31, 2023</b>	<b>105,453</b>	<b>432,252</b>	<b>537,705</b>
Deferred profit liability	2,305	-	2,305
<b>Balance per balance sheet</b>	<b>\$ 107,758</b>	<b>\$ 432,252</b>	<b>\$ 540,010</b>

<i>(U.S. dollars In thousands)</i>	Single Premium Immediate Annuities	Pension Risk Transfer	Total
<b>Present value of expected policy benefits</b>			
Liability for policy benefit reserves at December 31, 2021	\$ -	\$ -	\$ -
Reinsured business at February 1, 2022 at original discount rate	118,661	-	118,661
Effect of changes in cash flow assumptions	-	-	-
Effect of actual variances from expected variances	(1,160)	-	(1,160)
<b>Adjusted beginning balance</b>	<b>117,501</b>	<b>-</b>	<b>117,501</b>
Issuances	9,494	-	9,494
Interest accrual	2,777	-	2,777
Benefit payments	(14,255)	-	(14,255)
<b>Ending balance at original discount rate</b>	<b>115,517</b>	<b>-</b>	<b>115,517</b>
Effect of changes in discount rate assumptions	(14,839)	-	(14,839)
<b>Balance at December 31, 2022</b>	<b>100,678</b>	<b>-</b>	<b>100,678</b>
Deferred profit liability	1,589	-	1,589
<b>Balance per balance sheet</b>	<b>\$ 102,267</b>	<b>\$ -</b>	<b>\$ 102,267</b>

Gross premiums and interest accretion recorded in the Statements of income (loss) is \$445,107 and \$6,646, respectively, for the year ended December 31, 2023. Gross premiums and interest accretion recorded in the Statements of income (loss) is \$14,308 and \$2,777, respectively, for the year ended December 31, 2022.

There has been no adverse development during the period. The actual mortality experience has been higher than expected; however, there has been minimal number of deaths for both 2022 and 2023 and the experience is not credible.



## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

The following table presents the amount of undiscounted expected future benefit payments and expected gross premiums for future policy benefits for non-participating contracts:

	December 31, 2023			December 31, 2022		
	Single Premium Immediate Annuities	Pension Risk Transfer	Total	Single Premium Immediate Annuities	Pension Risk Transfer	Total
<i>(U.S. dollars in thousands)</i>						
Expected future benefit payments and expenses, undiscounted	\$ 148,463	\$ 669,753	\$ 818,216	\$ 143,616	\$ -	\$ 143,616
Expected future gross premiums, undiscounted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Expected future benefit payments and expenses, discounted	\$ 105,453	\$ 432,252	\$ 537,705	\$ 100,678	\$ -	\$ 100,678
Expected future gross premiums, discounted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The following table presents the actual versus expected experience for mortality:

	December 31, 2023		December 31, 2022	
	Single Premium Immediate Annuities	Pension Risk Transfer	Single Premium Immediate Annuities	Pension Risk Transfer
Actual experience	10.01%	1.81%	9.22%	0.00%
Expected experience	5.78%	1.90%	5.57%	0.00%

The following table presents the calculation of weighted-average interest rates and liability duration for future policy benefits for non-participating contracts:

	December 31, 2023		December 31, 2022	
	Single Premium Immediate Annuities	Pension Risk Transfer	Single Premium Immediate Annuities	Pension Risk Transfer
Interest accretion rate	3.21%	5.48%	2.65%	0.00%
Current discount rate	4.88%	4.85%	5.19%	0.00%
Weighted-average liability duration (years)	6.85	7.65	6.80	0.00

# Martello Re Limited

## Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### Policyholder Account Balances

The following tables presents the balances of and changes in policyholder account balances:

