

CONVEX EUROPE S.A.

Solvency and Financial
Condition Report 2022



Contents

Directors' statement	3
Executive summary	4
Business and performance	4
Future Outlook	5
System of governance and Risk	5
Valuation for solvency	6
Capital management summary	7
A. Business and performance	8
A.1. Business	8
A.2. Underwriting performance	10
A.3. Investment performance	12
A.4. Performance of other activities	13
A.5. Any other information	13
B. System of governance	14
B.1. General information on the system of governance	14
B.2. Fit and proper requirements	17
B.3. Risk management system including the Own Risk and Solvency Assessment ("ORSA")	18
B.4. Internal control function	24
B.5. Internal audit function	25
B.6. Actuarial function	27
B.7. Outsourcing	27
B.8. Any other information	28
C. Risk profile	29
C.1. Underwriting risk	29
C.2. Market risk	31
C.3. Credit risk	33
C.4. Liquidity risk	35
C.5. Operational risk	36
C.6. Other material risks	37
C.7. Any other information	39
D. Valuation for solvency purposes	40
D.1. Assets	42
D.2. Technical provisions	44
D.3. Other liabilities	48
D.4. Alternative methods of valuation	49
D.5. Any other information	49
E. Capital management	50
E.1. Own funds	50
E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)	52
E.3. The use of the duration-based equity risk sub-module in the calculation of the SCR	56
E.4. Differences between the standard formula and any internal model used (not applicable)	56
E.5. Non-compliance with the MCR and non-compliance with the SCR	56
E.6. Any other information	56
Appendix A: Glossary	57
Appendix B: QRTs	58

Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Commissariat aux Assurances ("CAA") 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 CAA 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 6 April 2023 by:

A handwritten signature in black ink, appearing to read "Julie Dubuisson". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

Julie Dubuisson

Convex Europe S.A. General Manager and Dirigeant Agréé

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 Accounts. This SFCR is prepared in accordance with the requirements of the Solvency II Directive (as implemented in Luxembourg by the Commissariat aux Assurances (“CAA”)). The SFCR contains qualitative and quantitative information on CES’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (“QRTs”) for 2022.

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

Convex Europe S.A.’s (“CES”) received regulatory approval in Luxembourg to write long-term business in thirty countries under the Freedom of Services regime on 15 September 2021. On 2 December 2021, the UK branch of CES received approval from the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”), effective immediately, allowing CES to write European business via the UK branch in London. This has further enabled Convex to establish relationships with and provide high-quality solutions for new and existing European clients.

2022 was the first full year in operation and the Company has continued from the work undertaken in 2021 to enable it to deliver on its business plan with GPW of \$204.7m (2021: \$30.1m).

The prudent approach to risk retention resulted in significant use of reinsurance protection meaning a NPW of \$39.3m (2021: \$5.5m). This prudent approach proved beneficial in protecting the balance sheet of CES. CES has exposure as a result of the Russian invasion of Ukraine increasing the gross loss ratio to 86.0%. The effective reinsurance programme in place resulted in a net loss ratio is 54.1%. This loss continues to be the subject of ongoing review.

As is expected in the early years of a new insurance company, the earnings of business lags the written premiums. The administrative expenses of the Company were \$10.8m for the year. Included within acquisition costs are \$12.4m in relation to expenses directly attributable to the acquisition of business. This is the main driver of the loss for the financial year. As the Company continues to grow in 2023 and earnings flow through on business written in 2022 the expense base of the business will be proportionate to the earned premium and the Company is expected to move closer to profitability.

The Company maintains a prudent approach to its management of investments with a high credit quality and short duration in its portfolio. This has resulted in a lower reduction in market value whilst enabling the Company to benefit from increased yields as its bonds mature. The investment portfolio including cash has also benefited from positive cash flows increasing to \$114.6m at the end of the year.

Future Outlook

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

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

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

Ukraine/Russia Conflict

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

System of governance and risk

CES's Board is responsible for promoting the long-term success of CES 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 CES's risk appetite. The steering of the overall risk strategy is directed by the Board of Directors.

General insurance risk

General 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 CES's general insurance reserves is reviewed by the Reserving Committee and approved by the Board of Directors.

Market risk

Financial risk arises through CES'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 CES reduces as a result of movements in financial markets and / or credit defaults, affecting the Company's solvency and liquidity position.

The most important drivers of financial risk are: interest rate risk, currency risk, credit risk, liquidity risk, and inflation risk.

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.

CES 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 CES 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. CES is finalising its liquidity risk framework 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. Table 1 shows the differences between CES' shareholders' equity (as presented in the financial statements prepared under Luxembourg 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

	2022 \$000s	2021 \$000s
Shareholders' equity as shown in the financial statements	71,839	83,686
Solvency II valuation adjustments to assets (Note i)	(258,081)	(61,627)
Solvency II valuation adjustments to technical provisions (Note ii)	156,676	34,817
Solvency II valuation adjustments to other liabilities (Note iii)	112,435	28,064
Solvency II EAL	82,869	84,940

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 Luxembourg 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. CES has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet.

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

Capital management summary

CES' solvency position under Solvency II is determined by comparing eligible Own Funds with the Solvency II Solvency Capital Requirement ("SCR"). CES 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. At 31 December 2022, the own funds of CES were \$82.9m (2021: \$84.9m) compared to a standard formula SCR of \$45.2m (2021: \$16.9m), representing an SCR coverage ratio of 183% (2021: 502%). CES' MCR was \$11.3m (2021: \$4.2m).

CES's eligible own funds are set out in Table 2 below.

Table 2 – Solvency position

	2022 \$000s	2021 \$000s
Solvency II EAL	82,869	84,940
Foreseeable dividend	—	—
Restrictions on eligibility	—	—
Eligible own funds (all Tier 1)	82,869	84,940
Minimum capital requirement	11,297	4,228
Solvency capital requirement	45,188	16,914
Solvency capital requirement ratio (%)	183%	502%

There are limited restrictions on the availability or transferability of CES' own funds. The majority of CES'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. CES 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.

Solvency II SCR has been comprehensively validated and tested for appropriateness for its use as CES' own view of capital. Decisions on optimal capital levels are an integral part of CES' business planning and forward-looking assessment of risk processes which cover a three-year time horizon. CES manages its own funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements.

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

A. Business and performance

A.1. Business

CES was incorporated on 26 March 2021 and is organised under laws on commercial companies of the Grand Duchy of Luxembourg as a public limited liability company (*société anonyme*). CES is registered with the trade and companies registry of Luxembourg ("RCS") with number B253295. CES' registered office is situated at 37 Boulevard Joseph II, L-1840, Grand-Duchy of Luxembourg.

CES carries out regulated non-life insurance activities under insurance classes 1-9 and 11-16. Under the freedom to provide services, CES is authorised to pursue insurance activities in all Member States of the European Union and the EEA. CES is authorised and supervised by the CAA. CES has established and registered a branch in the UK, which is supervised by the PRA and the FCA.

Their respective contact details are set out below.

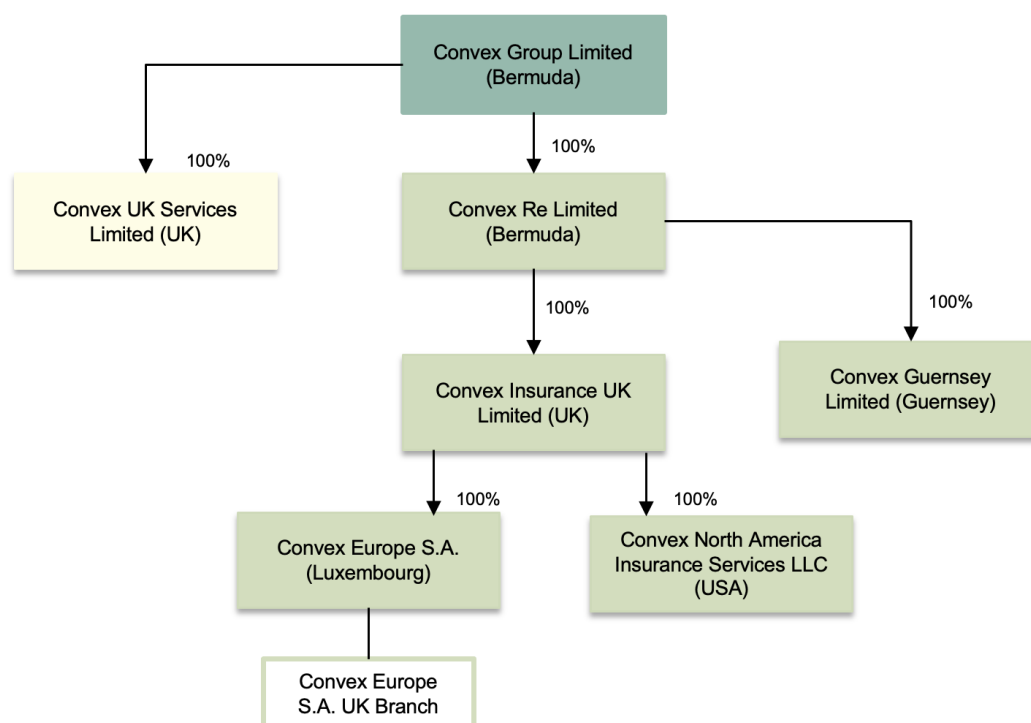
Commissariat aux Assurances 11, Rue Robert Stumper L-2557, Luxembourg	Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 12 Endeavour Square London E20 1JN
---	---	---

The external auditor of CES is PricewaterhouseCoopers société cooperative.

PricewaterhouseCoopers société cooperative
 2, rue Gerhard Mercator
 B.P. 1443 L-1014
 Luxembourg

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

Diagram 1 – CES position within Group Structure



Convex Group

Convex Group is a property and casualty 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 (“CNAIS”)**: US Managing General Underwriter

A.2 Underwriting performance

A.2.1 Measurement of underwriting performance

CES uses underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on a 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.

