Martello Re

Martello Re Limited

FINANCIAL CONDITION REPORT

For the year ended 31 December 2023

Table of Contents

1.0 General Information

This Financial Condition Report ("FCR") is prepared in accordance with the Insurance (Public Disclosure) Rules 2015. This FCR documents the measures governing the business operations, corporate governance framework, solvency, and financial results of Martello Re Limited ("Martello Re" or "the Company") for the year ended December 31, 2023. This FCR is prepared to provide information to enable an informed assessment of how Martello Re's business is run in a prudent manner.

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's mission is helping insurers to optimize and grow their asset-intensive life and annuity business, with a focus on new business reinsurance.

Martello Re is backed by an exceptional group of institutional investors and family offices, including Massachusetts Mutual Life Insurance Company ("MassMutual"), Centerbridge Partners ("Centerbridge"), Brown Brothers Harriman ("BBH"), and Hudson Structured Capital Management Ltd.

2.0 Business and Performance

i. Name of Insurer

Martello Re Limited

ii. Supervisors

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

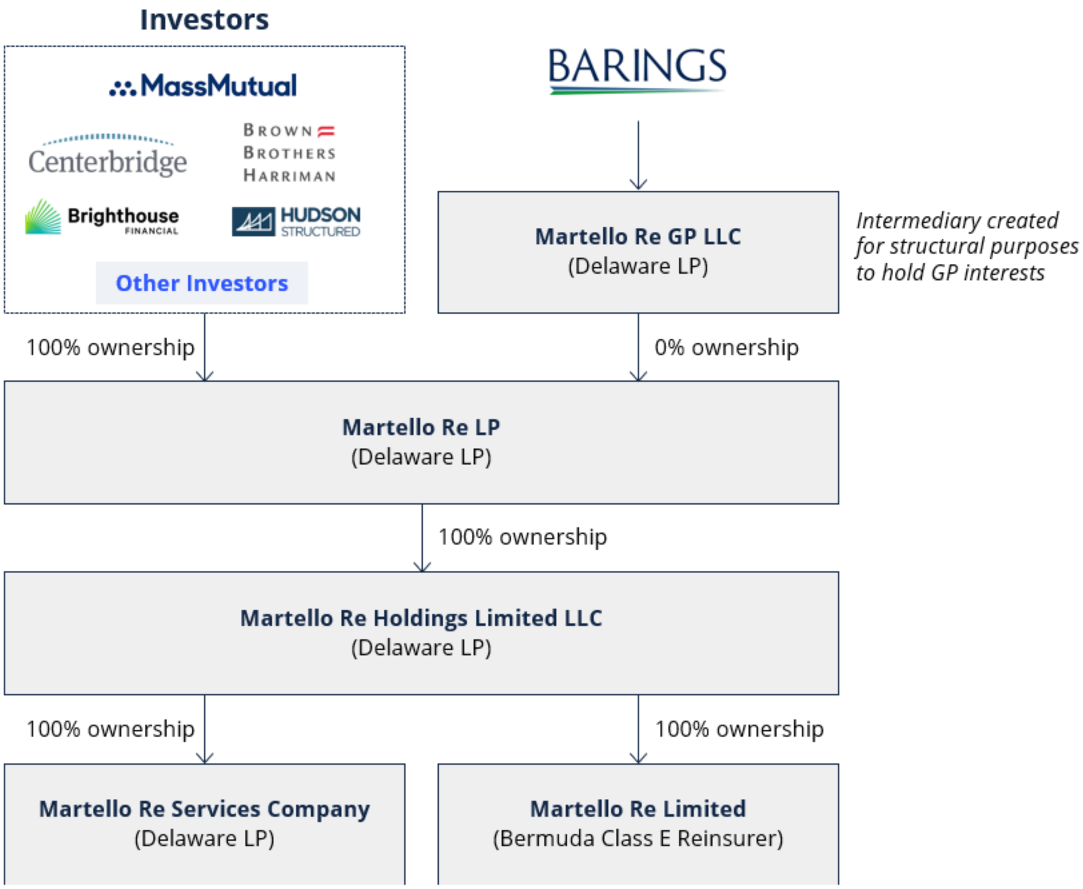
iii. Approved Auditor

PricewaterhouseCoopers Ltd.
4th Floor, Washington House
16 Church Street
Hamilton, HM 11
Bermuda

iv. Ownership Details

Martello Re has a simple and streamlined ownership structure. It is a direct and wholly owned subsidiary of Martello Re Holdings Limited LLC ("HoldCo"), a holding company incorporated in the State of Delaware, USA. HoldCo is a direct, wholly owned subsidiary of Martello Re LP ("LP"), a limited partnership also registered in the State of Delaware, USA. The general partner of LP is a direct, wholly owned subsidiary of Barings LLC ("Barings"). During 2022 Martello Re filed for a 953(d) election to be taxed as a U.S. taxpayer.

v. Group Structure



vi. Insurance Business Written by Business Segment and Geographical Region

The Company is a reinsurer that supports asset-intensive life and annuity liabilities primarily through new business reinsurance. The Company enters into reinsurance agreements with non-affiliated companies covering liabilities from the USA.