<i>(U.S. dollars In thousands, except for percentages)</i>	Deferred Annuities	Single Premium Immediate Annuities	Total
<b>Balance at December 31, 2022</b>	\$ 16,274,401	\$ 118,484	\$ 16,392,885
Reinsured business	-	-	-
Issuances	4,162,888	50,744	4,213,632
Premiums received	560,430	-	560,430
Policy charges	(36,705)	-	(36,705)
Surrenders and withdrawals	(2,818,034)	-	(2,818,034)
Free look surrender	(39,646)	-	(39,646)
Benefit payments	(410,199)	(45,303)	(455,502)
Interest credited	507,385	293	507,678
Other	1,977	-	1,977
<b>Balance at December 31, 2023</b>	\$ 18,202,497	\$ 124,218	\$ 18,326,715
Weighted-average crediting rate	2.99%	0.00%	2.99%
Net amount at risk	\$ 1,319,106	\$ -	\$ 1,319,106
Cash surrender value	\$ 17,482,758	\$ -	\$ 17,482,758

<i>(U.S. dollars In thousands, except for percentages)</i>	Deferred Annuities	Single Premium Immediate Annuities	Total
<b>Balance at December 31, 2021</b>	\$ -	\$ -	\$ -
Reinsured business	14,076,960	111,238	14,188,198
Issuances	3,533,795	47,284	3,581,079
Premiums received	413,667	-	413,667
Policy charges	(35,859)	-	(35,859)
Surrenders and withdrawals	(1,581,420)	-	(1,581,420)
Free look surrender	(64,056)	-	(64,056)
Benefit payments	(345,819)	(41,739)	(387,558)
Interest credited	275,782	1,701	277,483
Other	1,351	-	1,351
<b>Balance at December 31, 2022</b>	\$ 16,274,401	\$ 118,484	\$ 16,392,885
Weighted-average crediting rate	2.23%	0.00%	2.23%
Net amount at risk	\$ 1,197,950	\$ -	\$ 1,197,950
Cash surrender value	\$ 15,660,883	\$ -	\$ 15,660,883

The following tables presents policyholder account balances, excluding the indexed component of the FIAs, by range of guaranteed minimum crediting rates and the related range of difference, in basis points, between rates being credited to policyholders and the respective guaranteed minimums:

December 31, 2023						
<i>(U.S. dollars In thousands)</i>	Range of guaranteed minimum crediting rate	At guaranteed minimum	1 basis point - 50 basis points above	51 basis points - 150 basis points above	Greater than 150 basis points above	Total
Deferred Annuities	1.00%-2.00%	\$ 734,239	\$ 44,035	\$ 422,359	\$ 1,001,573	\$ 2,202,206
	2.00%-3.00%	1,135,822	31,493	-	-	1,167,315
	3.00%-4.00%	3,023,685	149,533	-	-	3,173,218
	4.00%-5.00%	4,401,044	-	-	-	4,401,044
	Greater than 5.00%	1,273,987	-	-	-	1,273,987
	<b>Total</b>	<b>\$ 10,568,777</b>	<b>\$ 225,061</b>	<b>\$ 422,359</b>	<b>\$ 1,001,573</b>	<b>\$ 12,217,770</b>

# Martello Re Limited

## Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

		December 31, 2022				
(U.S. dollars In thousands)	Range of guaranteed minimum crediting rate	At guaranteed minimum	1 basis point - 50 basis points above	51 basis points - 150 basis points above	Greater than 150 basis points above	Total
	1.00%-2.00%	\$ 744,803	\$ 441,216	\$ 832,326	\$ 1,393,209	\$ 3,411,554
	2.00%-3.00%	727,822	404,016	1,872,186	-	3,004,024
Deferred Annuities	3.00%-4.00%	767,509	903,485	249,646	-	1,920,640
	Greater than 4.00%	13,727	-	-	-	13,727
	<b>Total</b>	<b>\$ 2,253,861</b>	<b>\$ 1,748,717</b>	<b>\$ 2,954,158</b>	<b>\$ 1,393,209</b>	<b>\$ 8,349,945</b>

