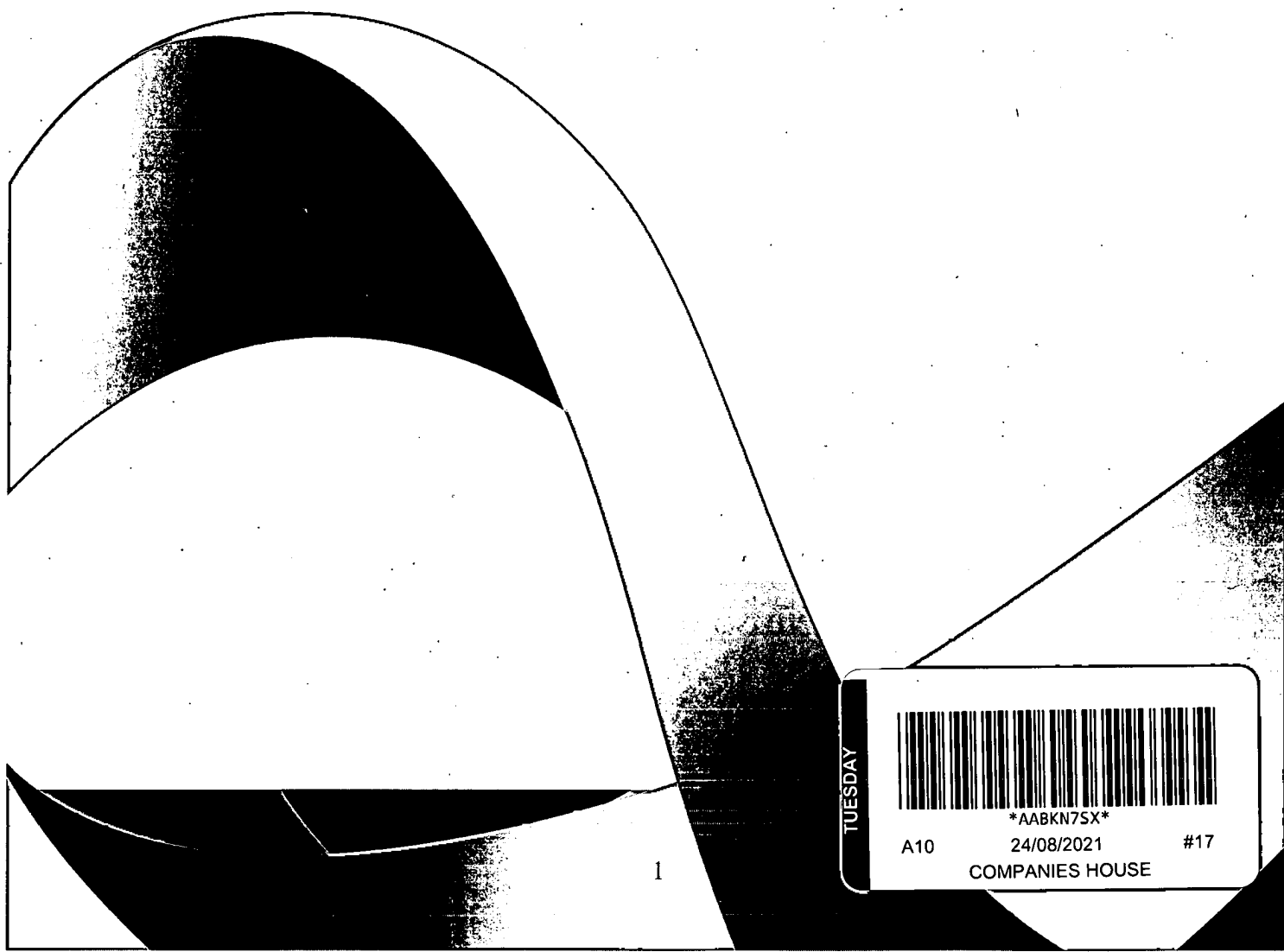


CONVEX INSURANCE UK LIMITED

Annual Report

For the year ended December 31, 2020

(Expressed in thousands of U.S. dollars)



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DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

EXECUTIVE DIRECTORS

Theodore Butt
Stephen Catlin
Matthew Wilson

NON-EXECUTIVE DIRECTORS

Dr Claus-Michael Dill
Nicholas Lyons
Fiona Luck
William Marcoux

COMPANY SECRETARY

Robina Malik

REGISTERED OFFICE

52, Lime Street London
United Kingdom
EC3M 7AF

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London
United Kingdom SE1 2RT

PRINCIPAL BANKERS

J.P. Morgan
25, Bank Street London
United Kingdom
E14 5JP

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Business Model

Convex Insurance UK Limited ("CIL" or "the Company") is a Convex Group Limited ("CGL") company which was authorised and licensed by the PRA and FCA in 2019. CIL has also obtained a listing on the NAIC Quarterly Listing of Alien Insurers, ensuring that it can write United States business through surplus lines eligibilities.

CIL aims to continue to establish itself as a scale player in the global specialty Property and Casualty ("P&C") market, leveraging its great depth of senior management experience and opportunity as a green-field site to establish a forward-looking insurer. This will involve building on the solid foundations put in place during 2019 and 2020, 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 own areas of expertise to underwrite large, complex risks as the basis of its strategy. The current market environment for such risks is considered to be potentially beneficial to insurers willing and able to grow within markets in which they have a significant depth of understanding, which will allow CIL to consolidate its gains thus far and establish a consistently profitable business.

Business Review

Key performance indicators

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

| Key performance indicators | Description | 2020 \$m | 2019 \$m |
|----------------------------|--|-------------|-------------|
| Gross premiums written | | \$831.6 | \$93.1 |
| Net premiums written | Net of reinsurance | \$269.2 | \$11.6 |
| Gross earned premium | | \$484.2 | \$13.3 |
| Net earned premium | | \$136.5 | \$3.1 |
| Underwriting result | Balance on technical account (before investment income) | (\$68.9) | (\$13.4) |
| Net loss ratio | Ratio of total technical claims to net earned premium | 83.5% | 83.6% |
| Expense ratio | Ratio of net operating expenses to net earned premium | 67.1% | 454.5% |
| Net combined ratio | Ratio of total technical charges to net earned premiums | 150.6% | 538.1% |
| Investment income | Total investment return after investment expenses and charges | \$18.7 | \$3.9 |
| Cash and investments | | \$1,107.8 | \$304.7 |
| Capital and reserves | Total capital including accumulated deficit | \$890.9 | \$303.9 |
| Own funds | Total capital and reserves as calculated using the Solvency II rules | \$868.9 | \$271.5 |
| SCR | Solvency Capital Requirement | \$428.2 | \$50.9 |
| Solvency ratio | Ratio of SCR to Own Funds | 203% | 533% |

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Business Review (continued)

Results and performance:

The Company's focus in 2020 was to grow the business having spent 2019 defining and implementing the processes required to allow it to begin underwriting business. As a result, gross written premium in 2020 increased significantly to \$831.6 million (2019: \$93.1 million). A prudent approach to risk retention resulted in significant use of reinsurance protection.

The ramp up of operations continuing into 2020, from a standing start to a fully-operational insurer/reinsurer, also meant that expenses incurred were significant as a proportion of the premium base, which further reduced the level of net income. In addition, the Company's performance was impacted by some of the natural catastrophe events in 2020 including Hurricane Laura and Iowa Derecho but these losses were not out of the ordinary given the portfolio written by the Company. As a result of a combination of these factors, the Company made a net loss of \$49.9 million in the year (2019: net loss \$7.9 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 \$637.0 million of additional capital was paid in full into the Company to support its future growth ambitions.

At 31 December 2020, under the Solvency II Directive, the estimated total capital available to meet the Solvency Capital Requirement (being the Own Funds) is \$868.9 million with the estimated Solvency Capital Requirement at \$428.2 million with the Minimum Capital Requirement at \$107.1 million. The Company has complied with all externally imposed capital requirements throughout the period.

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. The Company does not directly employ members of staff but operates through an outsourcing arrangement with a fellow subsidiary Convex UK Services Limited ("CSL") however staff related KPIs are monitored by the Directors. "Employees" referred to in these financial statements means employees of CSL.