In February 2022, the Company executed a coinsurance funds withheld ("FWH") quota share reinsurance agreement covering $14.2 billion of in force fixed annuity and fixed indexed annuity policies ("FIA").

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

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.

In November 2023, the Company executed a modified coinsurance (“ModCo”) quota share agreement covering PRT transactions.

vii. Performance of Investments, by Asset Class, and Details on Material Income and Expenses Incurred for the Reporting Period

Available for Sale (“AFS”) 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 under US GAAP. Any unrealized gains and losses on AFS securities are included in Accumulated other comprehensive income (loss) (“AOCI”).

Under US GAAP, the Company has elected the fair value option for CLO equity and ABS residual interests. Changes in fair value are recognized as Investment related (losses) gains on the Statements of income (loss).

The Company invests in a combination of both public and private high quality diversified fixed income securities, asset backed securities, loans and limited partnerships seeking to generate preserving flexibility around credit, asset liability management and the liquidity profile. The Company’s investment strategy seeks to achieve risk-adjusted returns through management of the investment portfolio against the liability durations.

The tables below for net investment income and net investment gains and losses are presented in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”) basis.

Net Investment Income

(U.S. dollars In thousands)	December 31, 2023	December 31, 2022
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)
Net Investment Income	$ 994,497	$ 550,563

Net Investment Gains and Losses

(U.S. dollars In thousands)	**December 31, 2023**	**December 31, 2022**
AFS Securities		
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)
Equity Securities		
Net realized gains (losses)	-	-
Net change in unrealized gains (losses)	3,856	390
Funds withheld at interest		
Net realized gains (losses)	(446,394)	(503,118)
Net change in unrealized gains (losses)	746,901	(1,713,120)
Other Investments		
Net realized gains (losses)	2,187	-
Net change in unrealized gains (losses)	18,415	-
Cash and Cash Equivalents		
Net realized gains (losses)	(8)	-
Net change in unrealized gains (losses)	55	-
Investment related gains (losses)	$ 330,316	$ (2,226,508)

Funds Withheld at Interest

FWH at interest represents a receivable for amounts contractually withheld by ceding companies in accordance with FWH coinsurance and modified coinsurance reinsurance agreements in which the Company is the reinsurer. The balance is equal to those assets which are withheld and legally owned by the ceding company. The assets are set equal to the regulatory reserve requirement of the cedent.

Allowance for Credit Losses

The Company adopted the Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses ("CECL") standard on January 1, 2023 on a prospective basis. The CECL model requires the immediate recognition of estimated expected credit losses over the life of the financial instrument. For the years ended December 31, 2023 and 2022, the Company recognized credit losses of $4.55 million and $0, respectively on a Bermuda Statutory basis.

Material Income & Expenses for the Reporting Period

The Company's primary source of revenue is investment income. The Company's major expenses include interest credited to policyholders, policy maintenance, and personnel expenses.

viii. Any other Material information

None.

3.0 Governance Structure

Martello Re is committed to complying with standards of corporate governance and considers good corporate governance practices essential to sustainable growth. It is the Company's policy to comply with all applicable laws and government regulations in all countries where the Company operates. The Company has established a corporate governance framework designed to support its core values of integrity and transparency.

a. Board and Senior Executive

i. Board and Senior Executive structure, roles, responsibilities, and segregation of responsibilities.

The Board of Directors ("the Board") is ultimately responsible for the sound and prudent management of the Company. The Board is responsible for:

(i) setting and reviewing appropriate strategies and policies, including succession planning and Board renewal;

(ii) ensuring corporate governance policies and practices are developed and applied in a prudent manner;

(iii) reviewing and monitoring managerial performance

(iv) determining acceptable levels of risk;

(v) providing suitable prudential oversight of the Company's risk management and internal controls framework,

(vi) adopting a risk culture that encourages behaviour and conduct aligned with the Company risk appetite

(vii) Periodic self-assessment of the effectiveness of the Board and its Committees

The Board consists of 7 Directors: 6 non-executive (other) and 1 executive. All Board members are expected and required to:

(i) Act with honesty and integrity, and avoiding violations of the Company's Code of Conduct for Directors;

(ii) Exercise due care and diligence;

(iii) Act in the best interests of the Company and its clients; and

(iv) Exercise independent judgment and objectivity in their decision making;

The Board delegates authority to 6 committees to assist it in discharging its responsibilities. Each committee has a Board approved charter outlining its purpose, quorum requirements, delegated responsibilities, meeting and reporting frequency. The 6 committees are:

- Audit Committee: The Audit Committee is responsible for overseeing the integrity of the Company's financial statements and financial reporting processes, its system of internal controls and the audit process, including internal audit and the performance, qualification, and independence of the Company's independent auditor.

