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CONVEX INSURANCE UK LIMITED

Annual Report
For the year ended December 31, 2021

Contents

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Business Model

Convex Insurance UK Limited ("CIL" or the "Company") is a Convex Group Limited ("CGL", "Group", or "Convex Group") company which was authorised and licensed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in 2019. CIL's immediate parent is Convex Re Limited ("CRL"). CIL has a listing on the National Association of Insurance Commissioners ("NAIC") Quarterly Listing of Alien Insurers, ensuring that it can write United States business through surplus lines eligibilities. In addition, on 30 November 2021 CIL received approval from NAIC and the California Department of Insurance to operate as a reciprocal jurisdiction reinsurer, effective 1 January 2022.

On 26 March 2021, Convex Europe S.A. ("CES") was incorporated as a non-life insurance company in Luxembourg. CES has a UK branch which received regulatory approval from the UK regulators (PRA and FCA) on 2 December 2021. CES is a 100% owned subsidiary of CIL and began writing business in November 2021. On 25 June 2021, Convex North America Insurance Services LLC ("CUS") was incorporated in Delaware, United States of America. CUS is a managing general agent and is a 100% owned subsidiary of CIL. Note that this annual report represents CIL on a standalone basis.

CIL aims to continue to establish itself as a scale player in the global specialty Property and Casualty ("P&C") market, leveraging its great depth of senior management experience and opportunity as a green-field site to develop as a forward-looking insurer. This will involve continuing to build on the solid foundations put in place since inception, and using purpose-built technology, outsourcing, and data analysis as a differentiator to provide exceptional service, innovative solutions and bespoke product offerings.

The business is focused on targeting specific clients within its areas of expertise to underwrite large, complex insurance and reinsurance risks as the basis of its strategy. The current market environment for such risks is considered to be potentially beneficial to insurers willing and able to grow within markets in which they have a significant depth of understanding, which will allow CIL to consolidate its gains thus far, and establish a consistently profitable business.

Business Review

Key performance indicators

The Directors review certain financial key performance indicators ("KPIs") in order to assess the performance of the Company and make decisions on allocating resources.

Key performance indicators	**Description**	**2021 $m**	**2020 $m**
Gross premiums written		$1,607.7	$831.6
Net premiums written	Written premium, net of outwards reinsurance	$554.2	$269.2
Net earned premium	Earned premium, net of outwards reinsurance	$395.2	$136.5
Underwriting result	Balance on technical account (before investment income)	($57.2)	($64.3)
Net loss ratio	Ratio of total technical claims to net earned premium	66.9%	83.5%
Expense ratio	Ratio of net operating expenses to net earned premium	47.5%	63.7%
Net combined ratio	Ratio of total technical charges to net earned premiums	114.4%	147.2%
Investment (loss)/income	Total investment return after investment expenses and charges	($4.2)	$14.1
Cash and investments		$1,572.8	$1,107.8
Capital and reserves	Total capital including accumulated loss	$1,181.9	$890.9
Own funds	Total capital and reserves as calculated using the Solvency II rules	$1,202.8	$868.9
SCR	Solvency Capital Requirement	$714.3	$428.2
Solvency ratio	Ratio of SCR to Own Funds	168%	203%

Business Review (continued)

Results and performance:

Having spent the last two years defining and implementing the processes required to underwrite business, in 2021 CIL focused on continued business growth which has resulted in a significant increase in gross written premium to $1,607.7 million (2020: $831.6 million). CIL maintains its prudent approach to risk retention which resulted in significant use of reinsurance protection resulting in net written premiums of $554.2 million (2020: $269.2 million).

While expenses increased in 2021, the expense ratio decreased as a result of growth in net earned premiums. Increased expenses in 2021 are reflective of the Company's growth and are attributed mainly to an increase in headcount, and personnel-related costs (including the FX impact on salaries) such as IT and Travel & Entertainment. As a result of CIL's underwriting portfolio, the Company was exposed to losses from 2021 natural catastrophes including Winter Storm Uri and Hurricane Ida. Loss reserves on 2020 events, Hurricane Laura and the Iowa Derecho, experienced a marginal favourable development. CIL is predominantly invested in high quality, fixed income securities. The risk-free yields on these securities rose in the year as the market responded to tightening of monetary policy, which resulted in an unrealised loss in 2021 for CIL. As a result of these factors, the company made a net loss of $57.0 million in 2021 (2020: net loss of $50.0 million).

As the business grows, the Company closely monitors its capital requirements against its projected future business. Future business plans are factored into the capital requirements calculated in accordance with the Solvency II Directive. During the year $348.0 million of additional capital was paid in full into the Company from CRL to support investment in CES and the Company's future growth ambitions.

At 31 December 2021, under the Solvency II Directive, the estimated total capital available to meet the Solvency Capital Requirement (being the Own Funds) is $1,202.8 million (2020 (unaudited): $868.9 million) with the estimated Solvency Capital Requirement at $714.3 million (2020 (unaudited): $428.2 million) with the Minimum Capital Requirement at $178.6 million (2020 (unaudited): $107.1 million). The Company has complied with all externally imposed capital requirements throughout the period. For additional GAAP metrics see Key Performance Indicators noted above.

In addition to financial KPIs the Directors also monitor certain non-financial KPIs across a number of areas of the business including compliance, risk and employees. At this stage of Convex Group's business development, the Directors monitor non-financial KPIs at the Group level, rather than at the Company level. The Company does not directly employ members of staff but operates through an outsourcing arrangement with a fellow subsidiary of CGL, Convex UK Services Limited ("CSL").

Non-financial key performance indicators

Key Performance Indicator	Description	2021	2020
People and Culture	Employee response rate to annual survey (launched in 2021): *The Company is focused on creating a culture where employees feel empowered and have a sense of belonging.*	94%	N/A
Data and Technology	Technology spend as a percentage of operating expenses: *The Company has an objective to use data and technology to facilitate better decision making.*	6.2%	6.0%
IT	IT tickets closed within two business days: *Efficient handling of IT issues improves operational efficiency.*	93.8%	N/A
Reinsurance operations	Percentage of reinsurers rated A or above: *Engaging with well rated reinsurers contributes to delivering high-quality results for the business. Note that the remaining reinsurers are fully collateralised.*	91%	89%

Strategy and Objectives

CIL adheres fully to the Group's strategy which is anchored around our three strategic pillars:

1. By attracting the finest talent and creating a values driven culture, we want to become our client's favourite insurer.
2. Deliver operational excellence, through strong execution and high quality outcomes with a market-leading low expense ratio.
3. Use data and technology to make better decisions.

In addition, the Company is continuing to develop its Environmental, Social, and Governance ("ESG") framework and initiatives (see page 14), including assessment of the impact of climate change.

Attract and recruit professionals who have a good reputation and a proven track record: Building a team of talented people is fundamental to delivering the Group's objectives. Headcount across the Group has increased to 377 (2020: 300), with all London-based key leadership and underwriting roles filled. In addition, there are multiple Convex Re Limited ("CRL") employees based in Bermuda who perform group-wide tasks.

Operational Excellence: The Group's vision is to deliver excellent business and client outcomes and enriched experiences to strengthen the Convex brand, at a lower cost than competitors. To achieve this, Convex Group is building an operating architecture/framework that is scalable, flexible and nimble enough to allow for a seamless work environment in the current hybrid working conditions.

Make better decisions using data technology: At Convex, business revolves around data. The Company has a strong emphasis on analytics as a competitive advantage over its peers and competitors, enabling intelligent and informed underwriting decisions. Technology is increasingly a key differentiator across the (re)insurance markets, with many providers struggling with outdated and/or inefficient technology systems. Cloud based systems are used across Convex Group which allows them to be accessed from anywhere, allowing offices in multiple locations to have real time access to all relevant information and expertise within the Group.

Increase focus on ESG initiatives and actions: Convex Group believes strongly in the importance of behaving in a responsible manner, so as to promote environmental and social sustainability both within and beyond our organisation. Our approach to sustainability is ever-developing, and forward-looking; it includes consideration of ESG issues in investment decisions to ensure contribution to specific environmental or social outcomes, navigating the changes in the risk landscape in our underwriting function, and striving for mechanisms to reduce our environmental footprint (such as occupying environmentally efficient buildings, and developing mechanisms to monitor the Company's carbon and energy usage). Refer to the Streamlined Energy and Carbon Reporting section in the Directors' Report for further detail.

Future Outlook

CIL views pricing in the insurance industry to be cyclical. Over the past decade there has been a significant decrease in pricing in both the insurance and reinsurance market, which Convex believe is attributable primarily to the emergence of alternative sources of capital, less disciplined underwriting from incumbent providers, intermediary consolidation, and an expansion of delegated authorities. 2020 was a year of rate increase with COVID-19 and its impacts on a number of insurance and reinsurance players. While 2021 continued to benefit from 2020 of rate increases in many lines of business, this was against a backdrop of rising inflation rates. Despite these market developments, CIL's proposition will continue to be underpinned by a disciplined underwriting approach with a focus on profitability over volume. In addition, the cost advantage enabled by the efficient operating model further enhances CIL's competitive position in a more difficult pricing environment.

CIL believes that the specialty insurance and reinsurance markets offer greater scope for premium growth and profitable underwriting due to ongoing disruption in the market, increasing client demand for underwriting solutions for complex risks and the continued emergence of higher-complexity risk types.

Within these specialty insurance and reinsurance markets, CIL will focus on the most complex end of the risk spectrum, supported by the Group's differentiated operating model and underwriting experience and capabilities.

This differentiated proposition includes the following:

- a focus on large commercial clients and complex risk types;
- appropriate specialist underwriting capabilities and experience of writing consistently profitable business in the Group's target classes of business;
- the ability to provide insurance and/or reinsurance capacity for relatively large risks, with access to additional third-party capacity as appropriate;
- a high-touch client service model supported by a wider operating model tailored to the type of business targeted by the Group; and
- modern supporting technology specifically designed to support the business targeted by the Group, with no outdated legacy systems needing to be maintained.

The creation of CUS and CES in 2021 supports the future objectives of the Company as it expands its underwriting scope and capabilities. In addition to the new entities, on 30 November 2021, CIL received approval from NAIC and the California Department of Insurance to operate as a reciprocal jurisdiction reinsurer, effective 1 January 2022. This status will allow CIL to write reinsurance business in the US without the requirement to post reinsurance collateral, via a passporting arrangement with other US states.

Ukraine/Russia Conflict

On 24 February 2022 Russia launched an invasion of Ukraine escalating the ongoing conflict between the two countries. The Company is monitoring, and complying, with sanctions and government guidance, and is in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures.

Principal Risks and Uncertainties

Overall organisational risks

The risk management function oversees the management of all organisational risks and continues to enhance the mechanisms used to identify, quantify and manage accumulated exposures within the limits of the Company's risk appetite. The steering of the overall risk strategy is directed by the Board of Directors.

Insurance risk

Insurance risk includes risks arising from uncertainty around current and future underwriting exposure, and the risk that current reserves are insufficient to cover claims liabilities as they fall due. These specifically include:

- *inadequate pricing in the underwriting process;*
- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inadequate claims reserves;
- inadequate reinsurance protection; and
- increased frequency and severity of natural catastrophes as a result of climate change.