Non-financial key performance indicators

| | |
|------------|--|
| People | Current and expected headcount compared to plan |
| | Numbers of people, by area, onboarded |
| Compliance | Screening checks are undertaken to ensure compliance with the various sanctions' regimes including the United Nations, United States, United Kingdom and the European Union regimes. All employees are required to complete mandatory compliance modules. |
| Licensing | Policies written within licensing permissions |
| Conduct | Achieve fair outcomes for CIL's policyholders, clients and employees. |
| Complaints | Managed within a fair and timely process |
| IT | There is no tolerance for material IT security events or an inability of the business to operate despite severe cyber-attacks. Percentage of users who have received Information Security Awareness training in the last 12 months |
| Operations | Percentage of material or high risk outsourcers not meeting service level agreements |

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Strategy and Objectives

CIL adheres fully to the Group's strategy which is anchored around the following key objectives and principles:

- Become a scale player in the global specialty P&C market;
- Maintain focus on complex risks;
- Generate consistent underwriting profits;
- Maintain a conservative investment portfolio to ensure the ability to pay claims as they fall due;
- Leverage new and appropriate technology;
- Implement an efficient operating model;
- Behave ethically, with integrity and maintain high standards of conduct towards clients and counterparties; and
- Maintain a strong capital position.

Attracting and recruiting professionals who have a good reputation and a proven track record is fundamental to delivering the Group's objectives. So far, over 300 staff have been recruited in London with all key leadership and underwriting roles filled, as well as multiple Convex Re Limited ("CRL") employees based in Bermuda, a fellow group subsidiary, who perform group-wide tasks.

Operational Excellence – strong execution, delivering high quality outcomes with a market-leading low expense ratio. The vision is to deliver excellent business and client outcomes and enriched experiences to strengthen the Convex brand, at a lower cost than competitors. To achieve this, Convex is building an operating architecture/framework that is scalable, flexible and nimble enough to allow seamless transition.

Make better decisions using data technology. Our business revolves around data. Our strong emphasis on analytics is a competitive advantage over our peers and competitors, allowing us to make intelligent and informed underwriting decisions.

Leverage new and appropriate technology. Technology is increasingly a key differentiator across the (re)insurance markets, with many providers struggling with outdated and/or inefficient technology systems. Cloud based systems are used across Convex which allows them to be accessed from anywhere, allowing the office in London (and in Bermuda) to have real time access to all relevant information and expertise within the Group.

Lack of legacy and limited cost base. The Group's purpose-built technology and lack of legacy systems, coupled with an efficient use of proven third-party outsourcing for non-core functions, are designed to allow the business to operate at a lower, more flexible cost base than its competitors. The Group's internal business processing systems are designed to allow it to maintain a high ratio of underwriters to total employees, as it does not require a significant number of administrative personnel to support the underwriting process. Our operating model is underpinned by a business culture built on fast, fair and transparent claims resolution.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Future Outlook

CIL views pricing in the insurance industry to be cyclical. Over the past decade there has been a significant decrease in pricing in both the insurance and reinsurance market, which Convex believe is attributable primarily to the emergence of alternative sources of capital, less disciplined underwriting from incumbent providers, intermediary consolidation, and an expansion of delegated authorities. However, the rate of decline slowed during 2018, with rate flattening or slight increases in 2019. 2020 has been a year of rates increase with COVID-19 and its impacts on a number of insurance and reinsurance players. Despite these market developments and favourable market conditions, especially to Convex which does not have any legacy, CIL's proposition will continue to be underpinned by a disciplined underwriting approach with a focus on profitability over volume. In addition, the cost advantage enabled by the efficient operating model further enhances CIL's competitive position in a more difficult pricing environment.

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

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

This differentiated proposition includes the following:

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

Brexit

Following the United Kingdom's decision to leave the European Union ("EU") ("Brexit"), negotiations are still ongoing to determine elements of the future relationship between the United Kingdom and the European Union. As a result, there remains continued uncertainty ahead for the market.

EU membership and access to the single market in 2020 has enabled CIL's underwriters to underwrite insurance business in all of the other 27 member states on a freedom of services basis. From the start of 2021, these passporting rights are no longer available to CIL, and as a result, alternative provisions were put in place to allow CIL to write business through a fronting arrangement from 1 January 2021. In parallel, CIL are working to finalise a more permanent solution which will allow business in the EEA to be written by CIL.

COVID-19

Although the insurance implications of COVID-19 on CIL have thus far been limited, the Risk Management function closely monitored and assessed the implications throughout 2020, ensuring that the business was suitably prepared for any developments. Both financial markets and the economy in wider terms were severely impacted by COVID-19, however the financial impact to CIL was minimised due to the investment portfolio remaining conservative and therefore protecting the business against severe market shocks. Operationally, CIL was well-equipped to cope with remote working thanks to its agile and modern technology, making the volatile nature of multiple lockdowns less disruptive. This enabled CIL to continue writing business throughout the year with minimal disruption, leading to praise from both brokers and insurers within the industry. Both the HR and Marketing teams provided various networks and initiatives to ensure that CIL employees were supported, with employee well-being always being a priority for senior management.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Principal Risks and Uncertainties

Overall organisational risks

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

Insurance risk

Insurance risk arises from:

- 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 insurance risk through enforcing strict underwriting procedures aligned with the Board's risk appetite, along with a high-quality reinsurance programme. In addition, the adequacy of the Company's general insurance reserves is reviewed by the Reserving Committee and approved by the Board of Directors.

Financial risk

Financial risk arises through the Company's holdings in 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 arising from policies as they fall due. The most important drivers of financial risk are: interest rate risk; currency risk; credit risk; and liquidity risk.

CIL does not use hedging to manage risks. Instead, it manages risks by using value-at-risk. The value-at-risk is an indicator at a given confidence interval of the worst loss expected to be suffered over a specified duration from the measurement date. Risks are monitored on a continuous basis for compliance with the Board's risk appetite, with escalation and mitigation processes in place where breaches are identified.

Interest rate risk

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

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

Currency risk

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

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Principal Risks and Uncertainties (continued)

Credit risk

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

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

The Company has in place concentration limits and monitors its exposure to a single counterparty, or groups of related counterparties and industry segments.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. In order to meet such calls, the Board sets minimum limits on the maintenance of cash deposits and investments. This risk is monitored on a continuous basis for compliance with the Board's risk appetite with escalation and mitigation processes in place where breaches are identified.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

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 also act in accordance with a set of general duties. These duties are detailed in section 172 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."*

Convex Insurance UK Limited has been in operation since 2019 and our engagement activities are therefore at the nascent stage. However, we believe that the Directors' responsibilities above align closely with our core values of:

- *Earn our reputation*
- *Straightforward and fair*
- *Determined to improve*
- *Inspired by the opportunity*
- *Enjoy being different*

The following paragraphs summarise how the Directors fulfil their responsibilities in alignment with our core values:

Employees

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

Communications With the ongoing challenges that COVID-19 has imposed on all businesses in the UK, particularly with remote working and limited face to face meetings we have put a significant amount of time and effort to ensure that our employees supported both physically and mentally. Our initiatives included the following:

- monthly all staff 'Townhall' meetings hosted by Convex Group's Chairman/CEO and Deputy CEO;
- regular communication sharing resources available to assist with working from home and mental health, such as a 6 part course on personal resilience;
- '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; and
- The introduction of mental health first aiders - members of Convex staff who are trained to spot and support individuals with mental health concerns or issues.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

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

Employees (continued)

Engagement We have developed a clear company vision and set of values that the Convex Group's CEO and Deputy CEO have shared with all employees, and in line with this have sent a number of 'Convex care packs' sent to all staff over the course of the year. The Convex values are also instilled in new employees through onboarding sessions held with the Group's Deputy CEO. Our Employee Value Proposition (EVP) includes a number of initiatives to support and engage our employees. The core elements of our EVP cover health & wellbeing, inclusion, employee experience, education and communities.

Customers

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

Communications As with our staff, the ongoing challenges that COVID-19 has imposed on all businesses and particularly with limited face to face meetings we have used a variety of ways of communicating with our brokers and clients, including virtual broker booths on our website, to enable video meetings for prospective brokers and clients. We also keep our website and LinkedIn regularly updated with key corporate news, and hold ad hoc events to update specific broker and client groups on our development.

Engagement As the ongoing challenges that COVID-19 has limited face to face meetings, we have looked at ways of engaging our brokers and clients. Our initiatives included the following:

- A number of virtual events ranging from themed quizzes to wine tasting evenings
- The Convex Conversation a weekly podcast series initially created to engage staff, but expanded externally to engage brokers and clients, with guests ranging from the Chief Pilot of the London Air Ambulance through to 2020 GQ Humanitarian of the Year Patrick Hutchinson.