- Compensation Committee: The Compensation Committee is responsible for ensuring that compensation is aligned with the Company's strategic objectives, encourages sound risk management, and serves to attract, retain, and develop exceptional talent.
- Executive Committee: The Executive Committee is responsible for overseeing the Company's strategy and ensuring appropriate governance and oversight.,
- Risk Committee: The Risk Committee is responsible for the development, implementation, and oversight of the Company's enterprise risk management framework.,
- Investment Committee: The Investment Committee is responsible for overseeing the Company's investment strategy, investment performance, and asset liability matching.
- Transaction Committee: The Transaction Committee is responsible for monitoring new business pricing, reviewing and/or approving when appropriate large and/or one-off transactions, evaluating new flow reinsurance agreements, and reviewing and authorizing any requests to deviate from standard pricing parameters approved by the Board.

The Board delegates authority and responsibilities to certain individuals within the Company's management team to assist it in discharging its responsibilities. The Company established an Executive Leadership Team ("ELT") to oversee strategy execution and day to day operations. The ELT consists of:

- Chief Executive Officer
- Chief Actuary
- Chief Governance, Risk, and Compliance Officer
- Chief Strategy and Implementation Officer
- Chief Investment Officer
- Chief Financial Officer

ii. Remuneration policy and practices and performance-based criteria governing the board, senior executives and employees.

The Compensation Committee oversees the Company's remuneration policy which provides a framework around which contractual terms and compensation are set, reviewed, and managed. The Committee delegates decisions regarding remuneration for non-executive employees to the ELT. Key principles governing the remuneration policy are: incentivize employees to deliver the Company's strategy to the best of their abilities and in a way which creates sustained value; attract and retain talented, high caliber, experienced and ambitious individuals; and align total compensation to company performance with a focus on the long-term interests of the Company and its stakeholders.

Non-executive Board members receive no compensation.

iii. Supplementary pension or early retirement schemes for members, the board and senior executives.

All employees, including senior executives, are provided with pension benefits. Pension benefits vary dependent on residency, in accordance with jurisdictional employment laws. The Company does not have any early retirement schemes, nor does it provide pension benefits to its non-executive Directors.

iv. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executive.

The Company has investment management agreements with Barings and Centerbridge to support the Company's investment management and asset allocation strategy.

On September 1, 2022 the Company entered into a Services and Expense Agreement with Martello Re Services Company LLC ("ServiceCo").

b. Fitness and Propriety Requirements

i. Fit and proper process in assessing the board and senior executives.

The Company has a hiring and vetting process which includes recruitment and interviewing requirements to confirm fitness and propriety for the relevant role. Board members are appointed based on an individual's expertise and experience. Senior executives are interviewed and selected by the Board.

ii. Professional qualifications, skills and expertise of the board and senior executives to carry out their functions.

The Company Board members are:

Taylor Bodman, Brown Brothers Harriman

A member of Brown Brothers Harriman's (BBH) Executive Committee, Taylor is BBH's Chief Information Officer, responsible for the firm's global IT development, operations, and security. Since joining BBH in 1983, Taylor has held executive positions in International Banking, Treasury (Head), Operations (Head), BBH Infomediary (CEO), Human Resources (Head), and Investor Services (Head, "Asia"). He has been a Partner of the firm since 1999. Over a 40-year career, Taylor has served as a Director or Trustee of more than 15 for-profit companies and not-for-profit organizations, with Committee leadership roles spanning: Chairman, Executive, Strategic Planning, Finance, Governance, Development, and Audit.

Taylor is a graduate of Princeton University.

Ellen Conlin, MassMutual (Board Chair)

As Chief Legal Officer of the MassMutual Trust Company, Ellen is responsible for overseeing and guiding the achievement of the Company's immediate and long-term objectives. This includes offering comprehensive legal guidance to the Trust Company's investment, fiduciary, and administrative teams, providing counsel on regulatory issues, collaborating with regulatory bodies such as the Office of the Comptroller of the Currency (OCC), and ensuring productive board meetings and adherence to corporate governance standards.

In addition to her position at MassMutual Trust Company, Ellen also serves as Chair of the Board of Martello Re, a Class E Bermuda-based reinsurer established in 2021 by MassMutual, Centerbridge Partners, Brown Brothers Harriman, and other respected institutional investors and family offices.

Prior to supporting the Trust Company, Ellen served as Vice President, Inforce Strategic Portfolio Management, reporting to MassMutual's CFO. In this role, Ellen led a team of program owners responsible for the implementation of business initiatives resulting in the achievement of a sustained run rate of over $100 million of Pre-Tax Operating Income. Ellen has effectively led key initiatives in business development and transition. She played a crucial role in establishing Martello Re and facilitated the divestiture of MassMutual's retirement plans business to Empower through a reinsurance transaction, resulting in a ceding commission of $2.35 billion.

Before joining the Finance Organization, Ellen spent over 15 years as a senior lawyer in MassMutual's Product and Operations legal team. She provided advice on a range of product development, regulatory and compliance issues impacting the insurance industry and served as MassMutual's primary reinsurance lawyer. Ellen led the legal team that achieved successful regulatory outcomes for MassMutual with its multi-state unclaimed property investigations. She served as lead insurance counsel for the direct-to-consumer market assisting with the launch of Haven Life. Ellen is the past chair of the American Council of Life Insurers' (ACLI) Unclaimed Property Working Group and is an active participant in the ACLI's Reinsurance Committee.