The Company seeks to manage insurance risk through:

- regular monitoring of premium and claims by line of business against the business plan;
- enforcing strict adherence to the Company's underwriting guidelines which are in line with the Board's risk appetite;
- review of the adequacy of Company's general insurance reserve by the Reserving Committee, and approval from the Board of Directors. The Reserving Committee uses externally sourced market benchmark data to monitor and manage the increased uncertainty of CIL's reserves given the lack of historical proprietary experience data; and
- an effective and high-quality reinsurance programme.

The company has used the PRA's 2019 General Insurance Stress Test templates to begin evaluating a series of scenarios to evaluate the impact of global warming and climate-related events. While the outcomes of this exercise are deterministic at this stage, this tool will evolve into enabling the Company to monitor and manage the impact of climate related risks.

Financial risk

Financial risk arises through the Company's financial assets, financial liabilities, insurance/reinsurance assets and policyholder/cedant liabilities. The key financial risk is that proceeds from financial assets are insufficient to fund obligations as they fall due. The most important drivers of financial risk are interest rate risk, currency risk, credit risk, and liquidity risk. Risks are monitored on a continuous basis for compliance with the Board's risk appetite, with escalation and mitigation processes in place where breaches are identified.

CIL manages its investment portfolio in line with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) by applying the requirements and principles described in the Financial Market Risk Framework and the Investment Guidelines. These requirements and guidelines ensure that risks in the current portfolio and in new investment proposals can be identified, measured, monitored, managed, and controlled. The PRA's 2019 GIST was used to evaluate the potential impact of climate change on CIL's investment portfolio. The outcomes of the exercise are deterministic only, and provide a starting point for assessing climate related risk impacts on the investment portfolio, with a view that this will evolve into a mechanism to enable the Company to monitor and manage these risks.

Principal Risks and Uncertainties (continued)

Interest rate risk

Interest rate risk arises primarily from the Company's investment portfolio which is comprised of debt securities, money market funds and cash deposits. To the extent that claims inflation is correlated with interest rates, liabilities to policyholders/cedants are also exposed to interest rate risk. This risk is monitored on a continuous basis for compliance with the Board's risk appetite, with escalation mitigation processes in place where breaches are identified.

The Company monitors interest rate risk by calculating the difference between the interest rate sensitivity of assets and liabilities, using measures such as duration. These indicators measure the sensitivity of assets and liabilities to changes in current interest rates. The current interest rate sensitivity, measured as the difference between the duration of assets and liabilities, is not significant and is well within risk appetite.

Currency risk

The Company is exposed to currency risk in respect of policyholder/cedant liabilities which are denominated in currencies other than US Dollars ("USD"). The Company seeks to mitigate currency risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- exposure to investments in debt securities, money market funds and cash deposits;
- reinsurers' share of insurance/reinsurance claim reserve liabilities;
- reinsurance recovery amounts due from reinsurers in respect of claims already paid;
- premium amounts due from insurance/reinsurance policyholders/cedants; and
- premium amounts due from insurance/reinsurance intermediaries.

Credit risk is mitigated by monitoring a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim to manage the default risk of a given issuer depending on its rating and the assets held by CIL. The Financial Risk Management and Investment functions monitor exposure against limits on a regular basis to ensure compliance.

Credit risk on insurance assets is managed through CIL's credit control function, which monitors the ageing of receivables and overdue balances. Furthermore, reinsurance credit risk is managed via a reinsurance approval process, which takes into account the credit rating of the reinsurer and the size of the exposure.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. This risk is monitored continually for compliance with the Board's risk appetite, with escalation and mitigation processes in place where breaches are identified.

Principal Risks and Uncertainties (continued)

Strategic risk

As the aim of the Company is to become a scale player in the P&C market, there is a degree of inherent risk in CIL's operating plans to achieve this goal.

Strategic risk is mitigated in part by the expertise of a wide array of industry veterans within the Company, and on the Board, who continually review the strategy being enacted, whilst being aware of current market developments. In this phase of business growth, it is essential to remain agile and be able to react positively to latest developments. Convex Group has appointed a new Head of Strategy to oversee and manage implementation of strategic plans. The Company also has a robust business planning process, which considers the evolution of CIL over a multi-year period.

Operational Risk

Operational Risk is defined as the risk of greater than expected losses due to the failure of internal processes, people or systems, or from external events. In addition, as the market transitions to low-carbon economies, this could potentially lead to a decline in asset values, higher cost of doing business, or disrupt the ways of working.

While operational risk is managed in a variety of methods across the Company by function, the main mechanism in place is the Company's evolving programme of controls. These controls are reviewed periodically and analysed for operating effectiveness to ensure that risks identified are being mitigated as expected.

Convex Group has appointed a new Head of Sustainability to develop and evolve CIL's climate related risks and initiatives. Convex Group continues to expand its scenario analysis work across physical, transition and liability risks.

COVID-19

While financial markets and the economy in wider terms continued to be impacted by COVID-19 in 2021, the financial and operational impact to CIL remained minimal in the year. CIL's conservative investment portfolio protected the business against severe market shocks, and the business continued to be operationally resilient due to the measures put in place at the onset of the pandemic. Both the HR and Marketing teams provided various networks and initiatives to ensure that CIL employees were supported, with employee well-being always being a priority for senior management. The Risk Management function continues to monitor and assess implications of COVID-19 on the business.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 (1) (a) to (f) of the UK Companies Act 2006 which is summarised as follows:

"A director of a company must act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole, and in doing so have regard (amongst other matters) to:

- *The likely consequences of any decisions in the long-term;*
- *The interests of the company's employees;*
- *The need to foster the company's business relationships with suppliers, customers, and others:*
- *The impact of the company's operations on the community and environment;*
- *The desirability of the company maintaining a reputation for high standards of business conduct; and*
- *The need to act fairly as between shareholders of the Company."*

The following paragraphs summarise how the Directors fulfil their responsibilities under Section 172 (1)(a) to (f) in alignment with our core values. Key stakeholders of the business are: Employees, External Parties (reinsurance partners, suppliers, and regulators), Customers (clients and brokers), Community and Charity, and Environment.

Employees

Our employees are our most important asset, and ensuring they are positive, engaged and well-informed is key to our success.

Employee engagement is achieved in a range of ways in the regular course of business, all of which connect the employees to the Company and make them feel valued resulting in greater contribution to the Company's goals and objectives:

- Regular all staff Townhall meetings hosted by Convex Group's Chairman/CEO and Deputy CEO.
- In 2021, Convex Group continued the Convex Dream Pitch, which was an initiative whereby the Company accepted employee submissions for a wide array of personal goals, and provided funding and support for them to achieve these.
- In 2021, additional training was provided to mental health first aiders to spot and support individuals with mental health concerns or issues. There are now 35 Mental Health First Aiders within Convex and we run regular sessions focused on our mental health and wellbeing from building our resilience to understanding how our physical health and what we eat can create a better and healthier lifestyle and enable us to deal with change differently.
- In 2021 we launched our first engagement survey. Convex Group achieved a 94% employee response rate and one of the top overall strengths was how positive employees feel about the Group's people-friendly policies and strong belief in our values and vision.
- The Convex "Ways of Working" Framework was further embedded in 2021, which set an ethical and supportive tone at the top, and outlined the importance of employee well-being, and how to value each other. This is reinforced through a number of examples, from the tone of our communications which are very conversational and straightforward.
- Weekly communications such as 'The Convex Conversation' (a weekly podcast series initially created to engage staff in a range of topics from charity and entrepreneurship to sport and entertainment), as well as the Convex Chronicle (weekly newsletter for Company news) continued in 2021.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 (continued)

Employees (continued)

- In October 2021 the Company launched its first 'Inclusion Index', with the intention to run on an annual basis. The Company also hosted a number of events including 'Black History, Black Identity', with Historian David Olusoga, International Women's Day with panel discussions, and International Men's Day.
- In 2021, the CEO and Deputy CEO hosted Convex United, which was a whole company offsite. This unique and exciting event was created to bring our Convex culture and values to life, as well as to support Convexians' (name given to employees of CIL) personal development.
- Convex is an equal opportunity employer and has modified its hiring practices to ensure a diverse workforce. Hiring practices give full and fair consideration to candidates of all backgrounds, including disabled persons, who are provided with relevant training and equal career development opportunities. In 2021, Convex worked with a disability recruitment firm and consulted with 'Exceptional Individuals', a neurodiversity enterprise to help partner with the Company.
- One-on-one meetings between employees and managers to discuss goals and Objectives and Key Results ("OKRs") was implemented in 2021. Convex Group has invested in a performance management tool to facilitate formal and informal conversations around employee goals and career development, and provided a framework to align these to Company goals and objectives.

Customers - clients and brokers

Our ultimate customers are our policyholders, and keeping our promises to our customers is one of our most important priorities. We engage with our customers through business partners who primarily consist of insurance brokers and cover-holders with whom we interact on a daily basis. We deal fairly and openly with all customers and business partners.

- In 2021, Convex continued its virtual broker booths on the website to enable video meetings for prospective brokers and clients.
- The Convex website and Convex LinkedIn pages were constantly kept up to date to increase engagement with our customers. This includes continuation of our weekly podcast, The Convex Conversation.
- The Company continued to hold ad hoc events to update specific broker and client groups on our development.
- In 2021 Convex Group participated in the London Market Gracechurch survey ranking top in "Overall Net Promotor Score", third in leading women, and third in overall claims Net Promotor Score.
- The "Ways of Working" project has enabled Convex to deliver change in a more agile and efficient way, by setting guidance on efficient communication, noting the importance of wellbeing, and reminding employees the importance of confidentiality.

External Parties - reinsurance partners, suppliers, and regulators

Our suppliers help Convex deliver the service excellence for which we strive, and as such we try to work in a partnership with them.

Our regulators are primarily the FCA and PRA in the UK. In addition, business written in the United States is regulated by the NAIC. The Convex Group of Companies is regulated by the Bermuda Monetary Authority ("BMA") in Bermuda which also serves as the Group Supervisor.

We operate in a highly-regulated industry, and therefore maintaining good relationships with our regulators is essential to our success. In that regard, we consider ongoing communication and transparency as a hallmark of our relationships with regulators. We hold regular update meetings with our regulators and also ensure that we keep the lines of communication open in between those meetings.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 (continued)

External Parties - reinsurance partners, suppliers, and regulators (continued)

- In 2021, the Company continued to have ongoing and periodic discussions with our reinsurers, key suppliers, and third parties.
- Regular meetings are held with all reinsurers, and updates were provided to the Board on reinsurance and third-party arrangements.
- During 2021, the Directors and management met with our ratings agencies (S&P and A.M. Best) to secure our credit rating and provide the business plan. Subsequently, on a quarterly basis the CIL CFO and the Group CFO met with the agencies to provide an update on actual results. Throughout the year, we were in contact on both a regular basis, as well as an ad hoc basis to keep the credit agencies abreast of business performance and updates.
- Our Legal and Compliance teams facilitated regular communication with the regulators regarding key Convex developments, and to obtain approvals as required. In 2021 key interactions included:
  - discussions regarding standalone filing of the Solvency and Financial Condition Report with consideration of the BMA being the Group supervisor;
  - obtaining approval from the PRA for the UK branch of CES;
  - obtaining approval from the NAIC for the creation of CUS; and
  - obtaining approval from the NAIC and the California Department of Insurance for CIL to operate as a reciprocal jurisdiction reinsurer.

