

**Newport Re Ltd.**  
(Incorporated in Bermuda)

Financial Statements  
**For the years ended December 31, 2021 and 2020**  
(expressed in U.S. dollars)



March 16, 2022

## Report of Independent Auditors

To the Board of Directors and Shareholders of Newport Re Ltd.

### Opinion

We have audited the accompanying financial statements of Newport Re Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income (loss) and comprehensive income (loss), of changes in shareholders’ 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, 2021 and 2020 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 skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

### **Other Matter**

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 7 on pages 12 to 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

# Newport Re Ltd.

## Balance Sheets

As at December 31, 2021 and 2020

(expressed in U.S. dollars)

	2021	2020
	\$	\$
<b>Assets</b>		
Cash and cash equivalents (note 3)	6,380,974	1,450,354
Restricted cash and cash equivalents (notes 3 & 4)	257,475,955	139,051,036
Premiums receivable	53,087,796	18,922,229
Deferred acquisition costs	1,728,503	1,151,724
Unearned premiums ceded	760,048	-
Due from related parties (note 12)	448,188	2,097,894
Other assets	95,167	143,924
Total assets	319,976,631	162,817,161
<b>Liabilities</b>		
Reserve for losses and loss adjustment expenses (notes 6 & 7)	93,545,814	34,967,410
Unearned premiums	9,434,800	5,660,693
Reinsurance balances payable	3,858,741	1,236,106
Accounts payable and accrued expenses	2,948,321	1,821,190
Total liabilities	109,787,676	43,685,399
<b>Shareholders' equity</b>		
Share capital (note 9)	120,014	120,008
Contributed surplus (note 9)	214,816,354	112,538,874
Retained earnings (accumulated deficit)	(4,747,413)	6,472,880
Total shareholders' equity	210,188,955	119,131,762
Total liabilities and shareholders' equity	319,976,631	162,817,161

The accompanying notes are an integral part of these financial statements.

# Newport Re Ltd.

## Statements of Income (Loss) and Comprehensive Income (Loss) For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

	2021	2020
	\$	\$
<b>Revenues</b>		
Gross premiums written (note 8)	141,668,566	61,614,756
Premiums ceded (note 8)	(3,586,250)	-
Net premiums written (note 8)	138,082,316	61,614,756
Change in net unearned premiums	(3,014,059)	(5,660,694)
Net earned premiums (note 8)	135,068,257	55,954,062
Investment income (note 5)	-	176,726
Total revenues	135,068,257	56,130,788
<b>Expenses</b>		
Losses and loss adjustment expenses (notes 6, 7 & 8)	111,571,388	37,472,715
Other underwriting expenses	31,293,563	11,127,528
General and administrative expenses (note 12)	1,859,776	1,108,978
Net foreign exchange losses (gains)	314,550	(42,387)
Total expenses	145,039,277	49,666,834
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(9,971,020)</b>	<b>6,463,954</b>

The accompanying notes are an integral part of these financial statements.

# Newport Re Ltd.

## Statements of Shareholders' Equity For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

	2021	2020
	\$	\$
<b>Share Capital</b>		
Balance at beginning of year	120,008	120,000
Issuance of share capital	6	8
Balance at end of year	120,014	120,008
<b>Contributed Surplus</b>		
Balance at beginning of year	112,538,874	885,000
Contributions from shareholders	192,018,740	161,906,891
Distributions to shareholders	(89,741,260)	(50,253,017)
Balance at end of year	214,816,354	112,538,874
<b>Retained earnings (accumulated deficit)</b>		
Balance at beginning of year	6,472,880	8,926
Net income (loss) and comprehensive income (loss)	(9,971,020)	6,463,954
Dividends declared and paid	(1,249,273)	-
Balance at end of year	(4,747,413)	6,472,880
<b>Total shareholders' equity</b>	210,188,955	119,131,762

The accompanying notes are an integral part of these financial statements.