Ellen has previously held positions at WellPoint Health Networks and Hartford Life Ins. Co., where she provided counsel on product development, reinsurance, and regulatory issues. She received her Juris Doctorate from Western New England University School of Law and her Bachelor of Arts degree from Wheaton College.

Eric Hoffman, Centerbridge Partners

Eric joined Centerbridge in 2010, is currently a Senior Managing Director at the firm. He focuses on investments in the financial sector. Prior to joining Centerbridge, Eric was an Analyst at The Blackstone Group L.P. Eric serves on the Boards of Directors of Fairstone Bank of Canada, First National Bank of America (and affiliated entities), Forbright Bank (and affiliated entities), HCI Group, Inc., and Pie Insurance.

Eric graduated summa sum laude from The Wharton School of the University of Pennsylvania.

Matthew Kabaker, Centerbridge Partners

Matt joined Centerbridge in 2011 and co-heads the Firm's global private equity investing activities. He also serves as a member of the Firm's Management Committee and focuses on investments in the Financial Services sector.

Prior to joining Centerbridge, Matt was a Senior Advisor to former U.S. Treasury Secretary Timothy Geithner and the Deputy Assistant Secretary for Capital Markets at the U.S. Treasury Department in Washington, D.C. At the U.S. Treasury Department, in addition to establishing the Office of Capital Markets, Matt was active in efforts to design the policy response to the 2008 financial crisis; design and implement the Dodd-Frank financial reforms; and address housing finance reform, including government-sponsored entities. He also served on the Treasury's Financial Stability Policy Council and Housing Policy Council.

Prior to joining the U.S. Treasury Department in 2008, Matt was a Managing Director at The Blackstone Group L.P., where he worked in that firm's private equity business in New York and London for more than 10 years. While at Blackstone, he focused on investments in the financial services and retail sectors.

Matt serves on the Board of Directors of Canopius Group Limited affiliated entities, Fairstone Bank of Canada, Martello Re and Title Resources Guaranty Company.

Eric Lloyd, Barings

Eric Lloyd is President of Barings. He leads a diverse set of organizations, spanning cross-asset investment, sales and marketing, business and product development, and research. He also works closely with all the investment teams. Prior to his current role, Eric served as Head of Private Assets. Eric serves as Chairman of the Board and Chief Executive Officer of Barings BDC, Inc. (NYSE: BBDC). Eric is an Executive Sponsor of the Out & Allies employee resource group.

Eric has worked in the industry since 1990. Prior to joining Barings in 2013, he served as Head of Market and Institutional Risk for Wells Fargo, was on the company's Management Committee and was a member of the Board of Directors of Wells Fargo Securities. Before the acquisition of Wachovia, Eric worked in Wachovia's Global Markets Investment Banking division and served on the division's Operating Committee, where he held various leadership positions, including Head of Wachovia's Global Leveraged Finance Group.

Eric holds a B.S. in Finance from the University of Virginia.

Jeffrey Meskin, Brown Brothers Harriman

Jeffrey Meskin is a Partner and the Head of Private Banking and Investment Management. He is a member of BBH's Executive Committee and Finance Committee.

As a Co-Manager and Principal of BBH Capital Partners, Jeff is also actively involved in sourcing, investment evaluation, transaction execution and providing post-investment value-added oversight to portfolio companies, with a particular emphasis on business development and transaction execution.

Jeff serves on the board of trustees at Memphis University School. He received his bachelor's degree from the University of Wisconsin with honors and received a J.D. from Fordham University School of Law.

Martello Re Executive Leadership Team

Dennis Ho, CEO

Dennis is Chief Executive Officer of Martello Re Limited and a member of the Company's Board of Directors.

A life actuary by training, Dennis brings over two decades of insurance experience to Martello Re and has held senior roles at Longitude RE, BlackRock, Deutsche Bank, MetLife, and CIGNA. Previously, Dennis worked with Barings and Willis Towers Watson to successfully stand-up Longitude RE, a Bermuda-based life reinsurer focused on reinsuring group annuities sold to US corporations. Prior to Longitude RE, Dennis was the head of North America Insurance Strategy for BlackRock's Client Solutions team where he led the build out of BlackRock's advisory business tasked with helping insurers optimize asset allocation, better manage risk, and maximize return on capital for their investment portfolios. Prior to BlackRock, Dennis was the head of the Life Insurance Solutions team at Deutsche Bank where he helped build out the business, providing US life insurers with bespoke capital markets and structured financing solutions to help optimize their capital structure and better manage risk. Prior to Deutsche Bank, Dennis held various actuarial roles at MetLife and CIGNA. Dennis' experience also includes successfully launching his own "Insurtech" company to distribute insurance and annuity products directly to consumers online.

Dennis is a graduate of the University of Manitoba with a Bachelor of Commerce in Actuarial Mathematics and is a Fellow of the Society of Actuaries and a CFA Charter holder.