Community and Charity

Supporting our local community is a fundamental part of our Corporate Responsibility ("CR") and is being embedded into our CR principles and our Employee Value Proposition. In spite of the challenges that COVID-19 has presented, we have strengthened ties with the community over 2021, with community activities led and managed by our employees via our London Charity Committee, which in turn reports into our Group Executive Committee.

We have engaged in a number of initiatives over the year, as set out below:

- The London Charity, Outreach, Diversity, and Engagement ("CODE") Committee is made up of volunteer members from across the business, and it aims to support the local community through charitable giving and outreach, build open dialogue and initiatives relating to diversity as well as being a forum for social engagement within the local offices.
- In 2020 we selected Alzheimer's Research UK ("ARUK") as our corporate charity partner, and in 2021 we continued our work with ARUK to both educate our staff, brokers and clients about dementia and Alzheimer's as well as fundraise for the Early Detection of Neurodegenerative diseases ("EDoN") project. The EDoN project is the largest initiative in the world that will collect, share and analyse clinical and digital health data to detect diseases like Alzheimer's.
- We support XLP, a London-based charity whose aim is to engage in long-term relationships that empower young people from disadvantaged backgrounds to complete their education, avoid anti-social behaviour and ultimately become independent and confident contributors within their communities. XLP operates across nine inner-city boroughs around London, working with over 4,500 young people each year through education, mentoring, sport and the arts.
- In 2021 we created the Afghan Refugee Support Group within Convex Group to provide financial and practical support to two refugee families that arrived in the UK.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 (continued)

Environment

Our approach to Sustainability is integral to and integrated in Convex's strategy, and is underpinned by Convex's values. We are clear that we will only deliver on our ambition to be the partner of choice for the insurance and reinsurance of complex specialty risks if we fully integrate environmental, social and governance considerations into how we run our organisation. Convex has undertaken several activities to actively participate and advance in our sustainability journey:

- In 2021, an implementation plan was signed-off by the Group Executive Committee ("GEC") and the CIL Executive Committee ("ExCo"), which entailed a project with 6 workstreams (aligned to the PRA requirements), each headed by workstream leads. The aim of the implementation plan was to meet the PRA requirements in a proportionate and practical way, acknowledging that financial risks from climate change risk is an evolving topic and further enhancements will be made beyond 2021. As part of this project, in 2021 the Risk Management function led the process of undertaking a series of scenarios to evaluate the impact of global warming and selected to use the climate-related events that form part of the 2019 PRA's General Insurance Stress Test (GIST). Whilst acknowledging an increase in severity and frequency of weather-related events, Convex needs to continue expanding its scenario analysis work across physical, transition and liability risks to gain a better understanding of its material exposures and define its long-term strategic approach to financial risks from climate change.
- Convex Group has appointed a new Head of Sustainability, who has been working closely with the Company's Chief Risk Officer to ensure that climate change risk incorporated in Convex's ESG is aligned and consistent to the PRA climate change risk work led by the Group Risk Management Function. The Head of Sustainability was in attendance at COP26.
- In 2021, Convex Group entered into a multimillion dollar partnership with the Blue Marine Foundation and the University of Exeter to launch the Convex Blue Carbon Seascape survey. This partnership supports a five-year global research programme to build a greater understanding of the properties and capabilities of the ocean and its continental shelves in the earth's carbon cycle, in the urgent effort to slow climate change.
- In 2021 Convex Group became a member of ClimateWise, an organisation that supports society as it responds to the risks and opportunities of climate change. Convex plans on reporting against ClimateWise principles in 2022. The ClimateWise Principles, have been aligned with the Task Force on Climate-related Financial Disclosure ("TCFD").
- Convex Group has produced a Sustainability Report outlining our goals for sustainable underwriting, sustainable investments, and our ongoing assessment of climate change risk. This report is available on the Company website: https://convexin.com/sustainability/.
- Convex Group has purchased carbon offsets from a Not-for-Profit entity to offset 2021 emissions, and has pre-emptively purchased offsets for planned 2022 footprint. Please refer to the Streamlined Energy and Carbon Reporting ("SECR") disclosures in the Directors Report for further details.
- Convex has a Cycle to Work Scheme inspired by the Government's "Green Transport Plan" that aims to reduce congestion and emissions.

Principle Decisions of the Board 2021

Throughout 2021, the CIL Board met regularly and continued to act and make strategic decisions in line with the Company's objectives, in order to promote the long term growth of the Company, as well as the interests of its stakeholders. The Board considered a number of diverse strategic initiatives and proposals, leading to the following key decisions being made:

- approval of the 2021 financial results and regulatory returns;
- the establishment and capitalisation of a general underwriter in the US ("CUS");
- the entry into a letter of credit facility;
- further capitalisation of the Company and approval of the 2022 Business Plan;
- changes to the Board and its executive committee; and
- approval of a sustainability statement.

Approved by the Board of Directors on 25 March 2022 and signed on its behalf by:

Theodore Butt (8 April 2022)
Director

Directors and Their Interests

The following individuals served as Directors during the financial period, and up to the approval date of this report:

Names	Appointed	Resigned
Paul Brand		18/02/2021
Theodore Butt	17/02/2021	
Stephen Catlin		
Dr. Claus-Michael Dill		
Fiona Luck		
Kelly Lyles	09/11/2021	
Nicholas Lyons		
William Marcoux		
Matthew Wilson		

None of the Directors hold shares in the Company.

Political Donations

The Company made no political donations during the period (2020: Nil).

Streamlined Energy and Carbon Reporting

The table below shows CIL's operational energy and carbon footprint in line with the reporting requirements of the UK government's Streamlined Energy and Carbon Reporting ("SECR") framework. Our carbon emissions are reported using the Greenhouse Gas Protocol, a widely used international reporting tool. Greenhouse gas ("GHG") emissions are categorised into three scopes:

- Scope 1 covers direct emissions from owned or controlled sources. Convex consumes gas in the use of its office buildings. (Note that in 2020, the Company included gas emission under Scope 2 but has revised comparative disclosures for this below).
- Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling which CIL consumes. Electricity in Convex's UK offices is produced 100% from renewable sources with zero GHG emissions associated with it.
- Scope 3 includes all other indirect emissions that occur in the Company's value chain. Included in this calculation are rail, air travel, and vehicles.

Greenhouse Gas Emissions

Scope	Description	Metric	2021 tkgCO2*	2020 tkgCO2** (restated)
Scope 1	Natural Gas	kwH	31	40
Scope 2	Electricity (location-based)	kwH	112	107
Scope 3	Travel (Flights, rail, taxi, and hotel) and waste	Mile	253	58
Total Emissions			**396**	**205**
Intensity ratio	Average tkgCO2 per employee		1.17	1.19
Carbon Offsets			(396)	-
Total Net Emissions			-	**205**

* tkgCO2 – defined as thousand kilograms of carbon dioxide (CO2) and is calculated by multiplying the relevant metric by the UK Government conversion factors for greenhouse gas (GHG) reporting, with one tkgCO2 being one thousand kilograms of carbon dioxide.

** 2020 Comparative figures have been revised to align with 2021 presentation for: (1) the allocation of gas emissions as Scope 1, rather than Scope 2, (2) increased accuracy in Scope 3 emissions, and (3) allocation of emissions to CIL.

Greenhouse Gas Emissions (continued)

The Company has a number of initiatives to reduce its carbon footprint, including the leasing of an energy efficient building with 25% lower CO2 emissions than required under UK building regulations, and the use of 100% renewable energy for the supply of electricity. As part of our ESG Strategy, Convex has invested in a carbon offset project in 2021 with MyClimate, a leading climate solutions provider, in Northern Tanzania. The project, aiming to reduce emissions from deforestation, was established and registered under Plan Vivo 2013 with emissions certified annually.

Employment Practices

Refer to the "Employee" section of the s172 report for details on our employment practices.

Directors' Indemnification

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial period and is currently in force. Convex Group Limited also purchased and maintained Directors and Officers liability insurance in respect of group companies and their Directors.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and this re-appointment is ongoing.

Future Outlook

The main features of the Company's future development can be found in the Strategic Report. The future development forms part of this Directors' Report and is incorporated by cross-reference.

Going Concern

The Company has significant financial resources and, having reviewed the key performance indicators of the Company as described in the Strategic Report, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has assessed its current and forecast capital and liquidity positions, to ascertain the appropriateness of adopting a going concern basis for CIL.

The assessments performed include evaluating CIL's current financial condition, including sources of liquidity, in conjunction with the Board-approved business plan for expected growth. The Company has a strong liquidity position given its cash and investment position at the end of 2021. A Liquidity Stress Testing Framework is in place to stress test CIL's liquidity position to ensure it can withstand an extreme scenario, which constitutes a combination of a large loss event and a market liquidity shock. The results indicated that CIL is sufficiently liquid to continue as a going concern in this extreme scenario, while continuing to support its day-to-day operations.

In addition, the Company assesses its capital under the Solvency II requirements using the standard formula. The Directors have reviewed the Company's forecast solvency position under this regime and are content that this supports the continued use of the going concern basis in preparing the financial statements.

The Company has also considered any potential impact of the Ukraine/Russia conflict on CIL's going concern. In undertaking this analysis, no material uncertainty in relation to going concern has been identified.

Financial Instruments

The financial risk management objectives and policies for the Company can be found within the Strategic Report, with details of exposures being found in Note 1. Financial risk management objectives and policies form part of this Directors' Report and is incorporated into it by cross reference.

Dividends Paid and Declared

No dividends were paid or proposed for the period (2020: Nil).

Subsequent Events

The Company has completed its review of events after the Statement of Financial Position date of 31 December 2021 through 8 April 2021, the date the financial statements were authorised for issue.

On 24 February 2022 Russia launched an invasion of Ukraine escalating the ongoing conflict between the two countries. Although the Company expects its net exposure is limited, it is monitoring, and complying, with sanctions and government guidance, and is in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures. In terms of underwriting exposures the Company has exposure in various classes of business, including but not limited to, Aerospace, Marine, and Political Violence. There is a high degree of uncertainty in relation to the value of the insured losses.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the Board of Directors on 25 March 2022 and signed on its behalf by:

Theodore Butt (8 April 2022)
Director

Independent auditors' report to the members of Convex Insurance UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Convex Insurance UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Profit and Loss and Other Comprehensive Income and the Statement of Changes in Equity for the year then ended; the Statement of Accounting Policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit is driven by statutory requirements in the UK. Our audit objective is to obtain sufficient relevant and reliable audit evidence to enable us to issue an opinion on the statutory financial statements. As part of our audit, we focused on balances and disclosures which represented a risk of material misstatement to the users of the financial statements.