**Newport Re Ltd.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2021 and 2020**

(expressed in U.S. dollars)

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Net (loss) income	(9,971,020)	6,463,954
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Changes in:		
Premiums receivable	(34,165,567)	(18,922,229)
Deferred acquisition costs	(576,779)	(1,151,724)
Unearned premium ceded	(760,048)	-
Due from related parties	1,649,706	(2,097,894)
Accrued interest	-	1,117
Other assets	48,757	(142,466)
Reserve for losses and loss adjustment expenses	58,578,404	34,967,410
Unearned premiums	3,774,107	5,660,693
Reinsurance balances payable	2,622,635	1,236,106
Accounts payable and accrued expenses	1,127,131	1,821,190
<b>Net cash provided by operating activities</b>	<b>22,327,326</b>	<b>27,836,157</b>
<b>Cash flows from financing activities</b>		
Issuance of share capital	6	8
Contributions from shareholders	192,018,740	161,906,891
Distributions to shareholders	(89,741,260)	(50,253,017)
Dividends paid	(1,249,273)	-
<b>Net cash provided by financing activities</b>	<b>101,028,213</b>	<b>111,653,882</b>
<b>Net increase in Cash and cash equivalents and Restricted cash and cash equivalents</b>	<b>123,355,539</b>	<b>139,490,039</b>
<b>Cash and cash equivalents and Restricted cash and cash equivalents, beginning of year</b>	<b>140,501,390</b>	<b>1,011,351</b>
<b>Cash and cash equivalents and Restricted cash and cash equivalents, end of year</b>	<b>263,856,929</b>	<b>140,501,390</b>
<b>Reconciliation to Balance Sheets:</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	6,380,974	1,450,354
Restricted cash and cash equivalents	257,475,955	139,051,036
<b>Cash and cash equivalents and Restricted cash and cash equivalents, end of year</b>	<b>263,856,929</b>	<b>140,501,390</b>

The accompanying notes are an integral part of these financial statements.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

#### **1. Description of business**

Newport Re Ltd. (the "Company") is an exempted Company, incorporated under the laws of Bermuda on March 14, 2019. The Company was registered as a segregated accounts company under the Segregated Accounts Companies Act 2000 (the "SAC Act") effective May 3, 2019, and was registered as a Class 3B insurer under the Insurance Act 1978 (Bermuda), amendments thereto and related regulations (the "Insurance Act"), on May 27, 2019. During the year ended December 31, 2021, the Company operated five (2020 – four) segregated accounts (individually, "Segregated Account", and collectively, "Segregated Accounts"). The Segregated Accounts are fully funded and losses incurred in each Segregated Account are limited to the assets available within that Segregated Account.

The Company was established as part of an insurance-linked securities ("ILS") platform that is being managed by the Pacific Investment Management Company LLC (the "Investment Manager").

The Company's sole voting share is held by Conyers Trust Company (Bermuda) Limited as Trustee of the Newport Re Purpose Trust, which is a Bermuda purpose trust. The Company's non-voting common shares are held by the portfolios of PIMCO ILS Series SPC (the "Fund"), a Cayman Islands segregated portfolio company, as well as other PIMCO Alternative Funds who own non-voting common shares of one Segregated Account.

The Company primarily transacts in property catastrophe collateralized reinsurance and private market ILS business. In addition, the Company assumes the majority of its portfolio risk in its Segregated Accounts through Allianz Risk Transfer AG (Bermuda Branch) ("ART" or "Fronting Carrier"), which is an affiliate of the Investment Manager, under variable quota share retrocession agreements. The Company began writing reinsurance business as of January 1, 2020.

#### **2. Significant accounting policies**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and are denominated in U.S. dollars.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. The Company's principal estimates relate to the reserve for losses and loss adjustment expenses, and estimates of written and earned premiums.

##### **(a) Premiums**

Premiums written are recorded at the inception of the policy and are based on contractual terms, or are estimated based on information provided by brokers and ceding companies, supplemented by the Company's own estimates of premiums written for which information from brokers and ceding companies have not been received. The determination of premium estimates requires a review of the Company's experience with ceding companies, familiarity with each market, an understanding of the characteristics of each line of business and management's assessment of the impact of various other factors. Premium estimates are updated as new information is received from ceding companies and brokers, and differences between such estimates and actual amounts are recorded in the period in which the estimates are changed or the actual amounts are determined.