## 7. Market Risk Benefits

Best estimate assumptions plus risk margins, for uncertainty inherent in the cash flows, are used in the MRB calculation. In 2023, the Company updated several assumptions used in the MRB calculation as part of the annual assumptions unlocking. The Company updated lapse, mortality, WB utilization, annuitization, and partial withdrawal rates, with the lapse update having the largest impact. Overall, the assumption updates resulted in higher lapses, lower mortality, lower WB utilization, and lower partial withdrawals. Risk margins are applied to mortality, lapse, and GLWB utilizations. In addition to the assumption updates noted above, the Company changed the MRB scenarios to be based on the secured overnight financing rate (“SOFR”) rather than the London inter-bank offered rate (“LIBOR”) due to the discontinuation of the LIBOR rates in mid-2023.

The following tables presents the balances of and changes in MRB:

(U.S. dollars In thousands)	Deferred Annuities
<b>Balance at December 31, 2022</b>	\$ 273,165
Effect of changes in instrument-specific credit risk	19,735
<b>Balance at December 31, 2022, adjusted</b>	<b>292,900</b>
Reinsured business	-
Interest accrual	14,720
Attributed fees collected	35,546
Benefit payments	(10,347)
Effect of changes in interest rates	(429)
Effect of changes in equity dividend and volatility	(920)
Effect of changes in future expected policyholder behavior	(48,211)
Other	(18,057)
<b>Balance at December 31, 2023, before effect of changes in the instrument-specific credit risk</b>	<b>265,202</b>
Effect of changes in instrument-specific credit risk	8,608
<b>Balance at December 31, 2023</b>	<b>\$ 273,809</b>
<b>Net amount at risk</b>	<b>\$ 1,319,106</b>
Weighted-average attained age of contract holders (years)	74.36

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

<i>(U.S. dollars In thousands)</i>	<b>Deferred Annuities</b>
<b>Balance at December 31, 2021</b>	\$ -
Effect of changes in instrument-specific credit risk	-
<b>Balance at December 31, 2021, adjusted</b>	-
Reinsured business	479,047
Interest accrual	8,106
Attributed fees collected	34,970
Benefit payments	(8,460)
Effect of changes in interest rates	(223,882)
Effect of changes in equity dividend and volatility	(408)
Effect of changes in future expected policyholder behavior	5,749
Other	(2,222)
<b>Balance at December 31, 2022, before effect of changes in the instrument-specific credit risk</b>	292,900
Effect of changes in instrument-specific credit risk	(19,735)
<b>Balance at December 31, 2022, before effect of changes in the instrument-specific credit risk</b>	\$ 273,165
<b>Net amount at risk</b>	\$ 1,197,950
<b>Weighted-average attained age of contract holders (years)</b>	73.77

The following table presents a reconciliation of MRB by amounts in an asset position and by amounts in a liability position to the Balance sheet as of December 31, 2023 and 2022, respectively:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>			<b>December 31, 2022</b>		
	<b>Asset</b>	<b>Liability</b>	<b>Net</b>	<b>Asset</b>	<b>Liability</b>	<b>Net</b>
<b>Deferred Annuities</b>	\$ 14,104	\$ 287,914	\$ 273,810	\$ 11,806	\$ 284,971	\$ 273,165

In 2023, the following notable changes were made to the financial assumption inputs to the fair value estimates of MRB calculations:

- Interest rates were volatile during the year but ended inline with 2022.
- Equity volatility decreased, leading to a slight decrease in the MRB. Changes in equity and volatility indices do not have a material impact on the MRB balance given the features and benefits included on the Company's block.
- The Company's credit spread tightened longer-term, leading to a corresponding increase in the MRB.

The significant unobservable inputs utilized by the Company to measure the fair value of the FIA embedded derivative of the Policyholder account balance liabilities are noted previously within *Note 4. Fair Value*.