Key audit matters

- Valuation of gross incurred but not reported (IBNR) reserves and the associated reinsurers' share of IBNR reserves
- Valuation of estimated premium income

Materiality

- Overall materiality: US$16.08m (2020: US$8.13m) based on 1% of Gross Premium Written.
- Performance materiality: US$12.06m (2020: US$6.10m).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The impact of COVID-19, which was a key audit matter last year, is no longer included because the impact of the pandemic on the company and its performance has reduced significantly in the year relative to prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of gross incurred but not reported (IBNR) reserves and the associated reinsurers' share of IBNR reserves Refer to item (d) and (l) in the Statement of Accounting policies and notes 1(c) and 3 to the financial statements for disclosures of related accounting policies and balances. Total gross IBNR reserves and the associated reinsurers' share of IBNR reserves are significant estimates in the	We performed walkthroughs and tested controls in place with respect to the valuation of the total gross IBNR reserves and the associated reinsurers' share of IBNR. We supplemented this work with tests of detail. Specifically, we:

financial statements, and as at 31 December 2021 amounted to $645.8 million and $434.0 million respectively. The methodologies and assumptions used to develop gross IBNR reserves and the associated reinsurers' share of IBNR reserves involve a significant degree of judgement, and management utilised a third party actuarial expert to assist in establishing its total booked gross and IBNR reserves and the associated reinsurers' share. As a result, we focused on this area as the valuation can be materially impacted by numerous factors, including the risk of inappropriate methods and assumptions used in determining the estimates, which is particularly relevant given the company's limited historical loss data.	- reviewed and tested the reconciliation of data from the underlying systems to the data used in the actuarial calculations; - tested the completeness and accuracy of data used in the actuarial projections; - for the non-catastrophe reserves across all classes of business, we independently developed a point estimate in respect of the valuation of the gross IBNR reserves and the associated reinsurers' share of IBNR reserves. In all cases where significant differences were identified we obtained satisfactory explanations; - for catastrophe and specific reserves, we tested the methodologies and assumptions used by management in establishing the gross IBNR reserves and the associated reinsurers' share of IBNR reserves; and - evaluated the appropriateness of the booked IBNR reserve margin, taking into account estimation uncertainty inherent in the underlying insurance business. The results of our procedures indicated that the valuation of the total gross IBNR reserves and the associated reinsurers' share of IBNR reserves were supported by the evidence we obtained.
Valuation of estimated premium income Refer to item (d) and (i) in the Statement of Accounting Policies and note 1(a) to the financial statements for disclosures of related accounting policies and balances. For certain insurance and reinsurance contracts written, premium is initially recognised based on estimates of ultimate premium, with application of a writing pattern for delegated authority business. For these contracts, premiums ultimately received may differ from initial estimates, which can result in adjustments being made to the premiums initially recorded. The estimation process involves judgement especially in light of the fact that management have limited historical information on which to base their estimates due to the maturity of the company. We focused on this area given the level of estimation uncertainty and judgement involved.	We have understood, evaluated, and tested the design and operational effectiveness of key controls in place in respect of estimated premium income. We supplemented this work with tests of detail. Specifically, we: - performed a retrospective review of premium estimates booked as at 31 December 2020 to see how they developed alongside actual signings and cash receipts; - corroborated ultimate premium estimates established during the year to third party supporting evidence such as signed slips; - tested the development of actual signings and cash receipts which support the ultimate premium estimates booked; and - tested the application of writing patterns applied to the ultimate premiums for delegated authority business. The results of our procedures indicated that the valuation of estimated premium income was supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We performed a full scope audit of the company using the overall materiality of $16.08 million.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	US$16.08m (2020: US$8.13m).
How we determined it	1% of Gross Premium Written
Rationale for benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the company's financial statements. We concluded gross written premium was the most relevant benchmark to these users as the company is in its start-up phase.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US$12.06m (2020: US$6.10m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $803,600 (2020: $406,656) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Validating management's analysis and supporting documentation as it related to the company's going concern;
- Performing sensitivity analysis on management's going concern assessment and assessing the impact on the company's capital, solvency and liquidity positions; and
- Assessing the disclosures made in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes;
- Testing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the valuation of incurred but not reported reserves (gross and net of the associated reinsurers' share) and the valuation of estimated premium income;
- Identifying and testing journal entries, in particular, journal entries posted with unusual account combinations or posted by unexpected users; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 15 February 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 December 2019 to 31 December 2021.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
08-04-2022

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)	Notes	2021	2020
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE			
Premiums written			
Gross amount	2	1,607,652	831,649
Reinsurers' share		(1,053,441)	(562,413)
		554,211	269,236
Change in the provision for unearned premiums			
Gross amount	3	(405,051)	(347,446)
Reinsurers' share	3	246,038	214,667
		(159,013)	(132,779)
Earned premiums, net of reinsurance		395,198	136,457
CLAIMS INCURRED, NET OF REINSURANCE			
Claims paid			
Gross amount		(228,631)	(41,746)
Reinsurers' share		148,676	26,143
		(79,955)	(15,603)
Change in the provision for claims			
Gross amount	3	(559,505)	(277,160)
Reinsurers' share	3	374,915	178,871
		(184,590)	(98,289)
Claims incurred, net of reinsurance		(264,545)	(113,892)
Net operating expenses	4	(187,879)	(86,910)
BALANCE ON TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(57,226)	(64,345)
NON-TECHNICAL ACCOUNT			
Investment income	7	7,955	10,492
Unrealised loss on investments	7	(10,687)	-
Unrealised gain on investments	7	-	5,366
Investment expenses and charges	7	(1,482)	(1,755)
BALANCE ON NON-TECHNICAL ACCOUNT		(4,214)	14,103
OPERATING LOSS AND LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(61,440)	(50,242)
Tax credit on loss on ordinary activities	8(a)	4,415	282
LOSS FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE LOSS		**(57,025)**	**(49,960)**

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)	Notes	2021	2020
INVESTMENTS			
Other financial investments	9	1,406,349	966,183
Investment in Subsidiaries	15	89,000	-
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	3	531,868	287,557
Claims outstanding	3	556,085	183,309
		1,087,953	470,866
DEBTORS			
Debtors arising out of direct insurance operations	10	696,663	381,734
Debtors arising out of reinsurance operations	10	65,581	20,995
Amounts due from other group companies	12	-	975
Other debtors	13	6,075	3,931
Deferred tax asset	8	-	-
		768,319	407,635
OTHER ASSETS			
Cash at bank and in hand		77,462	141,625
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		4,756	2,610
Deferred acquisition costs	3	142,702	60,861
Other prepayments and accrued income		1,514	295
		148,972	63,766
TOTAL ASSETS		**3,578,055**	**2,050,075**

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)	Notes	2021	2020
CAPITAL AND RESERVES			
Called up share capital	14	366,050	348,650
Share premium account		930,750	600,150
Profit and loss account		(114,912)	(57,887)
Total equity		1,181,888	890,913
TECHNICAL PROVISIONS			
Provision for unearned premium	3	831,779	433,910
Claims outstanding	3	836,592	285,916
		1,668,371	719,826
CREDITORS			
Creditors arising out of direct insurance operations	11	5,105	2,750
Creditors arising out of reinsurance operations	11	599,355	367,968
Amounts owed to group companies	16	29,540	7,013
Other creditors including taxation and social security	17	5,493	8,567
		639,493	386,298
ACCRUALS AND DEFERRED INCOME			
Accruals and deferred income	18	88,303	53,038
TOTAL EQUITY AND LIABILITIES		**3,578,055**	**2,050,075**

The accompanying notes on pages 31 to 55 are an integral part of these financial statements.

Approved by the Board of Directors on 25 March 2022 and signed on its behalf by:

Matthew Wilson (8 April 2022)
Director

Convex Insurance UK Limited
Registered number 11796392

(Expressed in thousands of U.S. Dollars)

	Called-up Share Capital	Share Premium	Profit and loss account	Total equity
At 1 January 2021	348,650	600,150	(57,887)	890,913
Ordinary shares issued	*17,400*	*330,600*	-	*348,000*
Total comprehensive loss	-	-	(57,025)	(57,025)
At 31 December 2021	366,050	930,750	(114,912)	1,181,888

	Called-up Share Capital	Share Premium	Profit and loss account	Total Equity
At 1 January 2020	311,800	-	(7,927)	303,873
Ordinary shares issued	36,850	600,150	-	637,000
Total comprehensive loss	-	-	(49,960)	(49,960)
At 31 December 2020	348,650	600,150	(57,887)	890,913

The accompanying notes on pages 31 to 55 are an integral part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently for the years ended 31 December 2021 and 31 December 2020.

Convex Insurance UK Limited ("CIL" or the "Company") is a private Company, limited by shares, and is registered in England and Wales under the Companies Act 2006. The address of the registered office is provided on the Directors, Officers and Professional Advisors page and the nature of the Company's operations and principal activities are included within the Strategic Report.

a. Statement of compliance
The financial statements have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland for entities issuing insurance contracts" ("FRS 103") and the Companies Act 2006, under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410") relating to insurance companies.

b. Basis of preparation
These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. These financial statements are prepared on a standalone basis (an exemption was taken from preparing consolidated financial statements in line with Companies Act 2006/15/401), and cover the year ended 31 December 2021.

c. Going concern
Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing these financial statements. Refer to the Directors' Report for additional detail.

d. Use of estimates and judgements
The preparation of the financial statements in conformity with FRS 102 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company's principal estimates include:

- the reserve for losses and loss adjustment expenses, and the related reinsurers' share, including the provision for uncollectible amounts; and
- the ultimate premium written on binders and inward proportional reinsurance policies.

The most significant estimate made by management is the estimate for losses incurred but not reported. The total gross estimate at 31 December 2021 is $645,831, $211,873 net of reinsurance (2020: $220,095, $77,639 net of reinsurance) and is included within claims outstanding on the Statement of Financial Position. A number of judgments are involved in deriving these estimates, including how the business is segregated into risk categories, and how benchmarks are used to supplement internal data. The uncertainty around the loss reserves is somewhat amplified given the lack of the Company's own historical data. To manage this uncertainty, the actuarial team uses a range of externally sourced market benchmarks to project loss estimates to ultimate losses. In addition, management applies a margin on top of actuarially estimated reserves. As the Company grows and matures, and thus acquires internal development data, it will look to use recognised actuarial techniques to project gross premiums written to ultimate, monitor claims development patterns, and stress test ultimate insurance liabilities.

CIL writes a number of contracts for which the initial premium is based on an estimate, for example on a line slip, or on a binder. The amount of premium received on such contracts is subject to uncertainty and may differ materially from the amounts initially estimated in the financial statements. In order to manage this risk, estimates are reviewed regularly and, as new information becomes known, the recorded premiums are adjusted as necessary. These adjustments sometimes lead to an increase or decrease in expected premiums. Adjustments to premium estimates, if any, are recorded in the period in which they become known.

