Audited Financial Statements

Martello Re Limited
For the period July 21, 2021 to December 31, 2021
With Report of Independent Auditors

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April 28, 2022

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 sheet as of December 31, 2021 and the related statement of income, statement of changes in shareholder’s equity and statement of cash flows for the period from July 21, 2021 to December 31, 2021, 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, 2021 and the results of its operations and its cash flows for the period from July 21, 2021 to December 31, 2021 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

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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 Sheet
As at December 31, 2021
(expressed in U.S dollars)

		2021
Assets		
Cash and cash equivalents	$	306,295,083
Net deferred tax asset		2,344,582
Total assets	$	**308,639,665**
Liabilities and Shareholder's Equity		
Liabilities		
Accounts payable	$	11,164,510
Total liabilities		**11,164,510**
Shareholder's Equity:		
Common stock; par value $1 per share; 250,000 shares authorized and issued		250,000
Additional paid-in capital		306,045,200
Retained (deficit)		(8,820,045)
Total Shareholder's Equity		**297,475,155**
Total Liabilities and Shareholder's Equity	$	**308,639,665**

Statement of Income
For the period July 21, 2021 to December 31, 2021
(expressed in U.S dollars)

		2021
Revenues:		
Net investment income	$	48
Total revenue		**48**
Expenses:		
Operating expenses		11,164,675
Total expenses		**11,164,675**
Net (loss) before income tax benefit		**(11,164,627)**
Income tax benefit		2,344,582
Net (loss)	$	**(8,820,045)**

Statement of Changes in Shareholder’s Equity
For the period July 21, 2021 to December 31, 2021
(expressed in U.S dollars)

		Common Stock	Additional paid-in-capital	Retained (deficit)	Total
Balance July 21, 2021	**$**	**-**	**-**	**-**	**-**
Common stock $1 par value issued		250,000	-	-	250,000
Capital contributions		-	306,045,200	-	306,045,200
Net (loss)		-	-	(8,820,045)	(8,820,045)
Balance December 31, 2021	**$**	**250,000**	**306,045,200**	**(8,820,045)**	**297,475,155**

The accompanying notes are integral part of these financial statements.

Martello Re Limited

Statement of Cash Flows

For the period July 21, 2021 to December 31, 2021

(expressed in U.S dollars)

		2021
Cash flows from operating activities		
Net (loss)	$	(8,820,045)
Adjustments for non-cash items:		
Net deferred tax asset		(2,344,582)
Changes in operating assets and liabilities:		
Accounts payable		11,164,510
Net cash used in operating activities		**(117)**
Cash flows from financing activities		
Common stock issued		250,000
Capital contributions		306,045,200
Net cash provided by financing activities		**306,295,200**
Change in cash and cash equivalents		**306,295,083**
Cash and cash equivalents - beginning of period		-
Cash and cash equivalents - end of period	**$**	**306,295,083**

The accompanying notes are integral part of these financial statements.

1. Organization and corporate structure

Martello Re Limited ("the Company"), 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, 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 Martello Re Holdings Limited LLC, which is ultimately held by long-term investors who have committed capital to Martello Re LP.

The Company has not entered into any reinsurance agreements with cedants in 2021. Refer to subsequent events note for details of reinsurance agreements with cedants entered into the first quarter of 2022.

2. Summary of significant accounting policies

Basis of preparation

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 and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Fair value

Authoritative guidance (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 (Level 1) and the lowest priority to unobservable inputs (Level 3). In accordance with the authoritative guidance for fair value measurements and disclosures, assets and liabilities recorded at fair value on the balance sheet are categorized as Level 1, 2 and 3.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices in markets that are not active or valuation techniques that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Cash and cash equivalents

Cash and cash equivalents include liquid short term money-market funds held.

Income Taxes

The Company accounts for income taxes under the provisions of Accounting Standards Codification - Income Taxes ("ASC 740"). 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 be 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.

Recent accounting pronouncements

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 liability for future policy benefits and use of 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) enhances disclosures. As per LDTI, the effective date of this standard is fiscal years beginning after December 15, 2024. Certain provisions of the update are required to be adopted on a fully retrospective basis, whilst others may be adopted on a modified retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

Financial Instruments – Credit Losses

In June 2016, the FASB issued new guidance on the measurement of credit losses on financial instruments, including reinsurance recoverables. This guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions and reasonable and supported forecasts. The new guidance also requires that a credit impairment on a debt security be recognized as an allowance going forward, such that improvements in expected future cash flows after an impairment will no longer be reflected as a prospective yield adjustment through net investment income, but as a reversal of the previous impairment that i recognized immediately. In addition the guidance requires enhanced disclosures. The effective date of this standard is fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements.

Income Taxes – Simplifying the Accounting for Income Taxes

In December 2019, the amendment in this update simplifies the accounting for income taxes by eliminating certain exceptions to the tax accounting guidance related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities related to foreign investment ownership changes. It also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating consolidated income taxes to separate financial statements of entities not subject to income tax. The effective date of this standard is fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the financial statements which is not expected to have a material effect.

3. Fair value

The fair value of cash and cash equivalents are as reported in the Company's financial statements. Cash and cash equivalents are categorized as Level 1 in the fair value hierarchy.

4. Taxation

Under current Bermuda law, no taxes are levied in Bermuda on the Company's receipts, dividends, capital gains or net profit. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

The Company intends to file 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 year end 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 intends to make 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 evaluates 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 it is more likely than not that the deferred tax asset will be realized.

As at December 31, 2021, the Company has $NIL income tax payable and has recognized a deferred tax asset of $2.3 million relating to IRC Section 195 start-up costs. Operating expenses of $11.1 million were incurred during the startup phase of the Company in 2021. The Company has evaluated and determined that there are no uncertain tax positions as at December 31, 2021. The Company expects sufficient future income to realize the deferred tax asset.

5. Common stock and additional capital contributions

Authorized and Issued share capital

The authorized and issued share capital of the Company is $250,000 divided into 250,000 ordinary shares, par value $1 each.

Additional paid-in capital

During the period ended December 31, 2021 the Company received $306.0 million additional capital contributions from its shareholder.

6. 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 Act . Under the Act, the Company is prohibited from declaring or 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 million (ii) 2% of the first $500 million of assets plus 1.5% of assets above $500 million or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the BMA.

As at December 31, 2021, the Company is required to maintain an estimated minimum statutory capital and surplus of $4.6 million. The actual statutory capital and surplus, as determined using statutory accounting principles is $297.5 million as at December 31, 2021. As at December 31, 2021, the Company's ECR and target capital level of 120% of ECR have both been met.

7. Subsequent events

In February, 2022, the Company executed a coinsurance funds withheld quota share reinsurance agreement covering $14.2 billion of in force fixed annuity and fixed indexed annuity policies issued by a Massachusetts Mutual Life Insurance Company subsidiary which continues to service all policies reinsured. Concurrently an additional paid in capital contribution of $685.8 million was received by the Company from its shareholder.

In March, 2022, the Company executed a coinsurance funds withheld quota share agreement covering new business flow on multi-year guaranteed annuities from Massachusetts Mutual Life Insurance Company.

The Company has evaluated the effects of events subsequent to December 31, 2021 for recognition and disclosure, through to April 26, 2022, which is the date the financial statements were available to be issued.