A.2.2 Underwriting profit

Table A.1 below presents the underwriting loss for CES for the period ended 31 December 2022, as well as the reconciliation of underwriting loss to profit before tax. Profit before tax is as shown in CES's financial statements.

Table A.1 – Underwriting Performance

As at 31 December 2022	2022 \$000s	2021 \$000s
Gross written premiums	204,665	30,053
Premiums ceded to reinsurers	(165,408)	(24,521)
Premiums written net of reinsurance	39,257	5,532
Net change in provision for unearned premiums reinsurers	(20,878)	(5,304)
Net earned premiums	18,379	228
Net investment loss	(114)	(17)
Total Revenues	18,265	211
Claims paid net of recoveries from reinsurers	(156)	—
Change in insurance liabilities, net of reinsurance	(9,788)	(208)
Fee and commission expense, net of reinsurance *	246	3
Other expenses, net of reinsurance *	(23,195)	(1,320)
Other charges, including value adjustments	(2,677)	—
Loss for the period before tax	(17,305)	(1,314)
Add Back: Net investment loss	114	17
Add Back: Indirect expenses	23,195	1,320
Underwriting profit for the period	6,004	23

As CES only commenced writing business in November 2021, the volume of premium written is limited, and this, allied to a prudent Group approach to risk retention in the early stages of operation which resulted in a high level of reinsurance spend for coverages which will protect the 2021 and 2022 year of account, resulting in low levels of net written and hence net earned premium.

In addition, the ramp up of operations during the year led to a high level of expenses in relation to premium recorded on a GAAP basis, and so as a result, CES's financial statements recorded a pre-tax loss of \$17.3m (2021: \$1.3m loss). However, the underwriting result, which excludes investment income and operating expenses including underwriting related operating expenses, was a profit of \$6.0m (2021: nil).

* 2022 net inwards commissions and net operating costs in Table A.1 differ to the disclosures in the 2022 Annual Accounts, which includes \$12.4m of administrative costs that were directly attributable to the acquisition of business in acquisition costs.

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

The following table summarises the underwriting performance of the Company by its material geographic areas. The information is prepared in accordance with QRT S.05.02.01 Premiums, Claims and Expenses by country and is presented using the Solvency II criteria for determining activity by geographic location.

31 December 2022	Luxembourg	Ireland	Germany	Netherlands	Denmark	Malta	Other	Total \$000s
Gross Premiums Written	149,333	17,257	4,586	4,914	3,631	3,060	21,884	204,665
Reinsurers' Share	119,970	13,704	3,737	3,939	3,578	2,738	17,742	165,408
Net Premiums Written	29,363	3,553	849	975	53	322	4,142	39,257
Gross Premiums Earned	79,883	10,585	2,878	1,664	491	2,441	12,230	110,172
Reinsurers' Share	66,232	8,785	2,332	1,352	477	2,174	10,441	91,793
Net Premiums Earned	13,651	1,800	546	312	14	267	1,789	18,379
Gross Claims Incurred	78,434	5,276	1,285	822	246	1,519	5,943	93,525
Reinsurers' Share	71,080	4,642	1,190	732	221	1,469	4,489	83,823
Net Claims Incurred	7,354	634	95	90	25	50	1,454	9,702
Expenses Incurred	17,338	2,394	762	450	(31)	150	2,232	23,295
Technical Result	(11,041)	(1,228)	(311)	(228)	20	67	(1,897)	(14,618)

31 December 2021	Luxembourg	Ireland	Germany	Netherlands	France	Malta	Other	Total \$000s
Gross Premiums Written	5,326	6,143	5,686	2,507	2,119	2,014	6,258	30,053
Reinsurers' Share	4,430	4,663	4,671	1,918	1,840	1,844	5,155	24,521
Net Premiums Written	896	1,480	1,015	589	279	170	1,103	5,532
Gross Premiums Earned	352	340	692	173	166	168	447	2,338
Reinsurers' Share	310	293	598	149	155	180	425	2,110
Net Premiums Earned	42	47	94	24	11	(12)	22	228
Gross Claims Incurred	228	217	367	124	92	89	246	1,363
Reinsurers' Share	189	185	314	106	78	76	213	1,161
Net Claims Incurred	39	32	53	18	14	13	33	202
Expenses Incurred	203	221	398	110	87	80	259	1,358
Technical Result	(200)	(206)	(357)	(104)	(90)	(105)	(270)	(1,332)

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 Quantitative Reporting Templates ("QRT") S.05.01, (see Appendix B). This QRT has been prepared in accordance with the definitions and formats prescribed under Solvency II. They include the items (except net investment income) excluded from underwriting result in the reconciliation presented in Section A.2.2.

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 the tables below. Balances relating to 'Assistance' in 2021 are recognised under 'Income Protection' in 2022.

Table A.3 – Summary of QRT S.05.01

Financial Year 2022 \$000s	Direct and Proportional Reinsurance							Non Proportional Reinsurance					Total
	Income Protection	Marine, Aviation and Transport	Fire and Property Damage	General Liability	Credit and suretyship insurance	Miscellaneous financial loss	Total	Health	Casualty	Marine, Aviation and Transport	Property	Total	
Gross written premium	588	116,485	26,697	48,672	6,254	1,118	199,814	4	789	2,167	1,891	4,851	204,665
Net earned premiums	126	10,628	2,699	4,379	73	90	17,995	—	75	92	217	384	18,379
Gross claims incurred	190	67,421	8,213	15,011	264	48	91,147	1	321	1,427	629	2,378	93,525
Net claims incurred	27	6,318	1,564	1,465	26	7	9,407	—	40	191	64	295	9,702
Direct Expenses Incurred	—	177	18	39	1	—	235	—	1	3	2	6	241

Financial Year 2021 \$000s	Direct and Proportional Reinsurance							Non Proportional Reinsurance					Total
	Income Protection	Marine, Aviation and Transport	Fire and Property Damage	General Liability	Credit and suretyship insurance	Miscellaneous financial loss	Total	Health	Casualty	Marine, Aviation and Transport	Property	Total	
Gross written premium	136	19,587	2,820	6,931	—	—	29,474	—	—	497	82	579	30,053
Net earned premiums	4	195	(11)	49	—	—	237	—	—	(8)	—	(8)	229
Gross claims incurred	11	951	103	276	—	—	1,341	—	—	22	—	22	1,363
Net claims incurred	2	145	15	39	—	—	201	—	—	3	—	3	204
Direct Expenses Incurred	—	3	—	1	—	—	4	—	—	—	—	—	4

* Income protection has been re-classified from Assistance in the prior year figures..

A.3. Investment performance

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

CES's asset portfolio continued to be invested solely in investment grade fixed income securities during 2022. The investment assets produced a total investment return of -2.08% in 2022 (Q4 2021: -0.14%). The negative return was predominately driven by increases in risk free yields as central banks increased base rates sharply to contain inflation. This caused negative price returns within the portfolio that offset coupon income received throughout the year.

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

Financial Year 2022	Debt Securities	Other Financial Investments	Total
Interest income/(expense)	683	—	683
Income from other investments	848	—	848
Realised gains/(losses)	(1,540)	—	(1,540)
Other (incl. investment expenses)	(105)	—	(105)
Total Investment Return	(114)	—	(114)

Financial Year 2021	Debt Securities	Other Financial Investments	Total
Interest income/(expense)	22	—	22
Income from other investments	—	—	—
Realised gains/(losses)	(7)	—	(7)
Other (incl. investment expenses)	(32)	—	(32)
Total Investment Return	(17)	—	(17)

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 profit and loss.

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 and AA-rated asset backed securities (“ABS”).

The fair value of investments in securitisations as at 31 December 2022 was \$14.8m (2021: \$nil).

A.4. Performance of other activities

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

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

A.4.2. Leasing arrangements

CES has no material leasing arrangements.

A.5. Any other information

There is no other material information to disclose regarding CES’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 CES. This includes a description of the CES Board, executive committees and a description of the roles, responsibilities and governance of CES's key control functions of Risk Management, Compliance, and Internal Audit.

B.1.1 Overview of the Group's Governance Framework

CES is the European operating entity within the Convex Group and carries out the business of insurance and reinsurance. It was incorporated on 26 March 2021, and authorised and regulated by the CAA on 15 September 2021. Its UK branch was authorised by the PRA on 1 December 2021 and is regulated by the PRA and FCA. CES underwrites risks located in the European Economic Area on an insurance and reinsurance basis.

CES 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.

CES Governance Framework - Governance Structure

CES Boards

CES 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 CES Board consists of a Chairman, two Executive Directors, one of whom is the Dirigeant Agréé (General Manager) of CES and two Independent Non-Executive Directors.

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.

CES Executive Committee

CES has established a CES Executive Committee consisting of key executives under the leadership of the CES Dirigeant Agréé. The CES Executive Committee meets on at least a monthly basis and is responsible for supporting the Dirigeant Agréé in exercising the authority delegated by the CES Board for the management of CES.

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. It also ensures that there is appropriate dialogue with shareholders on strategy and remuneration.

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 CES 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.

CES 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 CES and reports to the Audit Committee of the CES Board.

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 CES Board. Collectively the first line of defence is responsible for the day-to-day management of risk, including the identification and assessment of risks and controls.

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.

