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CONVEX INSURANCE UK LIMITED

Annual Report

For the year ended 31 December 2022

Contents

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Business Model

Convex Insurance UK Limited ("CIL" or the "Company") is a Convex Group Limited ("CGL", "Group", "Convex" 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.

Convex Europe S.A. ("CES") is a non-life insurance company incorporated in Luxembourg, and has a UK branch approved by the FCA and PRA. It is a 100% owned subsidiary of CIL, and began writing business in November 2021. Convex North America Insurance Services LLC ("CUS") is a managing general agent and is also a 100% owned subsidiary of CIL. Note that this annual report represents CIL on a standalone basis. CIL is exempt from preparing consolidated accounts under the rules in Section 401 of the Companies Act 2006 because CRL (CIL's immediate parent company) prepares consolidated accounts under US GAAP, which is considered an equivalent reporting framework to accepted accounting standards in the UK.

CIL has continued to develop as a forward-looking insurer, establishing itself as a scale player in the global specialty Property and Casualty ("P&C") market. This involves leveraging the expertise and experience from senior management 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.

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 strategic decisions to achieve the Company's objectives.

Key performance indicators	Description	2022 $m	2021 $m
Gross premiums written		$2,063.8	$1,607.7
Net premiums written	Written premiums, net of reinsurance	$767.9	$554.2
Net premiums earned	Earned premiums, net of reinsurance	$638.1	$395.2
Underwriting result	Balance on technical account (before investment income)	$(2.9)	$(57.2)
Net loss ratio	Ratio of claims incurred, net of reinsurance to earned premiums, net of reinsurance	49.7%	66.9%
Expense ratio	Ratio of net operating expenses to earned premiums, net of reinsurance	50.7%	47.5%
Net combined ratio	Sum of net loss ratio and expense ratio	100.4%	114.4%
Investment return	Net investment income/(loss) after unrealised gains/losses and investment expenses and charges	$(41.4)	$(4.2)
Capital and reserves	Total capital including accumulated loss	$1,510.1	$1,181.9
Own funds	Total capital and reserves as calculated using the Solvency II rules	$1,574.8	$1,202.8
SCR	Solvency Capital Requirement	$901.2	$714.3
Solvency ratio	Ratio of SCR to Own Funds	175%	168%

Some of the KPIs that the Company uses to measure performance are taken from non-GAAP regimes. Specifically, the Company is regulated under the Solvency II regime and therefore metrics from this regime, such as Own Funds and the Solvency Capital Requirement ("SCR"), are monitored. Own Funds represent the available capital resources determined under the Solvency II regime, and consist of CIL's ordinary share capital and retained earnings under the Solvency II balance sheet. The SCR is the amount of Own Funds that CIL is required to hold under Solvency II. The SCR is calculated using the Standard Formula, which is a prescribed approach to calculating the SCR under Solvency II and is calibrated by the PRA to ensure that all quantifiable risks are taken into account.

Business Review (continued)

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	2022	2021
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. A strong response rate is indicative of employee empowerment, as well as engagement in providing feedback.	91%	94%
IT	IT tickets closed within two business days: Efficient handling of IT issues improves operational efficiency.	98.0%	93.8%
Reinsurance Operations	Percentage of reinsurers rated A- or fully collateralised: Engaging with well-rated reinsurers contributes to delivering high-quality results for the business. Note that reinsurers below A- rating are fully collateralised.	100%	100%

Convex Group makes use of external benchmarking and market ratings surveys to assess our performance and direction of travel against our strategic pillars. Convex is in the process of developing additional metrics and targets, including for our Environmental, Social, and Governance ("ESG") goals; these will be reflected in monitoring of CIL as appropriate.

Results and performance:

In 2022 CIL focused on continued business growth, which has resulted in an increase in gross premiums written to $2,063.8 million (2021: $1,607.7 million). CIL maintained its prudent approach to risk retention which led to significant use of reinsurance protection resulting in net premiums written of $767.9 million (2021: $554.2 million).

While 2022 underwriting results improved from the previous year, the Company was exposed to impacts from Hurricane Ian, the Ukraine/Russia conflict, inflation, and volatility in global financial markets. Losses from Hurricane Ian and the Ukraine/Russia conflict are in line with expectations given the Company's market share, and were offset marginally by favourable development on 2021 events, Winter Storm Uri and Hurricane Ida. Claims reserves were further impacted by rising inflation rates, which CIL has incorporated into its reserving methodology for the year. Rising inflation and interest rates had an adverse impact on financial markets globally, driving unrealised losses which offset coupon income, leading to a negative mark-to-market investment result.

Expenses increased in 2022 due to a return to more "business as usual" activity levels after the impacts of COVID-19 in the previous year, as well as project initiatives across the Company which continued to build our infrastructure and systems to support the Company's rapid growth. This growth resulted in increased headcount, and personnel-related costs such as IT and Travel & Entertainment. The majority of CIL's expenses are personnel-related and paid in Sterling, therefore the strengthening US Dollar has slightly offset the increase in expenses.

As a result of these factors, the company made a net loss of $42.0 million in 2022 (2021: net loss of $57.0 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 $370.3 million of additional capital was paid in full into the Company from CRL to support investment in CES and CUS and the Company's future growth ambitions.

At 31 December 2022, under the Solvency II Directive, the estimated total capital available to meet the Solvency Capital Requirement (being the Own Funds) is $1,574.8 million (2021: $1,202.8 million), with the estimated Solvency Capital Requirement at $901.2 million (2021: $714.3 million) and the Minimum Capital Requirement at $225.3 million (2021: $178.6 million). The Company has complied with all externally imposed capital requirements throughout the year. For additional GAAP metrics see Key Performance Indicators noted above.

Business Review (continued)

Strategy and Objectives

Our financial and non-financial KPIs measure against CIL's strategy and objectives. CIL adheres fully to the Group's strategy which is anchored around our three strategic pillars:

1. Attracting the finest talent and creating a values driven culture to become our client's favourite insurer.
At Convex, our employees are our greatest asset, and ensuring they are positive, engaged and well-informed remains key to our success. Building a team of talented people is fundamental to delivering the Group's objectives. Convex's culture is our unique selling point, and we aim to create an environment where employees feel their talent is recognised, whilst they can positively contribute, and continue to develop as professionals.

2. Deliver operational excellence, through strong execution and high quality outcomes with a market-leading low expense ratio.
The Group's vision is to deliver excellent business and client outcomes which delight our customers whilst strengthening the Convex brand, at a lower cost than our competitors. Convex Group is focused on building an operating architecture/framework that is scalable, flexible and nimble.

3. Use data and technology to make better decisions.
At Convex, a data-driven culture is fundamental to our strategy. The Company aspires to make informed underwriting decisions using data and analytics, which will give us a competitive advantage over peers and competitors.

Environment, Social, and Governance Strategy
The Company is continuing to develop its Environmental, Social, and Governance ("ESG") framework and initiatives, including an assessment of the impact of climate change.

Convex Group believes strongly in the importance of behaving in a responsible manner to promote environmental and social sustainability both within, and beyond, our organisation. In this ever-changing world, our approach to sustainability is continuing to develop as we reflect and assess current and emerging ESG issues.

Convex Group considers a wide range of topics in this area; please see our Sustainability Report (https://convexin.com/about-us/sustainability/). Refer to page 14 for CIL's Streamlined Energy and Carbon Reporting.

Future Outlook

Convex entered a dislocated market in 2019 against a backdrop of volatility and we are pleased with the scale and market presence we have achieved thus far.

The UK economy finds itself in a state of flux against a backdrop of an increasingly destabilised global geopolitical landscape, and as we look ahead to 2023, the specialty insurance and reinsurance market remains dynamic. The market has been impacted by a number of major losses in 2022, rising inflation rates, slow development of losses from the Ukraine/Russia conflict, continuation of responses to COVID-19 losses, and mark-to-market losses on investments. Alongside the capital constraint across the market, this means we are likely to see further dislocation emerging.

The hard work over the last three years to build strong underwriting, relevance in the market, scale and resilience means we are well placed to continue building scale amidst the dislocation in the current market, and become our client's favourite insurer.

In addition, the launch of CUS in 2022 will help to further expand CIL's distribution capabilities and contribute to its continued growth.

