CONVEX INSURANCE UK LIMITED

Solvency and Financial Condition Report 2021

Contents

Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations. We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
b) it is reasonable to believe that the insurer has continued to comply subsequently and will continue to do so in future.

Signed on behalf of the Board of Directors on 8 April 2022 by:

Matthew Wilson
Director

Executive summary

The purpose of the Solvency and Financial Condition Report (“SFCR”) is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with the requirements of the Solvency II Directive (as implemented in the UK in the Prudential Regulation Authority (“PRA”) Rulebook for Solvency II Firms) and the Solvency II regulations. The annual financial statements of Convex Insurance UK Limited (“CIL” or the “Company”) are available from Companies House. The SFCR contains qualitative and quantitative information on CIL’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (“QRTs”) for 2021.

The report covers CIL as a standalone entity, and fully meets all of the requirements for the SFCR as set out in the Solvency II rules and follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

The Quantitative Reporting Templates (QRT) in this report are presented in US dollars rounded to the nearest thousand. Rounding differences of +/- one unit can occur. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Business and performance

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

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

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

CIL believes that the specialty insurance and reinsurance markets offer greater scope for premium growth and profitable underwriting due to ongoing 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 Convex Group Limited’s (“CGL” or “Group”) differentiated operating model and underwriting experience and capabilities.

This differentiated proposition includes the following:

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

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

COVID-19

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

Ukraine/Russia Conflict

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

System of Governance and Risk

CIL's Board is responsible for promoting the long-term success of CIL and for setting strategy. It does so with a determination to protect the interests of policyholders, customers, shareholders and other stakeholders. The Board ensures that there is a strong system of governance, that risk management and financial controls are robust and that the key functions are adequately resourced and empowered to advise management and the Board.

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 CIL's risk appetite. The steering of the overall risk strategy is directed by the Board of Directors.

insurance risk

Insurance risk arises from:

- 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 adequacy of CIL's insurance reserves is reviewed by the Group Reserving Committee and approved by the CIL Board of Directors.

Market risk

Financial risk arises through CIL's holdings in financial assets, financial liabilities, insurance/reinsurance assets and policyholder/cedant liabilities. The key financial risk is that the net asset value of CIL reduces as a result of movements in financial markets and / or credit defaults, affecting the Company's solvency and liquidity position.

The key drivers of financial risk are: interest rate risk, currency risk, credit risk, and inflation risk. A financial market risk framework is in place to enable CIL to manage market risk via a set of stress tests, calibrated at a 1-in-200 one-year event, and subject to an overall market risk limit.

Credit risk

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

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities;
- Insurance exposures arising from the political and credit risk line of business;
- Reinsurance assets, where credit risk arises in relation to the reinsurance asset held;
- Other assets, including bank deposits; and
- Insurance assets and receivables.

CIL 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 defined as the risk that CIL is unable to settle its financial obligations when they fall due. Liquidity risk is inherent to the business model of insurance companies given the delay between receiving an asset in the form of premium income and when liabilities fall due. A liquidity risk framework is in place to enable the firm to manage its liquidity position under normal and stressed conditions.

Valuation for solvency

Assets and liabilities have been valued for solvency purposes in accordance with the Solvency II Directive (as implemented in the UK in the PRA Rulebook for Solvency II Firms) and the Solvency II Regulations. Table 1 shows the differences between CIL's shareholders' equity (as presented in the financial statements prepared under UK generally accepted accounting principles ("GAAP")) and the Solvency II excess of assets over liabilities ("EAL"), as presented in the Solvency II balance sheet shown in Appendix B of this report.

Table 1 – Shareholders' Equity

	2021 $000s	2020 $000s
Shareholders' equity as shown in the financial statements	1,181,888	890,913
Solvency II valuation adjustments to assets (Note i)	(1,537,723)	(886,490)
Solvency II valuation adjustments to technical provisions (Note ii)	959,233	447,832
Solvency II valuation adjustments to other liabilities (Note iii)	599,355	416,668
Solvency II EAL	**1,202,753**	**868,923**

The differences between shareholders' equity and Solvency II EAL are due to valuation adjustments as explained below:

i. Valuation of assets under Solvency II
Valuation adjustments to assets relate primarily to adjustments to remove deferred acquisition costs and insurance and reinsurance receivables not yet due, as these are taken into account in the valuation of technical provisions under Solvency II. No adjustments have been made to the valuation of investments for the purposes of Solvency II as they are already valued on a market consistent basis under UK GAAP.

ii. Valuation of technical provisions under Solvency II
Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to

insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

iii. Valuation of other liabilities
Valuation adjustments to other liabilities relate primarily to adjustments to remove deferred acquisition costs payable in the financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due, as these are taken into account in the valuation of reinsurance recoverables under Solvency II. CIL has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet.

Further details of CIL's valuation of assets and liabilities for solvency purposes are included in Section D of this report.

Capital management summary

CIL's solvency position under Solvency II is determined by comparing eligible Own Funds with the Solvency II Solvency Capital Requirement ("SCR"). CIL is required to meet the SCR at all times and is required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement ("MCR") is required to be rectified within three months. As at 31 December 2021, the Own Funds of CIL were $1,202m (2020: $869m) compared to a standard formula SCR of $714m (2020: $428m), representing an SCR coverage ratio of 168% (2020: 203%). CIL's MCR was $179m (2020: $107m).

CIL's Eligible Own Funds are set out in Table 2 below.

Table 2 – Solvency Position

	2021 $000s	2020 $000s
Solvency II EAL	1,202,753	868,923
Foreseeable dividends	-	–
Restrictions on eligibility	-	–
Eligible own funds (all Tier 1)	1,202,753	868,923
Minimum capital requirement	178,581	107,061
Solvency capital requirement	714,323	428,245
Solvency capital requirement (SCR) ratio (%)	**168%**	**203%**

There are limited restrictions on the availability or transferability of CIL's Own Funds, with a small volume of assets held in trust funds for US NAIC surplus lines. The majority of CIL's Own Funds is in the form of unrestricted Tier 1 items (i.e. ordinary share capital, related share premium and reconciliation reserve), and is therefore eligible to cover both the SCR and MCR. CIL has not requested and therefore does not have in place approvals to use the matching adjustment, volatility adjustment, transitional interest rate term structure or the transitional deduction on technical provisions and therefore no adjustments have been made relating to these transitional measures.

The appropriateness of the Solvency II Standard Formula has been assessed with respect to the risk profile of CIL. Overall, the qualitative and quantitative assessments of the appropriateness of the assumptions underlying the Standard Formula have concluded that it is 'not inappropriate' as a measure to calculate the capital requirements for CIL. The Standard Formula captures key features of CIL's risk profile and there are no material omissions in the Standard Formula of specific risks considered which could result in a material understatement of the SCR. As an approximate guide the assessment considers an understatement of the SCR of at least 10% as material.

Decisions on optimal capital levels are an integral part of CIL's business planning and forward-looking assessment of risk processes which cover a three-year time horizon. CIL manages its Own Funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements. As noted above, CIL is in the process of assessing the impact of the Ukraine/Russia conflict on the Company. This assessment will include potential impacts to CIL's solvency position.

There were no material changes to CIL's capital management approach during the reporting period and there were no instances of non-compliance with the SCR or MCR. Further details of CIL's capital management approach are included in Section E of this report.

A. Business and performance

A.1. Business

Convex Insurance UK Limited ("CIL") is a privately-owned company incorporated in England.

The registered office of CIL is 52 Lime Street, London, EC3M 7AF.

CIL is supervised by both the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). Their respective contact details are set out below:

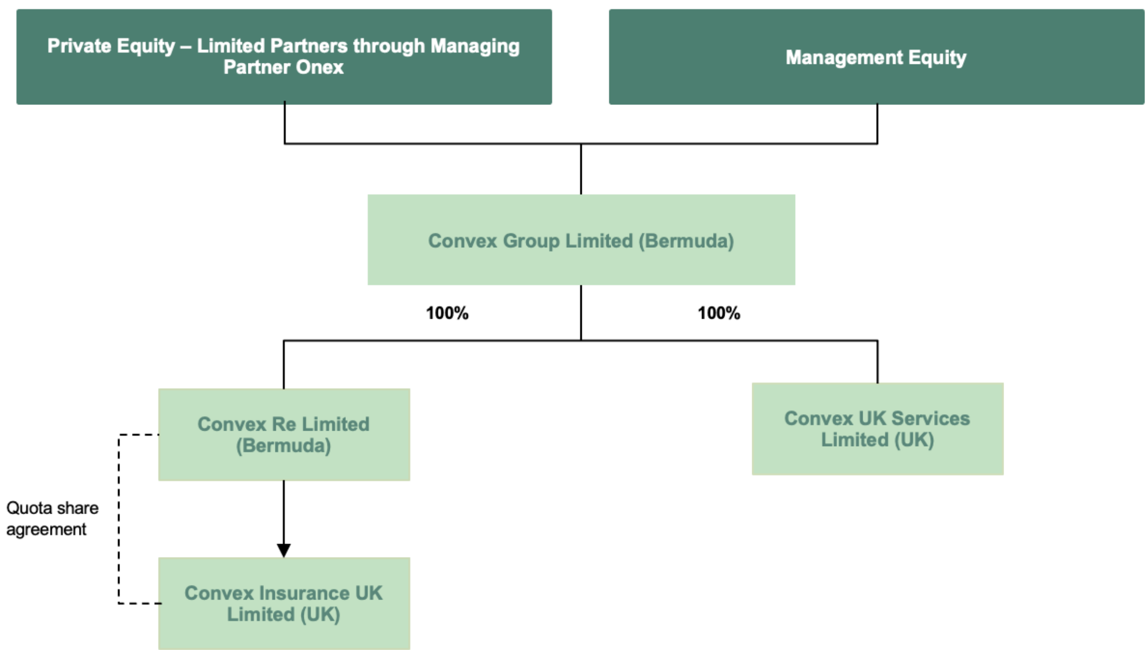
Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 12 Endeavour Square London E20 1JN

The external auditor of CIL is PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Details of CIL's position within the legal structure of the Group and related undertakings are set out in the diagram below.

Diagram 1 – CIL position within abbreviated Group Structure



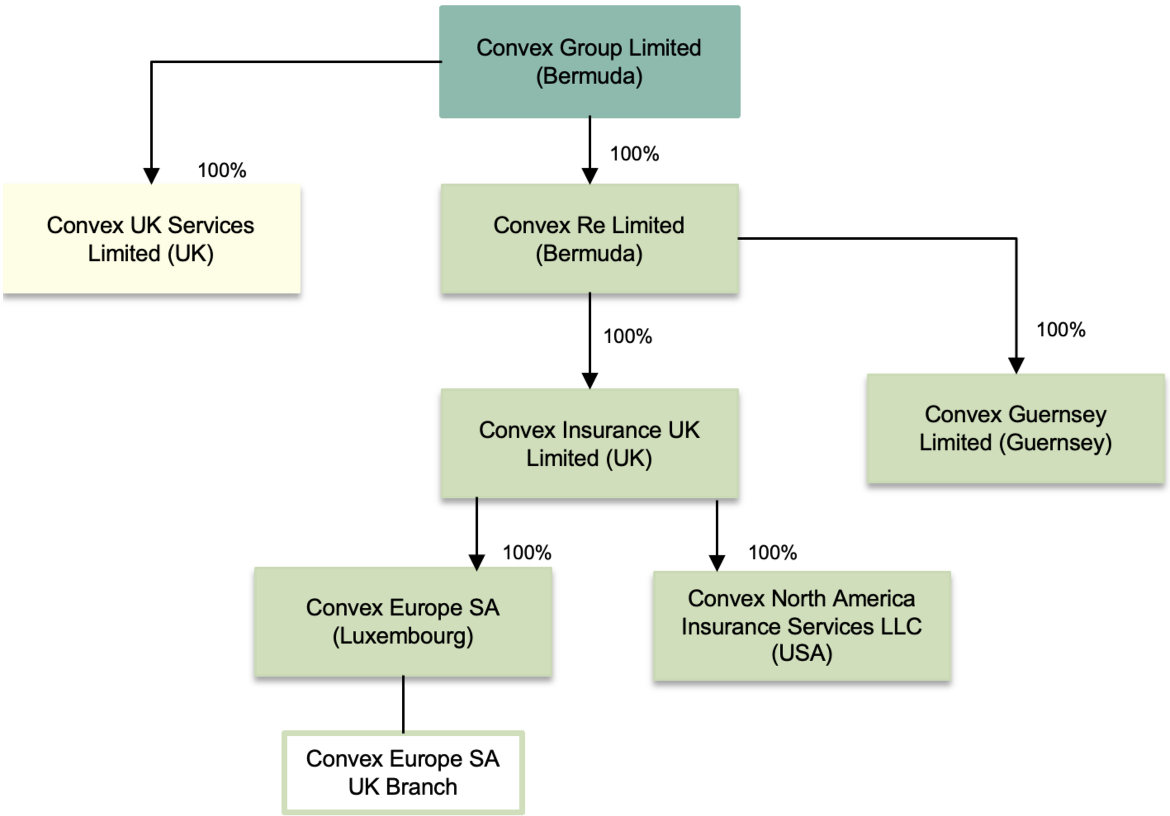
Convex Group

Convex Group is a property and casualty ("P&C") insurance and reinsurance carrier focused on large commercial clients with complex insurance requirements

The Group has a streamlined organisational structure comprising of:

- **Convex Group Limited ("CGL"):** Holding company in Bermuda
- **Convex Re Limited ("CRL"):** Bermuda operating company, which seeks to be the best-in-class specialty P&C reinsurer focusing on complex risks
- **Convex Insurance UK Limited ("CIL"):** UK operating company, closely aligned with the Bermuda operating company
- **Convex UK Services Limited ("CSL"):** a services company, which is the main employing and contracting entity in the UK for efficiency and operational purposes
- **Convex Europe S.A. ("CES"):** European operating company, formed as a result of Brexit, closely aligned with the UK operating company
- **Convex Guernsey Limited ("CGU"):** Guernsey operating company
- **Convex North America Insurance Services LLC ("CUS"):** US Managing General Underwriter

Diagram 2 – Convex Group Structure



A.2. Underwriting performance

A.2.1. Measurement of underwriting performance

CIL uses underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on a UK GAAP basis. It excludes certain items to enhance comparability and understanding of underwriting performance by highlighting net underwriting income attributable to on-going underwriting operations. Examples of items excluded from underwriting result are investment return and expenses not directly attributable to underwriting.

At time of writing, CIL believes its net underwriting exposure to COVID-19 is minimal relative to normal exposures.

A.2.2. Underwriting profit

Table A.1 below presents the underwriting profit for CIL for the period ended 31 December 2021 and 2020, as well as the reconciliation of loss before tax to underwriting profit. Loss before tax is as shown in CIL's financial statements.

Table A.1 – Underwriting Performance

	2021 $000s	2020 $000s
Gross premiums written	1,607,652	831,649
Premiums ceded to reinsurers	(1,053,441)	(562,413)
Premiums written net of reinsurance	554,211	269,236
Net change in provision for unearned premium reinsurance	(159,013)	(132,779)
Net premiums earned	395,198	136,457
Net investment income	(4,214)	14,103
Total Revenues	**390,984**	**150,560**
Claims paid net of recoveries from reinsurers	(79,955)	(15,603)
Change in insurance liabilities, net of reinsurance	(184,590)	(98,289)
Fee and commission expense, net of reinsurance	(43,759)	(12,467)
Other expenses, net of reinsurance	(144,120)	(74,443)
Loss for the period before tax	**(61,440)**	**(50,242)**
Less: Net investment income	4,214	(14,103)
Add back: Indirect Expenses	146,997	79,041
Underwriting profit/(loss) for the period	**89,770**	**14,696**

As in 2020, Convex's prudent Group approach to risk retention in the early stages of operation resulted in a high level of ceded reinsurance spend in 2021, which served to reduce net written, and hence net earned premium.

The ramp up of operations during the year led to increased expenses in 2021. In addition, CIL had an unrealised loss on its fixed income securities as a result of the market's response to tightening of monetary policies. As a result, CIL's GAAP financial statements recorded a pre-tax loss of $61.4m (2020: $50.2m). However, the underwriting result, which excludes investment income and expenses not directly attributable to policies, was a profit of $89.8m (2020: $14.7m).