Michael Baumstein, Chief Financial Officer & Chief Investment Officer

As Chief Financial Officer and Chief Investment Officer, Michael is responsible for oversight of both the Finance team and the Investment team.

Prior to joining Martello Re Michael was Head of the Private Equity & Real Assets business at Barings, a subsidiary of MassMutual, where he was responsible for all aspects of the business that managed funds and separate accounts. In addition, he also led both the Financial Services and Energy Infrastructure investment teams and chaired the Investment

Committee. Michael has worked in the industry since 1993 and has extensive experience with insurance companies, financial institutions and investing. Prior to joining Barings in 2013, Michael was Executive Vice President, Chief Investment Officer and Head of Corporate Strategy at Scottish Re Group Limited. Michael joined Scottish Re in 2004 and at various times his responsibilities included investments, strategy, M&A, capital management, structured reinsurance, rating agency relations and investor relations. Before Scottish Re, he was an investment banker, with a specialty in financial institutions corporate finance and mergers and acquisitions at Bear Stearns and Prudential Securities. He also held finance and strategy positions at PricewaterhouseCoopers and Scudder Kemper Investments.

Michael is a graduate of Rutgers University and received an M.B.A. from Columbia University.

Justin Mosbo, Chief Actuary

As Chief Actuary for Martello Re, Justin is responsible for building and leading the actuarial function to support the execution of the Company's strategy. Prior to joining Martello Re, Justin was Chief Actuary for five years at a mid-sized Private Equity backed U.S. life and annuity insurer where he also previously led the company's transactions team covering insurance M&A and reinsurance transactions.

Prior to this, Justin served as Vice President for a large insurer/reinsurer where he focused on the origination, structuring and underwriting of life and annuity block reinsurance transactions. Prior to this role he served as Senior Manager in a Big 4 accounting firm's actuarial practice where he helped clients with actuarial due diligence, risk analysis, valuation and purchase accounting of life and annuity mergers and acquisitions.

Justin previously spent seven years at Transamerica focusing on ALM and economic capital model development and spent two years executing internal reinsurance transactions as Chief Risk Officer of a large Bermuda domiciled affiliate reinsurer.

Justine is a graduate of Luther College with a B.S in Math/Statistics and is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, a CFA charter holder and holds the Professional Risk Manager certification.

Virginia Perinelli, Chief Strategy and Implementation Officer

As Chief Strategy and Implementation Officer, Virginia Perinelli is responsible for driving Martello's corporate strategy and overseeing the buildout of its core infrastructure and operations Virginia brings more than 15 years of buy and sell side experience spanning across capital markets, operations, and relationship management functions. Prior to joining Martello, Virginia was a Director on the Barings Strategic Relationship Management team, where she was responsible for banking and third-party administrator relationship management and supported the firm's strategic initiatives including the launch of Martello.

Prior to joining Barings, Virginia spent over 10 years at Bank of America Merrill Lynch in various roles throughout the Global Markets organization including roles in Senior

Relationship Management, Global Credit and Special Situations Trading COO, Fixed Income Emerging Markets Sales, and Operations.

Virginia is a graduate of New York University and received an M.B.A. from Columbia University.

Alana Rathbun, Chief Governance, Risk and Compliance Officer

As Chief Governance, Risk, and Compliance Officer, Alana is responsible for building out a world-class enterprise risk management function encompassing key components of corporate governance and compliance. She has more than 25 years of experience in actuarial and risk management functions across various lines of business. Previously, Alana was the Chief Risk Officer for a Bermuda life & annuity reinsurer where she oversaw the risk management function of the company, including regulatory and capital reporting.

Prior to that role, Alana was head of product and pricing for a global life insurance company where she led the product strategy to provide insurance solutions for global HNW individuals and was recognized as the product subject matter expert for internal and external partners, strengthening the company's relationships with brokers and private bankers. In her career, Alana has worked closely with many functional areas and has led actuarial, operations and distribution teams across multiple geographical locations. Alana is keen on process and enjoys coming up with innovative solutions for unique challenges.

Alana holds a bachelor's in mathematics in actuarial science from the University of Waterloo (Ontario, Canada) and is a Fellow of both the Society of Actuaries and Canadian Institute of Actuaries.

c. Risk Management and Solvency Self-Assessment

i. <u>Risk management process and procedures to effectively identify, measure, manage, and report on risk exposures.</u>

Martello Re recognizes that effective risk management is critical to the overall long-term financial viability of the Company. The Company's ERM framework seeks to ensure that all applicable risks are identified with appropriate measuring, managing, monitoring, and reporting on risks that arise in the course of business activities. A key component to the ERM framework is integrating risk management into daily business activities and strategic planning such that the Company has a regular, ongoing assessment of its solvency needs. This is achieved through active risk monitoring and periodic stress testing.

The Company has adopted the Three Lines of Defence ("LOD") model to provide a consistent, transparent, and clearly documented allocation of accountability and segregation of functional responsibilities.