Ukraine/Russia Conflict

Convex was appalled by Russia's invasion of Ukraine, and recognises the tragic impact on the people of Ukraine and the global community. The Company continues to comply with government guidance and sanctions; the Claims, Underwriting, Legal and Compliance teams are all working very closely together to understand and manage the uncertainties and impact to Convex as the picture continues to evolve.

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.

Underwriting risk

Underwriting 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; and
- inadequate reinsurance protection.

The Company seeks to manage underwriting 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 Company's limited 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 and the Miami Hurricane Deterministic Scenarios to evaluate a series of outcomes to assess the impact of global warming and climate-related events. While the outcomes of this exercise are deterministic at this stage, this tool will evolve, enabling the Company to monitor and manage the impact of climate related risks. CIL will continue its ongoing assessment of the impact of climate change risk through 2023, which will include refinement of its risk appetite and establishment of metrics.

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. Compliance against risk limits is monitored on a continuous basis, 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 help ensure that risks in the current portfolio and in new investment proposals can be identified, measured, monitored, managed, and controlled.

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 assessed within each function for operating effectiveness to ensure that risks identified are being mitigated as expected.

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. The implementation of strategic plans is managed by Convex Group's Head of Strategy. The Company also has a robust business planning process, which considers the evolution of CIL over a multi-year period.

Emerging Risks

Emerging risks in 2022 include inflation and climate risks, which cut across the above risk types and are areas of focus in the current year.

Inflation risk

Inflation has been one of the key risks monitored by the Company during 2022. Inflation resurfaced as a risk in 2022, and as a consequence the central banks increased base rates sharply. This resulted in higher prices and subsequently the cost of living crisis. Convex has considered the impacts of inflation on the business including claims, reserving, and pricing.

The Company observed increases in claims inflation, most significantly social inflation in US casualty business, but also in other lines. Incurred but not Reported ("IBNR") reserving methodology included a class of business assessment of the propensity for inflationary pressures, and applied
an appropriate change to initial expected loss ratios for the relevant classes. The business plan loss ratios and pricing models have also been adjusted to reflect our expected view of inflation. The achieved rate change is also monitored closely against the Company view of inflation to make sure that prices are keeping pace with inflation.

Inflation risk has been partially mitigated by the purchase of inflation-sensitive assets such as Treasury Inflation-Protected Securities ("TIPS"). The Board and respective sub-committees monitor the impacts of inflation on reserving, pricing and our investments including looking at investment strategies that mitigated inflation risk.

Climate Risk

The effects of climate change and global warming are increasingly apparent, as evidenced by increased heatwaves, erratic rainfall and greater weather extremes.

The risks to insurers associated with such changes are complex and need to be considered alongside other developing risk factors such as inflation and urbanisation, as well as the transition to a net zero pathway. The increasing loss to insurers from weather related events such as Californian wildfires, European floods, or the increased frequency and severity of hurricanes are becoming increasingly evident and means Convex needs to continually enhance its ability to assess this changing risk profile.

Convex's strategic approach to mitigating and managing risks from climate change is a journey. There is ongoing work to expand risk assessment and risk-mitigating initiatives across physical, transition and liability risks to develop better understanding of our material exposures and define our long-term strategic approach to these risks.

Convex's Risk Register has been updated to include physical risk, transition risk and liability risks:

<u>Physical Risk</u>
An increase in the frequency and severity of specific weather events which occur as a result of climate change, e.g. floods, heatwaves and wildfires; or longer terms shifts in the climate such as a rise in the sea level or rising mean temperatures.

<u>Transition Risk</u>
The process of adjustment towards a low carbon economy, e.g. the impact on business models from the emergence of disruptive technology, as well as changes in government policy and consumer preferences.

Principal Risks and Uncertainties (continued)

Climate Risk (continued)

Liability Risk
The risk of parties who suffer loss from climate change seeking to recover those losses from those who they believe may have been responsible, which may be insurers or their assureds.

The inclusion of climate risks within the risk register allows the risk team, and key stakeholders, to continually assess the risk and controls, and establish mitigating actions where necessary. Climate change risk has been incorporated into the Group Risk Management framework as a dedicated section, and will be further brought into the review of risk policies during their natural review cycle.

Convex has undertaken an assessment of the impact of the risks noted above to our books of business, including development of a framework to measure the degrees of exposure to specific lines of business. This process will help inform and drive management action such as further scenario analysis, deep dives into specific risk areas, and other business planning considerations.

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:

- Convex has held regular all-staff Townhall meetings hosted by the Convex Group Executive Chairman and CEO.
- Convex holds an annual Convex Family Festival in Bermuda and the UK for all Convex employees ("Convexians") and their family members to provide an opportunity to relax and meet the wider Convex family.
- In 2022, Convex Group continued the Convex Dream Pitch, which was an initiative whereby the Company asked employees to pitch their dreams, or something they might not have the time, money or resource to achieve. Convex accepted employee submissions for a wide array of personal goals and awarded one winner.
- Convex has launched a new offering to our UK-based employees to provide access to a clinical psychologist based in the office one day a week. This new program is a free and confidential initiative to give Convexians face-to-face time with a trained psychologist. In addition, we have increased the number of Mental Health First Aiders to 35 during 2022.
- In 2022, the employee engagement survey achieved a 91% employee response rate. One of the overall strengths is the positive sentiment from employees with regard to Convex values, the people they work with and the vision of their teams.
- 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) continued, as well as the Convex Chronicle (monthly digital magazine for Company news) continued in 2022.
- In October 2022 the Company launched the second 'Inclusion Index', achieving a 90% completion rate. The results show improvement in terms of the diversity of Convexians and how we identify.
- In October 2022 Convex opened its third 'returner' programme for applications. Our returner programme is a strategic initiative to hire talented, experienced hires who have had a career break of two years or more.
- The Company again hosted a number of diversity and inclusion events with external key note speakers focused on LGBTQ+ and Black History Month, as well as held an internal panel discussion for International Women's Day and International Men's Day.
- In 2022 we launched a program focusing on Emotional Intelligence ("EQ") for all leaders and Feedback Loops for all Convexians. Further development modules will follow in 2023.

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

Customers and business partners

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 and reinsurance brokers and cover-holders with whom we interact on a daily basis. We dealt fairly and openly with all our customers and business partners through 2022 in the following ways:

- In 2022, Convex held a "Backstage at Convex" event, where we hosted a group of brokers for a behind the scenes experience of our unique culture and operations.
- The Convex website was re-designed with an eye on the future to ensure what we build can grow. The new website will improve engagement with our customers by making the experience more intuitive, with greater access to downloadable content.
- In 2022 Convex Group participated in the Gracechurch London Insurers Monitor ranking 3rd in "Overall Net Promoter Score", and first in overall claims Net Promoter Score. Convex has raised the claims service bar in the London market, taking a clear lead over the competition in the Net Promoter Score table.
- In 2022, Convex continued building out our digital underwriting platform partnering with brokers and technology providers in order to provide data and technology driven solutions to transacting high volume, low complexity business.

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.

We operate in a highly-regulated industry, and therefore maintaining good relationships with our regulators is essential to our success. Our regulators are primarily the FCA and PRA in the UK. In addition, business written in the United States is regulated by the NAIC, as well as the California Department of Insurance. The Convex Group of Companies is regulated by the Bermuda Monetary Authority ("BMA") in Bermuda which also serves as the Group Supervisor. We have maintained and developed our relationships with reinsurance partners, suppliers, and regulators in 2022 as follows:

- In 2022, the Company continued to have ongoing and periodic discussions with our reinsurers, key suppliers, and third parties. Updates on these regular meetings were provided to the Board on reinsurance and third-party arrangements.
- During 2022, the Directors and management met with our ratings agencies (S&P and A.M. Best) to secure our credit ratings 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.
- The Compliance team has facilitated regular communication with the regulators and supported Convex in delivering outputs which have been driven by the regulators. Convex ensures that the lines of communication are kept open in between these regular meetings. In 2022 key interactions and outputs included:
    - the Convex Group Supervisory College and the supporting information pack. The college was attended by the BMA, PRA and the Commissariat aux Assurances ("CAA").
    - *granting of a waiver and modification in relation to the PRA's Group Supervision rules initially imposed on CIL and CES as its subsidiary.*

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

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 2022, with community activities led and managed by our employees via our London Charity, Outreach, Diversity & Engagement (CODE) Committee, which in turn reports into our Group Corporate Responsibility 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, building open dialogue and initiatives relating to diversity as well as being a forum for social engagement within the local offices.
- In 2021 we selected Alzheimer's Research UK ("ARUK") as our corporate charity partner, and in 2022 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.
- In 2022 we also supported 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.
- Our engagement with XLP included facilitating an Employability Afternoon at the Convex offices in London where Convex employees from a range of backgrounds talked to groups of young people supported by XLP to give them an insight into non-traditional routes to work. Throughout the year other Convex employees volunteered as tutors and mentors to young people in the XLP network.
- Convex Allies, a group of employees from across the business linked to the CODE Committee, met regularly throughout 2022 to promote inclusion within Convex and hosted a number of events such as one focused on Black History Month.
- In 2022 we created the Afghan Refugee Support Group within Convex Group to provide financial and practical support to three refugee families that arrived in the UK.
- 2022 also saw Convex launch its three year partnership with Haverstock school in Camden including Convex sponsoring one student to go to university, a mentoring programme between Year 11 students and Convexians and running Masterclasses into Insurance to help raise awareness of Insurance as a possible career in the future for the pupils.
- On an ongoing basis, Convex match funds for a number of reactive fundraising initiatives such as support for refugees from Ukraine and the Pakistan Flood appeal.