Table A.2 – Underwriting Performance – Analysis by Geographic Area

31 December 2021	United Kingdom	United States of America	Bermuda	France	Australia	Japan	Other	Total $000s
Gross Premiums Written	657,013	535,878	70,236	36,092	18,734	21,565	268,134	1,607,652
Reinsurers' Share	450,781	324,021	42,113	24,430	14,782	13,929	183,385	1,053,441
Net Premiums Written	206,232	211,857	28,123	11,662	3,952	7,636	84,749	554,211
Gross Premiums Earned	488,354	426,087	43,559	20,880	11,479	16,946	195,296	1,202,601
Reinsurers' Share	344,360	264,834	29,031	14,720	8,913	11,311	134,234	807,403
Net Premiums Earned	143,994	161,253	14,528	6,160	2,566	5,635	61,062	395,198
Gross Claims Incurred	282,644	349,209	21,795	10,481	4,183	21,274	89,321	778,907
Reinsurers' Share	199,667	221,915	14,520	7,814	2,985	13,148	59,294	519,343
Net Claims Incurred	82,977	127,294	7,275	2,667	1,198	8,126	30,027	259,564
Expenses Incurred	63,508	89,938	6,569	3,469	1,106	2,823	30,286	197,698
Technical Result	(2,491)	(55,979)	684	24	262	(5,314)	749	(62,064)

31 December 2020	United Kingdom	United States of America	Bermuda	France	Russia	Japan	Other	Total $000s
Gross Premiums Written	336,349	271,149	39,582	10,109	9,388	9,315	155,757	831,649
Reinsurers' Share	233,512	179,003	27,021	6,957	6,544	5,905	103,471	562,413
Net Premiums Written	102,837	92,146	12,561	3,152	2,844	3,410	52,286	269,236
Gross Premiums Earned	174,071	172,756	22,727	2,157	9,716	5,922	96,854	484,203
Reinsurers' Share	123,681	127,291	15,872	1,441	7,288	3,854	68,320	347,746
Net Premiums Earned	50,390	45,465	6,856	717	2,428	2,068	28,534	136,457
Gross Claims Incurred	121,113	113,151	8,336	902	5,646	6,035	58,916	314,098
Reinsurers' Share	81,861	67,939	4,910	553	4,012	3,562	38,423	201,260
Net Claims Incurred	39,251	45,211	3,426	349	1,634	2,474	20,493	112,838
Expenses Incurred	33,456	36,030	4,125	507	2,058	1,588	16,553	94,317
Technical Result	(22,317)	(35,777)	(696)	(139)	(1,264)	(1,994)	(8,512)	(70,699)

A.2.3. Quantitative Reporting Templates S.05.01

Quantification of premiums, claims and expenses, analysed by Solvency II lines of business, is provided in QRT S.05.01, (see Appendix B). This QRT has been prepared in accordance with the definitions and formats prescribed under Solvency II. It includes the items (except net investment income) excluded from underwriting result in the reconciliation presented in Section A.2.2, which are described in Section A.4.

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by Solvency II lines of business, is provided in Table A.3 below, set out separately for the 2020 and 2021 financial years.

Table A.3 – Summary of QRT S.05.01

	Direct and Proportional Reinsurance								Non Proportional Reinsurance				
Financial Year 2021	Motor vehicle liability insurance	Marine, Aviation and Transport	Fire and property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total $000s	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written	2,220	367,404	434,831	301,465	44,594	25,875	17,068	1,193,457	78,591	259,310	76,294	414,195	**1,607,652**
Net premiums earned	1,057	80,547	93,695	67,859	3,602	6,411	2,780	255,951	23,695	94,269	21,283	139,247	**395,198**
Gross claims incurred	803	116,898	185,258	149,218	4,418	6,538	12,859	475,992	37,825	222,952	42,138	302,915	**778,907**
Net claims incurred	324	34,621	57,321	42,499	1,528	2,407	3,897	142,597	12,856	87,685	16,426	116,967	**259,564**
Direct expenses incurred	482	2,613	16,704	6,007	1,178	2,546	880	30,410	1,941	16,683	3,604	22,228	**52,638**

	Direct and Proportional Reinsurance								Non Proportional Reinsurance				
Financial Year 2020	Motor vehicle liability insurance	Marine, Aviation and Transport	Fire and property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total $000s	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written	2,043	293,275	205,298	116,645	3,306	4,361	26,189	651,117	16,905	141,785	21,842	180,532	**831,649**
Net premiums earned	374	51,315	20,187	15,938	(65)	394	963	89,106	5,525	35,622	6,204	47,351	**136,457**
Gross claims incurred	521	114,381	51,534	45,316	84	1,180	3,791	216,807	6,634	78,628	12,029	97,291	**314,098**
Net claims incurred	235	36,940	18,792	13,752	37	529	871	71,156	2,773	33,948	4,961	41,682	**112,838**
Direct expenses incurred	92	1,819	4,944	1,629	29	324	(126)	8,711	(12)	5,987	317	6,292	**15,003**

A.3. Investment performance

A.3.1. Income and expenses arising from investments by asset class

CIL's asset portfolio was primarily invested in investment grade fixed income securities during 2021 with a small allocation to senior secured loans (<0.5% of the market value of the portfolio throughout the year). Over the period, the investment assets produced a total return of -0.33% (2020 2.63%). The negative return was driven by increases in risk free yields, as central banks set out plans to unwind some of the extraordinary monetary policy put in place during the pandemic. This caused negative price returns within the portfolio that offset the steady coupon income received throughout the year.

As at 31 December 2021 the portfolio duration of 1.2 years is positioned short relative to the entity's liability benchmark to protect against the prospect of higher yields. The 31 December 2021 yield on the portfolio is 0.66%.

The Company has minimal exposure to the rate reform, and the transition away from LIBOR reference rate. Developments within this area are continually monitored and assessed.

Table A.4 below sets out net investment income by asset class for the 2021 and 2020 financial years.

Table A.4 – Net investment income analysed by asset class

Financial Year 2021	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	7,414	22	7,436
Realised gains	519		519
Unrealised losses	(10,687)		(10,687)
Other (incl. investment expenses)	(1,482)		(1,482)
Total Investment Return	(4,236)	22	(4,214)

Financial Year 2020	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	7,032	20	7,052
Realised gains	3,440		3,440
Unrealised gains	5,366		5,366
Other (incl. investment expenses)	(1,755)		(1,755)
Total Investment Return	14,083	20	14,103

A.3.2. Gains and losses recognised directly in equity

There were no gains and losses recognised directly in equity during the period. All investment gains and losses were recognised in the Statement of Profit and Loss and Other Comprehensive Income under UK GAAP.

A.3.3. Information about any investments in securitisations

Investments were held in securitisation vehicles in the form of debt securities. These securities consisted of AAA-rated agency mortgage backed securities (“Agency MBS”), residential mortgage backed securities (“RMBS”) and AAA and AA-rated collateralised loan obligations (“CLO”).

The fair value of investments in securitisations as at 31 December 2021 was $64.4m (2020: $2.9m).

A.4. Performance of other activities

A.4.1. Other material income and expenses incurred over the reporting period

CIL has no other material income and expenses incurred over the reporting period.

A.4.2. Leasing arrangements

CIL has no material leasing arrangements.

A.5. Any other information

There is no other material information to disclose regarding CIL’s business and performance.

B. System of governance

B.1. General information on the system of governance

The System of governance section of this report sets out information regarding the system of governance in place within CIL. This includes a description of the CIL Board, executive committees and a description of the roles, responsibilities and governance of CIL's key control functions of Risk Management, Compliance, and Internal Audit.

B.1.1. Overview of the Group's Governance Framework

CIL is the UK operating entity within the Convex Group and carries out the business of insurance and reinsurance. It was incorporated on 30 January 2019, authorised by the PRA on 30 April 2019 and is regulated by the PRA and FCA. CIL underwrites risks located in many different parts of the world on an insurance and reinsurance basis. In addition, on 30 November 2021 CIL received approval from NAIC and the California Department of Insurance to operate as a reciprocal jurisdiction reinsurer, effective 1 January 2022. This status will allow CIL to write reinsurance business in the US without the requirement to post reinsurance collateral, via a passporting arrangement with other US states.

CIL has established a robust governance and control framework that includes levels of authority, accountability, responsibility, oversight and challenge and is supported by a 'three lines of defence' model.

CIL Governance Framework – Governance Structure

CIL Boards

CIL is governed by a Board of Directors which is responsible for leadership and control, setting strategic direction, promoting the success of the Company and exercising oversight. The Board operates within its Terms of Reference and according to established principles and requirements of good governance. It meets at least four times a year and receives sufficient and timely information to ensure that the Board and Directors can fulfil their corporate and individual responsibilities.

The CIL Board consists of a Chairman, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and five independent non-executive directors, one of whom is the senior independent director.

The Board has established an Audit Committee consisting of non-executive directors in order to assist it with the oversight of financial and other controls. The Audit Committee operates under Terms of Reference and is responsible for supporting the Board to maintain systems, practices and processes for the internal and external audit of the Company's business which are appropriate given the nature, scale and lines of its business and to maintain effective internal quality control and risk management systems regarding financial reporting. The Audit Committee reports to the Board on these matters.

Certain members of the Board hold Senior Management Function ("SMF") positions under the PRA and FCA Senior Managers and Certification Regime ("SMCR"). The Chairman holds an SMF position, the two executive directors, the CEO and CFO also hold SMF positions and of the five non-executive directors, the Chair of the Audit Committee and Senior Independent Director hold SMF positions.

CIL Executive Committees

CIL has established a CIL Executive Committee ("UKEC") consisting of key executives under the leadership of the CIL CEO. The CIL Executive Committee meets on at least a monthly basis and is responsible for supporting the CEO in exercising the authority delegated by the CIL Board for the management of CIL. CIL executives also participate in the Convex Group executive committees, namely, the Group Executive Committee ("GEC") and other internal Group executive committees.

B.1.2. Board Responsibilities

The Board's role is to be collectively responsible for promoting the long-term sustainability of the Company, generating value for shareholders in a manner which also allows it to discharge its responsibilities to its stakeholders whilst maintaining compliance with legal and regulatory requirements. The Board sets the purpose, strategy and values of the Company and seeks to ensure that the culture within the Company is aligned with these. The Board is also responsible for setting the Company's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Company is adequately resourced.

The Board's responsibilities include taking account of other stakeholders including employees, intermediaries, third party partners, policyholders and customers. This includes ensuring that an appropriate system of risk governance is in place throughout the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence model' to ensure that CIL is managed in accordance with the risk appetite established by the Board.

B.1.3. Control Framework

The Board retains ultimate responsibility for the Company's systems of internal control and the risk management framework. They review the effectiveness through the establishment of an effective governance and monitoring process. This includes regular reporting and in-depth monitoring of the establishment and operation of prudent and effective controls.

CIL operates a 'three lines of defence' controls framework whereby the business implements first line controls so as to ensure that the front-line business units comply with the requirements set by the Board regarding risk appetite and control. The Compliance and Risk Management functions undertake monitoring to provide second line assurance that these controls are effective, meet the expectations of our regulators and are in accordance with the Company's risk appetite.

The Internal Audit function provides independent oversight across CIL and reports to the Audit Committee of the CIL Board.

As this is the second full year of operation, all three lines are still in the process of building out their respective capabilities and further maturing and embedding relevant processes and controls. The respective responsibilities of each line are shown below:

First line: Management Monitoring
Management is responsible for implementing and monitoring the system of internal control to ensure key business objectives are achieved and for complying with the risk appetite and controls set by the CIL Board.

Second line: Risk and Compliance functions
The Risk function is accountable for developing the Risk Management Framework ("RMF") and for the quantitative and qualitative oversight and challenge of the process to identify, measure, manage, monitor and report ("IMMMR") risk. As the business responds to changing market conditions, customer needs and regulatory requirements, the Risk function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date.

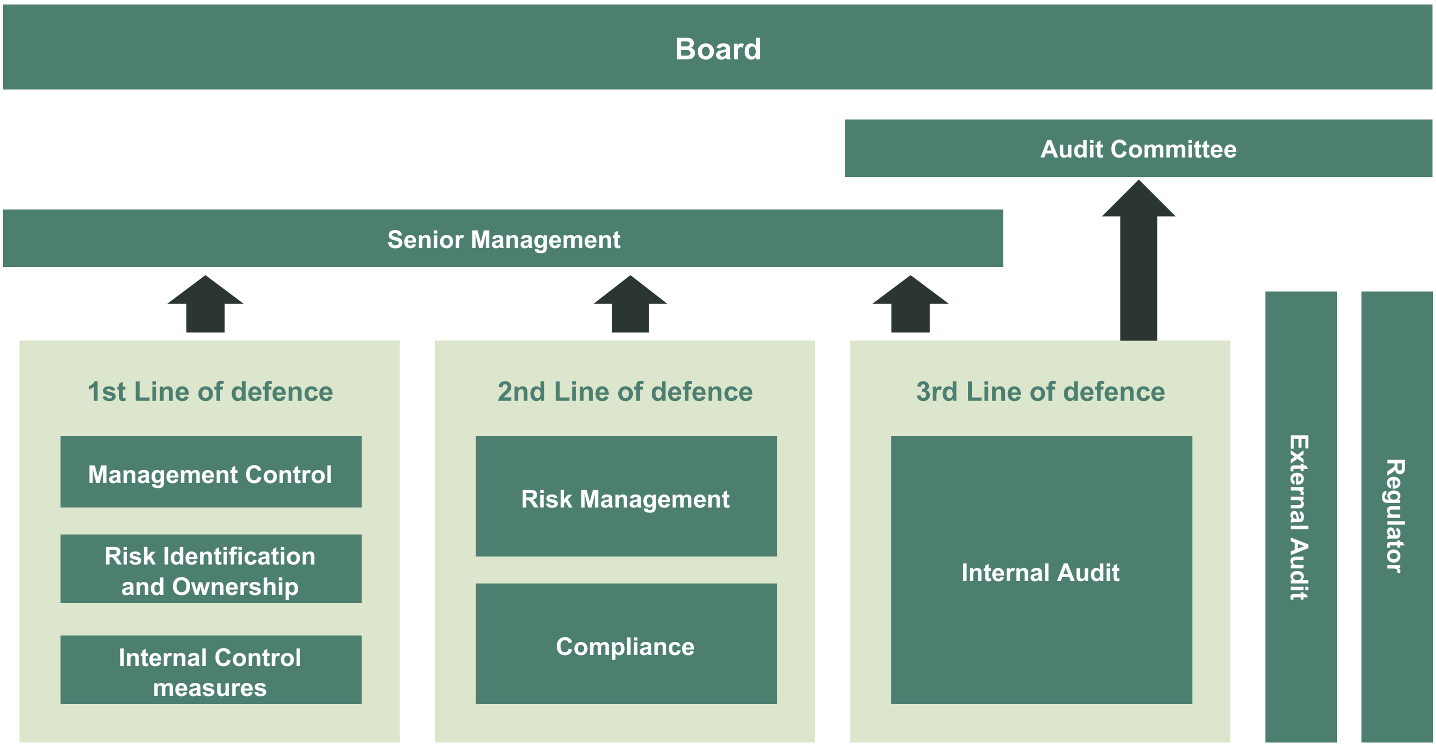
The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks; in this regard the Compliance function acts as part of the first line of defence. Compliance also monitors, evaluates and provides assurance on the effectiveness of the first line controls and therefore also acts as part of the second line of defence. In addition, Compliance is also accountable for monitoring and reporting on the performance of CIL against the conduct risk metrics agreed by the Board.

Third line: Internal Audit
This function provides independent and objective assurance on the robustness of the RMF and the appropriateness and effectiveness of internal controls to the CIL Audit Committee and the Board.

CIL Three Lines of Defence Model

Diagram 2 below sets out the structure of CIL's three lines of defence model.

Diagram 2 – Three lines of defence model



B.1.4. Remuneration

CIL's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management. These principles adhere to the PRA's remuneration requirements as per PRA SS10/16, including the identification of Solvency II staff. The remuneration approach is aligned to the Company's strategy, incentivises achievement of the Company's annual business plan and longer-term sustainable growth of the business, and differentiates reward outcomes based on performance and behaviour that is consistent with the Company's values. The remuneration approach provides market competitive remuneration and incentivises all staff members to contribute towards both the annual business plan and the longer-term strategic objectives of the Company. Variable remuneration can be zero if performance thresholds are not met.

Remuneration of staff is split between the following components:

- Basic salary informed by individual and business performance, levels of increase for the broader UK employee population and relevant pay data;
- Variable components (based on business and individual performance);
- Pensions; and
- Benefits.

Non-executive directors receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairing Board committees. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties.

B.1.5. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on CIL and with members of the Board

The Company did not have any material transactions in the reporting period with persons who exercise significant influence or senior executives.

The Company enters into transactions with other Convex group entities in the normal course of business. The most material transactions are the reinsurance cessions to the Company's immediate parent company, Convex Re Limited ("CRL").

B.2. Fit and proper requirements

B.2.1. Specific Requirements Concerning Fit and Proper

As per the SMCR requirements, individuals who are performing roles in either an SMF or Certification Function, or are notified non-executive directors are required to be assessed for their fitness and propriety at appointment and on an on-going basis by CIL.

Assessing a person's fitness and propriety includes an assessment of:

- Their honesty, integrity and reputation;
- Their competence and capability, including whether the person satisfies any relevant FCA training and competence requirements; and
- Their financial soundness.

The CIL Board identifies the skills and experience that are required at Board level, including the appointments of executive directors or independent non-executive directors, so as to ensure the relevant diversity, experience, skills and knowledge required for effective oversight and challenge.

B.2.2. Policies and Process for assessing fitness and propriety

CIL has policies in place to ensure that the individuals that are employed by the Company are Fit and Proper in accordance with the requirements set by the FCA and PRA. CIL operates under the SMCR rules and those individuals that undertake Senior Management Function roles are approved by the FCA/PRA through the application and interview process.

Where those individuals are not already identified as an SMF and are identified as 'Material Risk Takers', 'Key Function Holders' or hold a role that includes significant responsibility for a significant business unit, these individuals are subject to the requirements of the Certification Regime. CIL holds the responsibility for assessing the fitness and propriety of these individuals.