Setting risk appetite is essential in identifying and managing associated risks. As such, the Company has developed a Risk Appetite Statement ("RAS") that defines the amount and types of risks that Martello Re is willing to accept to achieve business objectives. The RAS is annually reviewed and approved by the Board. The risk appetite stems from Martello Re's business strategy and objectives, which are aligned with the Company's vision and values. The risk appetite seeks to balance the various needs, expectations, and perspectives of the Company's key stakeholders.

ii. How the risk management and solvency self-assessment systems are implemented and integrated into the insurer's operations; including strategic planning and organizational and decision making process.

The Company's Chief Governance, Risk, and Compliance Officer ("CGRCO") heads the risk management function. The CGRCO reports directly to the CEO and has a direct line to the Board. The CGRCO regularly provides reports to the Board that summarize the Company's risk profile, including changes in risk trends and emerging risks. Any risk changes in breach of tolerance thresholds are reported to the Board as soon as practicable.

The risk management function is further supported by other key roles within the Company. The CGRCO is an active member in various other committees and strategy sessions which play pivotal roles in the Company's strategic decision-making process including but not limited to the Strategic Asset Allocation Committee (SAAC).

iii. The relationship between the solvency self-assessment, solvency needs, and capital and risk management systems.

The Company's risk management framework is implemented and integrated into its operations through the systems, processes, procedures, and controls that are developed and documented by management. Information from the risk management process is used to complete the solvency self-assessment ("SSA") which is used to determine the quantity and quality of capital required to support the Company's strategy. The SSA report provides a comprehensive description of the Company's material risk exposures and activities to manage those risks. The outcomes of the SSA report are an input into the annual review of the RAS and ERM framework.

iv. The solvency self-assessment approval process including the level of oversight and independent verification by the board and senior executives.

The Board has oversight of the ERM framework, including SSA, and approves the risk appetite statement. Day-to-day operational management is delegated to the Company's senior executives. The Chief Governance, Risk & Compliance Officer is responsible for preparing the SSA report, with the report ultimately approved by the Board.

d. Internal Controls

i. Internal Control System

Management is responsible for establishing and ensuring the operating effectiveness of internal controls. Controls have been designed to provide reasonable assurance to management and the Board regarding data and other financial information. The Company continues to evaluate and enhance its internal control structure. The evaluation of the design and operating effectiveness of internal controls is supported by internal audit.

ii. Compliance Function

The Compliance function provides additional compliance and control support by monitoring and evaluating the Company's compliance with jurisdictional laws and regulations and related internal policies and procedures. The compliance function also promotes and sustains a corporate culture of compliance and integrity. The Chief Governance, Risk & Compliance Officer has the responsibility to monitor regulatory changes and compliance with applicable existing laws and adherence to the Company's Code of Conduct. All material violations are reported to the Board.

e. Internal Audit

i. Internal Audit Function

Martello Re has engaged an external consultant to perform Internal Audit services. These Internal Audit services provide assurance that key business risks have been adequately identified and managed appropriately and that the Company's system of internal control is properly designed and operating effectively. The Internal Audit consultant has direct access to the Audit Committee. The Audit Committee reviews and approves the Internal Audit plan.

f. Actuarial Function

i. Description of the Function

The Actuarial Function is managed internally by the Chief Actuary. The Actuarial team is involved in valuation, pricing, underwriting, risk management, experience studies and management information. Actuarial balances are reviewed quarterly by Martello Re management and presented to the Audit Committee and the Board.

g. Outsourcing

i. Outsourcing Policy

Procedures for the appointment and dismissal of external parties are documented in the Company's Vendor Risk Management Policy.

ii. Material Intra-Group Outsourcing

On September 1, 2022 the Company entered into a Services and Expense Agreement with Martello Re Services Company LLC ("ServiceCo").

h. Any other material information

No additional material information to report.

4.0 Risk Profile

a. Material risks the insurer is exposed to, including how the risks are measured and any material changes that have occurred during the reporting period.

The Company's material risks are:

- Market Risk: the risk that the value of future cashflows will fluctuate due to changes or volatility in market prices. Market risk that Martello Re is exposed to includes equity risk and interest rate risk. The Company is currently not exposed to foreign currency risk as all assets and liabilities are US dollar denominated. Market risk is one of the primary risks for the Company.
- Credit Risk: the possibility of loss resulting from a borrower's failure to meet contractual obligations. Martello Re is subject to credit risk in connection with issuers of securities held in the investment portfolio. Events that result in defaults, impairments or downgrades of securities will cause the Company to record realized or unrealized losses and may cause an increase in the assumptions used for asset default, thereby adversely affecting earnings.
- Liquidity Risk: the threat the Company will not be able to fund all cash outflow commitments when they become due. This includes the risk of being forced to sell assets at depressed value which results in realized losses on sale.
- Insurance Risk: the risk arising from uncertainty in product performance due to actual experience emerging differently than expected with respect to policyholder behavior, mortality, longevity, and expenses. Uncertainty in policyholder behavior can arise from several sources including unexpected events in a policyholder's life circumstances, the general level of economic activity, changes in the financial and capital markets, changes in pricing or availability of current products, and the introduction of new products. The normal level of uncertainty in future cash flows affected by policyholder behavior can be worsened during times of economic turbulence or at key option exercise points in the life of a contract.
- Operational Risk: the risk of loss resulting from inadequate, inappropriate, or failed internal processes, people and systems. The risk can present itself as either financial or non-financial, such as reputational. Operational risk is present in all our business activities and encompasses a broad range of risks. Operational risk is embedded in the processes used to manage other risks, and thus, if not managed effectively, operational risk can impact our ability to manage other risks.