The MRB balance is recorded in Market risk benefit assets and Market risk benefit liabilities on the Balance sheets.

## 8. Long-Term Debt

On June 28, 2022, the Company entered into an unsecured surplus note with its wholly owned parent, the Holding Company, in the amount of \$221,000. The outstanding principal amount shall be due and payable on June 28, 2027. Interest accrues on the note at a rate equal to Adjusted Term SOFR plus 2% per annum and is payable in arrears. As of December 31, 2023, the outstanding amount of principal is included in Long-term debt, the outstanding payable of interest accrued is included in Intercompany payable of \$4,150 on the Balance sheets, and interest incurred is included in Interest expense of \$15,858 on the Statements of income (loss). As of December 31, 2022, the outstanding amount of principal is included in Long-term debt, the outstanding payable of interest accrued is included in Intercompany

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

payable of \$4,085 on the Balance sheets, and interest incurred is included in Interest expense of \$5,680 on the Statements of income (loss).

## 9. Equity

### Common Stock

The authorized and issued share capital of the Company is \$250,000 divided into 250,000 ordinary shares, par value \$1 each for the years ended December 31, 2023 and December 31, 2022, respectively.

### Additional paid-in capital

During the years ended December 31, 2023 and December 31, 2022, the Company received \$222,500 and \$1,162,197, respectively, in additional capital contributions from its shareholder.

### Accumulated other comprehensive income (loss)

The following table presents changes in AOCI for the years ended December 31, 2023 and 2022:

	Unrealized investments gains (losses) on AFS securities	Change in the liability for future policyholder benefits attributable to the discount rate	Change in the market risk benefit attributable to instrument specific credit risk	Accumulated other comprehensive income (loss)
<i>(U.S. dollars in thousands)</i>				
Balance at December 31, 2021	\$ -	\$ -	\$ -	\$ -
Other comprehensive income (loss) before reclassifications, net of tax*	(38,062)	14,839	19,735	(3,488)
Less: Reclassification adjustments for gains (losses) realized in net income, net of tax*	-	-	-	-
Balance at December 31, 2022	(38,062)	14,839	19,735	(3,488)
Other comprehensive income (loss) before reclassifications, net of tax*	28,093	(22,687)	(28,343)	(22,937)
Less: Reclassification adjustments for gains (losses) realized in net income, net of tax*	(1,146)	-	-	(1,146)
Balance at December 31, 2023	\$ (11,115)	\$ (7,848)	\$ (8,608)	\$ (27,571)

\*There were no deferred income tax effects noted for the years ended December 31, 2023 and 2022. Refer to Note 10 "Income Taxes" for more information.

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

### 10. Income Taxes

The Company has filed with the Internal Revenue Service (“IRS”) an Internal Revenue Code (“IRC”) Section 953(d) tax election with its first income tax return filing for the period from July 21 to December 31, 2021. Section 953(d) allows a foreign corporation engaged in the insurance business to elect to be treated as a U.S. corporation for tax purposes. The Company makes income tax payments to the IRS periodically based on taxable income arising from the operations of the Company including both current net income and temporary differences. The Company has evaluated the need for a valuation allowance against its deferred tax assets, considering all available positive and negative evidence. Based on its analysis, the Company concluded that a valuation allowance should be established.

As of December 31, 2023, the Company has a \$12,291 income tax receivable and has recognized a pre-valuation allowance deferred tax asset (“DTA”) of \$273,731. The DTA balance as of December 31, 2023 mainly consists of FWH basis difference, Policy benefit reserves, ModCo Reinsurance Net Asset, and Deferred acquisition costs. The Company has evaluated and determined that there are no uncertain tax positions as of December 31, 2023.