Regulators

Our regulators are primarily the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) in the UK. We also have regulatory requirements for the National Association of Insurance Commissioners (NAIC) in the United States. In addition, the Convex Group of Companies is regulated by the Bermuda Monetary Authority (BMA) in Bermuda which also serves as the Group Supervisor.

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

Engagement Maintaining a positive relationship with our regulators leads to the best outcome for our customers and other stakeholders, therefore we embed an understanding of regulatory requirements and ethical behaviour throughout the organisation. This includes mandatory information sessions to all departments regarding regulatory requirements, as well as ensuring that a variety of departments are given sight of draft submissions to ensure that they are accurate and complete. A 'Regulatory Submission Group' meets on a weekly basis to monitor completion of submissions and ensure that all filing requirements are met.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

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

Risk Management

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, and a risk control framework and ensures these are implemented.

Communications The Company's Chief Risk Officer reports on a quarterly basis to the Board of Directors. In addition, the Company risk management is monitored by the Executive Risk Committee that meets at least bi-monthly.

Engagement The Company has a comprehensive approach to risk management under the broad categories of underwriting risk (comprising premium risk, catastrophe risk and reserve risk); financial risk (comprising interest rate risk, foreign exchange risk, credit risk and liquidity risk); operational risk; regulatory risk, and strategic risk. These risks are outlined on pages 36 to 47.

Suppliers

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

Communications We always review major suppliers and prefer to meet management in person prior to contracting with them and ensure that they have a similar set of values and operate responsibly. We are in continual communication with suppliers, particularly regarding value for money and performance.

Engagement We onboard our major partners in our offices to immerse them in the Convex brand. We have held a small number of informal business updates in our London office.

Community

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

Communications In spite of the challenges that COVID-19 has presented we have strengthened ties with the community over 2020, with community activities led and managed by our employees via our London Charity Committee, which in turn reports into our Group Executive Committee.

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

Charity, Outreach, Diversity and Engagement (CODE)

During 2020 we launched our London CODE Committee. This committee is made up of volunteer members from across the business whose aim is to support the local community through charitable giving and outreach, build open dialogue and initiatives relating to diversity as well as being a forum for social engagement within the local offices.

STRATEGIC REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

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

Community (continued)

Charity and Outreach

In 2020 we selected Alzheimer's Research UK (ARUK) as our corporate charity partner. We worked with ARUK throughout 2020 to both educate our staff, brokers and clients about dementia and Alzheimer's as well as fundraise for the Early Detection of Neurodegenerative diseases (EDoN) project. The EDoN project is the largest initiative in the world that will collect, share and analyse clinical and digital health data to detect diseases like Alzheimer's.

We support XLP, a London-based charity whose aim is to engage in long-term relationships that empower young people from disadvantaged backgrounds to complete their education, avoid anti-social behaviour and ultimately become independent and confident contributors within their communities. XLP operates across nine inner-city boroughs around London, working with over 4,500 young people each year through education, mentoring, sport and the arts.

Diversity – Belonging

At Convex, we believe our culture gives us a competitive advantage, and we recognise how important and integrated diversity and inclusion needs to be for a company to be the best it can be, so we go beyond 'Diversity and Inclusion', to ensure that a genuine and universal feeling of Belonging is part of our Convex culture.

Individuals with different cultures, perspectives and experiences are what makes Convex special. We provide equal opportunities for everyone at Convex to take advantage of. We recruit, develop and retain the most talented people, regardless of their background and seek to make the best use of their talents.

Environment

A sustainable approach to our environment is a given for a new 21st century business. Although we are in the early stages of the business, we are already building sustainability into our day to day operations, through initiatives such as providing all staff with reusable aluminium water bottles and glass 'keep-cups', the introduction of 'living walls' of UK and Bermuda flora into the offices and business practices such as minimising the requirement to print documents.

The Company also ensures that it recognises climate risks and opportunities, including within its underwriting and investment portfolios and strategies, in the short and longer term. Convex will ensure its solvency and liquidity positions remain appropriate to offset the physical and transition risks associated with climate change whilst continuing to deliver our clients' needs.

Approved by the Board of Directors on 26 March 2021 and signed on its behalf by:



Theodore Butt (8 April 2021)
Director

DIRECTORS' REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Directors and Their Interests

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

| Names | Appointed | Resigned |
|--------------------|------------|------------|
| Paul Brand | | 18/02/2021 |
| Theodore Butt | 17/02/2021 | |
| Stephen Catlin | | |
| Claus-Michael Dill | | |
| Fiona Luck | | |
| Nicholas Lyons | | |
| William Marcoux | | |
| Benjamin Meuli | | 02/03/2020 |
| Matthew Wilson | 02/03/2020 | |

Political Donations

The Company made no political donations during the period, (2019: Nil).

Streamlined Energy and Carbon Reporting

This is the first year the Company has reported in accordance with the requirements of the Streamlined Energy and Carbon Reporting Regulations which came into force from 1 April 2019.

All of the employees of the Company and its UK affiliates are employed by CSL, which also provides and manages the premises which the Company and its UK affiliates occupy. No meaningful split of the energy consumption and emissions between the Company and its UK affiliates is currently possible so the amounts shown below are the totals incurred through CSL.

Greenhouse Gas Emissions ("GHG") 2020

| Scope | Description | Metric | tkgCO ₂ * |
|------------------------|--|--------|----------------------|
| Scope 1 | Direct emissions from controlled sources | | nil |
| Scope 2 | Indirect emissions from purchased energy | kWh | 174 |
| Scope 3 | Emissions from the use of sold products and services for which the company does not own or control (e.g. Travel) | Mile | 377 |
| Total | | | 551 |
| Intensity ratio | Average tkgCO ₂ per employee | | 2.8 |

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

CSL's energy use was significantly impacted by COVID 19 which restricted office use and travel for employees.

The Company has a number of initiatives to reduce its carbon footprint including the leasing of an energy efficient building with 25% lower CO₂ emissions than required under UK building regulations and the use of 100% renewable energy for the supply of electricity.

DIRECTORS' REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Directors' Indemnification

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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and this re-appointment is being considered by the Directors.

Future Outlook

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

Going Concern

The Company has significant financial resources and, having reviewed the key performance indicators of the Company as described in the Strategic Report, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company assesses its capital under the Solvency II requirements using the standard formula. The Directors have reviewed the Company's forecast solvency position under this regime and are content that this supports the continued use of the going concern basis in preparing the financial statements.

Financial Instruments

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

Dividends Paid and Declared

No dividends were paid or proposed for the period (2019: Nil).

DIRECTORS' REPORT

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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 26 March 2021 and signed on its behalf by:



Theodore Butt (8 April 2021)

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 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" Section 1A, 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: Assets and the Statement of Financial Position: Liabilities as at 31 December 2020; the Statement of Profit and Loss and Other Comprehensive Income and the Statement of Changes in Equity for the year then ended; the Statement of Accounting Policies; and the notes to the financial statements.

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

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the company in the period under audit.

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

Our audit approach

Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

- The impact of COVID-19
- Valuation of gross incurred but not reported (IBNR) reserves and the associated reinsurers' share of IBNR reserves
- Accuracy of estimated premium income

Materiality

- Overall materiality: US\$8.13 million based on approximately 1% of Gross Written Premium (2019: US\$3.04 million based on 1% of Net Assets).
- Performance materiality: US\$6.10 million.

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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 preparation of 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 management bias and judgemental areas of the financial statements. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee;
- Testing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the valuation of incurred but not reported reserves and the accuracy of estimated premium income;
- Identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations or posted by senior management;

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

- Testing transactions entered into outside of the normal course of the company's business; 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.

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.

Accuracy of estimated premium income is a new key audit matter this year. Valuation of the pipeline premium accrual, which was a key audit matter last year, is no longer included because it is significantly less material in the context of the current year's gross written premium. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p><i>The impact of COVID-19</i></p> <p><i>Refer to note 1h and 1c in the notes to the financial statements for COVID-19 disclosures.</i></p> <p>The COVID-19 pandemic has directly impacted the company in the following key areas:</p> <ul style="list-style-type: none">• the move to remote working for the majority of staff has resulted in an increase in risk relating to the effective operation of controls;• insurance related losses have impacted a number of classes of business, albeit that the stage of development of the company at time of the outbreak of the pandemic has meant that the impact is limited. | <p>In response to the key areas identified as being impacted by COVID-19, we:</p> <ul style="list-style-type: none">• Performed additional procedures to assess the implications upon the control environment that arose from the impact of the pandemic, including making inquiries of management regarding the operation of controls. We assessed the results of this work for any indication of fraud or error resulting from remote working; and• Held discussions with management to understand which of the company's classes of business were impacted by the pandemic. We validated, through our testing of claims outstanding and using our knowledge of the insurance market and those classes of business impacted by COVID-19, that the company's exposure to COVID-19 insurance losses was limited. <p>The results of our procedures indicated that the impacts of COVID-19 have been understood, appropriately managed by management and disclosed within the financial statements.</p> |

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

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

Refer to item (d) and (k) in the Statement of Accounting policies and notes 1(c) and 3 to the financial statements for disclosures of related accounting policies and balances.