b. How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods

Martello Re achieves mitigation of its material risks through a number of procedures and processes, the most significant of which are noted below:

- Standardized underwriting tools and analytics used across all transactions, with clearly defined targets including the selection of stable asset-intensive liabilities and Transaction Committee approval required to enter into any transactions.
- Regular monitoring of actual versus expected claims and expenses.
- Recruitment and investment in the skills and modelling capabilities which understand Insurance Risk.
- Liquidity framework requiring forward-looking assessment of liquidity requirements and conservative management in aligning asset and liability cash flows.
- Investment Risk policy that requires close duration matching of asset and liability and sets prudent restrictions on investment in illiquid assets.
- Detailed Investment guidelines which specify asset quality, asset types, concentration limits and target duration.
- Vendor Risk Management policy requires risk assessment of all material third party service providers.
- Regular open and transparent dialogue with our regulators to ensure compliance with regulatory and legal requirements.

c. Material risk concentrations.

Martello Re has policies and procedures governing risk concentrations in relation to counterparties, credit quality, sectors, and geographical locations. Adherence to these policies is monitored by the Chief Investment Officer with periodic reporting to the Chief Governance, Risk and Compliance Officer and the Board. Liability concentrations are managed through diversification of product, policy size and policyholder location.

d. How assets are invested in accordance with the prudent person principle as stated in the Insurance Code of Conduct.

The Company's investment portfolio is managed by the Chief Investment Officer in accordance with the guidelines identified in the Investment Risk Policy which applies the prudent person principle. The Investment Risk Policy is reviewed at least annually.

e. Stress testing and sensitivity analysis to assess material risks, including methods and assumptions used, and the outcomes.

Various stress tests are used to determine the adequacy of capital and liquidity. Stress tests are predominately concentrated on the risks identified in section 4a.

f. Any other material information.

None.

5.0 Solvency Valuation

a. The valuation bases, assumptions and methods used to derive the value of each asset class.

The Company has considered the valuation principles outlined by the BMA's "Guidance Notes for Statutory Reporting Regime" for the reporting period's statutory filing.

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 of 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 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 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 we may adjust if the Company determine 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.

We use 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. We periodically review the assumptions and inputs of third-party commercial pricing services through internal valuation price variance reviews, comparisons to internal pricing models, back testing to recent trades, or monitoring trading volumes.

Fair Value Valuation Methods – The Company used 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 classified as Level 2 assets. The third-party commercial pricing services utilized a variety of market observable information in the fair valuation techniques, including benchmark yields, trading activity, credit quality, issuer spreads, bids, offers and other reference data. This category typically includes corporate bonds, US agency and government guaranteed securities, CLO, ABS, CMBS and RMBS.

The Company fair values 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 is classified as Level 3 in 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 has fair valued privately placed fixed maturity securities based on the credit quality and duration of comparable marketable securities, i.e., securities with similar characteristics issued by another issuer. In some instances, The Company employed 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 our evaluation of the borrower's ability to compete in its relevant market are also being 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 are classified as Level 1. Other private equity securities or securities that are not traded or actively traded on exchange are fair 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 include 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 these assets and liabilities.

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 which is measured at fair value and is classified as Level 3 as unobservable inputs are used to measure the embedded derivative.

b. The valuation bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate.

The Company reports its best estimate technical provisions using the valuation principles detailed in the BMA's published "Guidance Notes for Commercial Insurers and Groups Statutory Reporting Regime 30 Nov 2016". The technical provisions include best estimate liabilities ("BEL") and risk margin.

The scenario-based approach ("SBA") is used to determine the BEL for all product lines. The SBA allows the Company to reflect its projected asset portfolio performance and cash flow matching in the discounting of best estimate liability cash flows. Assets and liabilities are projected under the best estimate scenario and eight prescribed interest rate stress scenarios. The reported BEL reflects the most severe of all interest rate stress scenarios.

The following interest rate related dynamics are captured in the models and are critical to properly evaluate the liabilities under the scenario-based approach:

- Contract-holder behavior risk is captured in the models using a dynamic surrender formula.
- The risk of profit spread compression where the Company is unable to reduce credited rates as portfolio yield rates reduce is captured by explicitly modelling contractually guaranteed credited rates.
- Investment portfolio convexity is captured by explicitly modelling all call provisions, mortgage, and structured security cash flow sensitivities.

In accordance with paragraph 258E of the BMA Guidance Notes, up to 10% of the assets utilized in the BEL calculation are asset classes that may be acceptable on a limited basis.