Income tax expense consists of the following:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current		
U.S	\$ -	\$ -
Foreign	-	-
Deferred	-	-
U.S	-	2,345
Foreign	-	-
<b>Income tax expense (benefit)</b>	<b>\$ -</b>	<b>\$ 2,345</b>

The statutory tax rate of 21% has been used for the years ended December 31, 2023 and December 31, 2022. A reconciliation of the difference between the expected tax provision at the statutory tax rate and income tax expense is as follows:

<i>(U.S. dollars In thousands, except for percentages)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Income (loss) from continuing operations before income taxes:		
U.S	\$ 669,928	\$ (1,935,494)
Foreign	-	-
<b>Total</b>	<b>\$ 669,928</b>	<b>\$ (1,935,494)</b>
Expected tax provision computed on pre-tax income at statutory tax rate	\$ 140,685	\$ (406,454)
Increase in income taxes resulting from:		
Deferred tax valuation allowance	(140,804)	408,745
Prior year tax return true-up	(52)	-
Deferred Validation	28	-
Other, net	143	54
<b>Income tax expense (benefit)</b>	<b>\$ -</b>	<b>\$ 2,345</b>
<b>Effective tax rate</b>	<b>0.0%</b>	<b>-0.1%</b>

## Martello Re Limited

### Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

(U.S. dollars in thousands, unless otherwise noted)

Current income tax recoverable and net deferred tax assets are included in Income tax receivable on the Balance sheets, and current income tax payable and net deferred tax liabilities are included in other liabilities on the Balance sheets. Current and deferred income tax assets and liabilities were as follows:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current income tax recoverable	\$ 12,291	\$ 12,291
Current income tax payable	-	-
<b>Net current income tax recoverable (payable)</b>	<b>\$ 12,291</b>	<b>\$ 12,291</b>
Deferred income tax assets, net of valuation allowance	\$ 49,587	\$ 19,780
Deferred income tax liabilities	\$ (49,587)	(19,780)
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred income tax assets and liabilities consisted of the following:

<i>(U.S. dollars In thousands)</i>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>Deferred income tax assets</b>		
Future policyholder benefits	\$ 115,316	\$ 83,241
Employee compensation	129	457
Net operating loss carryforward	17,328	2,143
Capital loss carryforward	1,792	2,302
Funds withheld basis difference	184,413	337,852
Investments	-	328
Start up cost	2,006	2,201
Unrealized loss (gain)	2,334	732
Other	-	1
Subtotal	323,318	429,257
Valuation allowance	(273,731)	(409,477)
<b>Gross deferred income tax assets, net of valuation allowance</b>	<b>\$ 49,587</b>	<b>\$ 19,780</b>
<b>Deferred income tax liabilities</b>		
Unrealized Gain/Loss	\$ -	\$ -
ModCo Reinsurance	6,481	-
Deferred acquisition cost	38,402	19,780
Funds withheld basis difference	-	-
Investments	4,614	-
Other	90	-
<b>Gross deferred income tax liabilities</b>	<b>49,587</b>	<b>19,780</b>
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ -</b>	<b>\$ -</b>

The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be

## Martello Re Limited

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The Company's framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including:

- The nature, frequency, and severity of cumulative financial reporting losses in recent years;
- The predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- The carry forward periods for the net operating loss and capital loss, including the effect of reversing taxable temporary differences; and
- Prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

The Company is in a cumulative three-year loss position for the three-year period from January 1, 2021 through December 31, 2023. While a significant amount of positive evidence does exist, Management has recorded a full valuation allowance against its net deferred tax assets due to the Company's cumulative three-year loss position and difficulty in reliably projecting U.S. GAAP earnings into the future.

The Company has a net operating loss ("NOL") carryforward of \$82,515 (tax effected \$17,328 of December 31, 2023). The NOL carryforward is not subject to expiration. The Company also has a capital loss carryforward of \$8,533 (tax effected \$1,792) as of December 31, 2023. The Capital loss carryforward will expire in 2027 if not used.