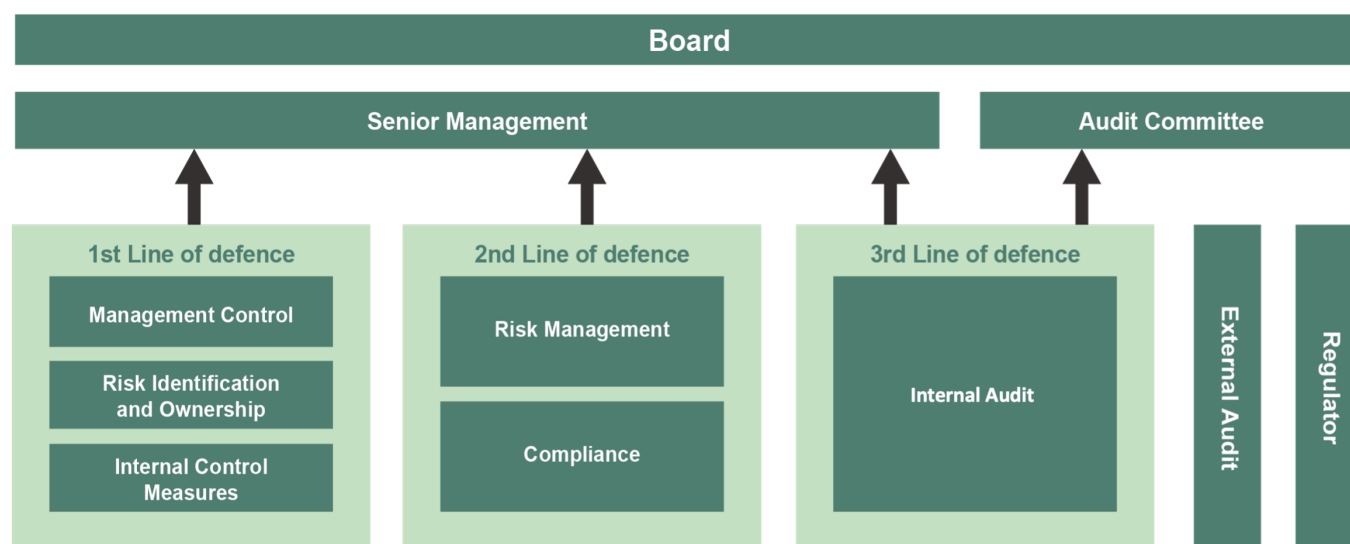
The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks; in this regard the Compliance function acts as part of the first line of defence. Compliance also monitors, evaluates and provides assurance 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 CES 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 CES Audit Committee and the Board.

CES Three Lines of Defence Model

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



B.1.4 Remuneration

CES'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 Solvency II remuneration requirements, 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 Luxembourg 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 will be 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 CES 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 Convex Re Limited (“CRL”) which is a company within the Convex Group.

B.2. Fit and proper requirements

B.2.1. Specific Requirements Concerning Fit and Proper

In accordance with Section 2 – System of governance (Article 72 and 73) of the Law of 7 December 2015 on the insurance sector, individuals who are performing roles where they are considered to effectively run the undertaking or have other key functions (as defined under Solvency II) are required to be assessed for their fitness and propriety at appointment and on an on-going basis by CES.

The individuals who are performing a role that is considered to effectively run the undertaking or is any other key function are required to be assessed for their fitness and propriety at appointment and on an on-going basis by CES.

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

- Their honesty, integrity and reputation;
- Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management; and
- Their financial soundness.

The CES 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 Polices and Process for assessing fitness and propriety

To ensure that CES identifies and recruits appropriate people to perform the roles which are key and/or are considered to effectively run the undertaking, 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.

A basic level of screening is applied to all employees. Where an individual performs a role that is required to be approved by the CAA, a criminal record extract is required by the authorities of the country of predominant residence over the last 5 years if different to the individual’s current place of residence. Additionally, for individuals performing an executive function subject to a licence or a Solvency II key function role, a declaration of honour confirming the individual has not previously been declared bankrupt is required to be made before a notary.

There are some individuals who are employed by CES who perform SMF roles for the UK Branch of CES. These individuals are employed and assessed in accordance with the requirements set by the FCA and PRA. The CES UK Branch operates under the SMCR rules and those individuals that undertake SMF roles are approved by the FCA/PRA through the application and, if necessary, interview process.

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 CES 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
- Adherence to the applicable conduct rules as per the requirements under SMCR

B.3. Risk management system including the ORSA

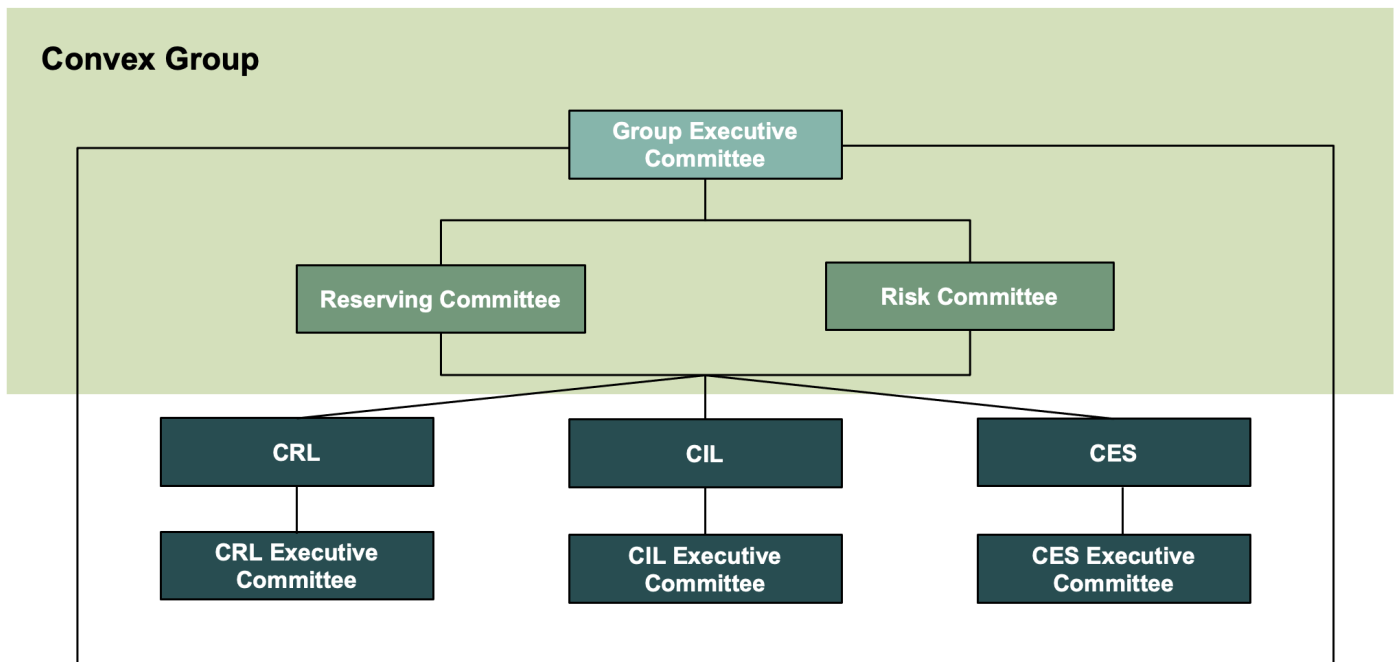
B.3.1. Description of the Risk management system

Risk Management Overview

Risk is defined by CES as being the possibility of an adverse circumstance that will have a negative impact on CES or its objectives. The CES 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 Risk Committee and the Group Executive Committee (“GEC”), as well as the CES Executive Committee. The Group Risk Management Function is led by the Chief Risk Officer (“CRO”), who attends Group Board and GEC meetings, and chairs the Risk Committee. The CES Head of Risk attends the CES Board and is a member of the CES Executive Committee.

CES is part of the Convex Group. Certain functions applicable to CES are performed at the Group level, such as the Risk Committee, though all risks related to CES are reviewed at the entity level. Diagram 3 below sets out the committee structure for Convex Group, to provide a comprehensive overview of the committees relevant to CES.

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 CES.

Risk Strategy

The Risk Management Function and the Risk Management Framework support CES in pursuit of the achievement of its business goals within the established risk appetites. The Risk Management Function provides oversight, monitoring and challenge. As CES 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 CES in achieving the following:

- Implementing and embedding an effective risk management framework across CES;
- Monitor risk exposures against approved risk appetite statements and limits;
- Oversee and implement an effective risk identification, assessment, management and monitoring process across CES;
- Coordinating an effective ORSA process;
- Carrying out quarterly and annual risk and control assessments;
- Establishing appropriate risk policies and processes for CES and ensure they are in place to meet regulatory requirements;
- Provide risk management information to the CES Board and CES Executive Committee on the current concerns, risks and incidents affecting the business, as well as exposures against approved risk appetite limits;
- Maintaining a strong solvency position within the approved thresholds above minimum regulatory solvency;
- Carrying out risk deep-dives across the business to assess key risks and the effectiveness of the controls in place;
- Supporting the implementation of the climate change risk framework;
- Engaging with the business on a number of ad hoc projects/initiatives to provide risk oversight and when relevant provide risk opinions;
- Embedding a strong risk culture within CES.

CES 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. CES 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 CES 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;
- Regular risk reporting;
- Control frameworks; and
- Risk policies, procedures, systems processes and controls.

Risk Management Process

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

The risk identification process enables CES 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 taxonomy in which CES operates.

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

The effective management of emerging risks is essential for maintaining CES'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 CES's business profile and strategy. 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. They are one of the risk management function's most important Risk Management and monitoring tools and drives a significant portion of risk reporting to the CES Board, CES 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 our 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;
- Strategic risk – such as incorrect assessment of insurance market.

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

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

The Risk & Control Assessment ("RCA") process allows CES to identify key risks, assess the materiality and status of the risks and controls, and then use this information to manage the CES 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, CES Executive Committee, CES 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 RCA meetings with risk owners to review and provide challenge on the function's risk profile and effectiveness of controls in place. The output from these assessments enables the Risk team to focus their attention on those risks that have the worst performance but also have a high materiality.

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 CES's risk appetite. Risk mitigation is mainly achieved through the implementation of controls and management actions. It is the responsibility of each function within CES 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 committee.

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 CES 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 CES 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 CES Board, CES 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, the 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 CES 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 CES'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 CES Board and Executive Committee, showing the top risks to the business and quarter-on-quarter changes in risk profile.