STATEMENT OF ACCOUNTING POLICIES (continued)

e. Exemption from preparing cash flow statement

The Company has taken advantage of the exemption under FRS 102 paragraph 1.12(b), from preparing a Statement of Cash Flows, on the basis that it is a qualifying entity and its ultimate parent company, Convex Group Limited, includes the Company's cash flows in its publicly available consolidated financial statements.

f. Exemption from disclosing related party transactions

The Company has taken advantage of the exemption under FRS 102 paragraph 33.1A, from disclosing related party transactions on the basis that it is a qualifying entity and is a wholly owned subsidiary of Convex Group Limited.

g. Foreign currency translations and settlements

The Company's reporting and functional currency is USD.

The Company operates in multiple transactional currencies. All non-USD transactions are translated at the rate of exchange prevailing at the start of the month in which the transaction occurs. At each month end:

- Foreign currency monetary items are translated at the rate of exchange prevailing at the end of the month. Individual line items in the Statement of Profit and Loss and Other Comprehensive Income – Technical Account are translated each month at the rate of exchange prevailing at the start of the month;
- Foreign currency non-monetary items measured at historical cost are translated using the exchange rate prevailing at the start of the month in which the transaction occurs.
- All foreign exchange gains and losses are recognised in the Statement of Profit and Loss and Other Comprehensive Income – Technical Account. These arise from:
  - Settlements of non-USD foreign currency transactions; and
  - Retranslations of monetary items at period end exchange rates.

h. Basis of accounting for underwriting activities

The results are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as described below.

i. Written, earned and unearned premiums

Insurance and Assumed Reinsurance Premiums

Direct insurance premiums are recorded as written at the inception of each policy and are earned over the exposure period.

Direct insurance premiums on binders are estimated at inception, and are recognised by applying a writing pattern to the total estimated premium on the binder.

Premiums on assumed reinsurance contracts are estimated based on information provided by ceding companies, and are recorded at the inception of the policy.

For contracts with estimated premiums, the amount of premium ultimately received may differ from the amounts initially estimated in the financial statements. These estimates are reviewed regularly and as new information becomes known, the recorded premiums are adjusted as necessary. These adjustments can lead to an increase or decrease in premiums recognised. Adjustments to premium estimates, if any, are recorded in the period in which they become known.

STATEMENT OF ACCOUNTING POLICIES (continued)

Written, earned and unearned premiums (continued)
Written premiums are earned over the contract period commensurate with the underlying risk. For assumed reinsurance contracts written on a risk attaching basis, the earning period is based on the terms of the underlying policies attached to that contract. This period extends past the expiry of the reinsurance contract and as a result premiums on assumed reinsurance policies are earned over the contract period plus 12 months.

Unearned premiums in respect of the above premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

Reinstatement Premiums
Reinstatement premiums are recorded at the time a loss event occurs and coverage limits for the remaining life of the contract are reinstated under predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss adjustment expense, which reflects management's judgment, as described in Note (l), "Reserve for losses and loss adjustment expense". Reinstatement premiums under predefined contract terms are fully earned when accrued.

j. **Reinsurance**
The Company enters into reinsurance and retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. Ceded reinsurance premiums are accounted for on bases consistent with those used in accounting for the underlying premiums assumed.

Unearned reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force.

Reinsurers' share of provision for claims and claims paid represent amounts that will be collectible from reinsurers once the losses are paid and includes an explicit allowance for Reinsurance Bad Debt provisions as appropriate.

k. **Policy acquisition costs**
Acquisition costs are expenses that are directly related to the successful production of new and renewal business. Policies are capitalised as deferred acquisition costs ("DAC") and amortised over the same terms as the related premium.

l. **Reserve for losses and loss adjustment expenses**
The reserve for losses and loss adjustment expense includes reserves for unpaid reported losses ("case reserves"), losses incurred but not reported ("IBNR"), and for unallocated loss adjustment expenses ("ULAE").

Case reserves are established by management based on reports from brokers, ceding companies and insureds and represents the unpaid portion of the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by, the Company, including Allocated Loss Adjustment Expenses ("ALAE").

IBNR reserves are established by management based on a range of externally sourced market benchmarks to project loss estimates to ultimate. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. The earned portion of these estimates of ultimate losses and loss expenses are then used to derive the best estimate loss and loss expenses, to which a management margin is added.

The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. Accordingly, losses and loss adjustment expenses ultimately paid may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. These adjustments sometimes lead to an increase or decrease in ultimate losses. Adjustments to earned ultimate loss estimates, if any, are recorded in earnings in the period in which they become known.

A premium deficiency exists if the sum of expected losses and loss adjustment expense and deferred acquisition costs exceeds related unearned premiums (and, if appropriate, expected future premium). In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. No premium deficiency was recorded for the year ended 31 December 2021 as well as the year ended 31 December 2020.

STATEMENT OF ACCOUNTING POLICIES (continued)

m. Current and deferred taxation

Current tax
Current tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income – Non-technical Account and reflects:

- Estimated tax charges/credits associated with the current financial period's taxable profits/losses; and
- Changes in previously estimated tax charges/credits associated with previous financial periods' taxable profits/losses.

Deferred tax
Deferred tax assets/liabilities within the Statement of Financial Position arise from differences in timing between the recognition of taxable profits/losses in the financial statements, versus their recognition in the tax computation.

Provision is made for all material timing differences, including revaluations of investment gains/losses recognised within the Statement of Profit and Loss and Other Comprehensive Income. Non-technical Account. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. This provision is not discounted.

Deferred tax assets are recognised to the extent that it is regarded more likely than not that these will be recovered.

n. Operating leases
Operating lease rentals are charged to net operating expense evenly over the period of the lease.

o. Cash and cash equivalents
Cash and cash equivalents includes cash at bank in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

p. Financial Instruments
The Company has chosen to adopt FRS 102 section 11 and 12 in full in respect of financial instruments.

The Company's financial instruments comprise of debt investments, cash and cash equivalents, receivables, and trade and other payables.

Financial assets
Basic financial assets, including trade and other receivables, bonds and similar debt instruments are initially recognised at fair value. Upon their initial recognition, financial assets are designated by the entity as fair value through profit or loss and are subsequently measured at fair value. Any changes in fair value are recognised in the Statement of Profit and Loss and Other Comprehensive Income – Non-technical Account.

Financial assets are derecognised when: (a) the contractual rights to the cash flows from the asset expire or are settled; or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party; or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Basic financial liabilities, including trade and other payables are initially recognised at transaction price and are subsequently measured at amortised cost. Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised at the transaction price when recorded.

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

STATEMENT OF ACCOUNTING POLICIES (continued)

Fair Value Hierarchy

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: When quoted prices are unavailable the instrument is valued using inputs that are observable, either directly or indirectly, using quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: When observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 1(k) for details of financial instruments classified by fair value hierarchy.

q. Investment in Subsidiaries

Investments in subsidiaries are carried at fair value with changes recognised in the Statement of Profit and Loss and Other Comprehensive Income – Technical Account.

r. Investment Income

Investment income is recognised within the Statement of Profit and Loss and Other Comprehensive Income – Non-technical Account and comprises:

- Investment income earned during the financial period;
- Investment expenses, charges or interest incurred during the financial period;
- Movements in unrealised market value gains/losses during the financial period; and
- Realised investment gains/(losses) arising from the sales and maturities of investments during the financial period.

Investment income

Investment income is measured on an accruals basis and comprises:

- Interest on bank balances;
- Coupons on bonds; and
- Returns on money market funds.

Investment expenses, charges or interest

These are recognised on an accruals basis.

Movements in unrealised gains/(losses)

Unrealised gains/(losses) on investments arising during the financial period represent the difference between:

- The market value of investments at the Statement of Financial Position date, and their acquired cost if purchased during the financial period; or
- The market value of investments at the Statement of Financial Position date, and their market value at the last Statement of Financial Position date if purchased in previous financial periods.

Realised gains/(losses)

These represent the difference between the net sales proceeds and acquired cost. Any unrealised gains/(losses) previously recognised will be reclassified as realised gains/(losses) upon the sale or maturity of investments.

STATEMENT OF ACCOUNTING POLICIES (continued)

s. **Share capital**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

t. **Distributions to equity shareholders**
Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the Statement of Changes in Equity.

u. **New accounting standards, amendments, and interpretations**
The following new standards, amendments, and interpretations of FRS 102 were considered in the preparation of the 2021 financial statements.

In October 2020, FRS 102 was amended to require entities to recognise changes in operating lease payments that occur as a direct consequence of the COVID-19 pandemic, and meet specified conditions, on a systematic basis over the periods that the change in lease payments is intended to compensate. The treatment was considered to reflect the economic substance of the intended benefit of these concessions and their temporary nature and improve the consistency of reporting for users of financial statements. This amendment has no impact on CIL as the Company does not enter into any lease agreements.

1. RISK MANAGEMENT

The Company, through its risk management function and the Board, seeks to identify all material risks inherent in its business including emerging risks, understand the manifestations of each risk, then assess, control, mitigate and manage these risks appropriately.

The objectives of the Company's risk management function are to ensure that:

- all material risks are proactively identified;
- the probability and impact of each risk are quantified on a pre-mitigation and post-mitigation basis;
- the potential to cause losses or generate profits is understood and assessed;
- appropriate action is taken to manage the assumption of each risk based on that assessment and the Company's stated risk appetite;
- an appropriate level of capital is held to cover financial and non-financial risks from all sources; and
- following a severe catastrophic event(s), appropriate capital action can be executed for the Company to remain solvent and meet its obligations.

The oversight of the Company's risk management function falls within the remit of the Board of Directors. It pays particular attention to business strategy, capital allocation, risk control framework and ensures these are implemented.

The Company is exposed to risks from several sources. These fall into the broad categories of underwriting risk (comprising premium, catastrophe and reserve); financial risk (comprising interest rate, foreign exchange, credit and liquidity); operational risk; and strategic risk.

The Company has also considered its exposures to climate related risks, which are discussed further in the "Principal Risks and Uncertainties" section of the Directors' Report.

Underwriting risk

Underwriting risk consists of premium risk, catastrophe risk and reserve risk.

Underwriting risk arises either from the acceptance of risks that do not comply with the Company's underwriting guidelines and corporate strategy, or from the acceptance of risks that result in losses and expenses greater than it had anticipated at the time of underwriting.

As an insurance and reinsurance company, the Company is in the business of taking underwriting risk and therefore has a high appetite for underwriting risk. The Company's risk limits are defined in the Company's risk appetite and risk tolerance limits for all underwriting risks.

The Company has underwriting guidelines in place that clearly define each underwriter's authority, permitted territorial scope, risks to be written, risks to be avoided, acceptance limits, maximum policy period, maximum net retention, and outward reinsurance.

As part of the Company's risk control strategy and governance, there are a number of controls in place to help manage underwriting risk, including the underwriting guidelines, pre-bind and post-bind reviews, and defined underwriting authority limits for each underwriter, as well as defined maximum lines.

The Company employs experienced catastrophe analysts and modellers, and experienced and credentialed actuaries, to perform pricing analyses ensuring each risk is adequately priced. These work alongside experienced underwriters, with strong underwriting discipline, to help mitigate risk.