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, the Group Executive Committee ("GEC") and the CIL Executive Committee ("ExCo"), approved the plan to address the Financial Risk from Climate Change (aligned to PRA SS3/19 requirements) led by Convex risk function. 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 continue to be made. 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"). Convex has continued this work in 2022, in particular through a project which undertook a deep dive analysis of the physical risk from climate change in key peril regions and created a hazard ranking in the context of Convex's near term business view. The analysis has drawn extensively from a review of the Intergovernmental Panel on Climate Change ("IPCC") reports and relevant scientific literature and used a benchmark IPCC scenario. The final output of the project is a comprehensive written report, a number of proposed management actions and presentation of findings to key stakeholders.

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

- Convex became a member of ClimateWise in 2021, an organisation that supports society as it responds to the risks and opportunities of climate change. In 2022 Convex Group submitted its first ClimateWise report, reporting against the Climatewise Principles which was subject to an independent review. The ClimateWise Principles, have been aligned with the Task Force on Climate-related Financial Disclosure ("TCFD") and preparation of the ClimateWise report in 2022 prepares Convex for TCFD reporting in the future.
- Convex Group has produced a Sustainability Report outlining our approach to sustainable underwriting, sustainable investments, and our ongoing assessment of climate change risk. This report is available on the Company website: https://convexin.com/about-us/sustainability/.
- Convex Group has purchased carbon offsets from a Not-for-Profit entity to offset 2022 emissions, and has pre-emptively purchased offsets for planned 2023 footprint. *Please refer to the Streamlined Energy and Carbon Reporting disclosures in the* Directors' Report for further details.
- In 2021, Convex Group entered into a multimillion dollar partnership with the Blue Marine Foundation and the University of Exeter to launch the Convex Seascape Survey ("CSS"). This partnership supports a pioneering five-year collaboration of world-leading scientists working to quantify and understand blue carbon stored in the coastal ocean floor. It will deliver new reliable open-source data which will educate, inspire and enable informed decisions on ocean use, to harness the power of the sea in the fight against climate change. The progress of CSS is overseen by the CSS Steerco which includes the Convex Group Executive Chairman, Head of Sustainability and Head of Marketing, together with representatives of Blue Marine Foundation and University of Exeter.
- Convex has a Cycle to Work Scheme inspired by the Government's "Green Transport Plan" that aims to reduce congestion and emissions.
- In 2022 Convex launched an Electric and Hybrid car leasing scheme to give Convexians the opportunity to lease an environmentally-friendly vehicle through the service company.

Principal Decisions of the Board 2022

Throughout 2022, 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;
- approval of the 2022 UK Risk Plan;
- approval of quarterly reserves;
- capitalisation of the Company in exchange for share capital to CRL;
- the capitalisation of CUS and CES;
- the entry into a letter of credit facility;
- approval of the 2023 Business Plan;
- changes to the Board and its executive committee;
- approval of the 2023 Investment Plan; and
- approval of a sustainability statement.

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:

Theodore Butt (6 April 2023)
Director

Directors and Their Interests

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

Names
Theodore Butt
Stephen Catlin
Dr. Claus-Michael Dill
Fiona Luck
Kelly Lyles
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 year (2021: 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.
- 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 UK office waste, rail, air travel, and vehicles.

Greenhouse Gas Emissions

Scope	Description	Metric	2022 tkgCO2*	2021 tkgCO2*
Scope 1	Natural Gas	kwH	42	31
Scope 2	Electricity (location-based)	kwH	122	112
Scope 3	Travel (Flights, rail, taxi, and hotel) and waste	Mile	1,911	253
Total Emissions			**2,075**	**396**
Intensity ratio	Average tkgCO2 per employee		5.86	1.17
Carbon Offsets			(2,075)	(396)
Total Net Emissions			-	-

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

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. 100% electricity for our UK offices is certified from renewable sources. As part of our continued ESG Strategy, Convex has invested in a carbon offset project 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 year 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 assessed its current and forecast capital and liquidity positions, to ascertain the appropriateness of adopting a going concern basis for CIL. 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.

Refer to the Statement of Accounting Policies for additional detail.

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 year (2021: Nil).

Subsequent Events

The Company has completed its review of events after the Statement of Financial Position date of 31 December 2022 through 6 April 2023, the date the financial statements were authorised for issue.

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 year. 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 24 March 2023 and signed on its behalf by:

Theodore Butt (6 April 2023)
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 2022 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, including 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 2022; the Statement of profit and loss and other comprehensive income; 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
- Valuation of estimated premium income

Materiality

- Overall materiality: US$20.6m (2021: US$16.1m) based on 1% of Gross Premiums Written.
- Performance materiality: US$15.5m (2021: US$12.1m).

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 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 *Refer to Statement of accounting policies (d) and (l) 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 are significant estimates in the financial statements, and as at 31 December 2022 amounted to $998,442 thousand and $698,500 thousand respectively. The methodologies and assumptions used to develop gross IBNR reserves and the associated reinsurers' share (together the 'IBNR reserves') involve a significant degree of judgement, and management utilised a third party actuarial expert to assist in establishing its IBNR reserves. 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.	We performed walkthroughs and tested controls in place with respect to the valuation of the IBNR reserves. We supplemented this work with tests of detail. Specifically, we: – reviewed and tested the reconciliation of data from the underlying systems to the data used in the actuarial calculations; – independently developed a point estimate (with the use of our market view reserving assumptions, tailored to the company's reserving classes using Lloyd's risk code data) in respect of the valuation of the non-catastrophe IBNR reserve across a selection of classes of business. We used this point estimate to challenge management's IBNR reserves on these classes; – tested the methodologies and assumptions used by management in establishing the IBNR reserves for catastrophe and specific reserves. We used our market benchmarks to challenge management's IBNR reserves for these events; – 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 IBNR reserves was supported by the evidence we obtained.
Valuation of estimated premium income *Refer to Statement of accounting policies (d) and (i) and notes 1(a) and 2 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 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 understood, evaluated, and tested the design and operating 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 2021 to see how they developed during 2022. This testing was designed to test management's previous forecast accuracy; and – tested the development of actual signings and cash receipts in 2022 against the estimates booked as at 31 December 2022, challenging management where differences were identified. 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.

The impact of climate risk on our audit

We made enquiries of management to understand the process for assessing climate related risks and opportunities, which included reviewing the company's climate reporting framework. For the year ended 31 December 2022 the main audit risks identified in relation to climate risk related to the financial statement disclosures and the consistency of those disclosures with the information included in the

Strategic report and Directors' report. Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters.

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$20.6m (2021: US$16.1m).
How we determined it	1% of Gross Premiums 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 premiums written was a relevant benchmark as it is one of the company's key performance indicators.

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% (2021: 75%) of overall materiality, amounting to US$15.5m (2021: US$12.1m) 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 $1.03m (2021: $0.81m) 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;
- Reviewing and 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 2022 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 Director's 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, 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 investigations 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 company meeting minutes;
- Testing, and challenging where appropriate, the assumptions and judgements made in establishing significant accounting estimates, particularly in relation to the valuation of gross incurred but not reported (IBNR) reserves and 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, those posted by unexpected users, those posted after quarter close or those with unusual words; 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 four years, covering the years ended 31 December 2019 to 31 December 2022.