To ensure that CIL identifies and recruits appropriate people to perform the SMCR roles, the individual is assessed for:

- Fitness: skills and experience must be adequately matched to the role they are being employed to undertake;
- Propriety: checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound; and
- Regulatory References: Dating back six years, with the questions aligned to the requirements set out in SYSC 22.

A basic level of screening is applied to all employees. Individuals falling within the SMCR are additionally subject to the enhanced screening process that includes Disclosure and Baring Service checks, or equivalent agencies in Scotland, Northern Ireland and overseas regulators where the candidate has spent a considerable amount of time working in another country.

Fit and Proper assessments are carried out on an annual basis, although it is made clear to individuals that should they consider that they may have incurred a breach of the requirements, it is their responsibility to report this to HR immediately.

B.2.3. Culture and on-going monitoring

At CIL the importance of fitness and propriety is reinforced by the culture set by the Board and this is expressed through:

- Mandatory training that all staff need to complete on an annual basis;
- Assessment of fitness to perform the role through the on-going performance management discussions;
- Ability for individuals to report where they consider there are barriers to them being able to perform their role such as not being provided with sufficient time or staff or where they have identified a training need;
- Completion of the annual fit and proper assessments reported to the CIL Board; and
- Adherence to the applicable conduct rules as per the requirements under SMCR.

B.3. Risk management system including the Own Risk and Solvency Assessment ("ORSA")

B.3.1. Description of the Risk management system

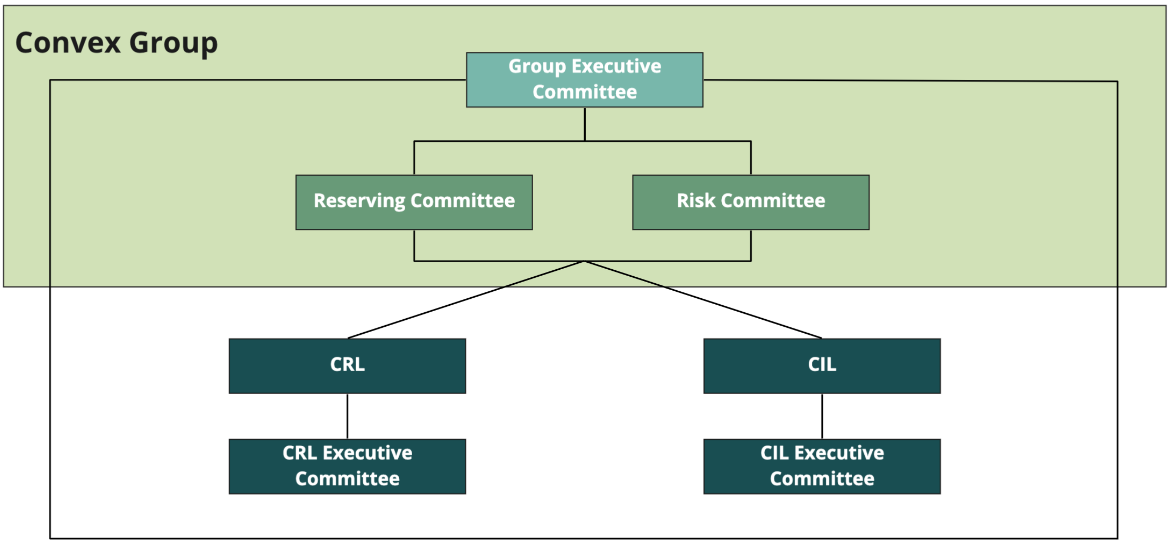
Risk Management Overview

Risk is defined by CIL as being the possibility of an adverse circumstance that will have a negative impact on CIL or its objectives. The CIL Risk Management Function provides risk oversight of the business for all risk types and categories. Oversight of the function's operations is provided by the Group Executive Risk Committee and the GEC, as well as the UKEC. The Risk Management Function is led by the Group Chief Risk Officer ("CRO"), who attends Board, GEC and UKEC meetings, and chairs the Group Executive Risk Committee.

CIL is part of the Convex Group. The Reserving Committee and the Risk Committee are Group Executive Committees, however, their oversight and responsibilities span across all of the entities of the Group, including CIL. A number of CIL Executives (CIL CEO, CIL CFO, CIL CRO) are members of these Committees to represent CIL. UKEC review and approve relevant CIL matters discussed at either the Group Executive Reserving Committee or the Group Executive Risk Committee and UKEC can escalate any matters for review or discussion to these Group Executive Committees.

Diagram 3 below sets out the executive committee structure for Convex Group, to provide a comprehensive overview of the committees relevant to CIL.

Diagram 3 – Convex Group committee structure



B.3.2. Implementation of the risk management system

Risk Management Implementation

The following sections detail how the Risk Management Function and System are implemented within CIL.

Risk Strategy

The Risk Management Function and the Risk Management Framework support CIL in pursuit of the achievement of its business goals within the established risk tolerances. The Risk Management Function provides oversight, monitoring and challenge. As CIL grows, the Risk Management Function and Framework will continue to evolve to remain adequate for the Company's business and risk profile. The Risk Management Function supports CIL in achieving the following:

- Lead the development and implementation of the risk strategy across CIL and the wider Group;
- Implement and embed effective risk management frameworks across CIL and the wider Group;
- Coordinate an effective ORSA process;
- Oversee and implement an effective risk identification, assessment, management and monitoring process across CIL and the wider Group;
- Monitor risk exposures against approved risk appetite statements and limits;
- Carry out quarterly and annual risk and control assessments;

- Establish appropriate risk policies and processes for CIL and ensure they are in place to meet regulatory requirements;
- Provide risk management information to the CIL Board and Executive Committee on the current concerns, risks and incidents affecting the business, as well as exposures against approved risk appetite limits;
- Carry out risk deep-dives across the business to assess key risks and the effectiveness of the controls in place;
- Lead the implementation of the climate change risk framework;
- Engage with the business on a number of ad hoc projects/initiatives to provide risk oversight and when relevant provide risk opinions;
- Deliver risk training; and
- Further information on the role and responsibilities of the Risk Management Function can be found in the Group Risk Management Function Charter.

CIL takes risk seriously, and a strong risk culture is embedded within the business. Risk and assurance reviews are embedded with the first line to ensure risks are adequately identified and mitigated. For example, the Actuarial function is a key stakeholder from the first line in managing underwriting and solvency risks on a day-to-day basis. CIL aims to differentiate itself from its peers and its business model requires a strong underwriting and operating cost discipline. As a result, the first line plays a strong role in identifying and managing risks.

The CIL Board is responsible for the Company's risk and internal control framework, including setting and approving the Company's business strategy, determining its risk appetite, establishing appropriate risk policies and monitoring capital requirements and risks against the agreed risk appetite and in line with the risk appetite statements.

A number of processes support the Risk Management Framework including:

- Risk Appetite framework;
- Risk Governance;
- Solvency and Risk Assessment Reports (including the ORSA);
- Risk registers;
- Risk management process (as described below);
- Control Frameworks; and
- Risk policies, procedures, systems processes and controls.

Risk Management Process

1) Risk identification – What might affect CIL and its objectives?

The risk identification process enables CIL to identify the risks, including emerging risks, that the Company is facing, and to monitor and mitigate them. The Risk Management Function has defined the Risk Universe in which CIL operates.

A key component of the risk identification process at CIL is the Risk Register. CIL has a comprehensive Risk Register which is mapped against the Risk Universe. The most material risks included in the Risk Register are reported to the CIL Board on a quarterly basis. The Risk Management function reviews and updates the Risk Register on a quarterly basis.

The effective management of emerging risks is essential for maintaining CIL's business strategy and underwriting performance. It helps to identify external trends, threats and opportunities, and improves risk selection and knowledge of future risk exposures.

The Risk Management team, together with relevant stakeholders from the business, review the emerging risks landscape for the year ahead and assess the impact on CIL's business profile and strategy. This process is performed in conjunction with the Oracle Partnership, an advisory group that specialises in agenda-setting foresight and strategic advice for future threats and opportunities. This annual emerging risk assessment also feeds into the ORSA process and ORSA report.

The Risk Register is the repository of all material risks and controls in the Company. It is one of the Risk Management function's most important management and monitoring tools and drives a significant portion of risk reporting to the CIL Board, CIL Executive Committee and Group Executive Risk Committee on a quarterly basis.

The fundamental sources of risk give rise to the following top-level risk categories that form the risk universe:

- Credit risk – such as risks of coverholder or reinsurer default;
- Market risk – such as investment value risk;
- Liquidity risk – such as failing to meet on-going financial obligations as they fall due;

- Insurance risk – such as aggregate exposures and reserves;
- Operational risk – such as operational resilience and disaster recovery;
- Regulatory risk – such as conduct risk and regulatory compliance; and
- Strategic risk – such as incorrect assessment of insurance market.

Within these categories, CIL reports on Regulatory and Conduct risks within Operational risk, and Market and Liquidity risks together.

2) Risk Assessment – Which uncertainties can impact CIL and its objectives the most?

The Risk & Control Assessment ("RCA") process allows CIL to identify key risks, assess the materiality and status of the risks and controls, and then use this information to manage the CIL risks and potential impact to Group risks, and review and monitor them on a periodic basis. The outcome of the RCA process is shared with the relevant stakeholders, CIL Executive Committee, CIL Board and the Group Executive Risk Committee on a regular basis.

Risk owners are responsible for the identification and day-to-day management of controls, including implementation, regular monitoring and reporting of the risk status. The Risk Management function holds quarterly risk and control assessment meetings with risk owners to review and provide challenge on the function's risk profile and effectiveness of controls in place.

All risks in the Risk Register are assessed in terms of their impact on the business and the current risk performance.

Risk impact is used to highlight the most material risks to each Convex entity using a 1-5 ranking scale, with 1 being the lowest impact and 5 being the most material. Each risk is quantified on at least an annual basis to assess the financial impact of the risk should it occur at different return periods, with and without controls in place. Risk impact is not expected to change materially on a quarter-by-quarter basis for most risks, though any changes to the business environment or plan will need to be reflected in the impact scores.

The risk performance is the current level of concern the risk owner/responsible person has for the risk. The rating takes into account the control performance, risk appetite metrics (where applicable or relevant), risk incidents and internal/external environment. The risk performance is based on a four-point scale (red, amber, yellow or green).

Together the risk impact and performance incidents where the Risk team should focus their attention on those risks that have the worst performance but also have a high materiality and will be displayed via a heat map with an 'area of focus'.

3) Risk Mitigation – What will we do to manage these risks?

Risk Mitigation is the process of reducing the potential adverse effects of a risk down to an acceptable level, i.e. within CIL's risk appetite. Risk mitigation is mainly achieved through the implementation of controls and management actions. It is the responsibility of each function within CIL to own and manage their internal control environment. Risk Management provides an independent second line view of each function's internal control environment and reports findings to the relevant committees. Risk Management reviews the effectiveness of CIL control environment on a quarterly basis.

Each control is scored for operational effectiveness (effective, partially effective, ineffective or not implemented) by the Control Owner, with oversight and appropriate challenge from the Risk Management Function.

4) Risk Monitoring – Is the management of risk working effectively?

Risk Monitoring is an important part of the risk management process. Effective risk monitoring ensures that CIL is operating within risk appetite and tolerances. It is a continuous and dynamic process of keeping track of identified risks and monitoring residual risks for any changes. It is also used to monitor the effectiveness of controls over time.

Effective risk monitoring enables CIL to make effective decisions on risks in advance of these materialising. It helps to ensure that the correct risks continue to be represented on the Risk Register, reflecting the changing risk profile of the business and ensures that the correct risk response actions have been implemented and are effectively working.

All identified material risks are monitored through the Risk Register to ensure risk profile changes are identified early, allowing appropriate mitigating actions to be applied in order to prevent negative outcomes. Any material changes identified form part of the risk reporting to the CIL Board, CIL Executive Committee and Group Executive Risk Committee.

In addition to the Risk Register and the regular risk assessment process, the Risk Management function has in place other second line risk monitoring tools and activities such as risk management deep dives, emerging risks working group and reverse stress testing exercises.

5) Risk Reporting – Who needs to know about the status of risk management?

The purpose of Risk Reporting is to provide management with useful information, allowing them to make effective decisions about the risks the business faces. Risk Reporting is a regular, continuous and important process for CIL as it builds alignment and transparency of risk information between the business, management and the executive. The Risk Management Framework, system and processes facilitate this reporting throughout the year, allowing CIL's Board to review and challenge risk information and make informed decisions about the changing risk profile of the business.

Information from the Risk Register is aggregated, analysed and presented in the risk report to the CIL Executive Committee and Board, showing the current concerns and most material risks to the business and quarter-on-quarter changes in risk profile.

The Risk and Incident Report also provides the CIL Executive Committee and Board with the Risk Management Function's opinion on the risks faced by each area of the business. The report is a combination of qualitative and quantitative information, with qualitative commentary provided to support understanding of the current risk environment, as well as the future risk outlook for the next reporting period.

This provides an opportunity for breaches and key trends to be explicitly raised by the Risk Management Function, where relevant.

B.3.3. Own Risk and Solvency Assessment

ORSA Overview

Overall responsibility for the ORSA framework, output and policy lies with the CIL Board. This policy is reviewed annually by the Risk Management Function and approved by the CIL Board in Q1 of each year.

The ORSA requires inputs from a number of key CIL business activities including but not limited to:

- Strategy and business planning: The forward-looking assessment section of the ORSA, which is the assessment of CIL's strategic goals made up of the strategy and business planning processes;
- Risk profile: Assessment and understanding of the current and emerging risks facing CIL across all risk categories, also including stress and scenario testing and other RMF techniques to assess risk impacts;
- Risk appetite: Review of appetites and tolerances to allow CIL to measure the level of risk currently being taken;
- Capital requirements: Assessment of CIL's regulatory capital requirements; and
- Solvency Assessment: Assessment of CIL's solvency against requirements.

The ORSA provides a framework to enable the CIL Board to be aware of the impact strategic decisions have on the risk and overall solvency needs of the business. The main outcomes of the exercise reported to CIL Board in relation to the ORSA are:

- The capital and solvency position – the capital assessment is produced based on the risk profile of the firm and its business plan. Solvency has also been considered under both normal and stressed conditions;
- The risk profile of the firm is reviewed and reported. The ORSA is based on the risk profile of CIL;
- The risk appetite of the firm forms a key part of the risk profile reporting throughout the year and the CIL Board is regularly informed of the position of the firm against its agreed risk appetite; and
- The adequacy of the standard formula and an assessment of any risk category which deviates significantly from the standard formula parameters.

ORSA Oversight
Oversight of the ORSA process and report is provided by the Board and relevant committees, as follows:

CIL Audit Committee	• Provide independent oversight of the ORSA process through internal audit reports
CIL Board	• Set the overall business strategy and direction and ensure this is in line with Group objectives. • Set the risk appetite for the Company. • Review and sign off the ORSA Policy and annual ORSA Report. • Ensure that CIL has established appropriate governance arrangements and escalation procedures such that the risks are monitored and managed. • Review and sign off the results of any event driven ORSA reports arising from material changes to the business or business operating environment. • Approve the current and forward looking capital and changes to it in line with the entity's risk profile and operations. • Challenge Management and Officers in all aspects of risk management. • Receive assurance relative to the effectiveness of the control environment from the Board Audit Committee and take actions as appropriate. • Ensure compliance with regulatory requirements.
CIL Executive Committee	• Review the Annual ORSA Report and ORSA Policy and recommend both documents to the CIL Board for approval • Review the quarterly risk appetite dashboard • Review the quarterly risk and control assessment, and incident report • Ensure CIL's risk profile remains within the Board approved risk appetite limits • Ensure CIL's has an appropriate risk and controls framework in place
Group Executive Risk Committee	• Review the ORSA Policy • Review the ORSA process and the annual ORSA report • Review the Group Risk Management Framework and risk policies • Review the quarterly risk control assessment and incident report
Group Executive Reserving Committee	• Review the technical provisions and will make recommendations to the CIL Board for sign-off

Supporting IT Systems
CIL uses the RisKonnect ERM database system to capture pertinent details about risks, controls and risk metrics in support of the ORSA process.

This is a system built upon the market-leading cloud-based Salesforce Customer Relation Management systems and has been configured to meet the specific requirements of CIL.

Risk Management and Risk Appetite Frameworks
The ORSA process is built upon the established and embedded Risk Management Framework and Risk Appetite Framework. A full description of these frameworks is provided in the relevant internal documentation. A summary of the purpose of these frameworks is listed below:

- Establish the risk management governance requirements;
- Ensure a regular review of the risk profile takes place in relation to the strategic and operational objectives of CIL;
- Ensure a regular review of the internal controls and mitigation plans designed to manage identified risks takes place.
- Ensure metrics to support assessment of risks are regularly gathered and reported;
- Ensure that regular review of the appetite for seeking or tolerating risk in pursuit of Convex's strategic and operational objectives take place; and
- Ensure that regular reporting of the status of risks against risk appetite to executive committees and the CIL Board takes place.

Reporting
ORSA reporting occurs throughout the year via the quarterly risk and incident reporting, including the quarterly risk appetite dashboard, and also in an annual standalone report to the CIL Board and to the PRA.

The quarterly risk and incident report contains information on all major risk categories considered by CIL, and includes current concerns, emerging risks, information on incidents, and risk appetite metrics.