Financial risk

Financial risk refers to the risk of financial loss due to a change in the value of the Company's assets, or a change of market risk factors that affect the value of such assets. The Company has identified the following as its main sources of financial risks: interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Operational risk

Operational risk refers to the risk of financial or other loss, or potential damage to the Company's reputation resulting from inadequate or failed internal processes, people and systems, or from external events.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

Strategic risk

Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions, or inability to act in response to business opportunities, or to adapt to changes in its operating environment.

a. **Underwriting risk – premium**

Premium risk is the risk that the premium to be earned over the next 12-month period from the in-force, new or renewal insurance/reinsurance contracts is insufficient to cover the claim costs, claim adjustment expenses as well as the acquisition costs to be incurred by those contracts over the same period. Mitigation of underwriting risk is affected through diversification of underwriting both with respect to geography and line of business, as well as through a robust pricing and underwriting governance framework.

Details of gross premiums written by geographical area of risk insured are set out below.

	2021		2020	
	Gross premiums written		Gross premiums written	
Geographic area of risk insured	$	%	$	%
United States of America	757,623	47%	397,841	48%
United Kingdom	288,970	18%	100,731	12%
EU Member States	173,762	11%	107,107	13%
Other	387,297	24%	225,970	27%
	1,607,652	100%	831,649	100%

Details of gross premiums written by line of business are provided below.

	2021		2020	
	Gross premiums written		Gross premiums written	
Line of business	$	%	$	%
Direct insurance:				
Marine, Aviation and Transport	225,827	14%	149,336	18%
Fire and other damage to property	288,356	18%	137,138	16%
Third party liability	291,226	18%	100,667	12%
Miscellaneous	49,075	3%	32,305	4%
	854,484	53%	419,446	50%
Reinsurance:	753,168	47%	412,203	50%
	1,607,652	100%	831,649	100%

RISK MANAGEMENT *(continued)*

b. Underwriting risk – catastrophe

Catastrophe risk is the risk that the premium to be earned over the next 12 month period from the catastrophe exposed insurance/reinsurance contracts (in-force, new or renewal) is insufficient to cover potential claim costs, claim adjustment expenses as well as the acquisition costs associated with those contracts that may originate from extreme or exceptional catastrophic events over the same period, such as but not limited to hurricanes, earthquakes, windstorms, landslides, and terrorist attacks.

Catastrophe risk is classified as a separate and distinct class of underwriting risk mainly due to its low frequency and high severity characteristics, its potential to affect numerous contracts simultaneously, and inflict significant erosion of the Company's capital.

The Company has made a series of strategic moves to diversify, spread and dilute its catastrophic exposures as well as optimise its underwriting portfolio through geographical diversification and by spreading risks across multiple lines of businesses.

c. Underwriting risk – reserve

Reserve risk is the risk that the best (point) estimate of unpaid loss and loss adjustment expense reserves (collectively "claims reserves") are inadequate to cover all future payments for the settlement of claims from all prior accident years occurring at or before the valuation date.

Reserve risk is distinct from premium risk and is related to premium exposures that have already been earned, as well as claims outstanding.

A summary of changes in claims reserves is presented in Note 3. This comprises outstanding claims reserves, claims incurred but not reported reserves, unallocated loss adjustment reserves and any reinsurers' share thereof.

To manage reserving risk, the Company's actuarial team uses a range of externally sourced market benchmarks to project loss estimates to ultimate. As the Company grows and matures, and thus acquires internal development data, it will look to use a range recognised actuarial techniques to project gross premiums written to ultimate, monitor claims development patterns, and stress test ultimate insurance liabilities.

A full analysis of claims reserves is performed on a quarterly basis. The analysis is reviewed by and discussed with underwriters, actuaries, claims, finance and senior management prior to submission to the Reserve Committee, a sub-committee of the Group Executive Committee. The Reserve Committee's remit is to review the sufficiency of the estimated claims reserves and to critically assess the claims reserving practices of the Company.

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known large losses and catastrophes, or from inadequate provision for unknown losses. The impact of COVID-19 on the net reserves is immaterial as at 31 December 2021. The Company believes that the claims reserves established are adequate.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

c. Underwriting risk – reserve (continued)

Concentrations of claims reserves by line of business are provided below.

Gross claims reserves	2021 Claims Reserves $	2021 Claims Reserves %	2020 Claims Reserves $	2020 Claims Reserves %
Direct Insurance:				
Marine, Aviation and Transport	104,822	13%	56,160	20%
Fire and other damage to property	125,570	15%	26,288	9%
Third party liability	187,408	22%	38,876	14%
Miscellaneous	13,768	2%	4,996	2%
	431,568	52%	126,320	44%
Reinsurance	405,024	48%	159,596	56%
Total gross claims reserve	836,592	100%	285,916	100%

The table below summarises the development of gross ultimate cumulative claim estimates at the end of each financial year.

Gross Estimate of cumulative claims incurred	Underwriting Year 2019	2020	2021	Total
At end of Underwriting Year	6,306	280,081	518,000	
End of financial year 1	48,030	549,180		
End of financial year 2	39,789			
Current estimate of cumulative claims incurred	39,789	549,180	518,000	1,106,969
Cumulative payments to date	22,907	177,924	69,546	270,377
Gross outstanding claims liabilities	**16,882**	**371,256**	**448,454**	**836,592**

The table below summarises the development of net ultimate cumulative claim estimates at the end of each financial year, illustrating how amounts estimated have changed from the first estimate made.

Net Estimate of cumulative claims incurred	Underwriting Year 2019	2020	2021	Total
At end of Underwriting Year	2,560	100,493	167,245	
End of financial year 1	18,033	194,369		
End of financial year 2	14,450			
Current estimate of cumulative claims incurred:	14,450	194,369	167,244	376,063
Cumulative payments to date	8,184	63,404	23,968	95,556
Net outstanding claims liabilities	**6,266**	**130,965**	**143,276**	**280,507**

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

d. Financial risk – interest

Interest rate risk is a function of general economic and financial market factors (such as the level, trend and volatility of interest rates) as well as the characteristics of the individual debt securities held in the Company's investment portfolio. The Company cannot control the former, but it can control the latter.

The Company manages interest rate risk by calculating the average maturity and average duration of its debt securities portfolio. These indicators measure the sensitivity of the portfolio's valuation to changes in interest rates. There is currently minimal interest rate risk exposure on the portfolio as these are principally short-to-medium term in duration.

The investment mix of debt securities held in the portfolio is as follows:

	2021					
	Fixed rate		**Floating rate**		**Total**	
	Fair values		**Fair values**		**Fair values**	
Debt securities	**$**	**%**	**$**	**%**	**$**	**%**
Non-UK government and government agencies	839,605	60%	-	0%	839,605	59%
Mortgage-backed securities	32,312	2%	9,591	1%	41,903	3%
Corporate	489,494	35%	5,343	0%	494,837	35%
Asset-backed securities	-	0%	22,511	2%	22.511	2%
	1,361,411	97%	37,445	3%	1,398,856	100%

	2020					
	Fixed rate		**Floating Rate**		**Total**	
	Fair values		**Fair values**		**Fair values**	
Debt securities	**$**	**%**	**$**	**%**	**$**	**%**
Non-UK government and government agencies	603,004	63%	-	0%	603,004	63%
Mortgage-backed securities	24,447	3%	13,737	1%	38,184	4%
Corporate	322,025	33%	211	0%	322,236	33%
Asset-backed securities	-	0%	-	0%	-	0%
	949,476	99%	13,948	1%	963,424	100%

The sensitivity analysis for interest rate risk illustrates how changes in the portfolio's fair values will fluctuate because of changes in market interest rates at the reporting date. This is detailed below assuming linear movements in interest rates.

	2021		**2020**	
Shifts in market interest rates	**$**	**%**	**$**	**%**
100 basis points	(16,937)	(1.2%)	(10,501)	(1.1%)
75 basis points	(12,702)	(0.9%)	(7,876)	(0.8%)
50 basis points	(8,468)	(0.6%)	(5,251)	(0.5%)
25 basis points	(4,234)	(0.3%)	(2,625)	(0.3%)
(25) basis points	4,234	0.3%	2,625	0.3%
(50) basis points	8,468	0.6%	5,251	0.5%
(75) basis points	12,702	0.9%	7,876	0.8%
(100) basis points	16,937	1.2%	10,501	1.1%

The Company has minimal exposure to the rate reform, and the transition away from LIBOR reference rate.

RISK MANAGEMENT (continued)

e. Financial risk – foreign exchange

Although the Company's presentation and reporting currency is USD, it operates internationally and its exposures to foreign exchange risk arise from several currencies when their exchange rates fluctuate against USD. This impacts the non-USD denominated transactions, assets and liabilities. The Company seeks to mitigate foreign exchange risk by closely matching the estimated foreign currency denominated liabilities with assets in the same currency. With 97% of net assets currently held in USD, the impact on equity of a significant weakening or strengthening of the USD against other currencies is considered minimal but is regularly monitored.

2021	USD $000	GBP $000	EUR $000	CAD $000	AUD $000	JPY $000	Other $000	Total $000
Total assets	3,110,398	225,346	115,926	60,445	30,726	20,835	14,379	3,578,055
Total liabilities	(1,969,579)	(212,911)	(101,555)	(52,428)	(23,001)	(24,842)	(11,851)	(2,396,167)
Total equity	1,140,819	12,435	14,371	8,017	7,725	(4,007)	2,528	1,181,888

2020	USD $000	GBP $000	EUR $000	CAD $000	AUD $000	JPY $000	Other $000	Total $000
Total assets	1,859,488	88,426	56,058	15,663	14,144	13,429	2,867	2,050,075
Total liabilities	(972,182)	(92,874)	(55,499)	(14,749)	(13,629)	(8,101)	(2,128)	(1,159,162)
Total equity	887,306	(4,448)	559	914	515	5,328	739	890,913

f. Financial risk – credit

Credit risk is the risk of potential financial loss due to unexpected default, or deterioration in the credit ratings of asset counterparties - causing a loss in asset values. These include in/reinsurance debtors receivable from brokers/cedants and financial investments with a diverse range of counterparty issuers.

Credit risk on in/reinsurance debtors is managed by conducting business with reputable intermediaries, with whom the Company has established relationships, and by rigorous cash collection procedures on overdue debtors.

Credit risk on financial investments is managed by stipulating a minimum credit rating score for each security within an asset class, setting exposure limits in each credit rating band, and limiting the amounts of credit exposure with any one counterparty.

Investment guidelines are established to manage this risk. These guidelines set parameters within which the external investment managers must operate. The investment guidelines specify the limitations on the maximum percentage of assets that can be invested in a single issuer or in a single asset class. There are also specific limitations on the maximum maturity for various asset classes and minimum requirements of credit ratings.

Debtors arising out of in/reinsurance operations:

- These reflect counterparty credit exposures to policyholders/cedants that arise in the course of conducting underwriting activities. The Company transacts most of its in/reinsurance business through major and reputable intermediaries, where the relationships are either governed by terms of business agreements of a non-risk transfer type, or the law of agency in absence of agreements – where the legal effect of either is the same.
- Legally, this means the Company is not on risk until the monies are received from policyholders/cedants by the Company – as the intermediary is acting in its capacity as agent rather than as principal. Consequently, monies received from policyholders/cedants by intermediaries that fail to pass these on will not result in the Company being on risk. Therefore, the Company's overall counterparty credit exposures are deemed to be low as the in/reinsurance coverage with policyholders/cedants could be cancelled pro rata temporis if monies are not received.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

f. Financial risk – credit (continued)
An analysis of the financial investment exposures by counterparty credit ratings is as follows.