The Company's U.S. federal income tax return for 2021 and 2022 may be selected for review by tax authorities. The Company does not anticipate any material assessments or adjustments to the Company's liability resulting from the tax examinations for the period ended December 31, 2022.

Management believes that adequate provision has been made in the financial statements for any potential assessments that may result from tax examinations and other tax related matters for both tax year 2022 and tax year 2023. Management does not believe that it is reasonably possible that any changes to the balance of unrecognized tax benefits occurring within the next 12 months will result in a significant change to the results of operations, financial condition, or liquidity.

For Tax Year 2022, The Company filed a Form 1120-L federal income tax return on a standalone basis. The Company established life reserves and was qualified as a Life Insurance Company in tax year 2022. As a result of transitioning from a non-life insurance company to a life insurance company, the Company became an ineligible corporate for a life/nonlife consolidated filing group under Treas. Reg. 1.1502-47(b)(13) as it would not have satisfied the five-year waiting period under Treas. Reg. 1.1502-47, nor does it satisfy the requirements under the "tacking" rule to be deemed eligible. Further, any income/loss generated during the five-year waiting period from the Company cannot be used to offset the Holding Company's loss/income. The Company will join the life/nonlife filing group with the Holding Company in tax year 2027.

The Tax Cuts and Jobs Act provides a base erosion and anti-abuse tax ("BEAT") which represents minimum tax calculated on a base equal to the taxpayer's taxable income determined without regard to: (1) the tax benefits arising from base erosion payments, and (2) the applicable base erosion percentage of any NOL allowed for the tax year. The BEAT rate is 10% for tax years beginning in 2019 through 2025 and 12.5% for tax years beginning after December 21, 2025. The Company is a member of an "Aggregate Group" within the meaning of the IRC and the Aggregate Group's base erosion payments are



## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

less than 3% of the Aggregate Group's total deductions for the years ended December 31, 2023 and 2022. Accordingly, the BEAT liability was \$0 for the years ended December 31, 2023 and 2022.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act (the "Act"). Effective for tax years beginning after December 31, 2022, the Act includes a new corporate alternative minimum tax ("CAMT") on certain corporations. The Company has determined, as of the reporting date, that they will not be subject to the CAMT in 2023.

On December 27, 2023, the Government of Bermuda enacted the CIT Act of 2023 which established a 15 percent income tax on net taxable income of Bermuda entities effective from January 1, 2025. The CIT Act applies to MNE groups with gross revenue of at least 750 million Euros in two out of the four previous fiscal years. As of December 31, 2023, the Company is not an in-scope entity as it does not meet the gross revenue threshold.

The CIT regime commences on January 1, 2025. However, MNE Groups that meet the limited international presence requirements are temporarily excluded from this regime until January 1, 2030. The Company operates only in Bermuda and the United States and does not have tangible assets with a net book value exceeding 50 million Euros outside of Bermuda or the United States. Therefore, even if the Company were to meet the gross revenue threshold, the Company has a limited international presence and would be excluded from the CIT regime until January 1, 2030.

The CIT regime provides for a one-time tax rebasing to fair value for all assets and liabilities of Bermuda tax resident entities and permanent establishments held as of September 30, 2023, which is referred to as the ETA. The Company may opt to forego the ETA and, if such election is made, the Company would be allowed an opening tax loss carryforward, or NOL, equal to the net taxable losses, if any, arising in the five fiscal years preceding the commencement date (January 1, 2030 for the Company). As of December 31, 2023, the Company has decided to opt out of the ETA. However, the Company will reassess whether an ETA adjustment is more appropriate given the Company's tax profile and future regulation changes. Since the commencement date for the Company is no earlier than January 1, 2030, the Company will start tracking net taxable loss from January 1, 2025.