Premiums written are earned based on the modelled expected loss over the terms of the underlying policies. Unearned premiums represent the portion of premiums written that relate to the modelled expected loss of the unexpired terms of the underlying policies in force.



# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

Premium adjustments are recorded in the periods in which they become known. Reinstatement premiums are recorded at the time a loss event occurs and coverage limits for the remaining life of contracts are reinstated under predefined contract terms. The accrual of reinstatement premiums are based on an estimate of losses and loss adjustment expenses.

Premiums receivable represent amounts currently due and amounts not yet due on underlying policies. Premiums for underlying policies generally become due over the period of coverage based on the policy terms. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

**(b) Reinsurance**

In the normal course of business, the Company may seek to reduce the potential amount of losses arising from claims events by purchasing reinsurance protection. Purchased reinsurance does not relieve the Company of its primary obligation to policyholders. Ceded premiums are recognised when the coverage period incepts and are expensed over the contract period based on the modelled expected recovery over the terms of the underlying policies. Unearned premiums ceded represent the portion of premiums ceded applicable to the unexpired term of the underlying policies in force.

**(c) Acquisition costs**

Commissions and other costs incurred on the acquisition of new and renewal of existing business are deferred and amortized over the terms of the respective policies in proportion to the related premiums earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. A premium deficiency exists if the sum of a contract's expected losses and loss adjustment expense and deferred acquisition cost exceeds related unearned premiums and, if appropriate, expected future premium and anticipated investment income. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency. No premium deficiency was recorded for the years ended December 31, 2021 and 2020.

**(d) Reserve for losses and loss adjustment expenses**

Losses and loss adjustment expenses paid are recorded as reported. The reserve for losses and loss adjustment expenses includes unpaid known losses ("case reserves") and loss adjustment expenses, and estimates for losses incurred but not reported ("IBNR"). The reserve for unpaid known losses and loss adjustment expenses is based on unpaid claims and reports from ceding companies and brokers, and represents the estimated cost of events or conditions that have been reported to, or specifically identified by the Company. Such reserves are supplemented by an estimate of reserves for losses (and associated expenses) incurred for which reports or claims have not been received, or for claims where insufficient information has been received to determine the estimated ultimate settlement cost, and these estimates are based on the recommendations of an independent actuarial specialist. These estimates are reviewed regularly and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability is subject to inherent uncertainty and may be materially in excess of, or less than, the amounts provided, and any adjustments will be reflected in the periods in which they become known.

**(e) Retroactive Reinsurance**

Retroactive reinsurance reimburses a ceding company for liabilities incurred as a result of past insurable events covered by the underlying policies reinsured. For retroactive reinsurance policies assumed, assets acquired and liabilities assumed are recognized at inception, and the respective underwriting income generated is amortized into income over the remaining unexpired period while movement in losses are charged to income immediately. In instances when the Company enters into reinsurance contracts which cover losses both on a prospective basis and on a retroactive basis and, accordingly, the Company bifurcates the prospective and retrospective elements of these reinsurance contracts and accounts for each element separately where practical.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

**(f) Cash and cash equivalents**

Cash and cash equivalents include cash held in banks.

Restricted cash and cash equivalents consist of cash held in trust accounts securing obligations under reinsurance contracts between the Company and its Fronting Carrier, and/or directly with ceding companies, as well as, cash held in an escrow account in support of the Company's regulatory capital requirements.

**(g) Interest income and general and administrative expenses**

Interest income and general and administrative expenses are recognized on an accrual basis.