Separately, the annual ORSA report:

- Recognises the risk, governance and management processes across CIL;
- Conveys the strategy, capital and risk matters for the CIL Board to review and challenge; and
- Identifies the material one-year and three-year risks to the business and confirm that these are monitored throughout the year through the ORSA process.

The results and conclusions of the annual ORSA report are presented to the CIL Executive Committee for review, and ultimately to the Board for sign-off.

ORSA Process

The ORSA process considers all key risks faced by CIL, including Insurance, Operational, Credit, Market & Liquidity, Strategic and Group risk, as well as risks included within the SCR calculation.

CIL completes an annual Stress Testing and Scenario Analysis exercise to identify and quantify potential stress events that could heavily impact the performance and financial resilience of the business. The Risk Management Function involves relevant subject matter experts from key business and functional areas in stress and scenario testing development and selection. This is reported to the Group Executive Risk Committee and included in the annual ORSA report.

Sensitivity analyses are carried out on the business plan as part of the planning cycle, at a Group level, to challenge the resilience of the plan and financial impacts of further potential risks to the plan.

The Risk Management Function uses the emerging risk process, in conjunction with the Oracle Partnership, to establish a list of the top emerging risks that Convex should consider. The emerging risk landscape is reviewed twice a year, with an annual emerging risk summary included in the annual ORSA report.

CIL uses the existing forward-looking assessment process as part of its ORSA activities. The results of this process are included in the annual ORSA report. Forward looking activities include:

- The Financial Planning and Analysis function meeting with Senior Management to gain their strategic views for the 3-year planning period;
- The Financial Planning and Analysis function holding discussions with the Chief Underwriting Officers (Insurance and Reinsurance) to identify growth target, reinsurance trends, assumptions for rating levels and key risks facing the firm;
- The Board signing-off the business plan and risk and capital projections; and
- Independent challenge from the Risk Management Function on the three-year business plan, risks to the plan and capital requirements.

Capital Requirements Calculation
CIL has adopted the Standard Formula approach to calculating its SCR. The SCR is calculated by the Actuarial Team and signed off by the CIL Chief Actuary. The appropriateness of the SCR to cover the risks faced by CIL is validated on an annual basis. This is carried out via an assessment of the assumptions underlying the Standard Formula versus the risk profile of CIL, and any key differences are documented in the annual ORSA report. An overall assessment of the suitability of the SCR to calculate regulatory capital for CIL based on these differences is also included in the annual ORSA report.

Solvency Assessment
The Finance function undertakes a periodic assessment of the funds available to support CIL's economic capital requirements, ensuring that the proportions of available Tier 1, Tier 2, and Tier 3 capital categories meet or exceed the requirements of the SCR.

ORSA Frequency
The ORSA process is continuous. There are quarterly risk updates to the Group Executive Risk Committee, CIL Executive Committee and CIL Board containing information on Insurance, Financial and Operational risks as well as an update on departmental control environments, incidents and near misses during the quarter and results of CIL's comprehensive risk appetite metric process. This is supported by an annual ORSA report.

Ad hoc ORSAs and Triggers
An ad hoc ORSA may be run outside of the regular cycle in response to certain triggers (see below). This may be a full ORSA or a partial
ORSA (where only a sub-section of the ORSA process is impacted). The principle of proportionality is applied to the running of an ad hoc ORSA.

Change to CIL risk profile
The Group Executive Risk Committee will determine whether or not a full or partial ORSA run is required, upon the recommendation of the Risk Management Function. The Group Executive Risk Committee will take into account and advise to the CIL Board the following potential triggers for an ad hoc re-run:

- Material change to the CIL risk profile:
- Failure in underlying controls or risk assessment process leading to an incorrect assessment of capital requirements;
- Significant insurance loss, especially major or multiple natural catastrophe events;
- Major financial market shock;
- Failure of counterparties or reinsurers, where there is significant exposure.

If one of the above triggers occurs, the decision to run a full or partial ORSA report would be made through consultation involving, at least, the CIL CRO, the CIL Chief Actuary, the CIL CFO and the CIL CEO.

B.4. Internal control function

B.4.1. Description of the internal control system

The internal controls framework is based on the three lines of defence model. Risk management is the responsibility of the employees who constitute the first line, the control owners. Oversight and guidance are provided by the second line through the Risk and Compliance Teams.

Control activities carried out by control owners within the business as part of the Risk Management Framework are assessed at least annually. In practice, most are reviewed on a quarterly basis as part of the Risk and Control Assessment, to ensure that any deficiencies in the control environment are known, and appropriate actions can be taken to improve the overall control environment. These controls serve to reduce the likelihood of occurrence of risks, to ameliorate any impact caused by the risk crystallising, or to enable early detection of the risk's impact.

Independent oversight of the systems of internal control for the business is the responsibility of the third line, the Internal Audit Function. Internal Audit operates a risk-based audit review programme to provide independent assurance to the Board (via the Audit Committee) that the risk management framework and control environment are suitability designed and properly operated and governed.

B.4.2. The Compliance function

The primary purpose of the Compliance function is to assess and manage the Company's exposure to regulatory risk. The Compliance function is an integral part of CIL's Risk Management system and constitutes a key part of the Company's corporate governance.

The Compliance function manages the relationships with the PRA, the FCA and other regulatory bodies, and is committed to transparent and constructive relationships with regulators. The Compliance function works closely with the Legal function and also with the Risk Management and Internal Audit functions.

The Compliance function activities include:

- Horizon scanning and identification of forthcoming regulatory changes;
- Identification of conduct risks and supporting the Board in agreeing measures including metrics and conduct risk appetite;
- Providing advice, support, guidance, and challenge to the business in regards conduct risk, regulatory requirements and financial crime;
- Managing regulatory engagement with regulators, including financial crime and data protection;
- Undertaking on-going and ad hoc monitoring of the controls implemented by the business and report findings to the CIL Board;
- Managing compliance risks with outsource partners, ensuring that they are aligned with CIL culture and risk appetite;
- Setting the financial crime policy and sanctions framework;
- Escalating identified risks and breaches to management and the Board;
- Liaising with internal audit regarding key risk areas and effective use of monitoring and audit inspections;
- Participating in the CIL Executive Committee; and
- Reporting to the CIL Board.

The Compliance function is headed by the Group Chief Compliance Officer who is approved as the SMF16 (Compliance Oversight) for CIL.

B.5. Internal Audit function

B.5.1. Implementation of the Internal Audit function

The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter. Internal Audit's mission is to provide reliable independent and objective assurance to CGL and its subsidiaries Audit Committees, and to the Convex Executive Committees on the adequacy, effectiveness and sustainability of risk management framework and the system of internal control.

Adequate and effective risk management, internal control, and governance processes reduce but cannot eliminate the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented or overridden, and the occurrence of unforeseeable circumstances. Adequate and effective risk management, internal control, and governance processes therefore provide reasonable, but not absolute, assurance that Convex will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

Internal Audit maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist technical support is necessary to supplement Internal Audit resource, this is available through a co-sourcing contract with external specialist firms, ensuring that Internal Audit has immediate access to specialist skills where required.

On an annual basis, Internal Audit confirms to the CIL Board Audit Committees that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with. Internal Audit operates within Convex's three lines of defence model. In order to operate an effective framework Internal Audit maintains regular and ongoing dialogue with the first and second line functions to maintain a current and timely perspective of business direction and issues. Demarcation between the third line of defence and the first two lines must be preserved to enable Internal Audit to provide an independent overview to CIL Board Audit Committees on the effectiveness of risk management and assurance processes within Convex.

Internal Audit's methodology provides a series of different assurance responses to a variety of scenarios to give the stakeholders the most appropriate type of assurance as follows:

- Risk-based internal audits – Internal Audit's standard audit response, this methodology will also be used in the limited circumstances where Internal Audit responds to ad hoc management requests for assurance. This response focuses on assessing the adequacy and effectiveness of key controls mitigating High risk areas.
- Programme & Project Assurance – a series of risk-based assurance responses to programmes and projects. This differs from standard risk-based audits in that it focuses on key controls as well as the commercial aspects of the programme, such as benefits realisation.
- Close and Continuous – this involves Internal Audit having regular meetings with key stakeholders and attending decision making forums as appropriate. It will also include ongoing assessment of key documents as they are produced. Any concerns will be raised with management at an early stage to allow the programme to address them in a timely manner.

The above are communicated through the following methods:

- Reporting to the CIL Board and Audit Committee, including thematic reporting. Quarterly reporting is provided to the CIL Board Audit Committees, where the Chief Audit Officer attends to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Reporting to the Convex Executive Committees, where the Chief Audit Officer presents a summary of the key successes/challenges within the period.
- Internal Audit reports. In addition to the audit client, Internal Audit reports are issued to all executive management and relevant members of the business and the external auditor. Reporting of issues focuses on describing the control breakdown or failure, who was responsible, and the risk that has materialised or could potentially materialise. In response to the issues raised by Internal Audit, management are required to document the steps they are taking to address the issue, provide a realistic timescale and, importantly, the action is assigned a single owner to enhance accountability.

B.5.2. Maintaining the independence of the Internal Audit function

To ensure the independence of Internal Audit, the Chief Audit Officer, a senior position within the Group, reports functionally to the respective independent Chairs of CGL and its subsidiary Audit Committees, and has a secondary reporting line to the CGL Chief Executive Officer and Deputy Chief Executive Officer. The CGL Board Audit Committee approves the performance evaluation, appointment, or removal of the Chief Audit Officer, and reviews his/her annual remuneration each year.

Internal Audit is functionally independent from the activities audited and the day-to-day internal control processes of Convex and is therefore able to conduct assignments on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the activities of subsidiaries and outsourced activities. The Chief Audit Officer and audit staff are not authorised to perform any operational duties for CIL or the wider Group or direct the activities of any employee not employed by Internal Audit.

To ensure that the system of governance works efficiently and effectively, Internal Audit will work together and co-operate with the other assurance functions in an appropriate open and collegiate way (for example, Risk Management and Compliance). Where such co-operation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of Internal Audit remain safeguarded.

B.6. Actuarial function

The Actuarial function is led by CIL's Chief Actuary ("CA"), who reports to the CIL CEO. The Actuarial function is accountable for actuarial methodologies and calibrations. It also considers the appropriateness of the capital modelling activities. The Actuarial function produces an annual report to the Board providing information necessary for the Board to form their own opinion on the adequacy of technical provisions and capital requirements, and on underwriting and reinsurance arrangements.

The Actuarial function has the authority to review all areas of the Company and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The independence of the Actuarial function is derived through its organisational separation from other functional areas. The CA ensures that those persons employed by the Actuarial function in a defined actuarial role are subject to the Fit and Proper policy requirements to ensure they have the requisite skills and knowledge to complete their responsibilities.

B.7. Outsourcing

B.7.1. CIL outsourcing policy

The CIL culture challenges the status quo and incorporates innovation, flexible working and collaboration in our day-to-day working. Working with our outsourced business partners (both third parties and within the Convex Group) based in the UK, Bermuda and Asia, we believe that we can provide the best support to our underwriters, with nimble, efficient systems and processes to help them make the best decisions and provide value-added service excellence to our clients and brokers.

CIL has considered the impact of all outsourcing and is continuing to develop:

- effective processes to identify, manage, monitor and report risks;
- methods for assessing the standard of performance of the service provider;
- appropriate escalation measures if the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
- the necessary expertise to supervise the outsourced functions effectively; and
- the right to terminate the arrangement without detriment to the continuity and quality of its provision of services to clients.

CIL also works to ensure that the service provider must:

- have the ability, capacity, and any authorisation required by law to perform the outsourced functions, services or activities;
- disclose any material impact on its ability to carry out the outsourced functions effectively;
- protect any confidential information relating to the CIL and its clients;
- establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities having regard to the outsourced function, service or activity; and
- obtain prior approval from CIL for the use of sub-delegates and warrant that the primary contract terms and conditions extend to the sub-contract with such sub-delegation.

CIL recognises that the responsibility and accountability of all outsourcing functions remains with the CIL Board, who will ensure that due diligence, expertise and skill is exercised when entering into, managing or terminating any outsourcing arrangement. The Board also acknowledges that CIL remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing. Group Operations currently submits a report on the performance of services by the major service providers to the CIL Executive Committee on a quarterly basis, key highlights of which are discussed with the Board as appropriate.

Where necessary, the outsourcing agreements are reviewed annually and where material, changes are brought to the Board for consideration and approval. The governance structure for CIL's major service provider has several layers, thereby ensuring the right audience and authority is engaged for discussion and agreement, whilst maintaining overall Board responsibility and accountability.

CIL has outsourced the provision of products/services in the following categories:

- Claims Operations;
- Facilities & Workspace Management;
- Finance Operations;
- HR Operations;
- IT Desktop and Application Support;
- Underwriting Operations; and
- Investment Management.

The CIL outsourcing model ensures that outsourcing does not result in the undue increase of operational risk, materially impair the quality of system of governance of the firm, impair the ability of supervisory authorities to monitor compliance of CIL nor undermine continuous and satisfactory service to policyholders.

B.8. Any other information

COVID-19 Working and Steering Groups were formed in March 2020 to implement and manage emergency plans to mitigate the impact of COVID-19 pandemic on CIL's operational procedures. The Group's focus has continued throughout 2021 and has included, but not been limited to:

- Review and ongoing management of workplace (e.g. COVID-secure environment, opening and closures in line with government guidance);
- Review and ongoing assurance that our IT infrastructure is able to support remote working and manage additional volumes of teleconference collaboration;
- Assessment and ongoing monitoring of the risk level to key outsourcing partners such as WNS, as well as other suppliers / partners on whom we depend, and obtaining confirmation that they have robust business continuity plans ("BCP") and are able to deploy them as needed; and
- Monitoring the wellbeing of staff to ensure they cope well with the unfamiliar context of COVID illness, social distancing and self-isolation. This includes, and is not limited to Wellbeing Questionnaires, Resilience training, provision of rapid COVID testing and updated hints and tips to support successful working from home.

  When devising the business continuity plans, 3 elements of potential impact on CIL were considered:

  1. London office closed
  2. Significant illness / inability to work amongst staff
  3. Pandemic affecting India operations of WNS

For each element, the business risks that arise have been identified and mitigation actions defined and put in place to ensure that CIL is able to operate effectively in each case. The first element initially came into force following the guidance issued by the UK Government on 16 March 2020 and reoccurred during the latter stage of 2020 through the first quarter of 2021. At time of writing Management considers that the Company is continuing to operate effectively and navigate changes in government guidance and workplace regulation in a responsible, supportive and proportionate manner.

Fortunately, to date there has not been significant illness amongst CIL staff.

The third element was also implemented during March/April 2020 and continues to date, with WNS home working capability proving resilient throughout (note that there were very minimal impacts through the significant Delta wave). Productive capacity estimates are shared weekly with the CIL team to ensure WNS remains operational and effective. It should also be noted that WNS has a strong onshore presence, co-located from the Convex London office which also helps to mitigate risk of business interruption from India.

With regard to the conflict in Ukraine, CIL in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures.

C. Risk profile

C.1. Insurance risk

C.1.1. Risk description

Insurance risk contains both Premium Risk and Reserving risk; each defined at Convex as the following:

Premium Risk: the risk of uncertainty around all unexpired and planned future underwriting exposure.

Premiums may be lower or higher than forecast in the business plan as a result of rates diverging from expectations, and/or external market events impacting pricing. For example, following a severe catastrophe event in a particular region, a line of business may see sudden rate increases and therefore a tactical decision to underwrite higher volumes of premiums could be made. The opposite may also occur, such as rate decreases beyond expectations in a particular line of business that lead to inadequate pricing for the amount of risk, resulting in it no longer being viable to write the business. As a consequence, the resultant mix of business may also differ from the business plan.

Reserve Risk: the risk that current reserves are insufficient to cover claim liabilities as they fall due.

Higher non-catastrophe (attritional/large losses) claims than expected may occur due to higher claims inflation, exceptional loss events, a risk unforeseen at the time of pricing and/or contract inception and also fraud.

C.1.2. Risk mitigation

CIL mitigates its risks via the use of the following controls:

For Premium Risk:

- Convex Measurement Framework (CMF) tracks metrics such as monitoring premium by line of business regularly against the business plan;
- A Risk Adjusted Return Framework has been developed in 2022 supporting portfolio optimisation;
- Monitoring premium by line of business regularly against the business plan;
- Portfolio Optimisation team supporting underwriters with timely information to support risk ranking;
- Underwriting guidelines;
- Underwriting authorities;
- Pre-bind peer reviews;
- Ceded re programme; and
- Risk appetite limits.

For Reserve Risk:

- Actuarial Function feeds into the business planning using metrics such as loss ratio benchmarks;
- A Reserve Committee and a Major Events Committee where complex claims and market situations are discussions as well as reserve trends to ensure adequate reserves are booked;
- An inflation working group has been setup in 2021 to develop a more holistic method to monitor inflation risk to which Convex is exposed;
- Monitoring claims by line of business regularly against the business plan;
- Information flow between underwriters and claims teams;
- Validation of amount of risk being taken using external data given CIL has claims development experience at this stage;
- An effective reinsurance program to protect against some adverse claims experience; and
- Technical pricing of select risks.

C.1.3. and C1.4. Measures used to assess risk and concentration

CIL uses the following tools to assess the risks, and their concentration:

- In-house exposure management tools;
- External / third-party exposure management tools;
- Regular expected loss modelling output; and
- Solvency capital calculations.