Paul Pannell (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

6 April 2023

(Expressed in thousands of U.S. Dollars)	Notes	2022	2021
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE			
Premiums written			
Gross amount	2	2,063,825	1,607,652
Reinsurers' share		(1,295,927)	(1,053,441)
		767,898	554,211
Change in the provision for unearned premiums			
Gross amount	3	(271,938)	(405,051)
Reinsurers' share	3	142,144	246,038
		(129,794)	(159,013)
Earned premiums, net of reinsurance		638,104	395,198
CLAIMS INCURRED, NET OF REINSURANCE			
Claims paid			
Gross amount		(397,932)	(228,631)
Reinsurers' share		261,088	148,676
		(136,844)	(79,955)
Change in the provision for claims			
Gross amount	3	(604,518)	(559,505)
Reinsurers' share	3	424,156	374,915
		(180,362)	(184,590)
Claims incurred, net of reinsurance		(317,206)	(264,545)
Net operating expenses	4	(323,765)	(187,879)
BALANCE ON TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(2,867)	(57,226)
NON-TECHNICAL ACCOUNT			
Investment income	7	12,749	7,955
Unrealised losses on investments	7	(52,178)	(10,687)
Investment expenses and charges	7	(1,990)	(1,482)
BALANCE ON NON-TECHNICAL ACCOUNT		(41,419)	(4,214)
OPERATING LOSS AND LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(44,286)	(61,440)
Tax credit on loss on ordinary activities	8(a)	2,239	4,415
LOSS FOR THE YEAR AND TOTAL COMPREHENSIVE LOSS		**(42,047)**	**(57,025)**

The accompanying notes on pages 34 to 55 are an integral part of these financial statements.

Statement of financial position
CONVEX INSURANCE UK LIMITED
As at 31 December 2022

(Expressed in thousands of U.S. Dollars)	Notes	2022	2021
INVESTMENTS			
Other financial investments	9	1,869,584	1,406,349
Investment in Subsidiaries	15	100,835	89,000
		1,970,419	1,495,349
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	3	670,882	531,868
Claims outstanding	3	981,776	556,085
		1,652,658	1,087,953
DEBTORS			
Debtors arising out of direct insurance operations	10	965,137	696,663
Debtors arising out of reinsurance operations	10	108,479	65,581
Amounts due from other group companies	12	3,963	—
Other debtors	13	14,759	6,075
Deferred tax asset	8	—	—
		1,092,338	768,319
OTHER ASSETS			
Cash at bank and in hand		166,757	77,462
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		8,120	4,756
Deferred acquisition costs	3	196,441	142,702
Other prepayments and accrued income		1,466	1,514
		206,027	148,972
TOTAL ASSETS		**5,088,199**	**3,578,055**

The accompanying notes on pages 34 to 55 are an integral part of these financial statements.

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Statement of financial position
CONVEX INSURANCE UK LIMITED
As at 31 December 2022

(Expressed in thousands of U.S. Dollars)	Notes	2022	2021
CAPITAL AND RESERVES			
Called up share capital	14	384,565	366,050
Share premium		1,282,533	930,750
Profit and loss		(156,959)	(114,912)
Total equity		1,510,139	1,181,888
TECHNICAL PROVISIONS			
Provision for unearned premium	3	1,093,722	831,779
Claims outstanding	3	1,427,143	836,592
		2,520,865	1,668,371
CREDITORS			
Creditors arising out of direct insurance operations	11	153	5,105
Creditors arising out of reinsurance operations	11	885,811	599,355
Amounts owed to group companies	16	59,796	29,540
Other creditors including taxation and social security	17	10,408	5,493
		956,168	639,493
ACCRUALS AND DEFERRED INCOME			
Accruals and deferred income	18	101,027	88,303
TOTAL EQUITY AND LIABILITIES		**5,088,199**	**3,578,055**

The accompanying notes on pages 34 to 55 are an integral part of these financial statements.

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:

Matthew Wilson (6 April 2023)
Director

Convex Insurance UK Limited
Registered number 11796392

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Statement of changes in equity
Convex Insurance UK Limited
For the year ended 31 December 2022

(Expressed in thousands of U.S. Dollars)

	Called up share capital	Share premium	Profit and loss	Total equity
At 1 January 2022	366,050	930,750	(114,912)	1,181,888
Ordinary shares issued	18,515	351,783	-	370,298
Total comprehensive loss	-	-	(42,047)	(42,047)
At 31 December 2022	384,565	1,282,533	(156,959)	1,510,139

	Called-up share capital	Share premium	Profit and loss	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

The accompanying notes on pages 34 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 2022 and 31 December 2021.

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 2022.

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.

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 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 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 2022. 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 and liquidity position under this regime and are content that this supports the continued use of the going concern basis in preparing the financial statements.

d. Use of estimates and judgements

The preparation of the financial statements in conformity with FRS 102 and FRS 103 requires management to make judgements, 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:

- claims incurred but not reported ("IBNR") losses, and the related reinsurers' share, including the provision for uncollectible amounts; and
- the ultimate premium written on binders, bulking lineslips, and inward proportional reinsurance policies.

IBNR losses

The most significant estimate made by management is the estimate for IBNR losses. The total gross estimate at 31 December 2022 is $998,442, $299,942 net of reinsurance (2021: $645,830, $211,872 net of reinsurance) and is included within claims outstanding on the Statement of Financial Position. A number of judgements 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 IBNR losses is somewhat amplified given the lack of the Company's own historical data, as well as economic, regulatory, and geopolitical conditions in the market such as rising inflation rates, and the conflict in Ukraine.

STATEMENT OF ACCOUNTING POLICIES (continued)

d. Use of estimates and judgements (continued)

To manage this uncertainty, the actuarial team uses a range of externally sourced market benchmarks to project loss estimates to ultimate losses, and also applies a margin on top of actuarially estimated reserves. In addition, management performs sensitivity testing of key assumptions to assess the reasonableness of the booked IBNR losses, and the related reinsurers' share.

In determining the IBNR for 2022, the Company assessed the propensity for inflationary pressures to impact each class of business, and applied appropriate changes to initial expected loss ratios for the relevant classes.

Convex is closely monitoring the conflict in Ukraine and its potential impacts on exposed lines of business. The Company has considered exposures with respect to inwards insurance and reinsurance business, and with respect to outwards reinsurance recoveries, and has made allowance within the reserve for claims outstanding as at 31 December 2022 to reflect our view of these exposures. The nature and quantum of any such potential exposures are uncertain as the result of a number of factors, including, but not limited to:

- whether any loss has occurred, and if so, to what extent it has occurred;
- whether a loss occurred before or after the relevant jurisdictions were excluded from the scope of cover (if applicable);
- the impact of any such exclusions;
- the limits in the relevant policies which may be applicable to any loss;
- any efforts which may have been undertaken by insureds to mitigate any loss; and
- whether sanctions prohibit any payment of claims.

Estimated Premium

CIL writes a number of contracts for which the initial premium is based on an estimate, for example on a bulking lineslip, 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.

CIL engages with reinsurers that are rated A- or higher, and where ratings fall below that, the reinsurers are fully collateralised.

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 the United States Dollar ("USD").

The Company operates in multiple transactional currencies.

In the Statement of Profit and Loss and Other Comprehensive Income – Technical Account:

- Premium and acquisition costs are recorded at the rate of exchange prevailing at the start of the month the policy incepts.
- All other transactions are recorded at the rate prevailing on the start of the month in which the transaction occurs.

At month end:

- Foreign currency monetary items are translated at the rate of exchange prevailing at the end 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

STATEMENT OF ACCOUNTING POLICIES (continued)

g. Foreign currency translations and settlements (continued)

- Retranslations of monetary items at year 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.

Direct insurance premiums on temporary insurance policies (bulking lineslips) are estimated at inception and the total estimated premium is written at the inception of the policy.

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.

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 calculated for all catastrophe events by applying coverage limits for the remaining life of the contract as per the predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss adjustment expense, which reflects management's judgement, as described in Note (l), "Reserve for claims outstanding". 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 claims outstanding

The reserve for claims outstanding includes reserves for unpaid reported losses ("case reserves"), IBNR losses, 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").