**(h) Foreign exchange**

The Company's functional currency is the U.S. dollar. Transactions denominated in foreign currencies are measured at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities, such as premiums receivable and the reserve for loss and loss adjustment expenses, denominated in foreign currencies are remeasured at the exchange rate in effect at the balance sheet date, which may result in exchange gains and losses that are recognized in the Statement of Income and Comprehensive Income. Accounts that are classified as non-monetary assets and liabilities, such as, deferred acquisition costs and unearned premiums, are translated at exchange rates in effect at the time of the underlying transaction.

**(i) Segregated accounts**

The Company has assets and liabilities held within its General Account, which include the Company's operational balances and regulatory capital, and its Segregated Accounts and their respective balances. Similarly, the results of operations of the General Account and Segregated Accounts have been aggregated and included in the Statements of Income (Loss) and Comprehensive Income (Loss).

**(j) Recent accounting pronouncements**

***Recently issued accounting standards not yet adopted***

***Financial Instruments - Credit Losses (Topic 326)***

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", which would change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. This standard would replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally would result in earlier recognition of credit losses. This standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. During 2018, 2019 and 2020, the FASB issued a number of amendments and targeted improvements to ease with the application of this standard. These updates are effective in line with the effective date of ASU No. 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's financial statements.

***Codification Improvements***

In October 2020, the FASB issued ASU No. 2020-10, "Codification Improvements". The amendments in this update improve the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's financial statements.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

#### 3. Concentration of credit risk

As at December 31, 2021 and 2020, the Company's cash and cash equivalents and restricted cash and cash equivalents were held within two international financial institutions in the United States.

The Company underwrites a significant amount of its reinsurance business through its Fronting Carrier. There is credit risk associated with payments of reinsurance premiums to the Company in relation to ceding companies not being able to fulfil their contractual obligations. Refer to Note 12 for information relating to the balances due from the Fronting Carrier as at December 31, 2021 and 2020.

#### 4. Restricted cash and cash equivalents

As at December 31, 2021, the Company had restricted cash and cash equivalents held in trust accounts of \$256,475,955 (2020 - \$138,051,036), as security for reinsurance agreements, and \$1,000,000 (2020 - \$1,000,000) held in escrow in support of the Company's regulatory capital requirements.

#### 5. Investment income

Net investment income on cash and cash equivalents and restricted cash and cash equivalents was derived from interest income in the amount of \$nil for the year ended December 31, 2021 (2020 - \$176,726).

#### 6. Reserve for losses and loss adjustment expenses

The following table summarizes the reserve for losses and loss adjustment expenses as at December 31, 2021 and 2020:

	2021 \$	2020 \$
Case Reserves	993,723	735,729
IBNR	92,552,091	34,231,681
Balance at end of year	93,545,814	34,967,410

The following table provides a reconciliation of the beginning and ending reserve for losses and loss adjustment expenses for the years ended December 31, 2021 and 2020:

	2021 \$	2020 \$
Balance at beginning of year	34,967,410	-
Assumed business	-	1,640,548
Net incurred losses and loss adjustment expenses:		
Current year	98,651,882	37,472,715
Prior year	12,919,506	-
Net paid claims:		
Current year	(29,192,192)	(4,145,853)
Prior year	(23,321,797)	-
Foreign exchange and other	(478,995)	-
Balance at end of year	93,545,814	34,967,410

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

The COVID-19 pandemic continues to evolve globally, and material uncertainties relating to reinsurance coverages and COVID-19 persist which may adversely impact the Company's financial performance in 2022 and beyond. Management continues to closely monitor the Company's potential exposure including but not limited to (i) the extent of claims litigation against reinsureds and the potential impact on associated reinsurance coverage, (ii) regulatory, litigation-related or legislative developments aimed at expanding the intended scope of coverages beyond policy terms, exclusions and other conditions, and (iii) macroeconomic conditions. Any or all of the foregoing could materially and adversely affect the Company's business, financial condition, results of operations and growth.

In particular, there are exposures associated with COVID-19 where management have determined that certain policies do not provide full coverage and for which reserves are carried at lesser amounts than the losses reported by the counterparties. If these losses were to be reserved at the full reported amount, total reserves would be 10.0% higher as at December 31, 2021 (2020: 19.7%).