The risk report also provides the Board and the Executive Committee 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. Qualitative commentary is 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)

ORSA Overview

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

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

- Strategy and business planning: The forward-looking assessment section of the ORSA, which is the assessment of CES's strategic goals made up of the strategy and business planning processes;
- Risk profile: Assessment and understanding of the current and emerging risks facing CES 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 CES to measure the level of risk currently being taken;
- Capital requirements: Assessment of CES's regulatory capital requirements; and
- Solvency assessment: Assessment of CES's solvency against requirements.

The ORSA provides a framework to enable the CES 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 CES 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 is also 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 CES;
- The risk appetite of the firm forms a key part of the risk profile reporting throughout the year and the CES 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:

CES Audit Committee	<ul style="list-style-type: none"> • Provide independent oversight of the ORSA process through internal audit reports.
CES Board	<ul style="list-style-type: none"> • Set the overall business strategy and direction and ensure this is in line with Group objectives. • Set the risk appetite the for Company. • Review and signs off the ORSA process and annual ORSA report. • Ensure that CES 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.
CES Executive Committee	<ul style="list-style-type: none"> • Review the annual ORSA Report and ORSA Policy and recommend both documents to the CES Board for approval • Review the quarterly risk appetite dashboard • Review the quarterly risk and control assessment, and incident report • Ensure CES's risk profile remains within the Board approved risk appetite limits • Ensure CES has an appropriate risk and controls framework in place • Review and sign-off CES business plan before submission to the CES Board
Group Executive Risk Committee	<ul style="list-style-type: none"> • Review the ORSA Policy • Review the quarterly risk dashboard • Review the Group Risk Management Framework and risk policies • Review the quarterly risk control assessment and incident report
Group Executive Reserving Committee	<ul style="list-style-type: none"> • Review the technical provisions and will make recommendations to the CES Board for sign-off.

Supporting IT Systems

CES uses a risk system to capture pertinent details about risks and controls and other Enterprise Risk Management processes in support of the ORSA process. Other risk systems are also used by CES to assess the level of risk within the insurance and investment portfolios, how that risk has changed and to undertake scenario testing of the exposure.

Risk Management and Risk Appetite Frameworks

The ORSA process is built upon the established and embedded Risk Management Framework, and the 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 CES.
- 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.
- Ensure that regular reporting of the status of risks against risk appetite to the CES Executive Committee and the CES Board takes place.

Reporting

ORSA reporting occurs throughout the year via the quarterly risk dashboard and also in an annual standalone report to the CES Board and to the CAA.

The risk dashboard contains information on all major risk categories considered by CES, and includes top risks, emerging risks, information on incidents, near misses, and risk appetite metrics.

Separately, the annual ORSA report:

- Recognises the risk, governance and management processes across CES;
- Conveys the strategy, capital and risk matters for the CES 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 CES Executive Committee for review, and ultimately to the Board for sign-off.

ORSA Process



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

CES undertakes stress testing and scenario analysis 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 Risk Committee and included in the annual ORSA report.

Sensitivity analyses are carried out on the business plan as part of the planning cycle, 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.

CES 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 Cross-functional planning team meeting with Senior Management to gain their strategic views for the 3-year planning period;
- The Cross-functional planning team 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

The appropriateness of the SCR to cover the risks faced by CES 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 CES, 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 CES 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 CES'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 updates to the Group Risk Committee, CES Executive Committee and CES 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 CES'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 CES risk profile

The Group 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 Risk Committee will take into account and advise to the CES Board the following potential triggers for an ad hoc re-run:

- Material change to the CES 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.

The final decision on whether an ORSA run is required in these circumstances would be made through consultation involving the Head of Risk, Chief Actuary, Finance Director and Dirigeant Agréé for CES.

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 suitably 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 and is an integral part of CES's Risk Management system and constitutes a key part of the company's corporate governance.

The Compliance function manages the relationship with the CAA and other regulatory bodies and is committed to transparent and constructive relationships with regulators. The Compliance function is supported by Group Compliance and works closely with the Legal, 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 CES Board;
- Managing compliance risks with outsource partners, ensuring that they are aligned with CES 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 CES Executive Committee; and
- Reporting to the CES Board.

The Head of Compliance is approved as a Solvency II key function holder and as the SMF16 (Compliance Oversight) for the UK Branch of CES. The Head of Compliance reports to the CES Dirigeant Agréé.

B.5. Internal Audit function

B.5.1. Implementation of the internal audit function

Internal Audit's purpose is to provide independent and objective assurance to CGL, including its subsidiaries' Audit Committees, and to the Convex Executive Committees over the adequacy, effectiveness and sustainability of the Risk Management Framework and the system of internal control. It does this by establishing, undertaking and reporting on an approved assurance plan each year.

The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter. Internal Audit operates in accordance with the Global Institute of Internal Auditors' international standards, the UK Chartered Institute of Internal Auditors Financial Services Code, all mandatory elements of the International Professional Practices Framework, and Convex's Internal Audit methodology. The Internal Audit Charter, which is reviewed annually, was approved by the Audit Committee in December 2022 and is available on Convexin.com.

Internal Audit is primarily staffed internally with a professional team that has 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.

Internal Audit maintains a quality assurance and improvement programme which includes continuous external quality assurance activity undertaken by a third party as well as feedback gathered via stakeholder and employee engagement surveys. On an annual basis, Internal Audit confirms to the CGL Audit Committees, including CES, that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with.

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 defense and the first two lines is preserved to enable Internal Audit to provide an independent overview to CGL 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. 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.
- 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 CES Board and Audit Committee, including thematic reporting. Quarterly reporting is provided to the CES Audit Committee, where the Head of Operational Internal Audit attends to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Reporting to the CES Executive Committee, where the Head of Operational Internal Audit 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 Head of Operational Internal Audit, 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. The CGL Board Audit Committee approves the performance evaluation, appointment, or removal of the Head of Operational Internal Audit 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 Head of Operational Internal Audit and audit staff are not

authorised to perform any operational duties for CES 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 the Chief Actuary ("CA"). CES also has an Actuarial Function Holder ("AFH"), who reports to the CES Dirigeant Agréé. 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 CES 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. CES outsourcing policy

The CES 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, Europe, 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.

CES has considered the impact of all outsourcing and has established:

- 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.

CES 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 CES 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 CES for the use of sub-delegates and warrant that the primary contract terms and conditions extend to the sub-contract with such sub-delegation.

CES recognises that the responsibility and accountability of all outsourcing functions remains with the CES 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 CES remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing.

Where necessary, the outsourcing agreements will be reviewed annually and where material changes are brought to the Board for consideration and approval. The governance structure for CES'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.

CES 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

The CES outsourcing model will ensure 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 CES 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 CES's operational procedures. The Group's focus has continued throughout 2022 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 well-being 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.

The COVID-19 Working and Steering Groups were formally stood down during 2022 as the impacts of COVID-19 became normalised into daily working practices.

With regard to the conflict in Ukraine, CES continues to monitor the development of the conflict, and is continually 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

At Convex, we consider Insurance risk in a hierarchy to provide a structure for managing the different components of Insurance risk.

Within the hierarchy we consider two separate components of Insurance risk:

- Primary Insurance risk - This refers to the inherent risk taken on by selling insurance business that timing, frequency and severity of insured events, may be adverse relative to the expectations of the firm at the time of underwriting. This includes Underwriting and Reserve risk.
- Secondary Insurance risk - This refers to the residual risks that emerge from the methods used to assess and manage primary Insurance risk. This includes Model risk (produced from the use of models and other analytical tools to help with the assessment and monitoring of Insurance risk and Ceded Reinsurance risk (produced through the use of traditional reinsurance and non-traditional products to transfer Insurance risk.

These risks are defined below.

Risk Title	Type	Definition
Level 1		
Insurance Risk	Primary	The risk of adverse fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting while the policies are in force or after the expiration of coverage. This may occur due to either inherent volatility or errors in the selection, approval, pricing, reserving and handling of risks being insured.
Level 2		
Underwriting Risk	Primary	The risk of adverse fluctuations in the timing, frequency and severity of insurance claims, relative to the expectations of the firm at the time of underwriting while the policies are in force. This may occur either due to inherent volatility or errors in the selection, approval and pricing of risks being insured.
Reserve Risk	Primary	The risk of adverse development of the reserves for insurance claims either due to inherent volatility or due to errors in assessing the required reserves. This includes both the earned and unearned reserves.
Ceded Reinsurance Risk	Secondary	The risk that Convex has an inappropriate reinsurance programme either due unexpected gaps in the programme, adverse gross experience relative to the known basis of coverage or because the level of coverage is less than required to meet net risk appetite. This does not include Reinsurer Credit risk which is considered separately under Credit Risk.
Model Risk	Secondary	The risk that the models used to assess or manage risks are inappropriate, inaccurate, insufficient or misinterpreted leading to poor decision making.

C.1.2. Risk mitigation

Mitigation of Insurance risk at CES is broadly achieved through the following interlinked processes that create an effective control cycle for the risk. These processes are:

1. Governance
2. Risk appetite and limits
3. Internal controls
4. Risk transfer
5. Monitoring and reporting

Governance:

Insurance risk is overseen by the following governance committees, where they undertake review and challenge. The key committees are:

- CES Board
- CES Executive Committee
- Group Executive Risk Committee
- Reserving Committee
- Major Event Committee
- Insurance Underwriting Executive Committee
- CES Audit Committee

Risk appetites and limits:

- CES has articulated risk appetites for Underwriting risk and Normal Gross Maximum lines for each Insurance line of business.
- Each line of business also has specific appetites and underwriting guidelines which articulate our desired risk profile.