The technical provisions include a risk margin to reflect the uncertainty associated with the liability cash flows included in the BEL calculation. The risk margin is calculated using the Cost-of-Capital approach as detailed in the Guidance Notes. The cost-of-capital rate used in the calculation is 6%. The risk-free discount rates used to discount projected capital costs are prescribed quarterly by the BMA.

The best estimate technical provisions as of December 31, 2023, are included in the table below:

Martello Re December 31, 2023 ($millions)	
Best Estimate Liabilities	17,473
Risk Margin	46
Technical Provisions	**17,519**

c. Description of recoverables from reinsurance contracts.

Not applicable.

d. The valuation bases, assumptions and methods used to derive the value of other liabilities.

The Company follows the valuation principles outlined by the BMA's "Guidance Notes for Statutory Reporting Regime" for reporting all other liabilities. All other liabilities are valued on a fair value basis.

e. Any other material information.

Not applicable.

6.0 Capital Management

a. Eligible Capital

i. Capital Management Policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period.

The purpose of the capital management framework is to ensure the Company is sufficiently capitalized to meet its financial obligations in all plausible scenarios, while providing shareholders an appropriate risk-adjusted return on capital deployed.

Management reviews the target capital level annually by assessing capital levels versus the economic risk profile of the business, including stress tests and sensitivities. Management takes into consideration regulatory requirements, contractual requirements in reinsurance treaties, any other contractual requirements, and potential rating agency implications. Any change to the target capital level is approved by the Board.

The Company monitors the capital ratio throughout the quarter. If a capital shortfall is anticipated, the Company estimates the amount of capital necessary to achieve the target capital level. Available sources of capital are analysed to determine the most appropriate source of capital given the Company's capital profile and debt metrics. The appropriate source of capital is then contributed.

ii. Eligible Capital categorized by tiers in accordance with the Eligible Capital Rules

To enable the BMA to better assess the quality of the insurer's capital resources, a Class E insurer is required to disclose the makeup of its capital in accordance with the 3-tiered capital system. Highest quality capital is classified as Tier 1 Capital, less quality capital is classified as Tier 2 or Tier 3. The Act requires that Class E insurers have Tier 1 Capital equal to or greater than 50% of the value of its enhanced capital requirement ("ECR") and Tier 3 Capital of no more than 17.65% of the aggregate of its Tier 1 Capital and Tier 2 Capital.

As of December 31, 2023, $221 million of the Company's eligible capital was Tier 2 capital, with the remaining all Tier 1 capital. The Company had no Tier 3 capital as of December 31, 2023.

iii. Eligible Capital categories by tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement ("ECR") and the Minimum Margin of Solvency ("MSM") requirements of the Act

As of December 31, 2023, the Company met the ECR and MSM requirements with available Tier 1 capital. The Company meets the MSM and ECR requirements as of December 31, 2023.

iv. Confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules

Not applicable.

v. Identification of any factors affecting encumbrances on the availability and transferability of capital to meet the ECR.

Martello Re has entered into certain reinsurance contracts with cedants which include collateralization requirements. These requirements ensure assets are held in trust for the benefit of cedants and are released to the Company when funding obligations are met. Interest earned on assets in the trust accounts accrues to the Company's benefit.

vi. Identification of ancillary capital instruments that have been approved by the Authority

Not applicable.

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

(U.S. dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Shareholder's Equity - U.S. GAAP	$ 386,690	$ (481,655)
Record fixed income securities and cash equivalents at amortized cos	11,114	38,062
Fund withheld at interest - Remove effect of DIG B36	966,219	1,713,120
Record provision for expected credit losses (CECL)	(4,552)	-
Recognize surplus note as other fixed capital	221,000	221,000
Non-admit fixed assets	(580)	(62)
Reverse valuation allowance on deferred tax asset	67,947	39,613
Remove the change in discount rate impact on policy benefit reserve	7,847	-
Statutory Capital and Surplus - BDA STAT	$ 1,655,685	$ 1,530,077

b. Regulatory Capital Requirements

i. Identification of the amount of the ECR and MSM at the end of the reporting period.

Requirement	**Amount** (millions)
Statutory Capital (EBS)	$1,863
MSM	$316
Transition ECR	$720
ECR Ratio	259%

ii. Identification of any non-compliance with the MSM and the ECR

None.

iii. Amount and Circumstances surrounding the non-compliance, remedial measures taken and their effectiveness.

Not applicable.

iv. Where the non-compliance has not been resolved, a description of the amount of non-compliance at the end of the reporting period.

Not applicable.

c. Approved Internal Capital Model used to derive the ECR

Not applicable.

7.0 Subsequent Events

The Company evaluated all events and transactions through April 25, 2024, the date the accompanying financial statements were available to be issued, that would merit recognition or disclosures in the financial statements and determined there were none, except as noted below.

On March 28, 2024, the Company completed a FWH settlement of $254.74 million.

8.0 Declaration

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

____

Dennis Ho
Director and Chief Executive Officer

____

Justin Mosbo
Chief Actuary