Consistent with the evaluation process for other loss reserve estimates of the Company, the loss estimate related to COVID-19 is continually evaluated, based on contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. The ultimate costs of claims are always uncertain, and increasingly so in the current environment given the impact of the COVID-19 pandemic. A heightened level of uncertainty around the estimates of the ultimate cost of COVID-19 related claims will persist for an unknown period and significantly different outcomes to those assumed in assessing the ultimate cost of claims are possible.

#### **7. Short Duration Contracts**

The loss development tables disclosed below set forth the historic incurred and paid losses development by accident year, as well as, IBNR balances and other supplementary information.

Management has determined that the appropriate level of disaggregation for the incurred and paid losses development information best falls into a single category: property catastrophe reinsurance.

All of the Company's business is assumed from other insurance and reinsurance companies, for which the Company does not have access to the underlying claim counts. Further, this business includes both quota share and excess of loss treaty reinsurance, through which only a portion of each reported claim results in losses to the Company. As such, the Company has excluded claim count information from the loss development tables below.

On January 1, 2020, the Company executed a retroactive reinsurance contract covering loss events relating to the 2019 policy year. Losses incurred pertaining to the 2019 policy year have been included in the loss development tables below. In addition, the Company has not presented accident year information for 10 years because it was incorporated during 2019, and only started writing reinsurance business from January 1, 2020 onwards.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

The following tables show an analysis of incurred losses and loss expenses and cumulative paid losses and loss expenses, as at December 31, 2021, 2020 and 2019:

#### Net Incurred losses and loss expenses development table

Accident Year	For the year ended December 31,			December 31, 2021 Total IBNR
	2019 (unaudited)	2020 (unaudited)	2021	
	\$	\$	\$	\$
2019	-	1,171,039	2,191,507	1,177,507
2020	-	37,942,225	49,756,662	22,820,380
2021	-	-	98,257,487	68,554,204
			<u>150,205,656</u>	

#### Cumulative paid losses and loss expense, net of reinsurance

	For the year ended December 31,		
	2019 (unaudited)	2020 (unaudited)	2021
	\$	\$	\$
2019	-	600,320	1,014,000
2020	-	3,545,534	26,453,650
2021	-	-	29,192,192
			<u>56,659,842</u>
Total reserve for losses and loss adjustment expenses			<u>93,545,814</u>

The following is unaudited supplementary information about average annual percentage cumulative payouts of incurred claims by age as at December 31, 2021:

Year 1	Year 2	Year 3
22%	52%	46%

## 8. Reinsurance

On occasion, the Company seeks to mitigate risk through the purchase of industry loss warranty contracts with various reinsurance companies. Reinsurance recoverable is recorded as assets, predicated on the reinsurers' ability to meet their obligations under the reinsurance agreements.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

The effects of direct, assumed and ceded reinsurance on the Company's premiums written, premiums earned and losses and loss adjustment expenses with reinsurers for the years ended December 31, 2021 and 2020 were as follows:

	2021 \$	2020 \$
<b>Premiums written</b>		
Direct	-	120,000
Assumed	141,668,566	61,494,756
Ceded	(3,586,250)	-
Net premiums written	138,082,316	61,614,756
<b>Premiums earned</b>		
Direct	59,389	60,611
Assumed	137,835,070	55,893,451
Ceded	(2,826,202)	-
Net earned premiums	135,068,257	55,954,062
<b>Losses and loss adjustment expenses</b>		
Assumed	111,571,388	37,472,715
Net Losses	111,571,388	37,472,715

## 9. Share capital and contributed surplus

### *Authorized share capital*

The authorized share capital of the Company is \$620,000, divided into 620,000 ordinary shares, par value \$1 each.