Internal controls

Underwriting risk:

- As part of the business planning process, the portfolio is developed ground up with granular risk selection supported by an in-house tool
- Underwriting Authorities and Monitoring system
- Delegated authority approval process
- Underwriting guidelines
- Underwriting Game Plans
- Peer review
- Product Oversight and Governance process
- Pricing models
- Inflation Working Group

Reserve risk

- Claims Handling Authorities
- Claims core principles and procedures
- Delegated claims core principles and procedures
- Reserving Policy and philosophy
- Inflation Working Group
- Audit of reserves

Risk transfer

Convex purchases a significant reinsurance program (using traditional products and other transfer mechanisms to mitigate risk within acceptable limits), from which CES also benefits. Convex has a policy in place to help deliver an effective ceded reinsurance programme and to control and mitigate residual Underwriting risk. This is managed by a dedicated Ceded Re team.

Monitoring and reporting

Insurance risk is monitored and reported through a number of mechanisms at Convex including:

- Natural catastrophe analysis
- Key insurance and reinsurance underwriting metrics
- Quarterly Reserving Dashboard
- Claims trends reporting
- Reserve report

- Insurance Risk Monitor
- Insurance risk appetite reporting

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

Convex has a number of modelling tools to help assess both Underwriting and Reserve risk. These include:

- The Core Model
- Vendor Catastrophe models
- Sequel Impact
- Renew Pricing / Ranking models

These tools are used to produce a range of risk measures and metrics which are monitored and reported.

C.1.5. Material changes over the reporting period

CES's business volumes increased significantly over 2022, this being CES's first full year of underwriting. Insurance risk therefore increased progressively over the year. As a result, CES maintained a strong focus on continuing to develop and embed 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 is the risk which arises from fluctuations in interest, inflation or exchange rates as well as asset risk premiums.

CES 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 the following:

- Rising interest rates and/or credit spreads of the fixed-income investments can reduce the market value of the asset portfolio. From an economic point of view, there is a natural hedge provided by the liabilities, as, as interest rates increase, this decreases the market value of the liabilities, thus absorbing part of the impact. As a result, the net position remains 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 availability of surplus of capital.
- A change in foreign exchange rates could have an impact for CES, due to any potential currency mismatches between assets (cash exposures, investment assets and any currency hedging derivatives) and liabilities (claims and expenses), as well as any currency mismatch between claims and internal reinsurance recoverables.
- An increase in inflation rate may lead to a nominal increase in the value of CES's liabilities and other expenses and affect the valuation of assets in the CES portfolio. A measurement of inflation risk is currently captured within the Market risk appetite. Investment and derivative strategies that mitigate inflation risk have been implemented since 2021.

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

CES 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, CES has no exposure to Level 3 assets, and thus has increased certainty around the valuation of financial assets.

CES 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 CES 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 CES'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 loss over a one-year time horizon; and
- Setting individual stress test risk limits for the respective market sub-risks at two-thirds of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and at one-third 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.

Equity, Real Estate and Hedge Fund risks are currently not relevant for the CES portfolio.

In addition, exposure to each market sub-risk is limited with a risk limit equal to two-thirds of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and to one-third 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 2022, the size of the investment portfolio and the liabilities had increased considerably compared to 2021, in line with CES's business plan and driven by business written and capital injected. Gross premiums written in 2022 increased significantly to \$204.7m (2021 gross premiums written: \$30.1m) and assets under management grew to \$113.7m. 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 CES balance sheet was also added to the framework in Q4 2022, increasing risk utilisation. Market risk exposure remained within risk appetite throughout 2022.

C.3. Credit risk

C.3.1. Risk description

Credit risk is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Convex is exposed.

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 CES (corporate, government agency and sub-sovereign) and are defined as a percentage of the Assets Under Management, 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. CES 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 relevant committee for remediation or a waiver if the risk is accepted.

Credit Risk on insurance assets is managed through the Group 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 within risk appetite.

In particular, in terms of the Intragroup Reinsurance contract between CES (the reinsured) and Convex Re Limited (the reinsurer), a collateral arrangement has been put in place whereby for the benefit of the CES, Convex Re Limited posts collateral equal to 100% of the outstanding technical balances (i.e. the sum of unearned premiums and unpaid ultimate claims liabilities) should the loss ratio go above 175%.

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. CES uses external credit ratings as well as market adjusted ratings which adjust rating according to spread levels.

A counterparty credit risk model producing a distribution of counterparty credit losses for Investment and Treasury exposures based on stochastic ESG scenarios is under development, and is expected to be implemented in 2023.

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 relevant committee for remediation or, in exceptional circumstances, a waiver.

As at 31 December 2022, Credit risk was well-diversified; concentration limits were adhered to, thereby limiting concentration risk in exposure to counterparties.

C.3.5. Material changes over the reporting period

Treasury exposures to banking counterparties increased over 2022 in line with the growth of CES. 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 CES to CRL via the Intragroup Reinsurance also increased in line with the growth in business written.

Corporate credit spreads widened in 2022 and were volatile given the macroeconomic headwinds, but there were no defaults realised within the investment portfolio in 2022.

C.4. Liquidity Risk

C.4.1. Risk description

Liquidity risk is 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 CES or the market itself is weak. Such scenarios would result in a weak bargaining position for CES 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 counterparties hesitant to place longer term risks with CES and thus erode franchise value.

The current risk appetite statement on liquidity requires that “CES 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 CES holds 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

CES manages Liquidity risk using a framework that measures excess liquidity over five time 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.

As at 31 December 2022 the Company’s EPIFP was \$54.7m.

C.4.5. Risk concentration

There are no Liquidity risk concentrations identified as at year end 2022.

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.

C.5. Operational risk

C.5.1. Risk description

Operational risk is defined as an assessment of the uncertainty of likelihood and/or impact that Convex Group and its legal entities could incur future unplanned losses in respect of people, process or system failures, and external events during normal operation of its business.

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

Sub-risk	Description
People	Risk / uncertainty associated with employee hiring, training, management, key person dependency, and competency of employees and contractors and retention to have sufficiently competent and experienced personnel to accomplish a business function's goals and objectives.
Process and Systems	Risk / uncertainty associated with process and systems, including occurrence of errors and omissions arising within any of the functions within Convex.
Legal & Regulatory	Risk / uncertainty relating to Convex's efforts to operate within / adhere to the laws, regulatory guidelines, and agreements. In addition, risks regulatory risk relating to potential changes in laws and regulations and compliance related matters.
Data	Risk / uncertainty relating to and or maintaining the quality of data used within Convex Group's daily operations and encompasses: external data, internal data input, data loss and data corruption. That data is accurate to within acceptable tolerances.
Project & Change Management	Risk / uncertainty around the occurrence of issues and incidents that could delay successful and timely delivery of projects and change initiatives in accordance with agreed plans.
Financial Misstatement	Risk / uncertainty around the possibility of unintentional or deliberate misstatement of financial results or financial regulatory reporting.
Business Interruption	Risk / uncertainty around external and internal events that could occur at any time in the future that cause normal business operations to be halted or disrupted and impact Convex's ability to be operational resilient as a business. In addition, business interruption that has significant wide-reaching impact on the operational capability such as disruptions and the unavailability of important business services and/or systems will be monitored and reported.
Outsourcing & Third-Party Service Provider	Risk / 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 no service standards in place.

C.5.2. Risk mitigation

CES 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 a risk 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, 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 Risk Management Framework.

Risk incident data is analysed for trends or concentrations with regards to root causes, departments, risk owners and other such categories.

C.5.5. Material changes over the reporting period

Operational risk has continued to be an area of focus for management throughout 2022 as the operational element of the Convex Group has grown substantially.

The key developments in operational risk have been:

- Group headcount has increased in 2022 in order to execute on the business plan and enhance the control infrastructure;
- Continued systems and infrastructure development to support underwriting.

Both of these factors affect CES given its reliance on Group services.

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

Information security

Information security and cyber resilience remains an area of attention for Convex, as the emerging threat landscape coupled with the increasing sophistication of cyber-attacks has highlighted the necessity for CES to ensure it has robust and effective controls in place to mitigate against these threats. Convex's IT Security team regularly assesses 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.

Third-party and outsourcing management

While Convex utilises third-party and outsourcing arrangements, it recognises the risk of these agreements and there is ongoing assessment and monitoring of the risk level to key outsourcing partners such as WNS, as well as other suppliers and partners on whom we depend. Risks related to these arrangements and risk incidents are incorporated into the Risk Management Framework, with monitoring and oversight.

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 CES. The aim of the Company is to become a scale player in the P&C market, focused on the EEA, and therefore there is an execution risk if CES fails to deliver on its European strategy.

Group risk

CES has a degree of Group risk associated with it, as it is a subsidiary company of Convex Group. The Group structure also grew in 2022 with new underwriting entities and branches being established to allow for further growth and expansion of underwriting lines. However, the Group remains relatively small with a lean structure (one holding company and five underwriting entities), which therefore reduces complexity and impact of this risk.

Regulatory and Legal risk

There is a risk that CES 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 CES Risk Register as operational risks.

Climate Change risk

Climate risk arises from increased frequency and severity of natural catastrophes as a result of climate change and continues to be a key focus area for CES.

The Company's risk register has been updated to capture the main facets of climate risk physical risk (including liability risk) and transition risk. Risk assessments are performed against these risks on a short, medium and long term basis. The quarterly update that the Chief Risk Officer ("CRO") provides to the Board includes risks arising from climate change. In addition, the Investments Committee also reviews the ESG profile of the Company's investments on a quarterly basis.

In addition the quarterly update from the CRO, the Investments committee reviews the ESG profile of the Company's investments and the Head of Sustainability provides an update to the Board, both on a quarterly basis.

The Company's strategic approach to risks from climate change is a journey. CES will continue to expand its scenario analysis work across physical, transition and liability risks to gain a better understanding of the material exposures and define a long-term strategic approach to these risks.

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, who continually review the strategy being enacted, while 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, taking into account 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 CES to work in lockstep with the other companies in Convex Group.

The Risk function have been engaged and involved with the 2022 Group expansion, providing oversight and assurance activities where appropriate.