Total gross IBNR reserves and the associated reinsurers' share of IBNR reserves are significant estimates in the financial statements, and as at 31 December 2020 amounted to \$220.1 million and \$142.5 million respectively. The methodologies and initial expected loss ratio assumptions used to develop gross IBNR reserves and the associated reinsurers' share of IBNR reserves involve a significant degree of judgement, and management utilised a third party actuarial expert to assist in establishing its booked gross and net 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 current year estimates, which is particularly relevant given the company's limited historical loss data.

We have understood and evaluated the design of key controls in place in respect of the valuation of gross IBNR reserves and the associated reinsurers' share of IBNR reserves.

This work, supplemented with tests of detail, included (i) reviewing and testing the reconciliation of data from the underlying systems to the data used in the actuarial calculations, and (ii) testing to ensure gross IBNR reserves, as a component of technical provisions, and the associated reinsurers' share of IBNR reserves were reviewed, approved and reconciled to the financial statements.

In performing our detailed audit work over the valuation of gross IBNR reserves and the associated reinsurer's share of IBNR reserves we used PwC actuarial specialists, where appropriate. Our procedures included:

- Developing independent point estimates for classes of business considered to be higher risk by (1) understanding the basis for management's selected initial expected loss ratios (IELRs), including the relevant market information considered; (2) testing the initial expected loss ratios against relevant external benchmark data and (3) performing sensitivity testing on the IELRs;
- Testing, for certain other classes of business (including natural catastrophes and other large claims), the methodology and assumptions used by management to derive the gross IBNR reserves, and the associated reinsurer's share of IBNR reserves; and
- Evaluating the appropriateness of the booked gross IBNR reserve margin, and the associated reinsurer's share, taking into account estimation uncertainty inherent in the underlying insurance business, including testing the sensitivity of reserves.

The results of our procedures indicated that the valuation of gross IBNR reserves and the associated reinsurers' share of IBNR reserves were supported by the evidence we obtained.

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

| | |
|--|---|
| <p><i>Accuracy of estimated premium income</i> <i>Refer to item (d) and (i) in the Statement of Accounting Policies and note 1(a) to the financial statements for disclosures of related accounting policies and balances.</i></p> <p>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.</p> <p>For these contracts, premiums ultimately received may differ from initial estimates, which can result in adjustments being made to the premiums initially recorded.</p> <p>The estimation process involves judgement which is heightened in the current year due to the fact that it is the second year of the company's operations, and therefore management have limited historical information on which to base their estimates. We focused on this area given the level of estimation uncertainty and judgement involved.</p> | <p>We have understood, evaluated, and tested the design and operational effectiveness of key controls in place in respect of estimated premium income.</p> <p>We evaluated the accounting policy for premium recognition by placing type, and then, on a sample basis:</p> <ul style="list-style-type: none"> • We corroborated initial ultimate premium estimates to third party supporting evidence such as signed slips, and validated any subsequent estimates to the initial ultimate estimate; • Tested the application of writing patterns applied to the ultimate premiums for delegated authority business; and • Performed a retrospective review of premium estimates booked as at 31 December 2020, taking into account subsequent information including information received post year end. <p>The results of our procedures indicated that the accuracy of management's estimated premium income is supported by the evidence we obtained.</p> |
|--|---|

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 company's financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates. We performed a full scope audit of the company using the overall materiality of \$8.13 million.

Materiality

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

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

| | |
|---|--|
| <i>Overall company materiality</i> | US\$8.13 million (2019: US\$3.04 million). |
| <i>How we determined it</i> | Approximately 1% of Gross Written Premium (2019: 1% of Net Assets) |
| <i>Rationale for benchmark applied</i> | In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the company's financial statements. We concluded gross written premium was the most relevant benchmark to these users as the company is in a start-up phase and is in its second year of operation. |

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% of overall materiality, amounting to US\$6.10 million 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 \$406,656 (2019: \$151,950) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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% of overall materiality, amounting to US\$6.10 million 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 at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$406,656 (2019: \$151,950) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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;
- Assessing management's scenarios whereby they considered plausible downside sensitivities;
- Performing further 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.

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

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

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

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 period ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2019 to 31 December 2020.



Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 April 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

| | Notes | 2020 | 2019 |
|---|-------|------------------|-----------------|
| EARNED PREMIUMS, NET OF REINSURANCE | | | |
| Premiums written | | | |
| Gross amount | 2 | 831,649 | 93,080 |
| Reinsurers' share | | (562,413) | (81,457) |
| | | <u>269,236</u> | <u>11,623</u> |
| Change in the provision for unearned premiums | | | |
| Gross amount | 3 | (347,446) | (79,783) |
| Reinsurers' share | 3 | 214,667 | 71,223 |
| | | <u>(132,779)</u> | <u>(8,560)</u> |
| Earned premiums, net of reinsurance | | <u>136,457</u> | <u>3,063</u> |
| CLAIMS INCURRED, NET OF REINSURANCE | | | |
| Claims paid | | | |
| Gross amount | | (41,746) | (126) |
| Reinsurers' share | | 26,143 | 69 |
| | | <u>(15,603)</u> | <u>(57)</u> |
| Change in the provision for claims | | | |
| Gross amount | 3 | (277,160) | (6,180) |
| Reinsurers' share | 3 | 178,871 | 3,677 |
| | | <u>(98,289)</u> | <u>(2,503)</u> |
| Claims incurred, net of reinsurance | | <u>(113,892)</u> | <u>(2,560)</u> |
| Net operating expenses | 4 | (91,508) | (13,920) |
| BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS | 2 | <u>(68,943)</u> | <u>(13,417)</u> |
| Investment income | 7 | 7,052 | 3,212 |
| Realised gains on investments | 7 | 3,440 | 34 |
| Unrealised gains on investments | 7 | 5,366 | 1,066 |
| Investment expenses and charges | 7 | (1,755) | (313) |
| Realised foreign exchange gains | | (1,349) | (194) |
| Unrealised foreign exchange gains | | 5,947 | 48 |
| | | <u>18,701</u> | <u>3,853</u> |
| OPERATING LOSS AND LOSS ON ORDINARY ACTIVITIES BEFORE TAX | | <u>(50,242)</u> | <u>(9,564)</u> |
| Tax charge on profit on ordinary activities | 8(a) | 282 | 1,637 |
| LOSS FOR THE FINANCIAL PERIOD AND TOTAL COMPREHENSIVE LOSS | | <u>(49,960)</u> | <u>(7,927)</u> |

The accompanying notes on pages 29 to 56 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION: ASSETS
 CONVEX INSURANCE UK LIMITED
 As at 31 December 2020

| (EXPRESSED IN THOUSANDS OF U.S. DOLLARS) | Notes | 2020 | 2019 |
|--|-------|------------------|----------------|
| INVESTMENTS | | | |
| Other financial investments | 10 | 966,183 | 299,629 |
| REINSURERS' SHARE OF TECHNICAL PROVISIONS | | | |
| Provision for unearned premiums | 3 | 287,557 | 71,223 |
| Claims outstanding | 3 | 183,309 | 3,680 |
| | | 470,866 | 74,903 |
| DEBTORS | | | |
| Debtors arising out of direct insurance operations | 11 | 381,734 | 78,860 |
| Debtors arising out of reinsurance operations | | 20,995 | 69 |
| Amounts due from other group companies | 12 | 975 | 1,087 |
| Other debtors | 13 | 3,931 | 343 |
| Deferred tax asset | 8 | - | 1,339 |
| | | 407,635 | 81,698 |
| OTHER ASSETS | | | |
| Cash at bank and in hand | | 141,625 | 5,102 |
| PREPAYMENTS AND ACCRUED INCOME | | | |
| Accrued interest and rent | | 2,610 | 1,767 |
| Deferred acquisition costs | 3 | 60,861 | 5,992 |
| Other prepayments and accrued income | | 295 | 221 |
| | | 63,766 | 7,980 |
| TOTAL ASSETS | | 2,050,075 | 469,312 |

The accompanying notes on pages 29 to 56 are an integral part of these financial statements.