### **11. Statutory Requirements**

The Company operates in Bermuda and is licensed by the Bermuda Monetary Authority ("BMA") as a long-term insurer and is subject to the Insurance Act 1978, as amended. The Company is prohibited from paying in any fiscal year dividends of more than 25% of its prior years' statutory capital and surplus without an affidavit signed by two Directors and the Principal Representative attesting that a dividend in excess of this amount would not cause the Company to fail to meet its relevant margins. Similarly, attestation to the BMA is required before any reduction of statutory capital by more than 15% based on the previous year statutory capital.

The Company is licensed as a Class E Long-term insurer under the Act and is required to maintain a minimum statutory solvency margin ("MSM") and minimum economic statutory capital and surplus to meet the enhanced capital requirement ("ECR"). The MSM is equal to the greater of (i) \$8,000 (ii) 2% of the first \$500,000 of assets plus 1.5% of assets above \$500,000 or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the BMA.

As of December 31, 2023 and 2022, the Company is required to maintain an estimated minimum statutory capital and surplus of \$316,003 and \$278,377, respectively. The actual statutory capital and surplus, as determined using statutory accounting principles is \$1,655,685 and \$1,530,077 as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the Company's ECR and target capital level of 120% of ECR have been met.

## **Martello Re Limited**

Notes to the Financial Statements

For the years ended December 31, 2023 and December 31, 2022

---

(U.S. dollars in thousands, unless otherwise noted)

### **12. Related Parties**

The Company enters into transactions with its related parties. These transactions include reinsurance agreements, services and expense agreement, long term debt agreement, investment agreement and administrative agreement.

On September 1, 2022, the Company entered into a Services and Expense Agreement with Martello Re Services Company LLC ("ServiceCo") to receive certain services as may be agreed from time to time, such as executive management support, management of operations and resources, actuarial services, production of financials and management reporting, and management of investments. Fees incurred under this agreement are reflected in operating expenses in the Statements of income (loss) was \$12,551 and \$1,218 for the years ended December 31, 2023, and December 31, 2022, respectively.

On December 30, 2021, the Company entered into investment management with Barings, LLC ("Barings") and Centerbridge Martello Advisors LLC ("Centerbridge") to support the Company's investment management and asset allocation strategy. Investment management expenses incurred are reflected in Net investment income in the Statements of income (loss) was \$29,371 and \$8,511 with Barings and Centerbridge for the year ended December 31, 2023, respectively and \$26,470 and \$4,375 with Barings and Centerbridge for the year ended December 31, 2022, respectively.

Incrementally, on December 30, 2021, the Holding Company entered into an administrative services agreement with Barings and Centerbridge to support administrative services in managing the Martello group of companies. These services are for the primary benefit of the Company. As such, the Company pays the Holding Company a new business expense in arrears, each calendar quarter. The new business fee expenses reflected within Net investment income on the statements of income (loss) was \$18,441 and \$16,296 for the years ended December 31, 2023, and December 31, 2022, respectively. The related payable is included within Accounts payable and other accrued expenses in the Balance sheets was \$4,686 and \$4,539 as of December 31, 2023, and December 31, 2022, respectively.

See *Note 1 Nature of Business* for additional details of reinsurance transactions entered into with related parties.

See *Note 8 Long-term Debt* for additional details of the Company's long-term debt with the Holding Company.

### **13. Contingencies, Commitments and Guarantees**

The Company commits to fund partnership investments and to lend funds under bank loans and mortgage loan investments. The amounts of these unfunded commitments were \$25,592 and \$17,135 as of December 31, 2023 and December 31, 2022, respectively. These commitments may become due upon the counterparty's request. There are no material contingent liabilities arising from litigation, income taxes or other matters, other than liabilities arising in the normal course of its business of reinsurance.

### **14. Subsequent Events**

The Company has evaluated the effects of events subsequent to December 31, 2023, for recognition and disclosure, through April 25, 2024, which is the date the financial statements were available to be issued and determined there were none, except as noted below.

On March 28, 2024, the Company completed a FWH settlement with MMALIC by transferring cash of \$254,737 into the FWH portfolio.