STATEMENT OF ACCOUNTING POLICIES (continued)

l. Reserve for claims outstanding (continued)

IBNR reserves are established by the Reserving Committee using a range of externally sourced market benchmarks, supplemented with internal data, 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 portions 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. In 2022, the Company assessed the propensity for inflationary pressures to impact each class of business, and applied an appropriate change to initial expected loss ratios for the relevant classes.

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 2022 or year ended 31 December 2021.

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 year's taxable profits/losses; and
- *Changes in previously estimated tax charges/credits associated with previous financial year's 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, and all investments and money market funds (including those held at the Company's investment managers) with a maturity of 90 days or less at the time of purchase.

p. Short Term Investments
Short-term investments comprise investments with a maturity of less than one year at date of purchase.

q. 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 securities, participation in investment pools, cash and cash equivalents, and receivables and 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.

STATEMENT OF ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

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.

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(b) Fair value estimation for details of financial instruments classified by fair value hierarchy.

r. 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 – Non-Technical Account.

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

Investment income

Investment income is measured on an accruals basis and comprises:

- Interest on bank balances;
- Coupons on bonds;
- Returns on money market funds; and
- Distributions from participations in investment pools.

s. Investment Income (continued)

Investment expenses, charges or interest

These are recognised on an accruals basis.

STATEMENT OF ACCOUNTING POLICIES (continued)

Movements in unrealised gains/(losses)
Unrealised gains/(losses) on investments arising during the financial year 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 year; 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 years.

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.

t. 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.

u. 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.

v. New accounting standards, amendments, and interpretations
The following new standards, amendments, and interpretations of FRS 102 were considered in the preparation of the 2022 financial statements.

FRS 102, Section 11 was amended to provide a practical expedient for the accounting for financial assets and financial liabilities when contractual cash flows change because interest rate benchmarks are being replaced. There are new requirements for disclosure of the nature and extent of risks arising from the interest rate benchmark reform. Section 12 was amended to give more flexibility to documentation of hedging relationships and provide other reliefs that avoid disruption to hedge accounting. Based on the exposure analysis performed by CIL, the Company has minimal exposure to the rate reform, and the transition away from LIBOR reference rate. Additionally, CIL does not apply hedge accounting. Therefore, these amendments do not impact CIL.

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

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 appetite, 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 (comprising capital management and fair value estimation).

The Company has also considered its emerging risk exposures to inflation and climate risks.

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.

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.

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

1. RISK MANAGEMENT (continued)

a. *Underwriting risk – premium (continued)*

	2022 Gross premiums written		2021 Gross premiums written	
Geographic area of risk insured:	$	%	$	%
United States of America	1,063,840	52%	757,623	47%
United Kingdom	429,602	21%	288,970	18%
EU Member States	102,964	5%	173,762	11%
Other	467,419	22%	387,297	24%
	2,063,825	100%	1,607,652	100%

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

	2022 Gross premiums written		2021 Gross premiums written	
Line of business	$	%	$	%
Direct insurance:				
Marine, Aviation and Transport	262,345	13%	225,827	14%
Fire and other damage to property	395,069	19%	288,356	18%
Third party liability	355,890	17%	291,226	18%
Miscellaneous	64,176	3%	49,075	3%
	1,077,480	52%	854,484	53%
Reinsurance:	986,345	48%	753,168	47%
	2,063,825	100%	1,607,652	100%

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, and its potential to affect numerous contracts simultaneously and significantly erode 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.

The Company has used the PRA's 2019 General Insurance Stress Test templates and the Miami Hurricane Deterministic Scenarios to evaluate a series of outcomes to assess the impact of global warming and climate-related events. While the outcomes of this exercise are deterministic at this stage, this tool will evolve, enabling the Company to monitor and manage the impact of climate related risks. CIL will continue its ongoing assessment of the impact of climate change risk through 2023, which will include refinement of its risk appetite and establishment of metrics.

c. Underwriting risk – reserve

Reserve risk is the risk that the best (point) estimate of IBNR (which is included within claims outstanding in the Statement of Financial Position) is inadequate to cover all future payments for the settlement of claims from all prior accident years occurring at or before the valuation date.

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

1. RISK MANAGEMENT (continued)

c. Underwriting risk – reserve (continued)

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

To manage reserve risk, the Company's actuarial team uses individual case estimates along with a range of externally sourced market benchmarks to project loss estimates to ultimate using recognised actuarial techniques. An analysis of claims outstanding reserves, including IBNR reserves is performed on a quarterly basis. The analysis is overseen by the Reserving Committee, a sub-committee of the Group Executive Committee. The Reserve Committee's remit is to review the sufficiency of the estimated claims outstanding, and IBNR reserves (including management margin), and to critically assess the claims reserving practices of the Company.

The level of uncertainty in estimates of ultimate claims 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 including external factors such as the levels of inflation.

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

	2022		2021	
	Claims Outstanding		Claims Outstanding	
	$	%	$	%
Direct Insurance:				
Third party liability	315,046	22%	187,408	22%
Fire and other damage to property	217,714	15%	125,570	15%
Marine, Aviation and Transport	135,003	10%	104,822	13%
Miscellaneous	20,218	1%	13,768	2%
	687,981	48%	431,568	52%
Reinsurance	739,162	52%	405,024	48%
Total gross claims outstanding	1,427,143	100%	836,592	100%

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

Gross	Underwriting Year				
Estimate of cumulative claims incurred	2019	2020	2021	2022	Total
At end of Underwriting Year	6,306	280,081	518,000	740,201	[redacted]
End of financial year 1	48,030	549,180	812,139	[redacted]	
End of financial year 2	39,789	505,396			
End of financial year 3	37,715				
Current estimate of cumulative claims incurred	37,715	505,396	812,139	740,201	2,095,451
Cumulative payments to date	24,678	267,459	241,375	134,796	668,308
Gross outstanding claims liabilities	**13,037**	**237,937**	**570,764**	**605,405**	**1,427,143**

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

1. RISK MANAGEMENT (continued)

c. Underwriting risk – reserve (continued)

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	Underwriting Year				
Estimate of cumulative claims incurred	**2019**	**2020**	**2021**	**2022**	**Total**
At end of Underwriting Year	2,560	100,493	167,245	242,969	
End of financial year 1	18,033	194,369	252,779		
End of financial year 2	14,450	182,746			
End of financial year 3	14,073				
Current estimate of cumulative claims incurred	14,073	182,746	252,779	242,969	692,567
Cumulative payments to date	9,688	103,978	84,886	48,648	247,200
Net outstanding claims liabilities	**4,385**	**78,768**	**167,893**	**194,321**	**445,367**

The development of cumulative claims incurred on a gross and net basis from the end of each underwriting year to the end of financial year 1 is reflective of premium and claims earnings.

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.

a. 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 measures 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.

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

	2022					
	Fixed rate		**Floating rate**		**Total**	
	Fair values		**Fair values**		**Fair values**	
Debt securities	**$**	**%**	**$**	**%**	**$**	**%**
Government and government agencies	720,735	39.3%	-	-	720,735	39.3%
Mortgage-backed securities	49,489	2.7%	5,548	0.3%	55,037	3.0%
Corporate	607,182	33.1%	-	-	607,182	33.1%
Asset-backed securities	1,166	0.1%	58,106	3.2%	59,272	3.3%
Short term investments	390,520	21.3%	-	-	390,520	21.3%
	1,769,092	96.5%	63,654	3.5%	1,832,746	100.0%

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

1. RISK MANAGEMENT (continued)

a. Financial risk – interest (continued)

	2021 (re-presented)					
	Fixed rate		**Floating Rate**		**Total**	
	Fair values		**Fair values**		**Fair values**	
Debt securities	**$**	**%**	**$**	**%**	**$**	**%**
Government and government agencies	387,552	27.7%	-	-	387,552	27.7%
Mortgage-backed securities	32,312	2.3%	9,591	0.7%	41,903	3.0%
Corporate	439,918	31.4%	5,343	0.4%	445,261	31.8%
Asset-backed securities	-	-	22,512	1.6%	22,512	1.6%
Short term investments*	501,628	35.9%	-	-	501,628	35.9%
	1,361,410	97.3%	37,446	2.7%	1,398,856	100.0%

**Short term investments were not presented separately in the prior year financial statements. The comparative table has been re-presented to reflect this additional disclosure.*

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.