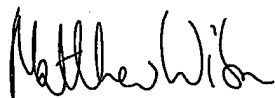
STATEMENT OF FINANCIAL POSITION: LIABILITIES
 CONVEX INSURANCE UK LIMITED
 As at 31 December 2020

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

| | Notes | 2020 | 2019 |
|--|-------|------------------|----------------|
| CAPITAL AND RESERVES | | | |
| Called up share capital | 14 | 348,650 | 311,800 |
| Share premium account | | 600,150 | - |
| Profit and loss account | | (57,887) | (7,927) |
| Total equity | | <u>890,913</u> | <u>303,873</u> |
| TECHNICAL PROVISIONS | | | |
| Provision for unearned premium | 3 | 433,910 | 79,887 |
| Claims outstanding | 3 | 285,916 | 6,190 |
| | | <u>719,826</u> | <u>86,077</u> |
| CREDITORS | | | |
| Creditors arising out of direct insurance operations | | 2,750 | - |
| Creditors arising out of reinsurance operations | | 367,968 | 70,070 |
| Amounts owed to group companies | 15 | 7,013 | 1,242 |
| Other creditors including taxation and social security | 16 | 8,567 | 850 |
| | | <u>386,298</u> | <u>72,162</u> |
| ACCRUALS AND DEFERRED INCOME | | | |
| Other accruals and deferred income | 17 | 53,038 | 7,200 |
| TOTAL EQUITY AND LIABILITIES | | 2,050,075 | 469,312 |

The accompanying notes on pages 29 to 56 are an integral part of these financial statements.

Approved by the Board of Directors on 26 March 2021 and signed on its behalf by:



Matthew Wilson (8 April 2021)
 Director

Convex Insurance UK Limited
 Registered number 11796392

STATEMENT OF CHANGES IN EQUITY

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

| | Called-up Share Capital | Share Premium | Profit and loss account | Total equity |
|----------------------|----------------------------|------------------|----------------------------|-----------------|
| At 1 January 2020 | 311,800 | - | (7,927) | 303,873 |
| Common shares issued | 36,850 | 600,150 | - | 637,000 |
| Loss after tax | - | - | (49,960) | (49,960) |
| At 31 December 2020 | 348,650 | 600,150 | (57,887) | 890,913 |
| | Called-up Share Capital | Share Premium | Profit and loss account | Total Equity |
| At 30 January 2019 | - | - | - | - |
| Common shares issued | 311,800 | - | - | 311,800 |
| Loss after tax | - | - | (7,927) | (7,927) |
| At 31 December 2019 | 311,800 | - | (7,927) | 303,873 |

The accompanying notes on pages 29 to 56 are an integral part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

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 for the year ended 31 December 2020.

Convex Insurance UK Limited (the Company) is a Company 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").

(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 cover the year ended 31 December 2020.

(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.

(d) Use of estimates and judgements

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

The Company's principal estimates include:

- the reserve for losses and loss adjustment expenses;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the premium written on a line slip or proportional basis and on binders.

The most significant estimate made by management is the estimate for losses incurred but not reported. The total gross estimate at 31 December 2020 is \$220,095, \$77,639 net of reinsurance (2019: \$6,087, \$2,471 net of reinsurance) and is included within claims outstanding on the Statement of Financial Position. Estimates of losses incurred but not reported are discussed note (k) – Reserve for losses and loss expenses.

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

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

(e) Exemption from preparing cash flow statement

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

(f) Exemption from disclosing related party transactions

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

(g) Foreign currency translations and settlements

The Company's reporting and functional currency is USD.

The Company operates in multiple transactional currencies. All non-USD transactions are translated at the actual rates prevailing on the respective dates of the transactions. At each period end:

- Foreign currency monetary items are translated at closing rates. Individual line items in the Statement of Profit and Loss and Other Comprehensive Income are translated at the average rate; and
- Foreign currency non-monetary items measured at historical cost are translated using the exchange rate prevailing at the date of the transaction.

All foreign exchange gains and losses are recognised in the Statement of Profit and Loss and Other Comprehensive Income. These arise from:

- Settlements of non-USD foreign currency transactions;
- Retranslations of monetary items at period end exchange rates; and
- Differences on non-monetary items between theoretical period end exchange rate values, and the established historical or fair values recognised at various 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

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 initially recognised by applying an expected writing pattern to the total estimated premium on the binder. The written premium on these contracts is earned over the contract period commensurate with the underlying risk.

Accordingly, 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.

For these estimated premiums, the amount of premium ultimately received may differ materially 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 sometimes lead to an increase or decrease in expected premiums. Adjustments to premium estimates, if any, are recorded retrospectively in the period in which they become known.

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

Written, earned and unearned premiums (continued)

Reinsurance premiums assumed are recorded at the inception of the policy and are estimated based on information provided by ceding companies. These premiums are earned over the terms of the related reinsurance contracts in line with the risk profile of the policy.

For reinsurance contracts written on a risks-attaching basis, the earnings period is based on the terms of the underlying contracts and policies. As the underlying policies usually extend after the expiry date of the reinsurance contract, the earning period is generally assumed to be the contract period plus 12 months. Premiums written are earned on a pro-rated basis over the identified earning period of the related policy or contract in line with the risk profile of the policy.

The information used in establishing these estimates is reviewed and subsequent adjustments are recorded retrospectively in the period in which they are determined.

The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force is recorded as unearned premiums.

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

(j) Policy acquisition costs

Deferred acquisition costs are costs that vary with, and are directly related to, the successful production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition costs are shown net of commissions earned on reinsurance ceded. These costs are deferred and amortised over the periods in which the related premiums are earned.

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) and anticipated investment income. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency. No premium deficiency was recorded for the year ended December 31, 2020 and the period ended December 31, 2019.

Deferred acquisition costs also include profit commissions, which are recognised on a basis consistent with our estimate of losses and loss adjustment expense.

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

(k) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expense includes reserves for unpaid reported losses ("case reserves"), losses incurred but not reported ("IBNR"), and for unallocated loss adjustment expenses ("ULAE"). Case reserves are established by management based on reports from brokers, ceding companies and insureds and represents the unpaid portion of the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by, the Company, including Allocated Loss Adjustment Expenses ("ALAE"). IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. The earned portion of these estimates of ultimate losses and loss expenses are then used to derive the best estimate loss and loss expenses, to which a management margin is added.

The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed.

Accordingly, losses and loss adjustment expenses ultimately paid may differ materially from the amounts recorded in the financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. These adjustments sometimes lead to an increase or decrease in ultimate losses. Adjustments to ultimate loss estimates, if any, are recorded in earnings in the period in which they become known.

(l) 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. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force.

Reserves recoverable 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.

(m) Current and deferred taxation

Current tax

Current tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income and reflects:

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

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

Current and deferred taxation (continued)

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 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 the Statement of Comprehensive Income - Non-Technical Account evenly over the period of the lease.

(o) Cash and cash equivalents

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

(p) Financial instruments

The Company has chosen to adopt FRS 102 section 11 in respect of financial instruments.

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

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, bonds and similar debt instruments are initially recognised at transaction price. Upon their initial recognition, financial assets are designated by the entity as fair value through the Statement of Profit and Loss and Other Comprehensive Income and are subsequently measured at fair value. Any changes in fair value are recognised in the Statement of Profit and Loss and Other Comprehensive Income - Non-Technical Account.

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

Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price and are subsequently stated 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. Accounts payable 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.

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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 including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

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

Impairment of financial assets

The Company assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. Impairments are recognised through the Statement of Profit and Loss and Other Comprehensive Income.

STATEMENT OF ACCOUNTING POLICIES

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

STATEMENT OF ACCOUNTING POLICIES (continued)

(q) Investment return

Investment return is recognised within the Statement of Profit and Loss and Other Comprehensive Income and comprises:

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

Investment income

Investment income comprises:

- Interest on bank balances, which are accounted for on an accruals basis;
- Coupons on bonds, which are accounted for on an accruals basis; and
- Returns on money market funds, which are accounted for on an accruals basis.

Investment expenses, charges or interest

These are recognised on an accruals basis.

Movements in unrealised gains/(losses)

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

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

Realised gains/(losses)

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

(r) 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.

(s) Distributions to equity shareholders

Dividends and other distributions to 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.