The Company does not have material concentrations in our business, as it has developed a diversified book of business across lines of business and geographies. Refer to tables A.2 and A.3 for gross written premium by lines of business and geography.

C.1.5. Material changes over the reporting period

CIL's business volumes increased significantly over 2021, resulting in an increase to the level of both Premium and Reserve Risk. As a result, CIL maintained a strong focus on continuing to develop the above controls to identify, analyse, mitigate, monitor and report on insurance risks. As the volume of underwriting continues to grow this risk will continue to increase.

C.2. Market risk

C.2.1. Risk description

Market Risk: The risk which arises from fluctuations in asset values, or interest or exchange rate.

CIL is exposed to Market Risk through the impact of market movements to its asset portfolio and to the market value of its insurance liabilities. Market Risk impacts to the balance sheet arise from various factors, including:

- Rising interest rates and/or credit spreads of the fixed-income investments can reduce the market value of the asset portfolio. There is a natural hedge provided by the liabilities, as interest rate increases, this decreases the market value of the liabilities, thus absorbing part of the impact. Hence, the net position, managed in the line with the Minimum Risk Benchmark, is sensitive to interest rate movements.
- A decline in the market value of assets other than fixed income, driven by equity and/or property markets could adversely impact the available surplus.
- A change in foreign exchange rates could have an impact for CIL, as the asset portfolio is denominated in USD, while future liabilities are also denominated in other currencies, including GBP, EUR, JPY and CAD. Thus, foreign exchange ("FX") movements are expected to have an impact on future non-USD denominated liability and expense related cashflows.
- An increase in inflation rate may lead to a nominal increase in the value of CIL's liabilities and other expenses and affect valuation of assets in the CIL portfolio. Progress has been made to develop a methodology to identify and measure inflation risk on the CIL balance sheet, and a measurement of inflation risk is currently captured within the market risk appetite. Investment strategies that mitigate inflation risk are considered as part of the investment plan.

C.2.2. Investment management in accordance with the 'Prudent Person' Principle

CIL manages its investment portfolio in line with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) by applying the requirements and principles described in the Group Financial Market Risk Framework and the Investment Guidelines. These requirements and guidelines ensure that risks in the current portfolio and in new investment proposals can be identified, measured, monitored, managed and controlled.

Assets are invested taking into consideration the profile of the liabilities in terms of timing and sensitivity to market factors.

Concentration risk limits are in place to ensure the portfolio is appropriately diversified and the overall level of risk is limited by an aggregate market risk limit. Further, CIL does not have Level 3 assets, and thus has increased certainty around the valuation of financial assets.

CIL ensures the availability of assets to pay in a timely manner claims and other obligations by having in place procedures that measure excess liquidity in stressed market conditions, in line with the risk framework.

C.2.3. Risk mitigation

Market Risk for CIL is kept at a limited level, owing to the prudent investment strategy and asset allocation, which has limited exposure to higher volatility classes such as equities.

The level of Market Risk is managed by:

- Taking into consideration the market risks inherent in CIL's insurance business, expenses and other liabilities including shareholder's capital when managing the investment portfolio;
- Setting and monitoring an Aggregate Market Risk Limit of 25% of the available risk capital, defined as a 1-in-200 return period one-year loss; and
- Setting individual stress test risk limits for the respective market sub-risks at 2/3 of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and at 1/3 of the Aggregate Market Risk Limit for FX and Inflation risk.

C.2.4. Measures used to assess risk

Measures used to assess Market Risk in the business include:

- Profit and loss results estimated using a set of stress tests, calibrated at a 1-in-200 one-year event, and subject to an overall market risk limit; and
- Capital requirements measured using the Solvency II Standard Formula to assess market risk by sub-risk and on aggregate.

C.2.5. Risk concentration

Concentration to Market Risk factors is monitored by the quantitative stress tests, including stress tests for:

- Interest Rate Risk (separated by primary components such as parallel and steepening or flattening movements);
- Credit Spread Risk (separated by rating, duration and type of asset);
- Equity Risk, including private equity and other illiquid assets;
- Foreign Exchange Risk;
- Real Estate Risk;
- Hedge Funds; and
- Inflation Risk.

In addition, exposure to each market sub-risk is limited with a risk limit equal to 2/3 of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and to 1/3 of the Aggregate Market Risk Limit for FX and Inflation risk.

Concentrations to issuers and single investments are limited in the concentration risk framework, discussed in the Credit Risk section.

C.2.6. Material changes over the reporting period

As at year end 2021, the size of the investment portfolio and the liabilities had increased considerably compared to 2020, in line with CIL's business plan and driven by business written and capital injected. Gross premiums written in 2021 increased significantly to $1,607.6m (2020 gross premiums written: $831.6m) and assets under management grew to $1,406m. As a result, Market Risk exposure increased in absolute terms, in line with the growth in assets under management. A measurement of inflation risk in the CIL balance sheet was also added to the framework in Q4 2021, increasing risk utilisation. Market Risk exposure remained within risk appetite throughout 2021.

The impact of COVID-19 to the investment portfolio has been minimal over the year.

C.3. Credit Risk

C.3.1. Risk description

Credit Risk: the risk of loss due to the failure of a counterparty to meet its contractual obligation to repay a debt

Credit Risk arises either from the fixed income portfolio, where a default of a counterparty would incur a financial loss, or through insurance due to the regular transactions with counterparties such as brokers and reinsurance companies.

Convex's credit risks arise principally through the following exposures:

- Fixed income securities, which includes investments in sovereign and corporate bonds, and collateralised securities.
- Insurance exposures arising from the political and credit risk line of business.
- Reinsurance assets, where Credit Risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits.
- Insurance assets and receivables.

C.3.2. Risk mitigation

Credit Risk is mitigated by monitoring a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating of all bonds issued by the issuer and held by CIL (corporate, Government agency and sub-sovereign) and are defined as a percentage of the Aggregate Market Risk Limit, with higher risk investments set at a lower percentage.

The set of limits ensures a well-diversified investment portfolio, including treasury exposures, limiting the loss following the default of a particular issuer. CIL proactively monitors credit ratings, applying an internal rating that takes into consideration changes in market observable credit spreads that could indicate potential future downgrades.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment functions monitor the exposure against the limits on a daily basis, and report on a monthly basis, with any issuer exposure breaches reported to the CIL CFO for remediation or, in exceptional circumstances, a waiver.

Credit Risk on insurance assets is managed through CIL's Credit Control function, which monitors the ageing of receivables and overdue balances. Further, reinsurance credit risk is managed via a reinsurance approval process, which takes into account the credit rating of the reinsurer and the size of the exposure, and also by holding collateral posted by non-rated counterparties. Limits have been established for reinsurance exposures, by counterparty and tier. The limits are calibrated with reference to stressed losses given default and the aggregate limit is set with reference to available capital to ensure losses in a shocked environment remain withing risk appetite.

In particular, in terms of the Intragroup Reinsurance contract between CIL (the reinsured) and Convex Re Limited (the reinsurer), a collateral arrangement has been put in place whereby for the benefit of the CIL, Convex Re Limited posts collateral equal to 80% of the outstanding technical balances (i.e. the sum of unearned premiums and unpaid ultimate claims liabilities). Collateral consists of USD cash and US Government securities acceptable to CIL and is posted in a custody account with the Convex Group's custodian.

A net aggregate exposures limit is in place for the overall political and credit risk underwriting line of business.

C.3.3. Measures used to assess risk

Credit Risk is measured in terms of exposure to default, probability of default and loss given default.

Credit ratings are used as indicators to assess Credit Risk, measure capital and take investment decisions. CIL uses external credit ratings as well as market adjusted ratings which adjust rating according to spread levels.

C.3.4. Risk concentration

Concentration risk is monitored by a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating, and related to Investment, Treasury and Ceded Reinsurance counterparty exposures. For political and credit risk insurance exposures, counterparty and country limits are also in place to ensure concentrations are managed.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment function monitor the exposure against the limits on a daily basis, and reports on a monthly basis, with any issuer exposure breaches reported to the CIL CFO for remediation or, in exceptional circumstances, a waiver.

As at 31 December 2021, Credit Risk is well-diversified.

C.3.5. Material changes over the reporting period

Treasury exposures to banking counterparties increased over 2021, mainly to fund Letters of Credit. There has also been an increase in both premium and reinsurance receivables over the period, driven by the increased size of the balance sheet.

The exposure of CIL to CRL via the Intragroup Reinsurance also increased in line with line with the growth in business written but remained well collateralised.

Monetary and fiscal policy response led spreads to contract, eventually finishing the year back within their pre-COVID ranges. There were no defaults realised within the investment portfolio in 2021.

C.4. Liquidity Risk

C.4.1. Risk description

Liquidity Risk: the risk that insufficient liquid funds are held to meet all liabilities as they fall due or that liabilities can only be met at a high cost.

Managing liquidity is about limiting the possibility of having to be forced to sell assets or borrow money to meet obligations in a stressed environment, where either the Company or the market itself is weak. Such scenarios would result in a weak bargaining position for the Company and would likely force it to give up value at prices below inherent worth. The costs of such events may be compounded by the potential loss of market reputation, which may leave counterparts hesitant to place longer term risks with the Company and thus destroy franchise value.

The current risk appetite statement on liquidity requires that “CIL will maintain sufficient liquidity to meet its obligations when they fall due, even under a stressed scenario”.

To satisfy the risk appetite statement, a Group Liquidity Stress Testing Framework is in place to ensure CIL hold sufficient liquidity to meet an extreme stressed scenario, defined as the combination of a large loss event and a market liquidity shock, while ensuring sufficient liquidity is also available after the extreme stressed scenario to continue to support day-to-day operations.

C.4.2. Risk mitigation

CIL manages Liquidity Risk by setting up a framework, that measures excess liquidity over five horizons and in stressed scenarios and puts a limit that ensures excess liquidity is positive under all horizons and scenarios considered.

C.4.3. Measures used to assess risk

The measure employed to assess Liquidity Risk is Net Excess Liquidity, defined as Available Liquidity less Required Liquidity (including a margin) and should remain positive for over the projected period defined within the Liquidity risk framework for both the normalised and stressed scenarios.

C.4.4. Expected profit included in future premiums

Expected Gross Profit included in Future Premiums (“EPIFP”) is the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. EPIFP is presented in QRT S.23.01 ‘Own Funds’ within Appendix B.

The Company’s EPIFP was $433.7 million.

C.4.5. Risk concentration

There are no Liquidity Risk concentrations identified as at year ended 2021.

C.4.6. Material changes over the reporting period

Available liquidity increased significantly over the reporting requirement due to an increase in assets under management that remained invested in liquid assets.

The increase in available liquidity was partly offset by an increase in encumbered assets mainly due to the funding of Letters of Credit in place for 2022.

C.5. Operational Risk

C.5.1. Risk description

Operational Risk is defined as the risk of greater than expected losses due to the failure of internal processes, people or systems, or from external events.

In order to facilitate the identification and management of operational risk, CIL breaks down Operational Risk into the following sub-categories:

Financial and Accounting
These are the risks associated with financial reporting and integrity of the financial information.

Outsourcing & Third-Party Service Provider
This risk includes the uncertainty of unintentional or deliberate failures of service providers to deliver services in accordance with pre-agreed service standard contracts or engaging with service providers with inadequate service standards in place.

Business Continuity Management
The risk associated with the failure to appropriately manage unforeseen events.

IT
The risks associated with IT systems, data including information security operations and cyber risk.

Financial Crime (Including internal and external fraud)
This is the risk that the Company might be used to further financial crime.

Conduct Risk
The Risk associated with the Company of employees' activities that could threaten consumer protection or market integrity.

People Risk
This is the risk that people do not follow CIL's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage CIL.

C.5.2. Risk mitigation

CIL has developed and embedded an effective control environment to mitigate against operational risk. These controls are rated according to their effectiveness and are stored within the RisKonnect system. Controls are reviewed periodically and analysed to ensure that the risk is being mitigated as expected.

C.5.3. Measures used to assess risk

Operational Risk is assessed via the risk management framework, with each risk being assigned an inherent impact, reflecting the level of risk in the absence of functional controls. Risks are then given an equivalent residual impact to reflect the level of risk with the current controls in place. Risks are also given a rating on a RAYG basis, which indicates how comfortable the business is with the level of risk.

C.5.4. Risk concentration

Other than the analysis of risk incident data, there are no formal procedures relating to the measurement of operational risk concentration at present within the CIL Risk Management Framework.

Risk incident data is analysed for trends or concentrations with regards to root causes, departments, risk owners and other such categories. It is expected that further analysis may be carried out as the risk framework is embedded further within the business.

C.5.5. Material changes over the reporting period

Operational risk has continued to grow throughout 2021 as the operational element of the Company has grown substantially.

The key developments in operational risk have been:

- Headcount has increased in 2021, this was made more complex by a large number of new employees being onboarded virtually due to COVID-19
- Continued systems and infrastructure development to support underwriting

COVID-19

The operational risk associated with COVID-19 was well-managed in 2021 given CIL has been able to successfully operate in a remote working environment since 2020. The associated operational risk from COVID-19 has been mitigated well by CIL's agile technology approach, and no material direct losses have been sustained on an operational basis. There has been the potential for employees to be exposed to the virus, and despite a relatively low mortality rate, with many people catching the virus there was the possibility of multiple employees becoming ill or severely ill, which could have affected CIL negatively. To mitigate this risk, CIL continued to follow strictly the UK governments advice, as it did throughout 2020. Its personnel were asked to work from home and conducted business via their Company laptops and phones remotely. CIL has also taken extensive precautions within its London office to ensure that the relevant government guidelines for office working is followed and that employees feel comfortable when returning to the office

In addition, CIL has worked closely with its main outsourcer, WNS, so that WNS employees have been equipped to work from home to ensure continuity in CIL's operations since 2020, following the Indian Government's announcement. CIL continue to communicate with WNS and monitor its performance of key services to ensure that operations are not interrupted by developments with COVID-19.

The COVID-19 Planning Working Group and the People Team have ensured that there continues to be a number of initiatives to ensure the wellbeing of CIL staff, and to mitigate the impacts of social-distancing and isolation. Wellbeing of CIL staff in this unfamiliar and difficult context remains a priority.

Information Security

Information Security and Cyber resilience remains an area of attention for Convex, the emerging threat landscape coupled with the increasing sophistication of cyber-attacks has highlighted the necessity for CIL to ensure it has robust and effective controls in place to mitigate against these threats. CIL's IT Security team regularly assess its maturity on cyber security controls with updates provided to the Group Executive Risk Committee to ensure that senior leadership are aware of any related issues and outstanding actions in addition to the quarterly risk and control assessment process carried out by the Risk Management function. Convex carries out regular Business Continuity Planning ("BCP") exercises covering the cyber-breach scenarios to test the capabilities of our preparations to deal with a cyber incident.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic Risk

There is a degree of Strategic Risk inherent in the plans of CIL. The aim of the Company is to become a scale player in the P&C market, and therefore there is an execution risk if CIL fails to deliver on its strategic objectives.

Group Risk

CIL has a degree of Group Risk associated with it, as it is a subsidiary company of Convex Group. The Group structure grew in 2021 with new underwriting entities being established to allow for further growth and expansion of underwriting lines. However, the Group remains relatively small with a lean structure (1 holding company and 4 underwriting entities), which therefore reduces complexity and impact of this risk.

Regulatory and Legal Risk

There is a risk that CIL fails to comply with regulations and laws within jurisdictions in which it operates. This risk is managed primarily by the Compliance function and the Legal function, which report to the Chief Compliance Officer and General Counsel respectively. Key regulatory and legal risks are noted within the CIL Risk Register as operational risks.

Financial Risks from Climate Change

The effects of climate change and global warming are increasingly apparent, as evidenced by increased heatwaves, erratic rainfall, and greater weather extremes. The risks to CIL associated with such changes are complex and need to be considered alongside other developing risk factors such as inflation and urbanisation. However, the resulting increasing loss costs to Insurers from weather related events such as Californian wildfires, European floods, or the increased frequency and severity of hurricanes are becoming increasingly evident and mean we need to enhance continually our ability to assess this changing risk profile.

C.6.2. Risk mitigation

Strategic Risk

Strategic Risk is mitigated in part by the expertise of a wide array of industry veterans within the Company, and on the Board, who continually review the strategy being enacted, whilst being aware of current market developments. In this phase of business growth it is essential to remain agile and able to react positively to latest developments.

Additionally, the business planning process has robust controls, setting out the plan against a variety of different market backdrops, and thereby indicating a range of differing outcomes on a multi-year basis.

Group Risk

Group Risk is mitigated largely by ensuring that all parts of the Group are aware of the strategy and priorities of the others, and from maintaining multiple functions and teams at a Group level. This allows CIL to work in lockstep with the other companies in Convex Group.

The Risk function have been engaged and involved with the 2021 Group expansion, providing oversight and assurance activities where appropriate.

Regulatory and Legal Risk

The Compliance and Legal teams have continued to made enhancements and refinements to its control framework in 2021, including around the key areas of regulatory and legal risk, including licensing, sanctions, wordings, and conduct risk.

Financial Risks from Climate Change

Climate change risk is owned at Convex Group level by our Group CEO and for CIL by its Chairman and CEO. The financial impact of the risks on the investment portfolio and the insurance portfolio has been assessed using a scenario analysis in 2021 for the first time. Other associated impacts from climate change risk such as reputation risk and other emerging risks are identified and monitored through our emerging risk management process.