	2021				
	Debt securities	Participations In investment pools	Cash at bank and in hand	Reinsurance Debtors*	Total
AAA	887,848	2,387	3,192	-	893,427
AA+	11,289	-	-	-	11,289
AA	21,641	-	10,971	-	32,612
AA-	50,496	-	-	15,408	65,904
A+	65,925	-	63,299	21,056	150,280
A	138,161	-	-	886	139,047
A-	84,046	-	-	28,231	112,277
BBB+	75,006	-	-	-	75,006
BBB	52,084	-	-	-	52,084
BBB-	12,360	-	-	-	12,360
B	-	5,106	-	-	5,106
	1,398,856	7,493	77,462	65,581	1,549,392

	2020				
	Debt securities	Participations In investment pools	Cash at bank and in hand	Reinsurance Debtors*	Total (restated*)
AAA	302,270	2,759	-	-	305,029
AA+	6,740	-	-	-	6,740
AA	11,899	-	141,625	-	153,524
AA-	23,388	-	-	4,915	28,303
A+	29,379	-	-	684	30,063
A	103,476	-	-	64	103,540
A-	394,568	-	-	15,332	409,900
BBB+	46,075	-	-	-	46,075
BBB	39,493	-	-	-	39,493
BBB-	6,136	-	-	-	6,136
	963,424	2,759	141,625	20,995	1,128,803

*Reinsurance debtors were not presented in the prior year financial statements. The total in the comparative table has been restated to reflect this additional disclosure.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

g. Financial risk – liquidity

Liquidity risk is the risk that the Company is unable to meet its contractual obligations in a timely manner due to the inability of its investment assets to be sold without causing a significant movement in the price and with minimal loss in value, and therefore impact on size of assets.

The Company aims to keep liquidity risk as low as possible to be able to meet its contractual obligations in a timely manner, even under stressed scenarios such as following a major catastrophic event.

The Company's investment guidelines put the safety and liquidity of its investable assets before and above its pursuit of investment returns. The Company holds a significant amount of its assets in shorter-term cash, deposits and investment pools. Its longer-term assets are invested in debt securities, almost all of which are of high credit quality and can be sold on the open market quickly with little or no impact on prices.

The maturity dates of financial investments and cash at bank and in hand are as follows:

	2021				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Debt securities	835,404	387,970	149,816	25,666	1,398,856
Participations in investment pools	7,493	-	-	-	7,493
Cash at bank and in hand	77,462	-	-	-	77,462
	920,359	387,970	149,816	25,666	1,483,811

	2020				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Debt securities	620,926	242,584	96,116	3,798	963,424
Participations in investment pools	2,759	-	-	-	2,759
Cash at bank and in hand	141,625	-	-	-	141,625
	765,310	242,584	96,116	3,798	1,107,808

The maturity dates of claim reserves (excluding unearned premium reserves) shown below are based on estimated future payment outflows.

	2021				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Reinsurers' share of claims reserves:					
Ceded Outstanding claims	(53,924)	(39,883)	(11,176)	(9,092)	(114,075)
Ceded claims incurred but not reported	(151,504)	(152,221)	(65,698)	(64,535)	(433,958)
Ceded unallocated loss adjustment expenses	(3,021)	(2,822)	(1,128)	(1,081)	(8,052)
	(208,449)	(194,926)	(78,002)	(74,708)	(556,085)
Gross claims					
Gross outstanding claims	86,762	59,368	16,838	13,769	176,737
Claims incurred but not reported reserves	239,179	219,379	94,211	93,061	645,830
Unallocated loss adjustment expense reserves	5,567	4,752	1,889	1,816	14,024
	331,508	283,499	112,938	108,647	836,592

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

g. Financial risk – liquidity (continued)

	2020				
	0-1 year	1-3 years	3-5 years	> 5 years	Total
Reinsurers' share of claims reserves:					
Ceded Outstanding claims	15,186	14,757	3,923	3,388	37,254
Ceded claims incurred but not reported	44,095	52,237	20,049	26,075	142,456
Ceded unallocated loss adjustment expenses	1,267	1,432	512	388	3,599
	60,548	68,426	24,484	29,851	183,309
Gross claims					
Gross outstanding claims	29,819	20,358	5,609	5,086	60,872
Claims incurred but not reported reserves	84,983	70,772	27,954	36,386	220,095
Unallocated loss adjustment expense reserves	2,022	1,605	591	731	4,949
	116,824	92,735	34,154	42,203	285,916

h. Operational risk

The following are some examples of operational risks facing the Company:

- Legal and compliance risk.
- Information technology risk.
- Loss of key officers or employees.
- System failure and business interruption.
- Execution errors.
- Employment practice liability.
- Internal and external fraud.

Operationally, CIL was well-equipped to cope with remote working thanks to its agile and modern technology, making the volatile nature of multiple lockdowns less disruptive. This enabled CIL to continue writing business throughout the year with minimal disruption caused by COVID-19. Both the HR and Marketing teams provided various networks and initiatives to ensure that CIL employees were supported, with employee well-being always being a priority for senior management. These risks are managed through internal control processes and monitoring tools such as the risk register.

The Company has a low appetite for operational risk. Unlike underwriting and financial risks, operational risk has no upside and only downside, and therefore should be avoided if feasible and cost-effective.

Operational risk is difficult to quantify but can only be controlled through appropriate corporate governance and internal control measures. The Company has developed a number of policies and procedures aimed to control or mitigate the negative impact that may potentially result from operational risk events.

RISK MANAGEMENT (continued)

i. Strategic risk

The following are examples of strategic risks facing the Company:

- Planning processes that are not fully integrated with internal financial indicators and external benchmarks or are based on forecasts that are inherently optimistic.
- Deficiencies and weaknesses in understanding of regulatory requirements, and risk comprehension by claims handling staff.
- Failure of large information technology and infrastructure projects to achieve specified goals.

Strategic risks are monitored on a continuous basis using a variety of qualitative and quantitative measures, including peer and third-party review where appropriate. The responsibility for strategic risk control and mitigation rests with the Executive Committee, which reports directly to the Board of Directors.

j. Capital management

The Company attempts to identify and appropriately define all material risks internal and external to the Company, understand the manifestations of each risk, and ensure that risks are managed, controlled or mitigated. To the extent that a risk is not fully mitigated, the Company will measure the financial impact of the risk and include it in its capital adequacy assessment and measurement framework.

The Company's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business.
- To satisfy the requirements of its policyholders, regulators and rating agencies.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To allocate capital efficiently in order to support stability.
- To manage exposures in line with movements in exchange rates.

The Company has various sources of capital available to it and seeks to optimise its capital usage to consistently optimise shareholder returns. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its capital deployment and associated usage. The Company manages as capital, all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Prudential Regulation Authority and the Financial Conduct Authority. As a regulated entity, it is subject to insurance solvency regulations under the EU Directive and the Solvency II Directive - which specify the minimum amount and type of capital that must be held in excess of its insurance liability obligations - in order to meet a certain solvency threshold. The Company manages capital in accordance with these rules and has embedded in its asset liability management framework the necessary tests to ensure continuous and full compliance with such regulations. In summary:

At 31 December 2021, under the Solvency II Directive (effective 1 January 2016) the estimated total capital available to meet the Solvency Capital Requirement (being the Own Funds) is $1,202,753 (2020: $868,923) (unaudited) with the estimated Solvency Capital Requirement at $714,323 (2020: $428,245) (unaudited) and the estimated total capital available to meet the Minimum Capital Requirement at $178,581 (2020: $107,061) (unaudited).

The Company has complied with all externally imposed capital requirements throughout the period.

Whilst the capital requirement is assessed according to the Solvency II standard capital formula, the Company also manages capital by reference to various self-assessed risk-based measures.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

RISK MANAGEMENT (continued)

k. Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and the Company considers factors specific to the asset or liability.

Below is a summary of assets that are measured at fair value on a recurring basis:

	2021			
Financial assets at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Listed debt securities	831,552	567,304	-	1,398,856
Participations in investment pools	2,387	5,106	-	7,493
Deposits with credit institutions	-	-	-	-
Cash at bank and in hand	77,462	-	-	77,462
	911,401	572,410	-	1,483,811

Financial assets at fair value	Level 1	Level 2	Level 3	Total
Listed debt securities	603,004	360,420	-	963,424
Participations in investment pools	2,759	-	-	2,759
Deposits with credit institutions	-	-	-	-
Cash at bank and in hand	141,625	-	-	141,625
	747,388	360,420	-	1,107,808

No transfers made from Levels 1 or 2 into Level 3, and vice versa, within the fair value hierarchy.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

2. SEGMENTAL INFORMATION

Analyses by line of business

	2021					
	Gross premiums written	**Gross premiums earned**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balances**	**Total**
Direct insurance:						
Marine, aviation and transport	225,827	185,778	(76,044)	(44,576)	(56,867)	8,291
Fire and other damage to property	288,356	210,109	(150,083)	(64,360)	(10,125)	(14,459)
Third party liability	291,238	216,008	(147,947)	(58,990)	(16,911)	(7,840)
Miscellaneous	49,074	21,164	(17,164)	(10,267)	1,779	(4,488)
	854,495	633,059	(391,238)	(178,193)	(82,124)	(18,496)
Reinsurance:	753,157	569,542	(396,898)	(149,435)	(65,293)	(42,084)
	1,607,652	1,202,601	(788,136)	(327,628)	(147,417)	(60,580)

	2020					
	Gross premiums written	**Gross premiums earned**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balances**	**Total**
Direct insurance:						
Marine, aviation and transport	149,336	88,980	(59,951)	(26,011)	(12,288)	(9,270)
Fire and other damage to property	137,138	71,239	(33,793)	(23,515)	(27,777)	(13,846)
Third party liability	100,667	44,753	(38,484)	(14,561)	1,458	(6,834)
Miscellaneous	32,305	6,871	(4,931)	(2,103)	(1,137)	(1,300)
	419,446	211,843	(137,159)	(66,190)	(39,744)	(31,250)
Reinsurance:	412,203	272,360	(181,747)	(80,996)	(47,310)	(37,693)
	831,649	484,203	(318,906)	(147,186)	(87,054)	(68,943)

(Expressed in thousands of U.S. Dollars except for Share Amounts)

3. TECHNICAL PROVISIONS

	Provisions for unearned premiums	Claims outstanding (1)	Deferred Acquisition Costs (2)	Net technical liabilities
Gross of reinsurance				
At 1 January 2021	433,910	285,916	(60,861)	658,965
Movement in provision	405,051	559,505	(83,240)	881,316
Exchange adjustments	(7,182)	(8,829)	1,399	(14,612)
At 31 December 2021	**831,779**	**836,592**	**(142,702)**	**1,525,669**
Reinsurance				
At 1 January 2021	287,557	183,309	(50,614)	420,252
Movement in provision	246,038	374,915	(34,294)	586,659
Exchange adjustments	(1,727)	(2,139)	391	(3,475)
At 31 December 2021	**531,868**	**556,085**	**(84,517)**	**1,003,436**
Net				
At 31 December 2021	299,911	280,507	(58,185)	522,233
At 31 December 2020	146,353	102,607	(10,247)	238,713