### *Issued share capital*

The following table shows the share classes as at December 31:

	2021 \$	2020 \$
Balance at beginning of year	120,008	120,000
<i>Issued and fully paid share capital – par value \$1</i>		
Non-voting common shares issued	6	8
Balance at end of year	120,014	120,008

### *Contributed surplus*

During the year ended December 31, 2021, the Company recorded \$192,018,740 (2020 - \$161,906,891) in contributed surplus in relation to contributions from shareholders for the purposes of funding the Segregated Accounts and operational expenses.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

#### *Distributions*

During the year ended December 31, 2021, the Company made distributions out of its contributed surplus totaling \$89,741,260 (2020 - \$50,253,017) to its shareholders, of which \$11,846,787 (2020 - \$16,310,912) was distributed to PIMCO ILS Series SPC on behalf of PIMCO ILS Fund SP I, \$60,024,982 (2020 - \$33,942,105) was distributed to PIMCO ILS Series SPC on behalf of PIMCO ILS Fund SP II and \$17,869,491 (2020 - \$nil) was distributed to PIMCO Tactical Opportunities Master Fund Ltd.

#### *Dividends*

During the year ended December 31, 2021, the Company declared and paid dividends of \$1,249,273 (2020 - \$nil).

### **10. Taxation**

The Company is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. The Company has received a written undertaking from the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits, income, gain or appreciation on any capital asset, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company until March 31, 2035.

### **11. Commitments and contingencies**

On February 12, 2020, amended on May 29, 2020, the Company entered into an irrevocable secured commitment with a Fund shareholder ("Unfunded Commitment"). In addition, effective October 9, 2020, the Company entered into a Catastrophe Bond Collateral Arrangement with the Fund and Fronting Carrier under which certain eligible catastrophe bonds are permitted to be pledged as collateral in lieu of cash in support of the Company's reinsurance obligations to its Fronting Carrier.

The Company writes reinsurance business through its Segregated Accounts on a collateralized and leveraged basis. Both the collateralized and leveraged business is primarily supported with cash and cash equivalents. The liabilities assumed through the reinsurance contracts are generally collateralized with cash and cash equivalents, and by other types of collateral including industry loss warranties, the payouts of which are assigned by the Fund, eligible catastrophe bonds pledged by the Fund, and other securities in relation to the Unfunded Commitment pledged by the Fund.

### **12. Related party transactions**

The Company has entered into an arrangement with the Fund in which the Fund will advance to the Company its share of operational expenses incurred by the Company that exceed 0.5% per annum of the net asset value of the Fund ("Newport Re Expense Cap"). For the year ended December 31, 2021, General and administrative expenses were reduced by the Newport Re Expense Cap in the amount of \$2,100,548 (2020 - \$2,097,894). As at December 31, 2021, the balance due from the Fund was \$390,070 (2020 - \$2,097,894). As at December 31, 2021, the balance due from the Investment Manager was \$58,118 (2020 - \$nil).

In the event that the Company's operational expenses are less than the Newport Re Expense Cap in any future period the Company will reimburse the Fund such that the total operational expenses for the period equal the Newport Re Expenses Cap. The total amount subject to be reimbursed by the Company is limited to the operational expenses previously advanced by the Fund over a maximum of five years from when the arrangement inception.

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

The following significant transactions with the Company's Fronting Carrier are classified as related party transactions:

	2021	2020
	\$	\$
<b>Transactions with related parties during the year</b>		
Net earned premiums	135,008,868	55,893,451
Losses and loss adjustment expenses	111,571,388	37,472,715
Other underwriting expenses	31,293,563	11,127,528
	2021	2020
	\$	\$
<b>Balances with related parties outstanding at end of year</b>		
Premiums receivable	53,087,796	18,922,229
Deferred acquisition costs	1,728,503	1,151,724
Unearned premiums ceded	760,048	-
Reserve for losses and loss adjustment expenses	93,545,814	34,967,410
Unearned premiums	9,434,800	5,601,304
Reinsurance balances payable	3,858,741	1,236,106

### 13. Statutory financial information and dividend and distribution restrictions

The Company is registered under The Insurance Act, which imposes certain solvency and liquidity standards, and auditing and reporting requirements, and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents, and intervene in the affairs of insurance companies.