C.6.3. Measures used to assess risk

None of these additional risks are measured quantitatively at present, although during 2021 the annual review of risk appetite statements and relevant appetite metrics took place with refinements and enhancements made to both the Conduct and Regulatory risk appetite statements. These will be further enhanced and embedded in 2022. Key regulatory, legal, strategic and group risks are noted within the Convex Risk Registers as operational risks.

C.6.4. Material changes over the reporting period

As with other risks, the material changes were the ones associated with the growth of Convex and continuing to embed a fully operational insurer of scale whilst predominately working from home in 2021.

C.7. Any other information

C.7.1. Stress testing and sensitivity analysis

Stress testing and sensitivity analysis is an important part of the risk management framework, and of the testing performed by the Risk team to ensure that CIL remains prepared for potential deviations from expectations. As part of the 2021 ORSA report, Stress and Scenario Testing (“SST”) was carried out at group level and at subsidiary level, and took many different forms such as:

- Stress testing to better understand and mitigate what could arise from single events;
- Scenario analysis where several stresses across risks occur at the same time; and
- Reverse stress testing.

These tests allow CIL to understand more clearly its business and risk profile by assessing its ability to meet solvency and liquidity requirements under base and stressed conditions, as well as providing a view on how business planning and performance might be affected by these stresses.

The stresses looked at in the 2021 ORSA were the following:

1. A US windstorm severe 3-event scenario in which a cluster of three US hurricanes make landfall in continental US.
2. A US severe earthquake scenario that included a severe earthquake of Magnitude ~8.0 along the San Andreas fault, followed by an aftershock of Magnitude ~7.0, leading to significant property losses and disruption to supply chains.
3. An economic downturn scenario that included the widening of credit spreads, reduction in the value of risk assets in line with the PRA 2019 GIST exercise.
4. Liquidity stress that observed liquidity requirements over a 12-month horizon following a large loss event.
5. The impact on CIL claims reserves following an increase in the annual claims inflation rate of 5%.

The scenarios used as part of scenario analysis in the 2021 ORSA were the following:

1. A catastrophe event in India occurs which severely impacts Convex’s material outsource partner.
2. A Cyber-attack takes place in which Convex are held to ransom, with the attackers threatening to release sensitive information unless it receives a substantial sum of money.
3. COVID-19 impact on claims and reserving.

In none of the scenarios, all detailed within the 2021 ORSA Report, was solvency impacted in a meaningful way.

Reverse stress testing was also carried out where scenarios were developed to show how CIL could become unviable. This work showed two quantitative scenarios that are highly unlikely, again showing the resilience of CIL given its solvency capital position.

CIL continues to enhance its stress and scenario testing capabilities and additional underwriting and reserving stress tests are being considered as part of the 2022 ORSA process.

C.7.2. Exposure arising from off-balance sheet positions and/ or special purpose vehicles (“SPV”)

This currently does not apply to CIL.

C.7.3. Other material information regarding the risk profile of the business

There is no other material information relating to the risk profile of the business.

D. Valuation for solvency purposes

The 'Valuation for solvency purposes' section of this report provides a description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset and liability class.

The Company's UK GAAP balance sheet is presented in column (b) of Table D.1 below, in accordance with the classification of assets and liabilities used in its financial statements. The references given in column (a) are to relevant accounting policies and notes provided in the financial statements.

A number of reclassifications, required to align CIL's UK GAAP balance sheet as shown in its financial statements, to the classifications required for the prescribed format of the Solvency II balance sheet QRT, are given in column (c). The most significant reclassifications are:

- Under the Solvency II Regulations cash flows relating to reinsurance premiums are included within Reinsurance Recoverables, and cash flows relating to premiums and policyholder tax are included within Technical Provisions. In the UK GAAP balance sheet these amounts are included within reinsurance payables, insurance and intermediaries' receivables and other liabilities respectively.
- Investments, including cash equivalents, are reclassified under Solvency II. They also include accrued investment income which is classified within prepayments and accrued income under UK GAAP.

CIL's assets and liabilities, as valued under UK GAAP and reclassified in line with Solvency II Regulations, are shown in column (d). CIL's Solvency II balance sheet is summarised in column (e) and detailed in the balance sheet QRT S.02.01 included in Appendix B.

Differences between the valuation of CIL's assets and liabilities under Solvency II and UK GAAP are presented in column (f). Where the valuation of assets and liabilities is the same under UK GAAP and Solvency II, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of CIL's financial statements. If the valuation is materially different, a description of the bases, methods and main assumptions used under Solvency II is given in Sections D.1, D.2.1 and D.3 below. Where alternative methods of valuation have been used these are detailed in Section D.4.

Assets and other liabilities have been valued, according to the requirements of the Solvency II Regulations, at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. The value of other liabilities is not adjusted to take account of the impact of changes in own credit standing of CIL.

CIL applied the following hierarchy of valuation approaches:

1. Quoted market prices in active markets for the same assets or liabilities.
2. Quoted market prices in active markets for similar assets and liabilities (with adjustments to reflect differences where necessary).
3. Alternative methods of valuation.

CIL considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an on-going basis. Where CIL has concluded that markets are not active, alternative methods for valuation are used.

Table D.1 – UK GAAP & Solvency II

As at 31 December 2021 ($000s)	Note in Financial Statements (a)	UK GAAP balance sheet classified according to financial statements (b)	Reclassification of UK GAAP balance sheet categories (c)	Reclassified balance sheet (d)=(b)+(c)	SII balance sheet (e)	Valuation differences between SII & UK GAAP (f)=(d)-(e)
Deferred acquisition costs	3, 17	142,702	(84,517)	58,185		58,185
Prepayments and accrued income		6,270	(6,270)	-		-
Deferred tax assets	8c			-		-
Financial investments				-		-
Listed debt securities	1k, 9, 10	1,406,349	(1,406,349)	-		-
Participation in investment pools	10		-	-		-
Investment in subsidiaries		89,000		89,000	89,000	-
Government bonds			839,123	839,123	839,123	-
Corporate bonds			496,815	496,815	496,815	-
Collateralised securities			67,674	67,674	67,674	-
Collective investment undertakings			7,493	7,493	7,493	-
Deposits other than cash equivalents			23,631	23,631	23,631	-
Reinsurance recoverables	3	1,087,953		1,087,953	192,248	895,705
Receivables				-		-
Insurance and intermediaries' receivables	1f, 11	696,663	(25,451)	671,212	87,380	583,832
Reinsurance receivables		65,581		65,581	65,581	-
Receivables (trade, not insurance)	12	-	-	-	-	-
Cash and cash equivalents	1k, 9, 10	77,462	(23,631)	53,831	53,831	-
Other assets	13	6,075	26,965	33,039	33,039	-
Assets		3,578,055	(84,517)	3,493,537	1,955,815	1,537,722
Technical provisions	3	(1,668,370)		(1,668,370)	(709,137)	(959,233)
Payables				-		-
Reinsurance payables		(599,355)		(599,355)	-	(599,355)
Insurance and intermediaries' payables		(5,105)		(5,105)	(5,105)	-
Payables (trade, not insurance)	15, 16	(29,540)		(29,540)	(29,540)	-
Other liabilities		(5,494)	(3,785)	(9,279)	(9,279)	-
Accruals and deferred income	17	(88,302)	88,302	-		-
Liabilities		(2,396,166)	84,517	(2,311,649)	(753,061)	(1,558,588)
Excess of assets over liabilities		1,181,888	-	1,181,888	1,202,753	(20,866)

D.1. Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance, where the basis of the Solvency II valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II bases and the UK GAAP financial statements, by asset class, is provided below. If the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section.

D.1.1. Deferred acquisition costs

Deferred acquisition costs are recognised under UK GAAP reporting and deferred to the extent they are expected to be recoverable out of future margins in revenues on those contracts. Under Solvency II these are not recognised and are therefore valued at $nil in the Solvency II balance sheet. The associated cash flows are included in the valuation of Solvency II Technical Provisions.

D.1.2. Deferred tax assets and liabilities

Deferred tax is determined on a non-discounted basis in accordance with International Accounting Standard (IAS) 12, principles on temporary differences between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base. Deferred tax asset recognition for Solvency II purposes is subject to the more prudent requirements of PRA Supervisory Statement 2/14 compared to the principles of IAS 12 which govern recognition in the financial statements. The Company has decided not to recognise any deferred tax asset in line with UK GAAP and not to recognise any further deferred tax assets arising from the timing differences between UK GAAP and Solvency II.

D.1.3. Financial investments

On the GAAP balance sheet, financial assets are valued using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Collective investment undertakings are carried at fair value using quoted unit prices, which is consistent with Solvency II guidance. The Solvency II valuation of deposits other than cash equivalents is in line with the UK GAAP treatment.

Table D.2 below analyses financial assets measured at fair value at 31 December 2021 and 2020, by the level in the fair value hierarchy into which the fair value measurements is categorised.

Table D.2 – Asset table with hierarchies

Financial Assets 2021	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	833,203	5,919	–	839,122
Corporate Bonds	–	496,816	–	496,816
Collateralised securities	–	67,674	–	67,674
Collective Investments Undertakings	2,387	5,106	–	7,493
Deposits other than cash equivalents	–	–	23,631	23,631
Cash and cash equivalents	3,192	–	50,639	53,831
Holdings in related undertakings	–	–	89,000	89,000
Total financial assets at fair value	**838,782**	**575,515**	**163,270**	**1,577,567**

Financial Assets 2020	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	583,182	1,649	–	584,831
Corporate Bonds	23,206	304,047	–	327,253
Collateralised securities	–	51,693	–	51,693
Collective Investments Undertakings	–	–	–	–
Deposits other than cash equivalents	6,132	–	–	6,132
Cash and cash equivalents	135,493	5,015	–	140,508
Total financial assets at fair value	**748,013**	**362,404**	**–**	**1,110,417**

The Solvency II valuation of financial assets is consistent with the GAAP valuation, except for accrued interest which is reclassified from other assets into financial assets.

D.1.4. Reinsurance recoverables

Reinsurance recoverables are calculated as the probability-weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. Although established separately, reinsurance recoverables are valued on the same basis and using the same methodology and assumptions used to derive Technical Provisions – Best Estimate Liabilities, as described in Section D.2, subject to the following:

- Internal expenses are only allowed if they are recoverable under the reinsurance agreement;
- Where the timing of recoveries diverges from that for payments a separate projection is used;
- Allowance for risk of default depends on the credit rating and exposure to the reinsurance counterparty; and
- Reinsurance assets take into account reinsurance commissions.

Reinsurance recoverables, consistent with the calculation of Technical Provisions – Best Estimate Liabilities, include expected recoveries from pre-inception contracts where they occur within the premium or claims provisions.

Cash flows relating to future reinsurance arrangements comprise both expected recoveries and expected reinsurance premium payments. This means reinsurance contracts which are expected to be written are taken into account and thus assumptions in relation to the likely future reinsurance purchasing decisions are required.

The material differences between the Solvency II and UK GAAP valuation bases for reinsurance recoveries are as follows:

- Only reinsurance cash flows relating to long-tailed claims reserves can be discounted under UK GAAP whereas all reinsurance cash flows are discounted under Solvency II.
- The unearned reinsurance premium reserve established under UK GAAP is replaced with a best estimate reinsurance premium provision under Solvency II. This is offset by the release of deferred reinsurance commissions from other liabilities (see Section D.3.2).
- The Solvency II valuation includes the additional reinsurance premium that is expected to be paid for reinsurance to cover business incepted at the valuation date. This is not accounted for under UK GAAP.

The Company does not have any Special Purpose Vehicles.

D.1.5. Insurance receivables

Amounts to be collected from intermediaries for premiums not yet due are recorded in the GAAP balance sheet as insurance receivables. Under Solvency II, this amount is reclassified into the technical provisions as it constitutes a future cashflow.

D.1.6. Investment in subsidiaries

Investment in subsidiaries is recognised at fair value in the UK GAAP balance sheet. It is recognised under the same basis under Solvency II.

D.2. Technical provisions

Reinsurance recoverables and Technical Provisions from the Solvency II Balance Sheet shown in Table D.1 above are combined to present net technical provisions shown in the table below.

Table D.3 – Net technical provisions

Solvency II Value	2021 $000s	2020 $000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	620,814	233,865
Best estimate reinsurance recoverables	(192,248)	43,162
Technical provisions risk margin – Non-life & health similar to non-life	88,324	38,129
Net technical provisions	**516,890**	**315,156**

D.2.1. Methodology and assumptions used in valuing the technical provisions

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rates. The risk margin is then added to reflect the uncertainty in the underlying cash flows. The risk margin is calculated by estimating the cost of the capital required to run off the business, discounted using the risk-free discount rates. The risk-free discount rates described here are prescribed by the PRA for each reporting period (note this is a change from previous years when this was provided by European Insurance and Occupational Pensions Authority ("EIOPA").

The best estimate technical provisions are calculated by using the UK GAAP reserves as the starting point. The UK GAAP reserves include an explicit allowance for Events Not In Data ("ENID"). The following adjustments are then made:

- Removal of the prudence margin within the UK GAAP reserves;
- Allowance for profit on the unearned premium within the UK GAAP reserves;
- Inclusion of provisions for legally obliged but as yet not incepted business;
- Future premiums (both payables and receivables);
- Allowance for operating expenses pertaining to the business in force;
- Inclusion of an allowance for the expected reinsurer defaults; and
- Discounting of future cashflows; and
- Addition of a risk margin.

Table D.4 – Net technical provisions by Solvency II line of business

Solvency II Value – 2021	Best estimate	Risk margin	Total $000s
Assistance and its proportional reinsurance	(3,620)	1,125	**(2,495)**
Miscellaneous financial loss insurance and proportional reinsurance	5,071	867	**5,938**
Marine, aviation and transport insurance and proportional reinsurance	91,615	17,412	**109,027**
Fire and other damage to property insurance and proportional reinsurance	85,085	19,904	**104,989**
General liability insurance and proportional reinsurance	92,904	15,892	**108,796**
Credit and Suretyship insurance and proportional reinsurance	(14,470)	2,391	**(12,079)**
Motor vehicle liability and proportional reinsurance	(271)	432	**161**
Non-proportional casualty reinsurance	26,930	6,639	**33,569**
Non-proportional marine, aviation and transport reinsurance	24,059	4,557	**28,616**
Non-proportional property reinsurance	121,264	19,104	**140,368**
Net technical provisions	**428,567**	**88,323**	**516,890**

Solvency II Value – 2020	Best estimate	Risk margin	Total $000s
Assistance and its proportional reinsurance	51	164	**215**
Miscellaneous financial loss insurance and proportional reinsurance	5,639	1,256	**6,895**
Marine, aviation and transport insurance and proportional reinsurance	61,623	13,207	**74,830**
Fire and other damage to property insurance and proportional reinsurance	59,133	7,457	**66,590**
General liability insurance and proportional reinsurance	66,290	6,025	**72,315**
Credit and Suretyship insurance and proportional reinsurance	(2,319)	787	**(1,532)**
Motor vehicle liability and proportional reinsurance	(159)	156	**(3)**
Non-proportional casualty reinsurance	6,609	1,342	**7,951**
Non-proportional marine, aviation and transport reinsurance	4,080	717	**4,797**
Non-proportional property reinsurance	76,079	7,019	**83,098**
Net technical provisions	**277,026**	**38,130**	**315,156**

Calculation of the best estimate technical provisions
CIL has been writing business since June 2019, and currently writes a diverse portfolio. The largest segments written to date are:

- Marine, aviation and transport insurance and proportional reinsurance; predominantly covering airlines but with smaller components of aviation products, energy upstream property, marine and space business.
- Fire and other damage to property insurance and proportional reinsurance; written both direct and through delegated authorities on a worldwide basis but with a particular focus on the US. This also includes smaller amounts of bloodstock, construction, terrorism and energy downstream property business.
- Non-proportional property reinsurance; both catastrophe and per risk cover with worldwide coverage.
- General liability insurance and proportional reinsurance; covering general liability business worldwide, as well as smaller amounts of medical malpractice business.

Given its recent establishment, CIL has limited claims history to date. Therefore, gross UK GAAP best estimate earned reserves have been estimated at a class of business level using externally sourced market benchmark expectations of loss ratio and development patterns, and comparing these to the experience that we have seen to date. We then include an allowance for ENID. This best estimate reserves are then uplifted to include a margin to reflect the uncertainty in the reserves.

- This margin is removed from the UK GAAP earned reserves to reach the best estimate reserve for inclusion in the technical provisions.
- The unearned premium included within the UK GAAP reserves is reduced for the expected profit on that unearned business using the same market expectations of loss ratio.
- Provision for legally obliged but as yet not incepted business is also included using the same market expectations of loss ratio, adjusted for rate change.

The reinsurance programme is then applied, including reinsurance contracts which are legally obliged but as yet not incepted. The recoveries assumed are consistent with those included in the UK GAAP earned reserves. Note that the full cost of the bound reinsurance programme is included within the technical provisions as CIL are legally obliged to this.

Additional provisions in respect of operating expenses, unallocated loss adjustment expenses ("ULAE") and an allowance for the expected reinsurer defaults are included within the best estimate provisions.

These provisions are then discounted using the prescribed risk-free discount rates.