	2022		**2021**	
Shifts in market interest rates	**$**	**%**	**$**	**%**
200 basis points	(54,664)	(2.8%)	(33,874)	(2.4%)
100 basis points	(27,332)	(1.4%)	(16,937)	(1.2%)
75 basis points	(20,499)	(1.1%)	(12,702)	(0.9%)
50 basis points	(13,666)	(0.7%)	(8,468)	(0.6%)
25 basis points	(6,833)	(0.4%)	(4,234)	(0.3%)
(25) basis points	6,833	0.4%	4,234	0.3%
(50) basis points	13,666	0.7%	8,468	0.6%
(75) basis points	20,499	1.1%	12,702	0.9%
(100) basis points	27,332	1.4%	16,937	1.2%
(200) basis points	54,664	2.8%	33,874	2.4%

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

b. 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 93% 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.

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

1. RISK MANAGEMENT (continued)

b. Financial risk – foreign exchange (continued)

	2022							
	USD	GBP	EUR	CAD	AUD	JPY	Other	Total
	$000	$000	$000	$000	$000	$000	$000	$000
Total assets	4,398,539	349,478	122,330	112,360	53,646	33,816	18,030	5,088,199
Total liabilities	(2,990,130)	(325,128)	(92,267)	(87,288)	(31,773)	(31,404)	(20,070)	(3,578,060)
Total equity	1,408,409	24,350	30,063	25,072	21,873	2,412	(2,040)	1,510,139

	2021							
	USD	GBP	EUR	CAD	AUD	JPY	Other	Total
	$000	$000	$000	$000	$000	$000	$000	$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

c. 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 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.

An analysis of the financial investment exposures by counterparty credit ratings is as follows.

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

1. RISK MANAGEMENT (continued)

c. Financial risk – credit (continued)

2022	Debt securities	Short term investments	Participations in investment pools	Cash at bank and in hand	Reinsurance debtors	Total
AAA	807,731	321,839	-	51,696	-	1,181,266
AA+	18,783	2,067	-	-	5,564	26,414
AA	32,361	-	-	40,965	-	73,326
AA-	51,868	3,998	-	-	24,292	80,158
A+	109,507	6,693	-	66,883	43,501	226,584
A	131,683	8,745	-	1,248	504	142,180
A-	134,770	18,421	-	1,985	34,618	189,794
BBB+	85,898	20,465	-	3,980	-	110,343
BBB	49,254	8,292	-	-	-	57,546
BBB-	20,371	-	-	-	-	20,371
B	-	-	15,175	-	-	15,175
Not rated*	-	-	21,663	-	-	21,663
	1,442,226	390,520	36,838	166,757	108,479	2,144,820

** Relates to CIL's fund investments into infrastructure equity. Such investments are not rated.*

2021 (re-presented)	Debt securities	Short term investments**	Participations in investment pools	Cash at bank and in hand	Reinsurance debtors	Total
AAA	441,065	446,780	2,387	3,192	-	893,424
AA+	7,074	4,216	-	-	-	11,290
AA	21,641	-	-	10,971	-	32,612
AA-	41,634	8,862	-	-	15,408	65,904
A+	59,996	5,929	-	63,299	21,056	150,280
A	129,874	8,287	-	-	886	139,047
A-	74,477	9,569	-	-	28,231	112,277
BBB+	63,768	11,239	-	-	-	75,007
BBB	45,339	6,746	-	-	-	52,085
BBB-	12,360	-	-	-	-	12,360
B	-	-	5,106	-	-	5,106
	897,228	501,628	7,493	77,462	65,581	1,549,392

***Short term investments were not presented separately in the prior year financial statements. The comparative table has been re-presented to reflect this additional disclosure.*

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

1. RISK MANAGEMENT (continued)

d. 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 and deposits. 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:

	2022				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Debt securities	287,777	840,512	195,092	118,845	1,442,226
Short term investments	390,520	-	-	-	390,520
Participations in investment pools	15,175	-	-	21,663	36,838
Cash at bank and in hand	166,757	-	-	-	166,757
	860,229	840,512	195,092	140,508	2,036,341

	2021 (re-presented)				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Debt securities	333,776	387,970	149,816	25,666	897,228
Short term investments*	501,628	-	-	-	501,628
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

**Short term investments were not presented separately in the prior year financial statements. The comparative table has been re-presented to reflect this additional disclosure.*

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

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

1. RISK MANAGEMENT (continued)

d. Financial risk – liquidity (continued)

	2022				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Reinsurers' share of claims outstanding:					
Ceded outstanding claims	(125,570)	(94,427)	(29,067)	(23,117)	(272,181)
Ceded claims incurred but not reported	(232,739)	(245,216)	(111,951)	(108,594)	(698,500)
Ceded unallocated loss adjustment expenses	(4,097)	(3,882)	(1,612)	(1,504)	(11,095)
	(362,406)	(343,525)	(142,630)	(133,215)	(981,776)
Gross claims:					
Gross claims outstanding	196,972	135,783	42,558	34,389	409,702
Claims incurred but not reported reserves	350,354	337,785	155,763	154,540	998,442
Unallocated loss adjustment expense reserves	7,379	6,389	2,678	2,553	18,999
	554,705	479,957	200,999	191,482	1,427,143

	2021				
	0-1 year	**1-3 years**	**3-5 years**	**> 5 years**	**Total**
Reinsurers' share of claims outstanding:					
Ceded claims outstanding	(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 claims outstanding	86,762	59,368	16,838	13,770	176,738
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

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.

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.

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.

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

1. RISK MANAGEMENT (continued)

Operational risk (continued)

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.

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.

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.

a. 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 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 2022, 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 $1,574,848 (2021: $1,202,753), with the estimated Solvency Capital Requirement at $901,171 (2021: $714,323) and the estimated total capital required to meet the Minimum Capital Requirement at $225,293 (2021: $178,581).

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

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

b. 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.

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

1. RISK MANAGEMENT (continued)

b. Fair value estimation (continued)

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

	2022			
Financial assets at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Listed debt securities	707,101	735,125	-	1,442,226
Short term investments	292,140	98,380	-	390,520
Participations in investment pools	-	-	36,838	36,838
Cash at bank and in hand	158,895	7,862	-	166,757
	1,158,136	841,367	36,838	2,036,341

	2021 (re-presented)			
Financial assets at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Listed debt securities	386,839	510,389	-	897,228
Short term investments*	444,713	56,915	-	501,628
Participations in investment pools	2,387	5,106	-	7,493
Cash at bank and in hand	77,462	-	-	77,462
	911,401	572,410	-	1,483,811

**Short term investments were not presented separately in the prior year financial statements. The comparative table has been re-presented to reflect this additional disclosure.*

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)

RISK MANAGEMENT (continued)

Emerging Risks

Inflation Risk
Inflation has been one of the key risks monitored by the Company during 2022. Inflation resurfaced as a risk in 2022, and as a consequence the central banks increased base rates sharply. This resulted in higher prices and subsequently the cost of living crisis. Convex has considered the impacts of inflation on the business including claims, reserving, and pricing.

The Company observed increases in claims inflation, most significantly social inflation in US casualty business, but also in other lines. Incurred but not Reported ("IBNR") reserving methodology included a class of business assessment of the propensity for inflationary pressures, and applied
an appropriate change to initial expected loss ratios for the relevant classes. The business plan loss ratios and pricing models have also been adjusted to reflect our expected view of inflation. The achieved rate change is also monitored closely against the Company view of inflation to make sure that prices are keeping pace with inflation.

Inflation risk has been partially mitigated by the purchase of inflation-sensitive assets such as Treasury Inflation-Protected Securities ("TIPS"). The Board and respective sub-committees monitor the impacts of inflation on reserving, pricing and our investments including looking at investment strategies that mitigated inflation risk.

Climate Risk
The effects of climate change and global warming are increasingly apparent, as evidenced by increased heatwaves, erratic rainfall and greater weather extremes.

The risks to insurers associated with such changes are complex and need to be considered alongside other developing risk factors such as inflation and urbanisation, as well as the transition to a net zero pathway. The increasing loss to insurers from weather related events such as Californian wildfires, European floods, or the increased frequency and severity of hurricanes are becoming increasingly evident and means Convex needs to continually enhance its ability to assess this changing risk profile.

Convex' strategic approach to mitigating and managing risks from climate change is a journey. There is ongoing work to expand risk assessment and risk-mitigating initiatives across physical, transition and liability risks to develop better understanding of our material exposures and define our long-term strategic approach to these risks.