Regulatory and Legal risk

The Compliance and Legal teams have continued to make enhancements and refinements to their control framework in 2022, including around the key areas of regulatory and legal risk, including licensing, sanctions, wordings, and conduct risk.

Financial risks from Climate Change

Convex is aware that effective management of climate risk is critical to the long-term success of its business. Accordingly, primary responsibility for climate risk is vested in the Convex Group Board, which is responsible for directing the ESG strategy (including towards climate risk) across the Group.

Convex's financial risks from Climate Change are mitigated through a number of techniques. On the investment side, the external asset managers are responsible for the tactical asset allocation, including the integration of ESG factors. There is also ongoing review of new products and strategies that have a dedicated ESG or Climate Change related focus, in particular those that can have high impact to key climate or social themes.

Convex has also formed a Sustainable Underwriting Group to help inform our Net Zero underwriting strategy and to develop ESG-linked underwriting opportunities. Convex has taken a leading position in the underwriting of Offshore wind across both energy and liability lines.

C.6.3. Measures used to assess risk

While there is Group-wide scenario testing in relation to the Climate Change risk, none of other additional risks are measured quantitatively at present, although work continues to assess and define an appropriate risk management approach for these risks. 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.

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 CES remains prepared for potential deviations from expectations. Convex performs a significant number of stress tests within BAU processes at Group level and at subsidiary level as well as performing specific, bespoke stress tests for the annual ORSA report, primarily covering:

- Stress testing to better understand and mitigate what could arise from single events;
- Operational stress tests impacting the whole Convex Group, including CES;
- Reverse stress testing.

CES is exposed to a narrower range of catastrophic events than other Convex Group legal entities, and this is reflected in the adoption of a more focused stress testing programme in order to ensure the relevance of the analysis performed.

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

This currently does not apply to CES.

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 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 CES's 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 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 GAAP.

CES's assets and liabilities, as valued under Luxembourg GAAP and reclassified in line with Solvency II Regulations, are shown in column (d). CES'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 CES's assets and liabilities under Solvency II and Luxembourg GAAP are presented in column (f). Where the valuation of assets and liabilities is the same under Luxembourg GAAP and Solvency II, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of CES'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 CES.

CES 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.

CES 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 CES has concluded that markets are not active, alternative methods for valuation are used.

Table D.1 – Luxembourg GAAP & Solvency II

As at 31 December 2022 (\$000s)	Note in Financial Statements	UK GAAP balance sheet classified according to financial statements	Reclassification of UK GAAP balance sheet categories	Reclassified UK GAAP balance sheet	SII balance sheet	Valuation differences between SII & UK GAAP
	(a)	(b)	(c)	(d)=(b)+(c)	(e)	(f)=(b)-(d)
Deferred acquisition costs	6	19,514	—	19,514	—	19,514
Prepayments and accrued income	-	36	—	36	—	36
Listed debt securities	5	88,237	(88,237)	—	—	—
Accrued Interest		390	—	390	—	390
Government Bonds	-	—	46,594	46,594	46,578	16
Corporate Bonds	-	—	26,978	26,978	26,026	952
Collateralised securities		—	14,665	14,665	14,767	(102)
Collective Investment Undertakings		—	3,965	3,965	3,965	—
Reinsurance recoverables	6	182,379	—	182,379	37,770	144,609
Subrogation and intermediaries receivables	6	2,693	—	2,693	—	2,693
Insurance and intermediaries receivables	7	110,302	—	110,302	20,843	89,459
Reinsurance receivables	7	12,301	—	12,301	11,749	552
Receivables (trade not insurance)	7	2,225	—	2,225	—	2,225
Cash and cash equivalents	3	26,377	(3,965)	22,412	22,412	—
Fixed assets	8	25	—	25	—	25
Other assets	-	103	—	103	2,391	(2,288)
Assets		444,582	—	444,582	186,501	258,081
Technical provisions	6	(219,730)	—	(219,730)	(65,394)	(154,336)
Subrogation and salvages, reinsurers' share	6	(2,340)	—	(2,340)	—	(2,340)
Insurance payables	10	(19,577)	—	(19,577)	(18,039)	(1,538)
Reinsurance payables	10	(109,346)	—	(109,346)	(13,807)	(95,539)
Other liabilities	10	(5,131)	—	(5,131)	(6,392)	1,261
Accruals and deferred income	11	(16,619)	—	(16,619)	—	(16,619)
Liabilities		(372,743)	—	(372,743)	(103,632)	(269,111)
Excess of assets over liabilities		71,839	—	71,839	82,869	(11,030)

As at 31 December 2021 (\$'000s)	Note in Financial Statements	UK GAAP balance sheet classified according to financial statements	Reclassification of UK GAAP balance sheet categories	Reclassified UK GAAP balance sheet	SII balance sheet	Valuation differences between SII & UK GAAP
	(a)	(b)	(c)	(d)=(b)+(c)	(e)	(f)=(b)-(d)
Deferred acquisition costs	6	3,595	—	3,595	—	3,595
Prepayments and accrued income	-	93	(93)	—	—	—
Listed debt securities	5	77,317	(77,317)	—	—	—
Government Bonds	-	—	56,191	56,191	56,168	23
Corporate Bonds	-	—	21,219	21,219	21,119	100
Reinsurance recoverables	6	23,548	—	23,548	(7,599)	31,147
Insurance and intermediaries receivables	7	31,178	—	31,178	4,416	26,762
Cash and cash equivalents	-	6,906	—	6,906	6,906	—
Other assets	-	120	—	120	120	—
Assets		142,757	—	142,757	81,130	61,627
Technical provisions	6	(29,007)	—	(29,007)	5,810	(34,817)
Insurance payables	10	(3,887)	—	(3,887)	—	(3,887)
Reinsurance payables	10	(20,607)	—	(20,607)	—	(20,607)
Other liabilities	10	(1,337)	—	(1,337)	(2,000)	663
Accruals and deferred income	11	(4,233)	—	(4,233)	—	(4,233)
Liabilities		(59,071)	—	(59,071)	3,810	(62,881)
Excess of assets over liabilities		83,686	—	83,686	84,940	(1,254)

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 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 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 under Solvency II 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 Lux GAAP and not to recognise any further deferred tax assets arising from the timing differences between LUK GAAP and Solvency II.

D.1.3 Financial investments

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

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 Luxembourg GAAP treatment.

Table D.2 below analyses financial assets measured at fair value at 31 December 2022, 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 2022 (\$000s)	Level 1	Level 2	Level 3	Total
Government Bonds	46,578	—	—	46,578
Corporate Bonds	—	26,026	—	26,026
Collateralised securities	—	14,767	—	14,767
Collective Investments Undertakings	3,965	—	—	3,965
Cash and cash equivalents	22,412	—	—	22,412
Total financial assets at fair value	72,955	40,793	—	113,748

Financial Assets 2021 (\$000s)	Level 1	Level 2	Level 3	Total
Government Bonds	56,168	—	—	56,168
Corporate Bonds	—	21,119	—	21,119
Cash and cash equivalents	55	6,851	—	6,906
Total financial assets at fair value	56,223	27,970	—	84,193

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, includes 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 Luxembourg GAAP valuation bases for reinsurance recoveries are as follows:

- Only reinsurance cash flows relating to long-tailed claims reserves are discounted under GAAP whereas all reinsurance cash flows are discounted under Solvency II.
- The unearned reinsurance premium reserve established under 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 Luxembourg 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.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	2022 \$000s	2021 \$000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	58,962	(6,877)
Best estimate reinsurance recoverables	(37,770)	7,599
Technical provisions risk margin – Non-life & health similar to non-life	6,433	1,067
Net technical provisions	27,625	1,789

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 EIOPA for each reporting period.

The best estimate technical provisions are calculated by using the Luxembourg GAAP reserves as the starting point.

The following adjustments are then made:

- Removal of the prudence margin within the Luxembourg GAAP reserves;
- Removal of profit on the unearned premium within the Luxembourg GAAP reserve;
- 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.

Table D.4 below shows the net technical provisions by Solvency II line of business.

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

Solvency II Value 2022	Best estimate (\$000s)	Risk margin (\$000s)	Total (\$000s)
Marine, aviation and transport insurance and proportional reinsurance	3,602	4,047	7,649
Fire and other damage to property insurance and proportional reinsurance	6,284	794	7,078
General liability insurance and proportional reinsurance	11,174	1,272	12,446
Income protection insurance	143	25	168
Credit and suretyship and proportional reinsurance	(1,044)	110	(934)
Miscellaneous financial loss insurance and proportional reinsurance	10	49	59
Non-proportional casualty reinsurance	219	22	241
Non-proportional health reinsurance	1	—	1
Non-proportional marine, aviation and transport reinsurance	392	49	441
Non-proportional property reinsurance	411	65	476
Net technical provisions	21,192	6,433	27,625

Solvency II Value 2021	Best estimate (\$000s)	Risk margin (\$000s)	Total (\$000s)
Marine, aviation and transport insurance and proportional reinsurance	432	748	1,180
Fire and other damage to property insurance and proportional reinsurance	111	65	176
General liability insurance and proportional reinsurance	251	234	485
Income protection insurance	(27)	6	(21)
Non-proportional marine, aviation and transport reinsurance	(45)	14	(31)
Net technical provisions	722	1,067	1,789

Calculation of the best estimate technical provisions

CES has been writing business since November 2021 and writes a diverse portfolio of insurance business. The largest segments written to date are:

- Marine aviation and transport insurance; predominantly covering airlines but with smaller components of aviation products, general aviation, energy upstream property, marine and space business.
- General liability insurance worldwide.
- Fire and other damage to property insurance; predominantly covering energy downstream property, with smaller components of power, direct property, equine and fine art and specie business.