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of $645,831 gross of reinsurance and $433,958 reinsurer's share of IBNR reserves (2020: $220,095 gross; $142,456 reinsurer's share).
(2) Reinsurer's share of deferred acquisition costs is included in accruals and deferred income (See Note 18)

4. NET OPERATING EXPENSES

	2021	2020
Net operating expenses comprise:		
Acquisition Costs	263,871	121,612
Change in deferred acquisition costs	(83,240)	(53,467)
Administrative expenses	146,997	79,041
Reinsurers' share of acquisition costs	(170,686)	(99,884)
Change in deferred reinsurance commissions	34,294	44,206
Realised foreign exchange gains	(107)	1,349
Unrealised foreign exchange gains	(3,250)	(5,947)
	187,879	**86,910**

In the current year financial statements, realised and unrealised foreign exchange gains/(losses) have been reclassified from Investment Return to Net Operating Expenses. As a result, the presented comparatives have been adjusted.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

5. AUDITORS' REMUNERATION

During the period, the Company obtained the following services from its auditor:

	2021	2020
Fees payable to the Company's auditor for the audit of the Company's financial statements	653	485
Additional fees related to the prior year audit of the Company's financial statements	55	-
Fees payable to the Company's auditor for audit-related assurance services	196	48
Total fees payable to the Company's auditor	**904**	**533**

Audit-related assurances comprise of services in relation to the Company's Solvency II regulatory return.

6. EMPLOYEES AND DIRECTORS

Employees

The Company has no employees and receives services from individuals employed by a fellow subsidiary within the wider Convex Group, Convex UK Services Limited. Further details on those employees can be found in the financial statements of Convex UK Services Limited, copies of which may be obtained from its registered office: 52 Lime Street, London, EC3M 7AF.

Included within operational expenses are amounts for $126,302 (2020: $67,259) in relation to expense recharges from Convex Services UK Limited for services performed on behalf of the Company.

Directors

All executive Directors of the Company are employed by Convex UK Services Limited. The Company has been recharged $1,239 for their services during the year (2020: $499) of which $7 (2020: $2) was in relation to contributions to the defined contribution pension scheme. The remuneration charge for the highest paid Director as recharged to the Company was $522 (2020: $163) with $5 contribution to the defined contribution pension scheme (2020: $2).

Key Management Compensation

Key management includes Directors and members of the senior management team. The total paid to key management for employee services is show below:

	2021	2020
Salaries and other short-term benefits	4,186	2,081
Post-employment benefits	102	64

(Expressed in thousands of U.S. Dollars except for Share Amounts)

7. INVESTMENT RETURN

	2021	2020
Income from debt securities	7,414	6,957
Income from participations in investment pools	1	46
Income from deposits with credit institutions and cash at bank and in hand	21	49
Investment income	7,436	7,052
Realised gains on investments	519	3,440
Unrealised (loss) / gains on investments	(10,687)	5,366
Investment expenses	(1,482)	(1,755)
Net investment return	(4,214)	14,103

In the current year financial statements, realised and unrealised foreign exchange gains/(losses) have been reclassified from Investment Return to Net Operating Expenses. As a result, the presented comparatives have been adjusted.

8. CORPORATION TAX

a. Tax credit on profit on ordinary activities

	2021	2020
United Kingdom corporation tax		
Current tax on income for the year	(3,735)	(1,522)
Adjustments in respect of previous financial years	(680)	(99)
Total current taxation credit	(4,415)	(1,621)
United Kingdom deferred tax movements		
Origination & reversal of timing differences	-	1,270
Adjustments in respect of previous financial years	-	69
Total deferred tax charge	-	1,339
Tax credit on loss on ordinary activities (refer to Note 8(b))	(4,415)	(282)

(Expressed in thousands of U.S. Dollars except for Share Amounts)

CORPORATION TAX (continued)

b. Factors affecting tax charge for the period

The tax assessed on the profit on ordinary activities for the period is different than that resulting in applying the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	2021	2020
Loss on ordinary activities before tax	(61,440)	(50,242)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 19%	(11,674)	(9,546)
Factors affecting the change:		
Rate change adjustments	-	(150)
Prior year adjustment – deferred tax	(680)	(30)
Deferred tax not recognised	7,931	9,444
Permanent differences	8	-
Total factors affecting change	7,259	9,264
Tax credit for the year (refer Note 8(a))	(4,415)	(282)

c. Factors that may affect future tax charges

The deferred tax included in the statement of financial position is as follows:

	2021	2020
Losses	-	-
Deferred tax asset	-	-

An analysis of the movement in deferred tax is as follows:

	2021	2020
At 1 January	-	1,339
Prior year adjustment	-	(69)
Current year movement	-	(1,270)
At 31 December	-	-

A deferred tax asset should only be recognised in respect of carried forward losses to the extent that it is considered probable that future profits will arise against which the carried forward losses can be offset. On the basis that there is a significant degree of uncertainty as to where such future profits will arise in CIL, no deferred tax asset has been recognised in respect of the carried forward losses. The unrecognised deferred tax asset at December 31 is $21,836 (2020: $9,444).

In 2021 the UK Government substantively enacted a change to the rate of Corporation tax, which will rise from 19% to 25% from April 1 2023. This has led to an uplift in the value of the unrecognised deferred tax asset by $5,241.

(Expressed in thousands of U.S. Dollars except for Share Amounts)

9. FINANCIAL INSTRUMENTS

The company has the following financial instruments:

	Fair Value		Cost	
	2021	**2020**	**2021**	**2020**
Debt securities	1,398,856	963,424	1,409,380	957,108
Participations in investment pools	7,493	2,759	7,387	2,759
	1,406,349	966,183	1,416,767	959,867

10. DEBTORS ARISING OUT OF DIRECT INSURANCE AND REINSURANCE OPERATIONS

	2021	**2020** (restated*)
Amounts falling due within one year	715,430	381,299
Amounts falling due after one year	46,814	21,430
	762,244	402,729

*In the prior year financial statements this disclosure did not include debtors arising out of reinsurance operations. As such, the amounts have been restated in this disclosure for the comparative period to include debtors from reinsurance operations.

11. CREDITORS ARISING OUT OF DIRECT INSURANCE AND REINSURANCE OPERATIONS

	2021	**2020**
Amounts falling due within one year	604,460	370,718
Amounts falling due after one year	-	-
	604,460	370,718

12. AMOUNTS DUE FROM OTHER GROUP COMPANIES

	2021	**2020**
Due from fellow subsidiaries	-	975

13. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

	2021	**2020**
Other debtors	6,075	3,497
Value added tax recoverable	-	434
	6,075	3,931

(Expressed in thousands of U.S. Dollars except for Share Amounts)

14. SHARE CAPITAL

	2021	2020
Allotted, called up and fully paid		
7,321,000,000 (2020: 6,973,000,000) ordinary shares of $0.05 each	366,050	348,650

- On 27 September 117,000,000 ordinary shares were issued for $117,000 (Par: $0.05 per share, share premium: $111,150)
- On 23 December 231,000,000 ordinary shares were issued for $231,000 (Par: $0.05 per share, share premium: $219,450)

The Company is a private company limited by shares and is incorporated in England. The address of its registered office is 52 Lime Street, London, United Kingdom.

15. INVESTMENT IN SUBSIDIARIES

In 2021, CIL provided $85,000 capital contribution to the newly created Luxembourg subsidiary, CES, as well as $4,000 to the new US entity, CUS.

To determine fair value, a value in use calculation was performed using cash flow projections covering a period of five years. A discount rate of 6% was applied to the cash flow projections to determine the net present value ("NPV"). Fair Value less cost to dispose is estimated based on the net asset value of the subsidiary.

16. AMOUNTS OWED TO GROUP COMPANIES

	2021	2020
Due to parent companies	2,066	1,224
Due to fellow group companies	27,474	5,789
	29,540	7,013

The amounts due to the parent company and fellow group companies are non-interest bearing.

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2021	2020
Amounts falling due within one year		
Other creditors	71	1,299
Taxation and social security	5,422	7,268
	5,493	8,567

18. ACCRUALS AND DEFERRED INCOME

	2021	2020
Unearned reinsurance commission	84,517	50,614
Accruals	3,786	2,424
	88,303	53,038

(Expressed in thousands of U.S. Dollars except for Share Amounts)

19. GUARANTEES, FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

a) Guarantees

The Company has no guarantees

b) Annual Commitments

The Company has no annual commitments in respect of non-cancellable operating leases.

c) Pledged investments

The Company holds restricted assets comprising cash at bank and in hand, short-term investments and fixed maturity investments that were pledged and held in trust during the normal course of business with various regulatory authorities. The Company held $77 (2020: $77) collateral for a FEC Letter of Credit, $13,036 (2020: $6,187) in NAIC Trust and $260,391 (2020: $98,842) to provide collateral or guarantees for letters of credit to third parties.

20. CREDIT FACILITIES

An Uncommitted Standby Letter of Credit Facility with Citibank Europe plc ("Citibank") was entered into on 12 February 2020, under which Citibank made available a letter of credit facility in the amount of $200,000 (shared with CRL). The facility was renewed on 25 November 2021. The renewal was amended to increase the facility to $300,000. The agreement provides for a secured, uncommitted facility under which letters of credit may be issued from time to time. The facility will be used to secure obligations of CIL to its policyholders. Pursuant to the agreement, the applicants may request secured letter of credit issuances. The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. As at 31 December 2021, there were $119,540 (2020: $69,266) of secured letters of credit outstanding under this agreement, secured by collateral in the amount of $185,420 (2020: $92,578).

On 10 November 2021 a new a Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds") was established, under which Lloyds committed to a letter of credit facility in the amount of $100,000. On 22 November 2021 the facility was amended to increase the overall commitments to $150,000. The letter of credit facility is secured and supports the insurance and reinsurance obligations. As at 31 December 2021, there were letters of credit outstanding under this facility of $24,998 (2020: Nil), secured by collateral in the amount of $74,971 (2020: Nil).

21. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Convex Re Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Convex Group Limited.

Copies of the Convex Group Limited consolidated financial statements can be obtained from Estera Services (Bermuda) Ltd at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

22. EVENTS AFTER THE REPORTING PERIOD

The Company has completed its review of events after the Statement of Financial Position date of 31 December 2020 through 8 April 2021, the date the financial statements were authorised for issue.

On February 24, 2022 Russia launched an invasion of Ukraine escalating the ongoing conflict between the two countries. The Company is monitoring, and complying, with sanctions and government guidance, and is in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures. In terms of underwriting exposures the Company has exposure in various classes of business, including but not limited to, Aerospace, Marine, and Political Violence. There is a high degree of uncertainty in relation to the value of the insured losses.