Convex's Risk Register has been updated to include physical risk, transition risk and liability risks:

<u>Physical Risk</u>
An increase in the frequency and severity of specific weather events which occur as a result of climate change e.g. floods, heatwaves and wildfires; or longer terms shifts in the climate such as a rise in the sea level or rising mean temperatures.

<u>Transition Risk</u>
The process of adjustment towards a low carbon economy, e.g. the impact on business models from the emergence of disruptive technology, as well as changes in government policy and consumer preferences.

<u>Liability Risk</u>
The risk of parties who suffer loss from climate change seeking to recover those losses from those who they believe may have been responsible, which may be insurers or their assureds.

The inclusion of climate risks within the risk register allows the risk team, and key stakeholders, to continually assess the risk and controls, and establish mitigating actions where necessary. Climate change risk has been incorporated into the Group Risk Management framework as a dedicated section, and will be further brought into the review of risk policies during their natural review cycle.

Convex has undertaken an assessment of the impact of the risks noted above to our books of business, including development of a framework to measure the degrees of exposure to specific lines of business. This process will help inform and drive management action such as further scenario analysis, deep dives into specific risk areas, and other business planning considerations.

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

1. RISK MANAGEMENT *(continued)*

Climate Risk (continued)

Physical Risk Deep Dive in 2022

During 2022, Convex conducted an assessment to determine how climate change is expected to influence Convex's risk from climate-related perils and other sources of physical risk over a shorter term time frame than is typically considered in climate studies. This project involved reviewing the latest scientific research on the impact of climate change on natural hazards. One of the insights from this project was a range of projections for the changes in the median frequency and intensity of natural hazards which were used to derive confidence intervals around the potential changes. These intervals gave a basis upon which to perform stress testing, as Convex can assume various extreme scenarios by taking the changes at the upper and lower bounds, and assessing the impact on the losses from natural perils.

The findings from this assessment have given Convex some comfort that the near term effect of climate change on hazard rates will not cause a material impact to the losses from natural catastrophe perils. In 2023, Convex plans to formalise stress testing using these inputs by modelling the impact on actual losses more precisely. The more significant insight from the hazard projections is the range of uncertainty around potential changes. Frequency is increasing at the upper bound and the increase in the median number of events by 2027 could be significant. However at the lower bound frequency is decreasing. Therefore any assumption on changes in number of events and loss impact is highly uncertain.

The assessment also identified US Wildfire and both US and EU Flood as additional areas of focus for stress testing, as the losses from these hazards are highly dependent on the interaction with the built environment which can change dynamically and has significant local nuance which is not well captured by vendor models. Therefore, a more detailed understanding of downside exposure to these perils will also be explored in 2023 via deterministic stress testing. During 2023, transition and litigation risk stress testing will be undertaken and is likely to follow a similar approach to physical risk, where Convex will explore the risk in more depth first to develop reasonable assumptions on which to base stress testing.

Investment Portfolio

With regard to Convex's investment portfolio, we have undertaken climate-related scenario analysis on our fixed income portfolio using the PRA's General Insurance Stress Test ("GIST") 2019 scenarios.

As Convex's portfolio predominantly comprises sovereign debt, with some high-grade corporate investment, and minimal equity investment, transition risks exposures are considered to be limited. These results were confirmed by the 2021 stress test exercise. Convex anticipates further refinement to the assessment of portfolio exposures through new tools and advisory services, aligned to the projected growth of the portfolio in the next few years and the potential for more diversification.

Convex's external asset managers provide quarterly reporting which includes an assessment and rating of our investment portfolio on carbon intensity and ESG metrics against a relevant benchmark. This allows the investment team to monitor how exposure to ESG and climate risks in the portfolio are evolving over time and enables us to engage in dialogue with our managers over particular issuers or sector concentrations which may detract from the overall sustainability of the portfolio. Convex considers its aggregate Climate Change risk and ESG exposure in the portfolio to be moderately low, manageable and in line with risk appetite.

In addition to ESG considerations in our broader investment portfolio, we have developed a plan for 'Impact Investing' to target investment opportunities which contribute to specific environmental or social outcomes. As awareness and focus on the impact of investments has grown over time, and in line with the belief that as an asset owner Convex has an ability to direct capital to investments that contribute to specific environmental or social outcomes, a strategic framework is developed to enable the identification, screening, and allocation of impact investments.

Governance

Convex is aware that effective management of climate risk is critical to the long-term success of its business. Accordingly, primary responsibility for climate risk is vested in the Convex Group Board, which is responsible for directing the ESG strategy (including towards climate risk) across the Group. The Group strategy is further adopted by the CIL Board. In 2022, Convex established an ESG Committee led by the Head of Sustainability. This reviews and recommends priorities which are reported through the quarterly ESG Summary prepared by the Head of Sustainability. In addition, Convex has also formed a Sustainable Underwriting Group to help inform our Net Zero underwriting strategy and to develop ESG-linked underwriting opportunities.

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

1. RISK MANAGEMENT (continued)

Climate Risk (continued)

The CIL Board has engaged on Climate risk and broader Sustainability issues over the past few years in a variety of contexts. These include considering the adequacy of the identification and management of climate risk through the ORSA and quarterly CRO reporting and monitoring progress of the ESG strategy and reviews priorities through the quarterly ESG Summary Report prepared by the Head of Sustainability.

Convex, as a member of Climatewise, reported against Climatewise Principles for the first time in 2022. This forms the first step in Convex's reporting under the Task Force for climate related Financial Disclosures ("TCFD") reporting framework, as Climatewise Principles are formally aligned to TCFD.

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

2. SEGMENTAL INFORMATION

Analyses by line of business

	2022					
	Gross premiums written	**Gross premiums earned**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balances**	**Total**
Direct insurance:						
Marine, aviation and transport	262,345	221,318	(68,526)	(54,680)	(82,829)	15,283
Fire and other damage to property	395,069	350,647	(227,394)	(101,888)	(39,654)	(18,289)
Third party liability	355,890	318,734	(145,965)	(88,401)	(74,695)	9,673
Miscellaneous	64,176	56,113	(30,534)	(20,539)	(6,955)	(1,915)
	1,077,480	946,812	(472,419)	(265,508)	(204,133)	4,752
Reinsurance:	986,345	845,075	(530,031)	(222,911)	(99,752)	(7,619)
	2,063,825	1,791,887	(1,002,450)	(488,419)	(303,885)	(2,867)

	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)

(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)	Total technical liabilities
Gross of reinsurance				
At 1 January 2022	831,779	836,592	(142,702)	1,525,669
Movement in provision	271,938	604,518	(56,096)	820,360
Exchange adjustments	(9,995)	(13,967)	2,357	(21,605)
At 31 December 2022	**1,093,722**	**1,427,143**	**(196,441)**	**2,324,424**
Reinsurance				
At 1 January 2022	531,868	556,085	(84,517)	1,003,436
Movement in provision	142,144	424,156	(14,435)	551,865
Exchange adjustments	(3,130)	1,535	777	(818)
At 31 December 2022	**670,882**	**981,776**	**(98,175)**	**1,554,483**

	Provisions for unearned premiums	Claims outstanding	Deferred acquisition costs	Total technical liabilities
Gross of reinsurance				
At 1 January 2021	443,910	285,916	(60,861)	668,965
Movement in provision	405,051	559,505	(83,240)	881,316
Exchange adjustments	(17,182)	(8,829)	1,399	(24,612)
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 2022	422,840	445,367	(98,266)	769,941

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of $998,442 gross of reinsurance and $698,500 reinsurer's share of IBNR reserves (2021: $645,830 gross; $433,958 reinsurer's share).
(2) Reinsurer's share of deferred acquisition costs is included in accruals and deferred income (See Note 18)

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

4. NET OPERATING EXPENSES

	2022	2021
Net operating expenses comprise:		
Acquisition costs	348,824	263,871
Change in deferred acquisition costs	(56,096)	(83,240)
Administrative expenses	178,449	146,997
Reinsurers' share of acquisition costs	(179,089)	(170,686)
Change in deferred reinsurance commissions	14,435	34,294
Realised foreign exchange gains / (loss)	3,209	(107)
Unrealised foreign exchange gains / (loss)	14,033	(3,250)
	323,765	187,879

5. AUDITORS' REMUNERATION

During the year, the Company obtained the following services from its auditors:

	2022	2021
Fees payable to the Company's auditors for the audit of the Company's financial statements	653	653
Additional fees related to the prior year audit of the Company's financial statements	18	55
Fees payable to the Company's auditors for audit-related assurance services	177	196
Total fees payable to the Company's auditors	848	904

Audit-related assurance fees 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 $168,278 (2021: $126,302) in relation to expense recharges from Convex UK Services Limited for employee services performed on behalf of the Company.