Calculation of the risk margin
The risk margin is intended to cover the cost of transferring the insurance and reinsurance obligations of all business CIL has written or is legally obliged to write at the balance sheet date to another party, and immediately placing that business into run-off. This is calculated by applying the prescribed 6% cost of capital to the discounted value of the SCR necessary to support these obligations until they are fully run-off.

The SCR at the balance sheet date is calculated assuming no business is written in future and that the investment portfolio is reinvested in a risk-free way. This SCR is then run off over time as the insurance and reinsurance obligations are expected to run off. The discounted sum of the SCR at each future point in time is assumed to be the capital required to run off the business. The prescribed cost of capital is then applied to give the risk margin to include in the technical provisions.

Change in the technical provisions over the year

Table D.5 – Change in Net technical provisions during the year

Solvency II Value	2021 $000s	2020 $000s	Movement
Assistance and its proportional reinsurance	(2,495)	215	**(2,710)**
Miscellaneous financial loss insurance and proportional reinsurance	5,938	6,895	**(957)**
Marine, aviation and transport insurance and proportional reinsurance	109,027	74,830	**34,197**
Fire and other damage to property insurance and proportional reinsurance	104,989	66,590	**38,399**
General liability insurance and proportional reinsurance	108,796	72,315	**36,481**
Credit and Suretyship insurance and proportional reinsurance	(12,079)	(1,532)	**(10,547)**
Motor vehicle liability and proportional reinsurance	161	(3)	**164**
Non-proportional casualty reinsurance	33,569	7,951	**25,618**
Non-proportional marine, aviation and transport reinsurance	28,616	4,797	**23,819**
Non-proportional property reinsurance	140,368	83,098	**57,270**
Net technical provisions	**516,890**	**315,156**	**201,734**

The technical provisions have increased significantly during the year as a result of the growth in business written. There has been particular growth in the Marine, aviation and transport, Fire and other damage, and General liability direct and Proportional classes, and the Non-proportional property reinsurance class as this is where the majority of business to date has been written by CIL.

D.2.2. Key uncertainties

There is inherent uncertainty in the estimation of claims reserves, and it is possible that actual claims experience will differ significantly from the actuarial projections. This uncertainty stems from a variety of sources, such as:

- The impact of COVID-19, both in terms of claims on business written to date and the potential recessionary impacts of the pandemic on unearned business;
- The reserves are based on standard actuarial techniques (e.g. initial expectation of loss ratios, Bornhuetter-Ferguson and Basic Chain Ladder). However, given the immaturity of the business written to date the expectation of loss ratios and development patterns selected are heavily dependent on externally sourced market benchmarks and expert judgement, and it is visible from the history of the market that performance in any individual year can vary significantly from expectations;
- Reliance on extremally sourced market benchmarks in order to set expectations of loss ratio for the business, as we are unable to rely on historical performance of CIL's business given its immaturity;
- The hardening market and resulting uncertainty in the impact of this on profitability of business written, how this is captured in the benchmark loss ratios applied to estimate technical provisions, and whether CIL's business can be expected to respond differently from the business underlying the benchmarks relied upon;
- CIL's portfolio has grown rapidly and at this point is weighted towards business that is exposed to catastrophe claims, which have the potential to have a disproportionate impact on the performance of the portfolio;
- One of the growth areas of CIL's portfolio is into long-tailed liability business. By its nature this business takes longer for claims to be notified and then settled, so there is increased uncertainty in the final settlement value of claims resulting from these classes of business; and
- The final settlement value of claims will depend on events that have not yet occurred such as legislative changes and judicial decisions.

D.2.3. Explanation of material differences between Solvency II and financial statement basis

The following table summarises the bridge between UK GAAP reserves and Solvency II Technical Provisions, on gross of reinsurance, ceded reinsurance and net of reinsurance bases.

Table D.6 – Bridge between the UK GAAP reserves and Solvency II Technical Provisions

Adjustment	Net of insurance 2021 $000s	Net of insurance 2020 $000s
GAAP Reserves	**580,418**	**248,960**
Removal of Prudence Margin and other accounting adjustments	(9,592)	(2,247)
Allowance for Profit on UPR	(149,865)	(52,311)
Include Future Premium	19,430	55,746
Include Profit on Unincepted Business	(23,766)	13,688
Include New Expenses Allowance	20,881	13,504
Apply Discounting Credit	(12,070)	(1,642)
Include Risk Margin	88,323	38,130
RI Bad Debt	3,131	1,328
Solvency II Provisions	**516,890**	**315,156**

The material differences between the Solvency II and UK GAAP valuation bases are summarised below:

- Removal of Prudence Margin and other accounting adjustments: An explicit margin for uncertainty is included within UK GAAP Provisions but removed under Solvency II. This reduces Solvency II Technical Provisions compared to UK GAAP Provisions. Additionally, small accounting adjustments are made.
- Allowance for Profit on UPR: The unearned premium reserve established under UK GAAP is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure.
- Future Premium: Premium receivables and payables form part of the Technical Provisions under Solvency II.

- Profit on Unincepted Business: Under Solvency II provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the UK GAAP valuation basis.
- New Expenses Allowance: Solvency II requires inclusion of expenses pertaining to the business in-force.
- Discounting Credit: Currently, claims reserves are not discounted within UK GAAP Provisions, whereas all cash flows are discounted under Solvency II.
- Risk Margin: This is calculated as the cost of capital of transferring the insurance obligations of the business at the balance sheet date to a third party, who immediately place that business in run-off.
- RI Bad Debt: A bad debt provision has been calculated based on the probability of default of CIL's reinsurers, using their credit ratings.

D.2.4. Recoverables from reinsurance contracts and SPVs (Special purpose vehicles)

Recoverables from reinsurance contracts are included within the best estimate of technical provisions (Table D.3.).

There are no recoverables expected from SPVs.

D.2.5. Transitional measures

No transitional measures have been applied.

D.3. Other liabilities

Other liabilities have been valued according to the requirements of the Solvency II Directive and related guidance. The basis of the Solvency II valuation principle is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

A description of the basis of valuation under Solvency II along with valuation differences between the Solvency II basis and the UK GAAP financial statements, by material class, is provided below. If the valuation method has been described in the financial statements or is an alternative method of valuation detailed in Section D.4, it has not been included in this section. CIL has no material contingent liabilities to recognise under Solvency II.

D.3.1. Payables and other financial liabilities

Amounts to be paid to reinsurers but not yet due are recorded in the GAAP balance sheet as reinsurance payables. Under Solvency II, this amount is reclassified into the technical provisions as it constitutes a future cashflow.

D.3.2. Accruals and deferred Income

Reinsurers' share of deferred acquisition costs of $84.5m, included within accruals and deferred income under UK GAAP, are not recognised and therefore valued at $nil in the Solvency II Balance Sheet. Material differences in the valuation of Technical Provisions are explained in Section D.2.3. There are no other material differences between the UK GAAP and Solvency II valuation bases.

D.3.3. Assumptions, judgements and uncertainty

No material assumptions or judgements were applied to, nor is any material uncertainty associated with, the recognition and valuation of other liabilities.

D.4. Alternative methods of valuation

CIL does not value any assets or liabilities using alternative methods of valuation as outlined in Articles 10(5) – (7) of the Solvency II Delegated Regulation.

D.5. Any other information

All material information relating to CIL's valuation for solvency purposes has been disclosed in Sections D.1 to D.4 of this document. On 24 February 2022 Russia launched an invasion of Ukraine escalating the ongoing conflict between the two countries. Although the Company expects its net exposure is limited, it is monitoring, and complying, with sanctions and government guidance, and is in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures. In terms of underwriting exposures the Company has exposure in various classes of business, including but not limited to, Aerospace, Marine, and Political Violence. There is a high degree of uncertainty in relation to the value of the insured losses.

E. Capital management

This section of the report provides information on the Company's Own Funds and SCR.

E.1. Own Funds

E.1.1. Objectives, processes employed by CIL for managing its Own Funds

The primary objective of capital management is to manage the balance between return and risk, whilst maintaining economic capital in accordance with risk appetite. CIL's capital and risk management objectives are closely interlinked, and support the dividend policy, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests. In managing Own Funds, CIL seeks to, on a consistent basis:

- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to satisfy the requirements of regulators and other stakeholders;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to remain within risk appetite and drive value adding growth. CIL uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital efficiently. Sensitivities to economic and operating experience are regularly produced on CIL's key financial performance metrics to inform decision making and planning processes over a five-year planning horizon, and as part of the framework for identifying and quantifying the risks to which CIL is exposed. There have been no material changes to the objectives, policies or processes with respect to the management of Own Funds during the year.

E.1.2. Structure, amount and quality of Own Funds at the end of the reporting period and analysis of changes over the reporting period

CIL's Own Funds comprise unrestricted Tier 1 capital which consists of its ordinary share capital and retained earnings. Retained earnings are not separately disclosed in Own Funds but are notionally included in the Reconciliation Reserve, which reconciles the total excess of assets over liabilities with identifiable capital investments included in Own Funds. Own Funds by tier are presented in QRT S.23.01.01 'Own Funds' within Appendix B. Table E.1 below sets out a summary of the Company's Own Funds by tier for the years ended 31 December 2021 and 2020:

Table E.1 – Own Funds

Basic Own Funds by Tier ($000) – 2021	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	366,050			
Share premium account	930,750			
Reconciliation reserve	(94,047)			
An amount equal to net deferred tax assets				–
Total Basic Own Funds	**1,202,753**	**–**	**–**	**–**

Basic Own Funds by Tier ($000) – 2020	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	348,650			
Share premium account	600,150			
Reconciliation reserve	(79,877)			
An amount equal to net deferred tax assets				–
Total Basic Own Funds	**868,923**	**–**	**–**	**–**

Table E.2 below sets out a reconciliation of the total excess of assets over liabilities with identifiable capital investments included in Own Funds.

Table E.2 – Reconciliation Reserve

Reconciliation Reserve as at 31 December	2021 $000s	2020 $000s
Solvency II excess of assets over liabilities	1,202,753	868,923
Ordinary Share Capital	(366,050)	(348,650)
Share premium account	(930,750)	(600,150)
Amounts equal to net deferred tax assets	-	–
Reconciliation Reserve	**(94,047)**	**(79,877)**

E.1.3. The eligible amount of Own Funds to cover the Solvency Capital Requirement, classified by tiers

Own Funds items are unrestricted Tier 1 and therefore all available Own Funds are eligible to cover the SCR. The total Own Funds eligible to meet the SCR are set out in Table E.3.

Table E.3 – SCR

	2021 $000s	2020 $000s
Total eligible own funds to meet the SCR	1,202,753	868,923

E.1.4. The eligible amount of Own Funds to cover the Minimum Capital Requirement, classified by tiers

As Tier 3 Own Funds are not eligible to cover the MCR, the Own Funds to cover the MCR are restricted to Tier 1. The total Own Funds eligible to meet the MCR are set out in Table E.4.

Table E.4 – MCR

	2021 $000s	2020 $000s
Total eligible own funds to meet the MCR	1,202,753	868,923

E.1.5. Explanation of any material differences between equity as shown in CIL's financial statements and the EAL as calculated for solvency purposes

Differences between CIL's shareholders' equity per the financial statements and the Solvency II EAL per the Solvency II balance sheet relate to valuation differences as shown in Table E.5 and explained in Sections D.1 to D.3 this document.

Table E.5 – Reconciliation of Equity

	2021 $000s	2020 $000s
Shareholders' equity as shown in the financial statements	1,181,888	890,913
Solvency II valuation adjustment to assets (Note i)	(1,537,723)	(886,490)
Solvency II valuation adjustment to technical provisions (Note ii)	959,233	447,832
Solvency II valuation adjustment to other liabilities (Note iii)	599,355	416,668
Solvency II EAL	**1,202,753**	**868,923**

E.1.6. Own Fund items included under transitional arrangements under Solvency II

All Own Funds items are unrestricted Tier 1 Own Funds and no other items are included in Own Funds under transitional arrangements under Solvency II.

E.1.7. Ancillary Own Funds

CIL has not applied for PRA approval of any Ancillary Own Funds items and therefore no such items are included within Own Funds.

E.1.8. Own Funds restrictions

CIL does not have any ring-fenced funds and has not identified any other restrictions which need to be made to Own Funds as a result of availability or transferability of Own Funds within CIL.

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement and Minimum Capital Requirement results

The SCR is the amount of Own Funds that CIL is required to hold under Solvency II. The SCR is calculated using the Standard Formula, which is a prescribed approach to calculating the SCR under Solvency II and is calibrated by EIOPA to ensure that all quantifiable risks are taken into account.

The MCR is the Own Fund threshold below which the PRA would intervene. This is calculated in a prescribed way as described in Section E.2.3.

The Standard Formula SCR and MCR under Solvency II at 31 December 2021 and 31 December 2020 are shown in Table E.6 below.

Table E.6 – SCR & MCR

Solvency II Value	2021 $000s	2020 $000s
Solvency Capital Requirement (SCR)	714,323	428,245
Minimum Capital Requirement (MCR)	178,581	107,061

As at 31 December 2021, the Own Funds of CIL were $1,203m compared to a standard formula SCR of $714m, resulting in an SCR coverage ratio of 168%. CIL's MCR was $179m, leading to an MCR coverage ratio of 674%.

The Standard Formula SCR process is owned by the Actuarial function, and includes inputs from the Finance, Underwriting, Ceded Reinsurance and Investment Functions, and other relevant stakeholders. The results are subject to various levels of review, including by Senior Management.

The Company is not subject to any capital add-ons prescribed by the regulator.

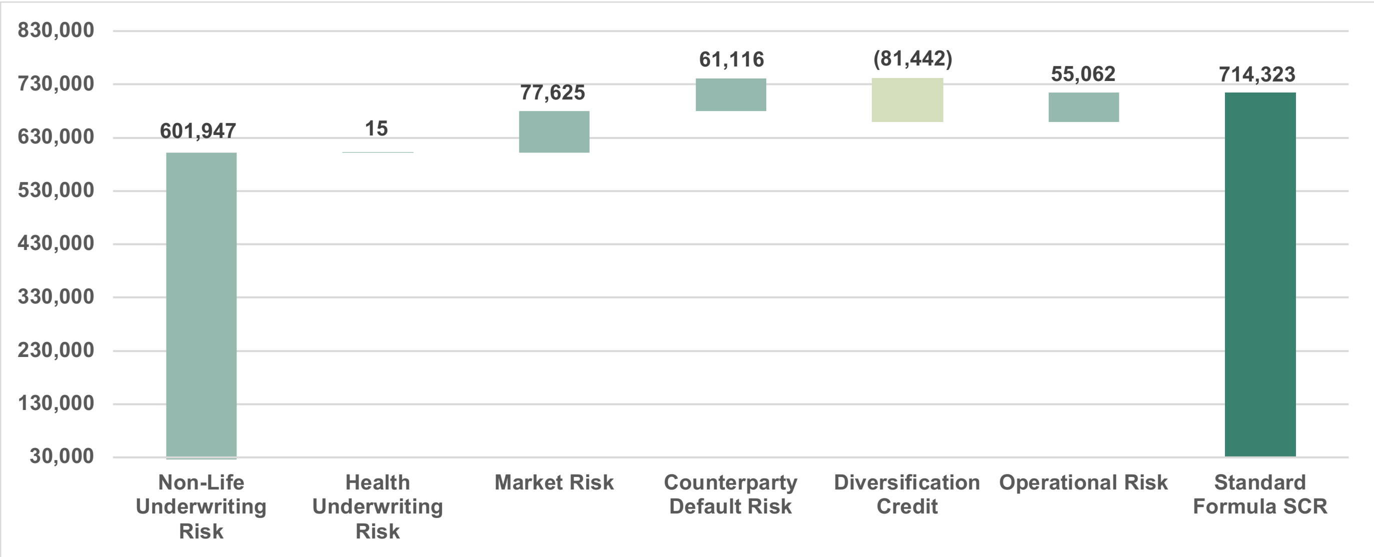
The Company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

E.2.2. Solvency Capital Requirement calculation

Overview

The Standard Formula SCR by risk module is set out in the graph below (figures in $000s).

Graph G.1



There has been no use of Undertaking Specific Parameters in the calculations.

SCR simplifications

There is one area in which a simplification is made in the calculation of the SCR, that is to assume that the risk mitigating effect of CIL's reinsurance in the 1-in-200 one-year event will split between reinsurers in proportion to the recoverables in the best estimate technical provisions, in accordance with Article 107 of the Delegated Acts. Given the significant portion of CIL's reinsurance is quota shares, and the vast majority of CIL's reinsurers have very strong credit ratings, this is considered a reasonable approximation.

Non-life Underwriting Risk

Non-life Underwriting Risk is the largest component of the SCR. Table E.7 below sets out the components of the Non-life Underwriting Risk charge.

Table E.7 – Diversified Non-life Underwriting Risk

Solvency II Value	2021 $000s	2020 $000s
Premium and reserve risk	243,215	121,059
Catastrophe risk	490,755	314,278
Lapse risk	51,641	32,709
Undiversified non-life underwriting risk	**785,611**	**468,046**
Diversification credit	(183,664)	(102,643)
Diversified non-life underwriting risk	**601,947**	**365,403**

The largest component of the Non-life Underwriting Risk charge is ‘Catastrophe Risk’ which reflects the risk of catastrophe events occurring that impact CIL’s inwards business. CIL has written business across a variety of lines of business that are exposed to catastrophe events. The reinsurance program purchased by CIL acts to significantly mitigate the impact of this on the overall capital requirement.