Class 3B insurers are required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital requirement ("BSCR") which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. The ECR is calculated based on the economic balance sheet ("EBS") framework in which assets and liabilities are mainly assessed and included on the EBS at fair value. The BSCR model also requires insurers to estimate insurance technical provisions, which consist of best estimate reserves and a risk margin. The Company's BSCR as at December 31, 2021, will not be filed with the BMA until April 2022. As a result, the required statutory capital and surplus as at December 31, 2021, reflects the Company's estimated ECR.

Statutory capital and surplus as at December 31, 2021 and 2020 and statutory net income (loss) for the years ended December 31, 2021 and 2020 were as follows:

#### December 31, 2021

<b>Statutory Capital and Surplus</b>		<b>Statutory Net loss</b>
Estimated Required	Actual	Actual
2021	2021	2021
\$	\$	\$
184,759,810	248,914,652	(9,971,020)



# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

#### December 31, 2020

<u>Statutory Capital and Surplus</u>		<u>Statutory Net Income</u>
<u>Required</u>	<u>Actual</u>	<u>Actual</u>
2020	2020	2020
\$	\$	\$
122,380,951	136,775,895	6,463,954

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business.

Unfunded Commitment and Catastrophe Bond Collateral in the amount of \$38,794,207 (2020 - \$17,700,956) was recorded as Other Fixed Capital on the Statutory Statement of Capital and Surplus and as Tier 3 Ancillary Capital in its EBS as at December 31, 2021 and 2020.

#### **Dividend and distribution restrictions**

The Company may declare dividends or distributions from capital subject to it continuing to meet its minimum solvency and liquidity requirements. In addition, the Company is prohibited from declaring and paying in any fiscal year dividends of more than 25% of prior year statutory capital and surplus unless it files with the BMA an affidavit signed by at least two directors and the Principal Representative, attesting that, in their opinion, the dividend would not cause the Company to fail to meet its solvency requirements.

In addition, before reducing its total statutory capital by 15% or more (as set out in its previous year's statutory financial statements), the Company must make an application to the BMA for permission to do so. Such an application consists of an affidavit signed by at least two directors and the Principal Representative, stating that, in their opinion, the proposed reduction in capital will not cause the Company to fail to meet its solvency requirements.

As at December 31, 2021 and 2020, the Company met all requirements that it is subject to under The Insurance Act.

#### **14. Segregated Accounts**

As discussed in Note 1 and Note 2, these financial statements include the five (2020 - four) Segregated Accounts that were operated by the Company during the year ended December 31, 2021. Set out below are the net assets and net income (loss) and comprehensive income (loss) of the Segregated Accounts as of and for the years ended December 31, 2021 and 2020:

<b>December 31, 2021</b>	<b>Segregated Account Fund IA</b>	<b>Segregated Account Fund IB</b>	<b>Segregated Account Fund IIA</b>	<b>Segregated Account Fund IIB</b>	<b>Segregated Account Fund III</b>	<b>Total</b>
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>
	\$	\$	\$	\$	\$	\$
Net income (loss) and comprehensive income (loss)	(208,470)	2,437,975	(7,365,959)	(1,379,401)	(1,595,388)	(8,111,243)
Net assets	4,048,928	35,330,129	8,018,418	127,841,240	30,000,873	205,239,588

# Newport Re Ltd.

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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(expressed in U.S. dollars)

December 31, 2020	Segregated Account Fund IA 2020 \$	Segregated Account Fund IB 2020 \$	Segregated Account Fund IIA 2020 \$	Segregated Account Fund IIB 2020 \$	Segregated Account Fund III 2020 \$	Total 2020 \$
Net income and comprehensive income	1,249,273	1,609,618	224,173	4,487,300	-	7,570,364
Net assets	10,548,236	15,121,493	49,433,512	41,244,580	-	116,347,821

#### 15. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of December 31, 2021, through March 16, 2022, the date the financial statements were available to be issued.

During February 2022, the Company made distributions out of its contributed surplus totaling \$49,819,950 and declared and paid dividends of \$2,819,589.