Given its recent establishment, CES has very limited claims history to date. Therefore, gross Luxembourg GAAP best estimate earned reserves have been estimated at a class of business level using market benchmark expectations of loss ratio and development patterns, including an allowance for Events Not in Data (“ENIDs”). The best estimate reserves are then uplifted to include a margin to reflect the uncertainty in the reserves.

- This margin is removed from the Luxembourg GAAP earned reserves to reach the best estimate reserve for inclusion in the technical provisions.

- The unearned premium included within the Luxembourg 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 Luxembourg GAAP earned reserves. Note that the full cost of the bound reinsurance programme is included within the technical provisions as CES are legally obliged to this. Additional provisions in respect of operating 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 CES 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 Net technical provisions during the year

Table D.5 – Change In Net Technical Provisions During The Year

Solvency II Value	2022 \$000s	2021 \$000s	Movement
Marine, aviation and transport insurance and proportional reinsurance	7,649	1,180	6,469
Fire and other damage to property insurance and proportional reinsurance	7,078	176	6,902
General liability insurance and proportional reinsurance	12,446	485	11,961
Income protection insurance	168	(21)	189
Credit and suretyship and proportional reinsurance	(934)	—	(934)
Miscellaneous financial loss insurance and proportional reinsurance	59	—	59
Non-proportional casualty reinsurance	241	—	241
Non-proportional health reinsurance	1	—	1
Non-proportional marine, aviation and transport reinsurance	441	(31)	472
Non-proportional property reinsurance	476	—	476
Net technical provisions	27,625	1,789	25,836

As this is only the second year that CES has written business, 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 general liability,

marine, aviation and transport and fire and other damage classes, as this is where the majority of business to date has been written by CES.

Note that there has been a remapping of historical business to Solvency II classes which occurred during the year. The Solvency II Technical Provisions for 2021 presented in the table above are presented as per the previous report and have not been remapped.

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:

- There is increased uncertainty around the level of future inflation to be expected across a variety of lines of business as a result of elevated economic inflation, resulting from Covid 19, the war in Ukraine and supply chain disruption.
- Given the immaturity of the business written to date, the reserves are largely based on the initial expectation of loss ratios. The expectation of loss ratio selected is heavily dependent on 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 market benchmarks in order to set expectations of loss ratio for the business, as we are unable to rely on historical performance of CES'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 CES's business can be expected to respond differently from the business underlying the benchmarks relied upon.
- One of the growth areas of CES'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.
- 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 Luxembourg GAAP reserves and Solvency II Technical Provisions, on a net of reinsurance basis.

Table D.6 – Bridge between the Luxembourg GAAP Reserves and the Solvency II provisions

Net of reinsurance	2022 \$000s	2021 \$000s
GAAP Reserves	36,998	5,459
Removal of Prudence Margin	(2,361)	(8)
Removal of Profit on UPR	(15,325)	(2,997)
Include Future Premium	8,497	(2,053)
Include Profit on Unaccepted Business	(6,720)	(197)
Include New Expenses Allowance	1,778	537
Apply Discounting Credit	(2,120)	(72)
Include Risk Margin	6,433	1,067
Reinsurance Bad Debt	445	53
Solvency II Provisions	27,625	1,789

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

- **Removal of Prudence Margin:** An explicit margin for uncertainty is included within Luxembourg GAAP Provisions but removed under Solvency II. This reduces Solvency II Technical Provisions compared to Luxembourg GAAP Provisions.
- **Removal of Profit on UPR:** The unearned premium reserve established under Luxembourg 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 Obligated Unincepted Business, whereas these provisions are not included within the Luxembourg GAAP valuation basis.
- **Additional Expenses Allowance:** Solvency II requires inclusion of expenses pertaining to the business in-force.
- **Discounting Credit:** Claims reserves are not discounted within Luxembourg 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.
- **Reinsurance Bad Debt:** A bad debt provision has been calculated based on the probability of default of CES's reinsurers, using their credit rating.

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 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. CES 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 \$3.5m included within accruals and deferred income under 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 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

CES 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 CES's valuation for solvency purposes has been disclosed in Sections D.1 to D.4 of this document.

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 CES 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. CES'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, CES 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.

CES 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 CES'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 CES 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

CES'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. The table below sets out a summary of the Company's own funds by tier for the year ended 31 December 2022:

Table E.1 – Own Funds

Basic own funds by tier 2022	Tier 1 unrestricted (\$000s)	Tier 1 restricted (\$000s)	Tier 2 (\$000s)	Tier 3 (\$000s)
Ordinary share capital	90,835	—	—	—
Reconciliation reserve	(7,966)	—	—	—
An amount equal to net deferred tax assets	—	—	—	—
Total Basic Own Funds	82,869	—	—	—

Basic own funds by tier 2021	Tier 1 unrestricted (\$000s)	Tier 1 restricted (\$000s)	Tier 2 (\$000s)	Tier 3 (\$000s)
Ordinary share capital	85,000	—	—	—
Reconciliation reserve	(60)	—	—	—
An amount equal to net deferred tax assets	—	—	—	—
Total Basic Own Funds	84,940	—	—	—

Table E.2 – Reconciliation reserve

Reconciliation Reserve as at 31 December	2022 \$000s	2021 \$000s
Solvency II excess of assets over liabilities	82,869	84,940
Ordinary Share Capital	(90,835)	(85,000)
Amounts equal to net deferred tax assets	—	—
Reconciliation Reserve	(7,966)	(60)

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 Tier 3 and therefore all available own funds are eligible to cover the SCR, as shown in Table E.3.

Table E.3 – SCR

	2022 \$000s	2021 \$000s
Total eligible own funds to meet the SCR	82,869	84,940

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, as shown in Table E.4.

Table E.4 – MCR

	2022 \$000s	2021 \$000s
Total eligible own funds to meet the MCR	82,869	84,940

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

Differences between CES'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

	2022 \$000s	2021 \$000s
Shareholders' equity as shown in the financial statements	71,839	83,686
Solvency II valuation adjustments to assets	(258,081)	(61,627)
Solvency II valuation adjustments to technical provisions	156,676	34,817
Solvency II valuation adjustments to other liabilities	112,435	28,064
Solvency II EAL	82,869	84,940

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

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

E.1.8. Own funds restrictions

CES 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 CES.

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 CES 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 CAA 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 2022 are shown in Table E.6 below.

Table E.6 – SCR & MCR

Solvency II Value	2022 \$000s	2021 \$000s
Solvency Capital Requirement (SCR)	45,188	16,914
Minimum Capital Requirement (MCR)	11,297	4,228

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.

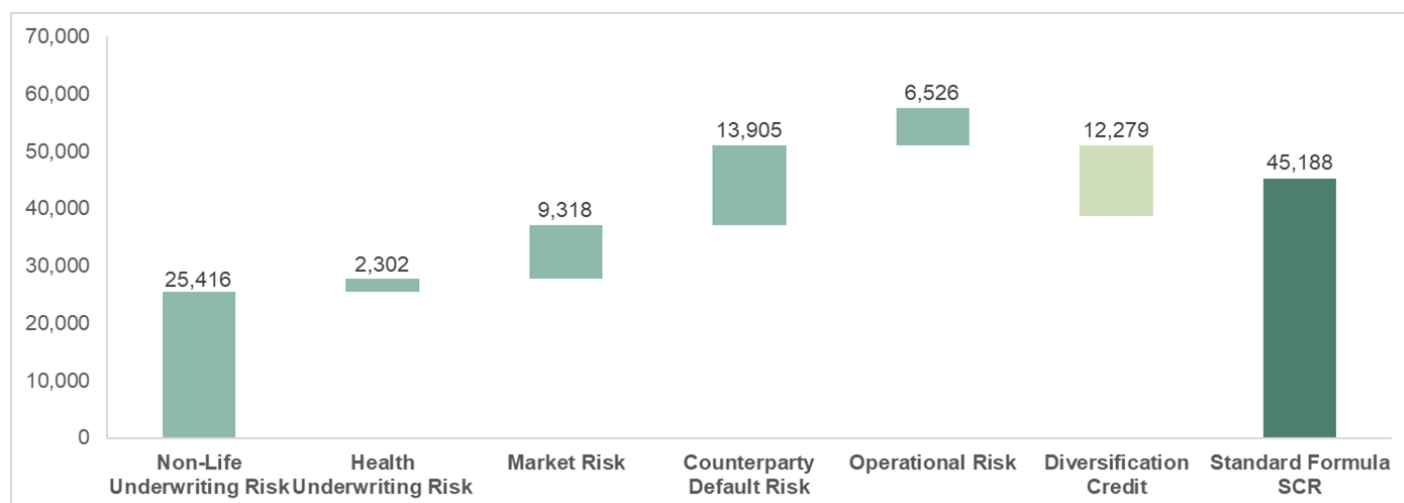
The company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

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.

Non-life underwriting risk

Non-life underwriting risk is the largest component of the SCR. Table E.7 below shows the components of the non-life underwriting risk charge.

Table E.7 – Diversified non-life underwriting risk

Solvency II Value	2022 \$000s	2021 \$000s
Premium and reserve risk	14,974	6,912
Catastrophe risk	16,938	9,765
Lapse risk	2,839	675
Undiversified non-life underwriting risk	34,751	17,352
Diversification credit	(9,335)	(4,035)
Diversified non-life underwriting risk	25,416	13,317

The largest component of the non-life Underwriting Risk charge is 'Catastrophe Risk' which reflects the risk of catastrophe events occurring that impact CES's inwards business. CES has written business across a variety of lines of business that are exposed to catastrophe events. The reinsurance program purchased by CES 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.

Table E.8 – Health underwriting risk

Table E.8 below shows the components of the health risk charge. There has been a remapping of Solvency II classes which occurred during the year which has assigned more previously written business and planned business into the Health Solvency II lines of business .