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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1. RISK MANAGEMENT

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

1. RISK MANAGEMENT (continued)

Financial risk

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

Operational risk

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

Strategic risk

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

(a) Underwriting risk – premium

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

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

| Geographic area of risk insured | 2020 | | 2019 | |
|---------------------------------|------------------------|------|------------------------|------|
| | Gross premiums written | % | Gross premiums written | % |
| United Kingdom | 100,731 | 12% | 8,467 | 9% |
| EU Member States | 107,107 | 13% | 16,121 | 17% |
| Other | 623,811 | 75% | 68,492 | 74% |
| | 831,649 | 100% | 93,080 | 100% |

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

| Line of business | 2020 | | 2019 | |
|-----------------------------------|------------------------|------|------------------------|------|
| | Gross premiums written | % | Gross premiums written | % |
| Direct insurance: | | | | |
| Marine, Aviation and Transport | 149,336 | 18% | 41,190 | 44% |
| Fire and other damage to property | 137,138 | 16% | 11,465 | 12% |
| Third party liability | 100,667 | 12% | 1,465 | 2% |
| Miscellaneous | 32,305 | 4% | - | - |
| | 419,446 | 50% | 54,120 | 58% |
| Reinsurance: | 412,203 | 50% | 38,960 | 42% |
| | 831,649 | 100% | 93,080 | 100% |

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RISK MANAGEMENT (continued)

(b) Underwriting risk – catastrophe

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

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

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

(c) Underwriting risk – reserve

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(c) Underwriting risk – reserve (continued)

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

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

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known large losses and catastrophes, or from inadequate provision for unknown losses. The impact of COVID-19 on the net reserves is immaterial as at 31 December 2020. The Company believes that the claims reserves established are adequate.

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

| Gross claims reserves | 2020 | | 2019 | |
|-----------------------------------|-----------------|-------------|-----------------|-------------|
| | Claims Reserves | | Claims Reserves | |
| | | % | | % |
| Direct Insurance: | | | | |
| Marine, Aviation and Transport | 56,160 | 20% | 2,408 | 39% |
| Fire and other damage to property | 26,288 | 9% | 367 | 6% |
| Third party liability | 38,876 | 14% | 46 | 1% |
| Miscellaneous | 4,996 | 2% | - | - |
| | 126,320 | 44% | 2,821 | 46% |
| Reinsurance | 159,596 | 56% | 3,369 | 54% |
| Total gross claims reserve | 285,916 | 100% | 6,190 | 100% |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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RISK MANAGEMENT (continued)

(c) Underwriting risk – reserve (continued)

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

| Gross Estimate of cumulative claims incurred | Underwriting Year | | Total |
|---|-------------------|----------------|----------------|
| | 2019 | 2020 | |
| End of financial year 1 | 6,306 | 280,081 | |
| End of financial year 2 | 48,030 | | |
| Current estimate of cumulative claims incurred: | 48,030 | 280,081 | 328,111 |
| Cumulative payments to date | 12,393 | 29,802 | 42,195 |
| Gross outstanding claims liabilities | 35,637 | 250,279 | 285,916 |

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

| Net Estimate of cumulative claims incurred | Underwriting Year | | Total |
|---|-------------------|---------------|----------------|
| | 2019 | 2020 | |
| End of financial year 1 | 2,560 | 100,493 | |
| End of financial year 2 | 18,033 | | |
| Current estimate of cumulative claims incurred: | 18,033 | 100,493 | 118,526 |
| Cumulative payments to date | 4,637 | 11,282 | 15,919 |
| Net outstanding claims liabilities | 13,396 | 89,211 | 102,607 |

(d) Financial risk – interest

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

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

Investment guidelines are established to manage this risk. These guidelines set parameters within which the external investment managers must operate. The guidelines are approved by the Audit Committee which is a sub-committee of the Board of Directors. 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.

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CONVEX INSURANCE UK LIMITED

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RISK MANAGEMENT (continued)

(d) Financial risk – interest (continued)

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

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

| | 2019 | | | | | |
|---|-------------|-----|---------------|----|-------------|------|
| | Fixed rate | | Floating Rate | | Total | |
| | Fair values | % | Fair values | % | Fair values | % |
| Debt securities | | | | | | |
| Non-UK government and government agencies | 133,350 | 46% | - | 0% | 133,350 | 46% |
| Mortgage-backed securities | 22,998 | 8% | 8,659 | 3% | 31,657 | 11% |
| Corporate | 123,459 | 42% | - | 0% | 123,459 | 42% |
| Asset-backed securities | - | 0% | 2,472 | 1% | 2,472 | 1% |
| | 279,807 | 96% | 11,131 | 4% | 290,938 | 100% |

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

| Shifts in market interest rates | 2020 | | 2019 | |
|---------------------------------|----------|--------|---------|--------|
| | | % | | % |
| 100 basis points | (10,501) | (1.1%) | (4,427) | (1.5%) |
| 75 basis points | (7,876) | (0.8%) | (3,320) | (1.1%) |
| 50 basis points | (5,251) | (0.5%) | (2,213) | (0.8%) |
| 25 basis points | (2,625) | (0.3%) | (1,107) | (0.4%) |
| (25) basis points | 2,625 | 0.3% | 1,107 | 0.4% |
| (50) basis points | 5,251 | 0.5% | 2,213 | 0.8% |
| (75) basis points | 7,876 | 0.8% | 3,320 | 1.1% |
| (100) basis points | 10,501 | 1.1% | 4,427 | 1.5% |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

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RISK MANAGEMENT (continued)

(e) Financial risk - foreign exchange

Although the Company's presentation and reporting currency is USD, it operates internationally and its exposures to foreign exchange risk arise from several currencies when their exchange rates fluctuate against USD. This impacts the non-USD denominated transactions, assets and liabilities. The Company seeks to mitigate foreign exchange risk by closely matching the estimated foreign currency denominated liabilities with assets in the same currency. With 99% 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.

| | 2020 | | |
|-------------------|----------------------|------------------------|-------------|
| | USD denominations | Other denominations | Total |
| Total assets | 1,859,488 | 190,587 | 2,050,075 |
| Total liabilities | (972,182) | (186,980) | (1,159,162) |
| Total equity | 887,306 | 3,607 | 890,913 |

| | 2019 | | |
|-------------------|----------------------|------------------------|-----------|
| | USD denominations | Other denominations | Total |
| Total assets | 450,734 | 18,578 | 469,312 |
| Total liabilities | (147,600) | (17,839) | (165,439) |
| Total equity | 303,134 | 739 | 303,873 |

(f) Financial risk – credit

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

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

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

The maturity dates of in/reinsurance debtors are as follows.

| | 2020 | 2019 |
|---------------------------------|---------|--------|
| Between 4 and 12 months overdue | 19,690 | 192 |
| Less than 3 months overdue | 47,282 | 1,948 |
| Due within 12 months | 335,323 | 76,495 |
| Due after 12 months | 434 | 294 |
| | 402,729 | 78,929 |

NOTES TO THE FINANCIAL STATEMENTS

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(f) Financial risk – credit (continued)

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.

| 2020 | | | | |
|-----------|-----------------|--|--------------------------------|-----------|
| | Debt securities | Participations In investment pools | Cash at bank and in hand | Total |
| AAA | 302,270 | 2,759 | - | 305,029 |
| AA+ | 6,740 | - | - | 6,740 |
| AA | 11,899 | - | 141,625 | 153,524 |
| AA- | 23,388 | - | - | 23,388 |
| A+ | 29,379 | - | - | 29,379 |
| A | 103,476 | - | - | 103,476 |
| A- | 394,568 | - | - | 394,568 |
| BBB+ | 46,075 | - | - | 46,075 |
| BBB | 39,493 | - | - | 39,493 |
| BBB- | 6,136 | - | - | 6,136 |
| Not rated | - | - | - | - |
| | 963,424 | 2,759 | 141,625 | 1,107,808 |
| 2019 | | | | |
| | Debt securities | Participations in investment pools | Cash at bank and in hand | Total |
| AAA | 163,732 | 8,690 | - | 172,422 |
| AA+ | 3,997 | - | - | 3,997 |
| AA | 1,859 | - | 4,101 | 5,960 |
| AA- | 2,994 | - | - | 2,994 |
| A+ | 11,213 | - | 1,001 | 12,214 |
| A | 21,251 | - | - | 21,251 |
| A- | 33,637 | - | - | 33,637 |
| BBB+ | 24,280 | - | - | 24,280 |
| BBB | 25,017 | - | - | 25,017 |
| BBB- | 2,958 | - | - | 2,958 |
| Not rated | - | 1 | - | 1 |
| | 290,938 | 8,691 | 5,102 | 304,731 |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(g) Financial risk - liquidity