Directors

All executive Directors of the Company are employed by Convex UK Services Limited, with the exception of one director who is employed by Convex Group Limited. The Company has been recharged $2,238 for their services during the year (2021: $1,239) of which $17 (2021: $7) 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 $793 (2021: $522) with $4 contribution to the defined contribution pension scheme (2021: $5).

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:

	2022	2021
Salaries and other short-term benefits	10,956	4,186
Post-employment benefits	113	102

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

7. INVESTMENT RETURN

	2022	2021
Income from debt securities	28,779	7,414
Income from participations in investment pools	589	1
Income from deposits with credit institutions and cash at bank and in hand	467	21
Realised (losses) / gains on investments	(17,086)	519
Investment income	12,749	7,955
Unrealised losses on investments	(52,178)	(10,687)
Investment expenses	(1,990)	(1,482)
Net investment return	(41,419)	(4,214)

8. CORPORATION TAX

a. Tax credit on profit on ordinary activities

	2022	2021
United Kingdom corporation tax		
Current tax on income for the year	2,384	3,735
Adjustments in respect of previous financial years	(145)	680
Total current taxation (charge)	2,239	4,415
United Kingdom deferred tax movements		
Origination & reversal of timing differences	–	–
Adjustments in respect of previous financial years	–	–
Total deferred tax charge	–	–
Tax credit on loss on ordinary activities (refer to Note 8(b))	2,239	4,415

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

CORPORATION TAX (continued)

b. Factors affecting tax charge for the year

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

	2022	2021
Loss on ordinary activities before tax	44,286	61,440
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 19%	8,415	11,674
Factors affecting the change:		
Rate change adjustments	—	—
Prior year adjustment – deferred tax	(145)	680
Deferred tax not recognised	(6,074)	(7,931)
Permanent differences	—	(8)
Other differences	43	—
Total factors affecting change	(6,176)	(7,259)
Tax (charge) for the year (refer Note 8(a))	2,239	4,415

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 31 December 2022 is $30,071 (2021: $21,836).

In 2021 the UK Government substantively enacted a change to the rate of Corporation tax, which will rise from 19% to 25% from 1 April 2023. This has led to an uplift in the value of the unrecognised deferred tax asset by $7,217.

Convex is monitoring the ongoing Global Minimum Tax developments and assessing the potential impact of these rules on Group and the Company.

9. OTHER FINANCIAL INSTRUMENTS

The company has the following financial instruments:

	Fair Value		Cost	
	2022	2021	2022	2021
Debt securities	1,442,226	897,228	1,509,137	961,596
Short term investments*	390,520	501,628	388,202	447,784
Participations in investment pools	36,838	7,493	35,749	7,387
	1,869,584	1,406,349	1,933,088	1,416,767

**Short term investments were not presented separately in the prior year financial statements. The comparative table has been restated to reflect this additional disclosure.*

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

10. DEBTORS ARISING OUT OF DIRECT INSURANCE AND REINSURANCE OPERATIONS

	2022	2021*
Amounts falling due within one year	551,628	391,644
Amounts falling due after one year	521,988	370,600
	1,073,616	762,244

**During 2022, management has reviewed the classification of debtors arising out of direct insurance and reinsurance operations between amounts falling due within one year and amounts falling due after one year and identified that the classifications in the prior period did not align to expected settlement date.*

As previously stated amounts falling due within one year were $715,430 and amounts falling due after one year were $46,814, $323,786 has been reclassified from current to non current thereby restating the prior year numbers.

11. CREDITORS ARISING OUT OF DIRECT INSURANCE AND REINSURANCE OPERATIONS

	2022	2021
Amounts falling due within one year	885,964	604,460
Amounts falling due after one year	-	-
	885,964	604,460

12. AMOUNTS DUE FROM OTHER GROUP COMPANIES

	2022	2021
Due from fellow subsidiaries	3,963	—

13. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

	2022	2021
Other debtors	14,759	6,075
	14,759	6,075

14. SHARE CAPITAL

	2022	2021
Allotted, called up and fully paid		
7,691,298,000 (2021: 7,321,000,000) ordinary shares of $0.05 each	384,565	366,050

- On 1 September 2022 10,000,000 ordinary shares were issued for $10,000 (Par: $0.05 per share, share premium $9,500)
- On 22 December 2022 360,298,000 ordinary shares were issued for $360,298 (Par: $0.05 per share, share premium $342,283)

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.

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

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. During 2022, additional capital contributions were made, as shown in the table below:

Investments	**CES**	**CUS**	**Total**
2022			
At 1 January 2022	85,000	4,000	89,000
Additions	5,835	6,000	11,835
At 31 December 2022	90,835	10,000	100,835
2021			
At 1 January 2021	—	—	—
Additions	85,000	4,000	89,000
At 31 December 2021	85,000	4,000	89,000

In December 2022, the CIL Board approved an additional $20,000 capital injection to CUS. During the first quarter of 2023, CIL injected $11,000 of the approved amount into CUS.

The above investments were tested for impairment as at 31 December 2022 in line with FRS102. A value in use ("VIU") calculation was performed using cash flow projections covering a period of five years, as the basis for the recoverable amount. A discount rate of 10.4% (2021: 6.0%) was applied to the cash flow projections to determine the net present value ("NPV"). This impairment test confirmed that the NPV was in excess of the carrying values of both investments and hence they were not impaired (2021: not impaired). In line with FRS102, a fair value less cost to dispose ("FVLCD") calculation was not carried out since the VIU calculation indicated that the investments were not impaired.

16. AMOUNTS OWED TO GROUP COMPANIES

	2022	**2021**
Due to parent companies	3,909	2,066
Due to fellow group companies	55,887	27,474
	59,796	29,540

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

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2022	**2021**
Amounts falling due within one year		
Other creditors	44	71
Taxation and social security	10,364	5,422
	10,408	5,493

18. ACCRUALS AND DEFERRED INCOME

	2022	**2021**
Unearned reinsurance commission	98,175	84,517
Accruals	2,852	3,786
	101,027	88,303

(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 (2021: $77) collateral for a FEC Letter of Credit, $40,828 (2021: $13,036) in NAIC Trust and $321,107 (2021: $260,391) 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 2022, there were $109,829 (2021: $119,540) of secured letters of credit outstanding under this agreement, secured by collateral in the amount of $132,289 (2021: $185,420).

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. On November 23, 2022, the facility was amended to include a $100,000 unsecured accordion clause. The letter of credit facility is secured and supports the insurance and reinsurance obligations. As at 31 December 2022, there were letters of credit outstanding under this facility of $143,859 (2021: $24,998), secured by collateral in the amount of $188,817 (2021: $74,971).

On 23 December 2022, a new Standby Letter of Credit Facility Agreement with Barclays Bank plc ("Barclays") was established, under which Barclays committed to a letter of credit facility in the amount of $100,000, with a $100,000 accordion. The letter of credit facility is $75,000 secured, $25,000 unsecured and supports the Company's insurance and reinsurance obligations. As at 31 December 2022, there were letters of credit outstanding under this facility totalling nil, secured by collateral in the amount of nil.

21. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Convex Re Limited and the ultimate parent undertaking is Convex Group Limited. The smallest and largest groups into which CIL's results are included are the group accounts of Convex Re Limited and Convex Group Limited, respectively.

Copies of both Convex Re Limited's and Convex Group Limited's consolidated financial statements can be obtained from Ocorion at Victoria Place, 31 Victoria Street, Hamilton HM10, 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 2022 through 6 April 2023, the date the financial statements were authorised for issue.

In December 2022, the CIL Board approved an additional $20,000 capital injection to CUS. During the first quarter of 2023, CIL injected $11,000 of the approved amount into CUS.

Effective 24 January 2023, the Lloyds Letter of Credit Facility was increased to include a $50,000 unsecured tranche. This capacity is available to both CRL and CIL, as borrowers on the facility.

CILhas completed a preliminary assessment of any potential impacts on the Company as a result of the events surrounding Credit Suisse and other banks, such as Silicon Valley Bank, and notes that it has minimal exposure.

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