Solvency II value	2022 \$000s	2021 \$000s
NSLT underwriting risk	500	—
SLT underwriting risk	—	—
Catastrophe risk	2,125	—
Undiversified counterparty market risk	2,625	—
Diversification credit	(323)	—
Diversified health underwriting risk	2,302	—

The largest component of the health underwriting risk charge is in respect of catastrophe risk which reflects the risk of health catastrophe event occurring that impacts CES's inwards business. The reinsurance program purchased by CES acts to significantly mitigate the impact of this on the overall capital requirement.

The other component of the health underwriting risk charge is in respect of the NSLT (Not Similar to Life Techniques) underwriting risk. This is calculated in the same way as the non-life premium and reserve risk, using the same inputs but for the health lines of business.

Market Risk

Market Risk forms a smaller component of the SCR Table E.9 below shows the components of the market risk charge.

Table E.9 – Diversified Market Risk

Solvency II value	2022 \$000s	2021 \$000s
Interest rate risk	1,441	530
Spread risk	2,492	609
Currency risk	7,933	961
Concentration risk	—	—
Property risk	—	—
Equity risk	—	—
Undiversified market risk	11,866	2,100
Diversification credit	(2,548)	(643)
Diversified market risk	9,318	1,457

CES'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 values of the bonds, loans, and collateralised securities within CES's asset portfolio will differ from expectations due to changes in the level of credit spreads over the risk-free interest rate term structure.

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).

CES 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

The of counterparty default risk is shown in Table E.9 below.

Table E.10 – Diversified Counterparty Default Risk

Solvency II Value	2022 \$000s	2021 \$000s
Type 1 counterparty default risk	7,607	4,602
Type 2 counterparty default risk	7,257	354
Undiversified counterparty default risk	14,864	4,956
Diversification credit	(959)	(83)
Diversified counterparty default risk	13,905	4,873

The largest charge is in respect of the risk of default by banks in which cash is held and recoverables from CES's reinsurers, shown as Type 1 in the above table.

There is also a charge in respect of the risk of default by over-due balance sheet debtors, shown as Type 2 in the 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.11 below shows each of the potential operational risk charges and so the resulting risk charge.

Table E.11 – Operational risk

Solvency II value	2022 \$000s	2021 \$000s
Gross earned premium in the previous 12 months	110,172	2,338
Gross earned premium in 12 months prior to the previous 12 months	2,338	—
Operational risk - premium calculation	6,526	140
Gross technical provisions	58,962	(6,877)
Operational risk - technical provisions calculation	1,769	—
Calculated operational risk	6,526	140
Cap – 30% SCR	11,599	5,032
Operational risk	6,526	140

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 EIOPA.

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

Table E.12 – Minimum Capital Requirement

Solvency II value	2022 \$000s	2021 \$000s
Linear MCR	7,147	180
Floor – 25% SCR	11,297	4,228
Cap – 45% SCR	20,335	7,611
Absolute Floor of the MCR	2,677	2,911
Minimum Capital Requirement	11,297	4,228

Therefore, the MCR is calculated as the floor of 25% of the SCR.

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

CES 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 CES 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, CES held Own Funds in excess of the SCR.

E.6. Any other information

All material information relating to CES's capital management has been disclosed in Sections E.1 to E.5 above. All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in US 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: Glossary of terms

Abbreviation	Details of abbreviations
CAA	Commissariat aux Assurances
CES	Convex Europe S.A.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRA	Chief Risk Actuary
CRO	Chief Risk Officer
EAL	Excess of assets over liabilities
EU	European Union
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GEC	Group Executive Committee
GPW	Gross Premiums Written
IMMMR	Identify, Measure, Manage, Monitor and Report
MCR	Minimum Capital Requirement
NAIC	National Association of Insurance Commissioners
NPW	Net Premiums Written
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
RAYG	Red, Amber, Yellow and Green
RBLE	Risk-bearing Legal Entity
RMF	Risk Management Framework
SCR	Solvency Capital Requirement
SM&CR	Senior Managers & Certification Regime
SMF	Senior Management Function
The Company	Convex Europe S.A.
The Group	Convex Group

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 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.

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

Convex Europe S.A.

Solvency and Financial Condition Report

Disclosures

31 December

2022

(Monetary amounts in USD thousands)

General information

Undertaking name	Convex Europe S.A.
Undertaking identification code	894500S0IQYVDCWFAR23
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	LU
Language of reporting	en
Reporting reference date	31 December 2022
Currency used for reporting	USD
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

- 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
		C0010
Assets		
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)	91,336
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	87,371
R0140	<i>Government Bonds</i>	46,578
R0150	<i>Corporate Bonds</i>	26,026
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	14,767
R0180	<i>Collective Investments Undertakings</i>	3,965
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	37,770
R0280	<i>Non-life and health similar to non-life</i>	37,770
R0290	<i>Non-life excluding health</i>	37,742
R0300	<i>Health similar to non-life</i>	28
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	20,843
R0370	Reinsurance receivables	11,749
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	22,412
R0420	Any other assets, not elsewhere shown	2,391
R0500	Total assets	186,500

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	65,394
R0520	<i>Technical provisions - non-life (excluding health)</i>	65,198
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	58,790
R0550	<i>Risk margin</i>	6,408
R0560	<i>Technical provisions - health (similar to non-life)</i>	196
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	171
R0590	<i>Risk margin</i>	25
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	18,039
R0830	Reinsurance payables	13,806
R0840	Payables (trade, not insurance)	0
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	6,392
R0900	Total liabilities	103,631
R1000	Excess of assets over liabilities	82,869

S.17.01.02

Non-Life Technical Provisions

	Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation	
	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
	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	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
Technical provisions calculated as a sum of BE and RM																	
Best estimate																	
Premium provisions																	
R0060 Gross	0	72	0	0	0	-2,227	2,706	4,013	-1,404	0	0	-154	0	68	90	45	3,210
R0140 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	28	0	0	0	4,879	1,116	1,437	-450	0	0	-135	0	27	99	1	7,002
R0150 Net Best Estimate of Premium Provisions	0	44	0	0	0	-7,107	1,590	2,576	-954	0	0	-20	0	42	-8	45	-3,792
Claims provisions																	
R0160 Gross	0	98	0	0	0	40,907	3,836	10,205	-119	0	0	-176	0	178	432	389	55,752
R0240 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0	30,199	-857	1,605	-29	0	0	-205	0	1	32	23	30,767
R0250 Net Best Estimate of Claims Provisions	0	99	0	0	0	10,709	4,693	8,600	-90	0	0	29	1	177	400	366	24,984
R0260 Total best estimate - gross	0	170	0	0	0	38,680	6,542	14,218	-1,522	0	0	-330	1	246	523	434	58,962
R0270 Total best estimate - net	0	143	0	0	0	3,602	6,284	11,176	-1,044	0	0	10	1	219	392	411	21,192
R0280 Risk margin	0	25	0	0	0	4,047	794	1,272	110	0	0	49	0	22	49	65	6,433
Amount of the transitional on Technical Provisions																	
R0290 Technical Provisions calculated as a whole																	0
R0300 Best estimate																	0
R0310 Risk margin																	0
R0320 Technical provisions - total	0	195	0	0	0	42,727	7,336	15,490	-1,412	0	0	-282	1	268	572	500	65,394
R0330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	28	0	0	0	35,078	258	3,042	-479	0	0	-340	0	28	131	23	37,770
R0340 Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	0	167	0	0	0	7,649	7,077	12,448	-933	0	0	58	1	240	441	476	27,625

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Development year										In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	0
R0160	2013	0	0	0	0	0	0	0	0	0	0	0	0
R0170	2014	0	0	0	0	0	0	0	0	0		0	0
R0180	2015	0	0	0	0	0	0	0				0	0
R0190	2016	0	0	0	0	0	0					0	0
R0200	2017	0	0	0	0	0						0	0
R0210	2018	0	0	0	0							0	0
R0220	2019	0	0	0								0	0
R0230	2020	0	0									0	0
R0240	2021	0	1,184									1,184	1,184
R0250	2022	1,023										1,023	1,023
R0260												Total	2,207

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	0
R0160	2013	0	0	0	0	0	0	0	0	0	0	0	0
R0170	2014	0	0	0	0	0	0	0	0	0		0	0
R0180	2015	0	0	0	0	0	0	0				0	0
R0190	2016	0	0	0	0	0	0					0	0
R0200	2017	0	0	0	0	0						0	0
R0210	2018	0	0	0	0							0	0
R0220	2019	0	0	0								0	0
R0230	2020	0	0									0	0
R0240	2021	-431	50,366									46,357	46,357
R0250	2022	11,470										8,954	8,954
R0260												Total	55,311

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

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

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

R0230 Deductions for participations in financial and credit institutions

R0290 Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
90,835	90,835		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-7,966	-7,966			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
82,869	82,869	0	0	0
0				
0				
0				
0				
0				
0				
0				
0			0	0
82,869	82,869	0	0	0
82,869	82,869	0	0	
82,869	82,869	0	0	0
82,869	82,869	0	0	
45,188				
11,297				
183.38%				
733.54%				
C0060				
82,869				
0				
90,835				
0				
-7,966				
0				
54,663				
54,663				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	9,318		
R0020 Counterparty default risk	13,905		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	2,302		
R0050 Non-life underwriting risk	25,416		
R0060 Diversification	-12,279		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	38,662		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	6,526		
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	45,188		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	45,188		
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			
R0590 Approach based on average tax rate	0		
Calculation of loss absorbing capacity of deferred taxes			
	LAC DT		
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	0		

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

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

R0010 MCR_{NL} Result

C0010

7,147

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
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

0	0
143	214
0	0
0	0
0	0
3,602	22,189
6,284	4,772
11,176	8,782
0	762
0	0
0	0
10	208
1	1
219	136
392	56
411	306

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

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

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 Minimum Capital Requirement

C0070

7,147
45,188
20,335
11,297
11,297
2,677
11,297



Convex Europe S.A.
37 Boulevard Joseph II,
L-1840 Luxembourg, Grand-Duchy of Luxembourg

convexin.com