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

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

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

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

| | 2020 | | | | |
|------------------------------------|----------|-----------|-----------|-----------|-----------|
| | 0-1 year | 2-3 years | 4-5 years | > 5 years | Total |
| Debt securities | 620,926 | 242,584 | 96,116 | 3,798 | 963,424 |
| Participations in investment pools | 2,759 | - | - | - | 2,759 |
| Cash at bank and in hand | 141,625 | - | - | - | 141,625 |
| | 765,310 | 242,584 | 96,116 | 3,798 | 1,107,808 |

| | 2019 | | | | |
|------------------------------------|----------|-----------|-----------|-----------|---------|
| | 0-1 year | 2-3 years | 4-5 years | > 5 years | Total |
| Debt securities | 105,320 | 138,814 | 44,155 | 2,649 | 290,938 |
| Participations in investment pools | 8,691 | - | - | - | 8,691 |
| Cash at bank and in hand | 5,102 | - | - | - | 5,102 |
| | 119,113 | 138,814 | 44,155 | 2,649 | 304,731 |

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CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(g) Financial risk – liquidity (continued)

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

| | 2020 | | | | Total |
|--|----------|-----------|-----------|-----------|---------|
| | 0-1 year | 2-3 years | 4-5 years | > 5 years | |
| Reinsurers' share of claims reserves: | | | | | |
| Ceded Outstanding claims | 15,186 | 14,757 | 3,923 | 3,388 | 37,254 |
| Ceded claims incurred but not reported | 44,095 | 52,237 | 20,049 | 26,075 | 142,456 |
| Ceded unallocated loss adjustment expenses | 1,267 | 1,432 | 512 | 388 | 3,599 |
| | 60,548 | 68,426 | 24,484 | 29,851 | 183,309 |
| Gross claims | | | | | |
| Gross outstanding claims | 29,819 | 20,358 | 5,609 | 5,086 | 60,872 |
| Claims incurred but not reported reserves | 84,983 | 70,772 | 27,954 | 36,386 | 220,095 |
| Unallocated loss adjustment expense reserves | 2,022 | 1,605 | 591 | 731 | 4,949 |
| | 116,824 | 92,735 | 34,154 | 42,203 | 285,916 |
| | 2019 | | | | Total |
| | 0-1 year | 2-3 years | 4-5 years | >5 years | |
| Reinsurers' share of claims reserves: | | | | | |
| Ceded claims incurred but not reported | 1,290 | 1,730 | 404 | 256 | 3,680 |
| Gross claims | | | | | |
| Claims incurred but not reported reserves | 2,877 | 2,277 | 568 | 366 | 6,088 |
| Unallocated loss adjustment expense reserves | 48 | 39 | 10 | 5 | 102 |
| | 2,925 | 2,316 | 578 | 371 | 6,190 |

(h) Operational risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019 (date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(h) Operational risk (continued)

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

These risks are managed through internal control processes and monitoring tools such as the risk register.

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

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

(i) Strategic risk

The following are examples of strategic risks facing the Company:

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

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

(j) Capital management

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

The Company's objectives in managing its capital are:

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

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

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

RISK MANAGEMENT (continued)

(j) Capital management (continued)

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

At 31 December 2020, 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 \$868,923 (unaudited) with the estimated Solvency Capital Requirement at \$428,245 (unaudited) and the estimated total capital available to meet the Minimum Capital Requirement (being the Own Funds) is \$868,923 (unaudited) with the Minimum Capital Requirement at \$107,061 (unaudited). The Company has complied with all externally imposed capital requirements throughout the period.

Whilst the capital requirement is assessed according to the Solvency II standard capital formula, the Company also manages capital by reference to various self-assessed risk-based measures, including but not limited to the use of rating agency models.

(k) Fair value estimation

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

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

| 2020 | | | | |
|------------------------------------|---------|---------|---------|---------|
| Financial assets at fair value | Level 1 | Level 2 | Level 3 | Total |
| Debt securities | 603,004 | 360,420 | - | 963,424 |
| Participations in investment pools | 2,759 | - | - | 2,759 |
| | 605,763 | 360,420 | - | 966,183 |

| 2019 | | | | |
|------------------------------------|---------|---------|---------|---------|
| Financial assets at fair value | Level 1 | Level 2 | Level 3 | Total |
| Debt securities | 125,216 | 165,722 | - | 290,938 |
| Participations in investment pools | 8,691 | - | - | 8,691 |
| | 133,907 | 165,722 | - | 299,629 |

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

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CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019
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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

2. SEGMENTAL INFORMATION

Analyses by line of business

| 2020 | | | | | | |
|--------------------------------------|------------------------------|-----------------------------|-----------------------------|--------------------------------|-------------------------|----------|
| | Gross premiums written | Gross premiums earned | Gross claims incurred | Gross operating expenses | Reinsurance balances | Total |
| Direct insurance: | | | | | | |
| Marine, aviation and transport | 149,336 | 88,980 | (59,951) | (26,011) | (12,288) | (9,270) |
| Fire and other damage to property | 137,138 | 71,239 | (33,793) | (23,515) | (27,777) | (13,846) |
| Third party liability | 100,667 | 44,753 | (38,484) | (14,561) | 1,458 | (6,834) |
| Miscellaneous | 32,305 | 6,871 | (4,931) | (2,103) | (1,137) | (1,300) |
| | 419,446 | 211,843 | (137,159) | (66,190) | (39,744) | (31,250) |
| Reinsurance: | 412,203 | 272,360 | (181,747) | (80,996) | (47,310) | (37,693) |
| | 831,649 | 484,203 | (318,906) | (147,186) | (87,054) | (68,943) |
| 2019 | | | | | | |
| | Gross premiums written | Gross premiums earned | Gross claims incurred | Gross operating expenses | Reinsurance balances | Total |
| Direct insurance: | | | | | | |
| Marine, aviation and transport | 41,190 | 3,065 | (2,405) | (3,375) | (481) | (3,196) |
| Fire and other damage to property | 11,465 | 487 | (365) | (579) | (42) | (499) |
| Third party liability | 1,465 | 70 | (45) | (84) | (8) | (67) |
| Miscellaneous | - | - | - | - | - | - |
| | 54,120 | 3,622 | (2,815) | (4,038) | (531) | (3,762) |
| Reinsurance: | 38,960 | 9,674 | (3,491) | (11,193) | (4,645) | (9,655) |
| | 93,080 | 13,296 | (6,306) | (15,231) | (5,176) | (13,417) |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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(date of incorporation) to 31 December 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

3. TECHNICAL PROVISIONS

| | Provisions for unearned premiums | Claims Outstanding (1) | Deferred Acquisition costs (2) | Net Technical liabilities |
|-----------------------------|---|------------------------------|--------------------------------------|---------------------------------|
| Gross of reinsurance | | | | |
| At 1 January 2020 | 79,887 | 6,190 | (5,992) | 80,085 |
| Movement in provision | 347,446 | 277,160 | (53,467) | 571,139 |
| Exchange adjustments | 6,577 | 2,566 | (1,402) | 7,741 |
| At 31 December 2020 | 433,910 | 285,916 | (60,861) | 658,965 |
| Reinsurance | | | | |
| At 30 January 2019 | 71,223 | 3,680 | (6,013) | 68,890 |
| Movement in provision | 214,667 | 178,871 | (44,206) | 349,332 |
| Exchange adjustments | 1,667 | 758 | (395) | 2,030 |
| At 31 December 2019 | 287,557 | 183,309 | (50,614) | 420,252 |
| Net | | | | |
| At 31 December 2020 | 146,353 | 102,607 | (10,247) | 238,713 |
| At 31 December 2019 | 8,664 | 2,510 | 21 | 11,195 |

(1) Claims outstanding includes claims incurred but not reported (IBNR) reserves of \$220,095 gross of reinsurance and \$142,456 reinsurer's share of IBNR reserves (2019: 6,087 gross; \$3,616 reinsurer's share).

(2) Reinsurer's share of deferred acquisition costs is included in accruals and deferred income

4. NET OPERATING EXPENSES

| | 2020 | 2019 |
|--|---------------|---------------|
| Net operating expenses comprise: | | |
| Acquisition Costs | 121,612 | 7,701 |
| Change in deferred acquisition costs | (53,467) | (5,983) |
| Administrative expenses | 79,041 | 13,513 |
| Reinsurance commissions | (99,884) | (7,316) |
| Change in deferred reinsurance commissions | 44,206 | 6,005 |
| | 91,508 | 13,920 |

5. AUDITORS' REMUNERATION

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

| | 2020 | 2019 |
|---|------|------|
| Fees payable to the Company's auditor for the audit of the Company's financial statements | 485 | 100 |
| Fees payable to the Company's auditor for other services | 48 | 78 |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

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 Services UK Limited. Further details on those employees can be found in the financial statements of Convex Services UK Limited, copies of which may be obtained from its registered office: 52 Lime Street, London, EC3M 7AF.