The other significant component of the Non-life Underwriting Risk charge is ‘Premium and Reserve Risk’, which reflects the risks that:

- The premium charged for the business expected to be earned throughout the next year will not be sufficient to pay claims on that business; and
- The risk that the technical provisions are insufficient to pay the claims to which they pertain.

Finally, there is a Lapse Risk charge to allow for the loss of profits should some of the currently bound policies lapse.

Health Underwriting Risk
This relates to a very small amount of planned premium for 2022, which maps to the Solvency II Health class.

Market Risk
Market Risk forms a smaller component of the SCR. Table E.8 below shows the components of the market risk charge.

Table E.8 – Diversified Market Risk

Solvency II Value	2021 $000s	2020 $000s
Interest rate risk	4,387	3,186
Spread risk	44,613	22,994
Currency risk	34,006	7,580
Concentration risk	-	–
Property risk	-	–
Equity risk	19,580	–
Undiversified market risk	**102,586**	**33,760**
Diversification risk	(24,961)	(7,387)
Diversified market risk	**77,625**	**26,373**

CIL’s asset portfolio (excluding cash) consists predominantly of bonds and collateralised securities, so the risks associated with holding these assets drive the risk charges here.

The largest charge is Currency Risk, reflecting the risk exchange rates differ from expectations, resulting in a mismatch between assets and liabilities.

The next largest charge is Spread Risk, reflecting the risk that the spread of the bonds, loans, and collateralised securities within CIL’s asset portfolio will differ from expectations.

The Interest rate Risk charge reflects the risk that interest rates will differ from expectations, resulting in a mismatch in the present value of assets (bonds, and other assets exposed to interest rate fluctuations) and liabilities (net technical provision).

CIL does not hold more than the prescribed proportions (which vary by credit rating of that asset) of its assets in investments which are exposed to a single counterparty, nor does it hold any property or equities, therefore no risk charge is required for the remaining three modules of the Standard Formula.

Counterparty default risk
A breakdown of the Counterparty Default Risk charge is shown in Table E.9 below.

Table E.9 – Diversified Counterparty Default Risk

Solvency II Value	2021 $000s	2020 $000s
Type 1 counterparty default risk	26,426	17,889
Type 2 counterparty default risk	38,744	33,695
Undiversified counterparty default risk	**65,170**	**51,584**
Diversification credit	(4,054)	(3,009)
Diversified counterparty risk	**61,116**	**48,575**

The largest charge is in respect of the risk of default by over-due balance sheet debtors, shown as Type 2 in the table.

There is also a charge in respect of the risk of default by banks in which cash is held and recoverables from CIL's reinsurers, shown as Type 1 in the above table.

Operational Risk
Operational Risk is calculated using a prescribed formula applied to either:

- Premium earned in the previous 12 months and premium earned in the 12 months prior to the previous 12 months; and
- Gross best estimate technical provisions with a floor of 0.

The Operational Risk is then selected as the largest of the premium calculation and the technical provisions calculation, subject to a cap of 30% of the SCR excluding Operational Risk.

Table E.10 below shows each of the potential operational risk charges and so resulting risk charge used in the SCR.

Table E.10 – Operational Risk

Solvency II Value	2021 $000s	2020 $000s
Gross premiums earned in the previous 12 months	1,202,601	484,202
Gross premiums earned in 12 months prior to the previous 12 months	474,842	14,873
Operational risk – premium calculation	55,062	28,517
Gross technical provisions	620,814	233,865
Operational risk – technical provisions calculation	18,624	7,016
Calculated operational risk	**55,062**	**28,517**
Cap – 3% SCR	197,778	119,918
Operational risk	**55,062**	**28,517**

E.2.3. Minimum Capital Requirement calculation
The Combined MCR is calculated by applying prescribed factors to the net of reinsurance technical provisions and premium written in the previous year, with a floor of 25% of the SCR and a cap of 45% of the SCR.

The MCR is then the larger of this Combined MCR or the Absolute Floor of the MCR prescribed by the PRA.

The table below shows each of these potential MCR figures and so the resulting MCR.

Table E.11 – Minimum Capital Requirement

Solvency II Value	2021 $000s	2020 $000s
Linear MCR	112,993	84,248
Floor – 25% SCR	178,581	107,061
Cap – 45% SCR	321,445	192,710
Absolute Floor of the MCR	2,911	2,925
Minimum Capital Requirement	**178,581**	**107,061**

As at both 31 December 2020 and 31 December 2021, the MCR has been calculated as 25% of the SCR.

E.3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

CIL is not using the duration-based equity risk sub-module as it is not applicable.

E.4. Differences between the standard formula and any internal model used

This section is not applicable as CIL does not use an approved internal model.

E.5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

During the reporting period, there were no instances of non-compliance with either of the Solvency II MCR or SCR. Over this period, CIL held Own Funds in excess of the SCR at all times.

E.6. Any other information

All material information relating to CIL's capital management has been disclosed in sub-sections E.1 to E.5 above. All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in United States Dollars rounded to the nearest thousand. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Appendix A

Independent auditor's report to the Directors of Convex Insurance UK Limited

Report of the external independent auditors to the Directors of Convex Insurance UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2021, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Directors' Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.
Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.
In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.
The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

Based on our understanding of the Company/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 Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the Solvency II Regulations 2015. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the SFCR. Audit procedures performed included:

- Discussions with the Board, management, internal audit, management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes;
- Testing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the Solvency II technical provisions and judgements made in the calculation of the Solvency Capital Requirement;
- Identifying and testing journal entries and adjustments, in particular, journal entries posted with unusual account combinations or posted by unexpected users; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. 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.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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 in this regard.

PricewaterhouseCoopers LLP

8 April 2022
PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside, London, SE1 2RT

Appendix B
QRTs

This Appendix contains the following templates which the Company is required to disclose as part of the SFCR as set out in Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 (Procedures, Formats and Templates of the Solvency and Financial Condition Report in accordance with Directive 2009/138/EC).

The QRT's in this report are presented in US dollars rounded to the nearest thousand. Rounding differences of +/- one unit can occur. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life Insurance Claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on standard formula
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,523,736
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	89,000
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	1,403,611
R0140	*Government Bonds*	839,122
R0150	*Corporate Bonds*	496,815
R0160	*Structured notes*	0
R0170	*Collateralised securities*	67,674
R0180	*Collective Investments Undertakings*	7,493
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	23,631
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	192,248
R0280	*Non-life and health similar to non-life*	192,248
R0290	*Non-life excluding health*	192,248
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	87,380
R0370	Reinsurance receivables	65,581
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	53,831
R0420	Any other assets, not elsewhere shown	33,039
R0500	**Total assets**	1,955,815

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	709,137
R0520	*Technical provisions - non-life (excluding health)*	709,137
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	620,814
R0550	*Risk margin*	88,323
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	5,105
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	29,540
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	9,279
R0900	**Total liabilities**	753,062
R1000	**Excess of assets over liabilities**	1,202,753

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business				0		225,827	288,356	291,226	15,842		20,951	12,281					854,484
R0120	Gross - Proportional reinsurance accepted				2,220		141,577	146,474	10,240	28,752		4,923	4,787					338,973
R0130	Gross - Non-proportional reinsurance accepted														76,294	78,591	259,310	414,195
R0140	Reinsurers' share				889		264,776	273,931	206,031	24,099		12,803	11,557		46,370	51,270	161,714	1,053,441
R0200	Net				1,331		102,628	160,899	95,434	20,495		13,071	5,511		29,924	27,322	97,596	554,211
	Premiums earned																	
R0210	Gross - Direct Business				0		185,778	210,109	216,008	3,445		10,410	7,309					633,059
R0220	Gross - Proportional reinsurance accepted				1,999		106,092	77,175	5,920	5,264		2,598	2,994					202,042
R0230	Gross - Non-proportional reinsurance accepted														52,207	68,664	246,629	367,500
R0240	Reinsurers' share				942		211,323	193,588	154,069	5,107		6,597	7,523		30,924	44,969	152,361	807,402
R0300	Net				1,057		80,547	93,696	67,859	3,602		6,411	2,780		21,283	23,695	94,269	395,198
	Claims incurred																	
R0310	Gross - Direct Business				0		75,301	148,883	145,566	2,243		3,802	10,901					386,696
R0320	Gross - Proportional reinsurance accepted				803		41,597	36,377	3,653	2,174		2,735	1,957					89,297
R0330	Gross - Non-proportional reinsurance accepted														42,137	37,825	222,952	302,914
R0340	Reinsurers' share				479		82,276	127,940	106,720	2,890		4,130	8,961		25,711	24,969	135,266	519,342
R0400	Net				324		34,621	57,320	42,499	1,528		2,407	3,897		16,426	12,856	87,685	259,564
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0		0	0	0	0		0	0		0	0	0	0
R0550	**Expenses incurred**				869		32,081	50,981	30,833	2,496		4,891	1,898		11,390	10,610	51,171	197,219
R1200	**Other expenses**																	479
R1300	**Total expenses**																	197,698

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			US	BM	FR	AU	JP	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	586,518	204,887	441	528	16,351	1	808,726
R0120	Gross - Proportional reinsurance accepted	30,803	80,131	46,176	24,302	223	15,569	197,204
R0130	Gross - Non-proportional reinsurance accepted	39,692	250,860	23,619	11,262	2,160	5,995	333,588
R0140	Reinsurers' share	450,781	324,021	42,113	24,430	14,782	13,929	870,056
R0200	Net	206,232	211,857	28,123	11,662	3,952	7,636	469,462
	Premiums earned							
R0210	Gross - Direct Business	441,718	146,787	1,044	569	9,309	22	599,448
R0220	Gross - Proportional reinsurance accepted	12,842	44,486	20,217	13,295	202	11,289	102,331
R0230	Gross - Non-proportional reinsurance accepted	33,794	234,814	22,298	7,016	1,968	5,635	305,527
R0240	Reinsurers' share	344,360	264,834	29,031	14,720	8,913	11,311	673,168
R0300	Net	143,994	161,252	14,529	6,160	2,566	5,636	334,137
	Claims incurred							
R0310	Gross - Direct Business	256,144	106,683	478	58	3,545	35	366,943
R0320	Gross - Proportional reinsurance accepted	6,047	24,612	8,641	6,426	18	10,720	56,464
R0330	Gross - Non-proportional reinsurance accepted	20,453	217,914	12,676	3,997	620	10,519	266,179
R0340	Reinsurers' share	199,667	221,915	14,520	7,814	2,985	13,148	460,049
R0400	Net	82,977	127,294	7,275	2,667	1,197	8,127	229,537
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	63,508	89,938	6,569	3,469	1,106	2,823	167,412
R1200	**Other expenses**							479
R1300	**Total expenses**							167,891

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**				0		0	0	0	0		0	0		0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				0		0	0	0	0		0	0		0	0	0	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				-468		25,803	29,525	48,074	-14,684		-620	1,624		9,931	-9,293	-6,757	83,135
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				39		10,440	12,873	27,333	-1,682		2,020	152		5,802	-7,643	-20,173	29,161
R0150	**Net Best Estimate of Premium Provisions**				-507		15,363	16,652	20,742	-13,002		-2,641	1,472		4,129	-1,650	13,416	53,973
	Claims provisions																	
R0160	Gross				415		80,442	90,901	133,849	-789		-1,269	7,521		39,033	32,048	155,529	537,680
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				179		4,191	22,468	61,686	680		-291	3,922		16,232	6,338	47,681	163,086
R0250	**Net Best Estimate of Claims Provisions**				236		76,252	68,433	72,162	-1,468		-979	3,599		22,801	25,710	107,848	374,593
R0260	**Total best estimate - gross**				-53		106,246	120,426	181,923	-15,473		-1,890	9,144		48,964	22,755	148,772	620,814
R0270	**Total best estimate - net**				-271		91,615	85,085	92,904	-14,470		-3,620	5,071		26,930	24,059	121,264	428,567
R0280	**Risk margin**				432		17,412	19,906	15,892	2,391		1,125	867		6,639	4,557	19,104	88,323
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole				0		0	0	0	0		0	0		0	0	0	0
R0300	Best estimate				0		0	0	0	0		0	0		0	0	0	0
R0310	Risk margin				0		0	0	0	0		0	0		0	0	0	0
R0320	**Technical provisions - total**				379		123,657	140,332	197,815	-13,082		-765	10,011		55,602	27,312	167,876	709,137
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				218		14,631	35,341	89,019	-1,002		1,730	4,074		22,034	-1,305	27,508	192,248
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				161		109,027	104,991	108,796	-12,080		-2,495	5,937		33,568	28,617	140,368	516,890

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Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											0	0	0
R0160	2012	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2013	0	0	0	0	0	0	0	0	0			0	0
R0180	2014	0	0	0	0	0	0	0	0				0	0
R0190	2015	0	0	0	0	0	0	0					0	0
R0200	2016	0	0	0	0	0	0						0	0
R0210	2017	0	0	0	0	0							0	0
R0220	2018	0	0	0	0								0	0
R0230	2019	126	12,161	10,557									10,557	22,844
R0240	2020	29,682	147,779										147,779	177,460
R0250	2021	69,576											69,576	69,576
R0260												**Total**	227,911	269,880

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											0	0
R0160	2012	0	0	0	0	0	0	0	0	0	0		0
R0170	2013	0	0	0	0	0	0	0	0	0			0
R0180	2014	0	0	0	0	0	0	0	0				0
R0190	2015	0	0	0	0	0	0	0					0
R0200	2016	0	0	0	0	0	0						0
R0210	2017	0	0	0	0	0							0
R0220	2018	0	0	0	0								0
R0230	2019	-2,375	33,896	14,484									45,380
R0240	2020	117,326	317,997										425,494
R0250	2021	222,706											213,620
R0260												**Total**	684,494

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	366,050	366,050		0	
R0030	Share premium account related to ordinary share capital	930,750	930,750		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-94,047	-94,047			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	1,202,753	1,202,753	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,202,753	1,202,753	0	0	0
R0510	Total available own funds to meet the MCR	1,202,753	1,202,753	0	0	
R0540	Total eligible own funds to meet the SCR	1,202,753	1,202,753	0	0	0
R0550	Total eligible own funds to meet the MCR	1,202,753	1,202,753	0	0	
R0580	**SCR**	714,323				
R0600	**MCR**	178,581				
R0620	**Ratio of Eligible own funds to SCR**	168.38%				
R0640	**Ratio of Eligible own funds to MCR**	673.51%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,202,753
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,296,800
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-94,047
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	433,729
R0790	**Total Expected profits included in future premiums (EPIFP)**	433,729

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	77,625		
R0020	Counterparty default risk	61,116		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	15		
R0050	Non-life underwriting risk	601,947		
R0060	Diversification	-81,442		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	659,262		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	55,062
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	714,323
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	714,323
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	178,581

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	112,993

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	980
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	91,615	72,366
R0080	Fire and other damage to property insurance and proportional reinsurance	85,085	103,861
R0090	General liability insurance and proportional reinsurance	92,904	104,515
R0100	Credit and suretyship insurance and proportional reinsurance	0	6,689
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	8,694
R0130	Miscellaneous financial loss insurance and proportional reinsurance	5,071	3,924
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	26,930	22,790
R0160	Non-proportional marine, aviation and transport reinsurance	24,059	21,788
R0170	Non-proportional property reinsurance	121,264	76,993

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	112,993
R0310	SCR	714,323
R0320	MCR cap	321,445
R0330	MCR floor	178,581
R0340	Combined MCR	178,581
R0350	Absolute floor of the MCR	2,911
R0400	**Minimum Capital Requirement**	178,581

Appendix C
Glossary of Terms

Abbreviation	Details of abbreviations
ABS	Asset Backed Securities
ALM	Asset Liability Management
AMRL	Aggregate Market Risk Limit
CAD	Canadian Dollar
CFO	Chief Financial Officer
CEO	Chief Executive Officer
CIL	Convex Insurance UK Limited
CRA	Chief Risk Actuary
CRO	Chief Risk Officer
EAL	Excess of assets over liabilities
EIOPA	European Insurance and Occupational Pensions Authority
EEA	European Economic Area
ERM	Enterprise Risk Management
EU	European Union
EUR	Euro
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GBP	British Pound Sterling
GEC	Group Executive Committee
GPW	Gross Premiums Written
HR	Human Resources
IMA	Investment Management Agreement
IMMMR	Identify, Measure, Manage, Monitor and Report
JPY	Japanese Yen
MCR	Minimum Capital Requirement
NAIC	National Association of Insurance Commissioners
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Templates
RAG	Red, Amber, Green

Abbreviation	Details of abbreviations
RAYG	Red, Amber, Yellow and Green
RBLE	Risk-bearing Legal Entity
RMBS	Residential Mortgage-Backed Securities
RMF	Risk Management Framework
SCR	Solvency Capital Requirement
SM&CR	Senior Managers & Certification Regime
SMF	Senior Management Function
SYSC	Senior Management Arrangement Systems and Controls
The Company	Convex Insurance UK Limited
The Group	Convex Group Limited
UKEC	UK Executive Committee
ULAE	Unallocated loss adjustment expenses
USD	United States Dollar
WNS	WNS Global Services (UK) International Limited

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22_03/SolvencyAndFinancialConditionReport2021