Included within operational expenses are amounts for \$67,259 (2019: \$9,548) in relation to expense recharges from Convex Services UK Limited for services performed on behalf of the Company.

Directors

All executive directors of the Company are employed by Convex Services UK Limited. The Company has been recharged \$499 for their services during the year (2019: \$163) of which \$2 (2019: nil) 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 \$163 (2019: \$60) with \$2 contribution to the defined contribution pension scheme (2019: nil).

The prior year disclosure for directors' remuneration was disclosed in the financial statements of CSL.

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:

| | 2020 | 2019 |
|--|-------|------|
| Salaries and other short-term benefits | 2,081 | 163 |
| Post-employment benefits | 64 | - |

7. INVESTMENT RETURN

| | 2020 | 2019 |
|--|---------|-------|
| Income from debt securities | 6,957 | 3,100 |
| Income from participating investment pools | 46 | 25 |
| Income from deposits with credit institutions and cash at bank and in hand | 49 | 87 |
| | 7,052 | 3,212 |
| Realised gains on investments | 3,440 | 34 |
| Unrealised gains on investments | 5,366 | 1,066 |
| Total gross investment income | 15,858 | 4,312 |
| Investment expenses | (1,755) | (313) |
| Net investment return | 14,103 | 3,999 |

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CONVEX INSURANCE UK LIMITED

For the year ended 31 December 2020 and for the period from 30 January 2019
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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

8. CORPORATION TAX

(a) Tax benefit on profit on ordinary activities

| | 2020 | 2019 |
|--|---------|---------|
| United Kingdom corporation tax at 19% | | |
| Current tax on income for the year | (1,522) | (298) |
| Adjustments in respect of previous financial years | (99) | - |
| Total current taxation charge / (credit) | (1,621) | (298) |
| United Kingdom deferred tax movements | | |
| Origination & reversal of timing differences | 1,270 | (1,339) |
| Adjustments in respect of previous financial years | 69 | - |
| Total deferred tax charge / (credit) | 1,339 | (1,339) |
| Tax credit on loss on ordinary activities (refer to Note 8(b)) | (282) | (1,637) |

(b) Factors affecting tax charge for the period

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

| | 2020 | 2019 |
|--|----------|---------|
| Loss on ordinary activities before tax | (50,242) | (9,564) |
| Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the United Kingdom at 19% | (9,546) | (1,817) |
| Factors affecting the change: | | |
| Rate change adjustments | (150) | 158 |
| Prior year adjustment – deferred tax | (30) | - |
| Deferred tax not recognised | 9,444 | - |
| Permanent differences | - | 4 |
| Other timing differences | - | 18 |
| Group relief surrendered | - | 298 |
| Payment for group relief | - | (298) |
| | 9,264 | 180 |
| Tax charge for the year (refer Note 8(a)) | (282) | (1,637) |

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

CORPORATION TAX (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. With effect from 1 April 2020 the UK Corporation tax rate will remain at 19% from 1 April 2020 onwards. The current year corporation tax has been calculated at a rate of 19%.

(c) Factors that may affect future tax charges

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

| | 2020 | 2019 |
|--------------------|------|-------|
| Losses | - | 1,339 |
| Deferred tax asset | - | 1,339 |

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

| | 2020 | 2019 |
|-----------------------|---------|-------|
| At 1 January | 1,339 | - |
| Prior year adjustment | (69) | - |
| Current year movement | (1,270) | 1,339 |
| At 31 December | - | 1,339 |

A deferred tax asset should only be recognised in respect of carried forward losses to the extent that it is considered probable that future profits will arise against which the carried forward losses can be offset. On the basis that there is a significant degree of uncertainty as to where such future profits will arise in CIL, no deferred tax asset has been recognised in respect of the carried forward losses.

The unrecognised deferred tax asset at December 31 is \$9,444.

NOTES TO THE FINANCIAL STATEMENTS

CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

9. FINANCIAL INSTRUMENTS

The company has the following financial instruments:

| | 2020 | 2019 |
|---|----------------|---------------|
| Financial assets that are debt instruments measured at amortised cost | | |
| - Trade receivables | 402,729 | 78,929 |
| - Amounts owed by group undertakings | 975 | 1,087 |
| - Other receivables | 3,931 | 343 |
| - Investment in short term deposits | 141,625 | 5,102 |
| | <u>549,260</u> | <u>85,461</u> |
| Financial liabilities that are measured at amortised cost | | |
| - Trade creditors | 370,718 | 70,070 |
| - Other creditors | 15,580 | 2,092 |
| | <u>386,298</u> | <u>72,162</u> |
| | <u>162,962</u> | <u>13,299</u> |

10. OTHER FINANCIAL INVESTMENTS

| | Fair Value | | Cost | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Debt securities | 963,424 | 290,938 | 957,108 | 290,019 |
| Participations in investment pools | 2,759 | 8,691 | 2,759 | 8,691 |
| | <u>966,183</u> | <u>299,629</u> | <u>959,867</u> | <u>298,710</u> |

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

| | 2020 | 2019 |
|-------------------------------------|----------------|---------------|
| Amounts falling due within one year | 381,299 | 78,567 |
| Amounts falling due after one year | 435 | 293 |
| | <u>381,734</u> | <u>78,860</u> |

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CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS EXCEPT FOR SHARE AMOUNTS)

12. AMOUNTS DUE FROM OTHER GROUP COMPANIES

| | 2020 | 2019 |
|------------------------------|------|-------|
| Due from fellow subsidiaries | 975 | 1,087 |

13. OTHER DEBTORS INCLUDING TAXATION AND SOCIAL SECURITY

| | 2020 | 2019 |
|-----------------------------|-------|------|
| Other debtors | 3,497 | 50 |
| Value added tax recoverable | 434 | 293 |
| | 3,931 | 343 |

14. SHARE CAPITAL

| | 2020 | 2019 |
|--|---------|---------|
| Allotted, called up and fully paid | | |
| 6,973,000,000 (2019: 6,236,000,000) ordinary shares of \$0.05 each | 348,650 | 311,800 |

- On 31 March 400,000,000 ordinary shares were issued for \$300,000
- On 21 December 337,000,000 ordinary shares were issued for \$337,000

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

15. AMOUNTS OWED TO GROUP COMPANIES

| | 2020 | 2019 |
|-------------------------------|-------|-------|
| Due to parent companies | 1,224 | 1,242 |
| Due to fellow group companies | 5,789 | - |
| | 7,013 | 1,242 |

16. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | 2020 | 2019 |
|-------------------------------------|-------|------|
| Amounts falling due within one year | | |
| Other creditors | 1,299 | 492 |
| Taxation and social security | 7,268 | 358 |
| | 8,567 | 850 |

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CONVEX INSURANCE UK LIMITED

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(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

17. OTHER ACCRUALS AND DEFERRED INCOME

| | 2020 | 2019 |
|---------------------------------|---------------|--------------|
| Unearned reinsurance commission | 50,614 | 6,013 |
| Accruals | 2,424 | 1,187 |
| | <u>53,038</u> | <u>7,200</u> |

18. 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 and cash equivalents, 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 (2019: \$77) collateral for a FEC Letter of Credit, \$6,187 (2019: \$6,140) in NAIC Trust, \$61,323 for specific reinsurance arrangement, and \$31,255 (2019: nil) to provide collateral or guarantees for letters of credit to third parties.

19. CREDIT FACILITIES

Bilateral Letter of Credit Facilities

Uncommitted Standby Letter of Credit Facility with Citibank Europe

The Company and certain of its subsidiaries and affiliates are parties to a Standby Letter of Credit Agreement dated February 12, 2020 with Citibank Europe Plc. 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. At December 31, 2020, there were \$69,266 of secured letters of credit outstanding under this agreement.

NOTES TO THE FINANCIAL STATEMENTS

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20. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking is Convex Re Limited.

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

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

21. EVENTS AFTER THE REPORTING PERIOD

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

In the 2021 budget the Chancellor announced that the corporation tax rate would increase to 25% from 1 April 2023. The maximum impact of this change on the unrecognised deferred tax asset would be an uplift of \$3,000 giving an unrecognised deferred tax asset of \$12,400.

There were no events that would warrant an adjustment to the financial statements.