

CONVEX GROUP LIMITED

(Incorporated in Bermuda)

Consolidated Financial Statements
For the year ended December 31, 2022
(Expressed in thousands of U.S. dollars)





April 13, 2023

Report of Independent Auditors

To the Board of Directors and Shareholders of Convex Group Limited

Opinion

We have audited the accompanying consolidated financial statements of Convex Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and December 31, 2021, and the related consolidated statements of income (loss) and comprehensive income (loss), of shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 31, 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are



considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 8 on pages 21 to 23 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

CONVEX GROUP LIMITED

Consolidated Balance Sheets

As of December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars except for share amounts)

Assets	2022	2021
Investments		
Fixed maturity investments, at fair value (amortized cost: 2022: \$3,097,174 2021: \$2,518,877)	\$ 2,950,974	\$ 2,513,700
Short-term investments, at fair value (amortized cost: 2022: \$441,326 2021: \$510,607)	441,799	510,322
Other investments, at fair value (amortized cost: 2022: \$154,283 2021: \$70,623)	177,460	105,095
Total investments	\$ 3,570,233	\$ 3,129,117
Cash and cash equivalents	238,747	197,813
Accrued investment income	14,150	10,615
Insurance receivables	1,337,292	882,822
Prepaid reinsurance premiums	456,305	342,136
Deferred acquisition costs	190,318	109,763
Reserves recoverable	702,197	339,377
Receivable for securities sold	666	164
Deferred tax asset	4,798	4,559
Other assets	166,387	313,884
Total assets	\$ 6,681,093	\$ 5,330,250
Liabilities		
Reserve for losses and loss adjustment expenses	2,137,009	1,183,990
Unearned premiums	1,464,745	1,014,008
Reinsurance payables	627,037	391,078
Other liabilities	186,089	340,861
Total liabilities	\$ 4,414,880	\$ 2,929,937
Shareholders' equity		
Common A shares (\$0.01 par; authorized: 2,885,102,243; issued and outstanding: 2,494,572,604)	24,946	24,889
Common B shares (\$0.01 par; authorized: 2,600,000; issued and outstanding: 2,600,000)	26	26
Preference shares (\$1.00 par; authorized, issued and outstanding: 500,000,000; fully paid-up: 100,000,000)	100,000	100,000
Additional paid-in capital	2,658,951	2,650,852
Retained deficit	(517,710)	(375,454)
Total shareholders' equity	\$ 2,266,213	\$ 2,400,313
Total liabilities and shareholders' equity	\$ 6,681,093	\$ 5,330,250

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Consolidated Statements of Income (Loss)
and Comprehensive Income (Loss)

For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

	2022	2021
Revenues		
Gross premiums written	\$ 3,035,374	\$ 2,114,853
Reinsurance premium ceded	(1,012,311)	(763,731)
Net premiums written	2,023,063	1,351,122
Change in net unearned premiums	(336,567)	(308,994)
Net premiums earned	1,686,496	1,042,128
Net investment return	(107,037)	25,318
Foreign currency losses	(56,057)	(1,508)
Total Revenues	\$ 1,523,402	\$ 1,065,938
Expenses		
Losses and loss adjustment expenses	1,028,336	800,283
Policy acquisition costs	280,162	147,232
Operating expenses	306,908	241,469
Finance charges	2,186	1,095
Other expenses	37,701	26,950
Total expenses	\$ 1,655,293	\$ 1,217,029
Net loss before tax	(131,891)	(151,091)
Tax benefit	10	3,590
Net loss and comprehensive loss	\$ (131,881)	\$ (147,501)
Dividends paid to preference shareholders	10,375	10,433
Net loss and comprehensive loss attributable to common shareholders	\$ (142,256)	\$ (157,934)

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

 Consolidated Statements of Shareholders' Equity
 For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

	Common A shares	Common B shares	Preference shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At January 1, 2022	\$ 24,889	26	100,000	2,650,852	(375,454)	2,400,313
Common shares issued	57	—	—	8,099	—	8,156
Loss for the year	—	—	—	—	(131,881)	(131,881)
Preference shares dividends paid	—	—	—	—	(10,375)	(10,375)
At December 31, 2022	\$ 24,946	26	100,000	2,658,951	(517,710)	2,266,213

	Common A shares	Common B shares	Preference shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At January 1, 2021	\$ 24,272	—	100,000	2,571,531	(217,520)	2,478,283
Common shares issued	617	26	—	79,321	—	79,964
Loss for the year	—	—	—	—	(147,501)	(147,501)
Preference shares dividends paid	—	—	—	—	(10,433)	(10,433)
At December 31, 2021	\$ 24,889	26	100,000	2,650,852	(375,454)	2,400,313

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

 Consolidated Statements of Cash Flows
 For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

	2022	2021
Cash flows provided by (used in) operating activities		
Net loss	\$ (131,881)	\$ (147,501)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,463	4,295
Fair value adjustment to derivatives	43,140	33,481
Change in net realized and unrealized (gains)/losses on investments	196,615	(2,901)
Foreign exchange (gains)/losses included in loss from operations	43,053	(241)
(Accretion)/amortization of premium on fixed maturity investments	(18,026)	22,162
Change in operational balance sheet items:		
Accrued investment income	(3,535)	(2,759)
Insurance receivables	(454,470)	(439,297)
Prepaid reinsurance premiums	(114,169)	(191,433)
Deferred acquisition costs	(80,555)	(65,374)
Reserves recoverable	(362,820)	(242,264)
Reserve for losses and loss adjustment expense	953,020	766,267
Unearned premiums	450,737	500,427
Reinsurance balances payable	235,959	193,432
Other operational balance sheet items, net	(65,069)	(68,852)
Net cash provided by (used in) operating activities	\$ 696,462	\$ 359,442
Cash flows provided by (used in) investing activities		
Proceeds on maturities of investments	736,577	221,259
Purchases of fixed maturity investments	(3,205,201)	(1,616,916)
Sales of fixed maturity investments	2,300,970	323,398
Sales (purchases) of short-term investments, net	(368,701)	572,326
Purchases of other investments	(83,349)	(18,564)
Net cash provided by (used in) investing activities	\$ (619,704)	\$ (518,497)
Cash flows provided by (used in) financing activities		
Capital raised from common share issuances	8,156	79,964
Capital raised from preference share issuance	—	—
Preference share dividends	(10,375)	(10,433)
Net cash provided by (used in) financing activities	\$ (2,219)	\$ 69,531
Effect of foreign currency rate changes on cash and cash equivalents	(33,605)	(6,188)
Net (decrease) increase in cash and cash equivalents	40,934	(95,712)
Cash and cash equivalents - beginning of the year	197,813	293,525
Cash and cash equivalents - end of the year	\$ 238,747	\$ 197,813
Supplemental information		
Taxes paid during the year	\$ Nil	\$ Nil

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements

For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

1. Nature of the business

Convex Group Limited (the "Company" or "CGL"), a Company incorporated in Bermuda on October 24, 2018, is registered as a Group insurer under the Insurance Act 1978 of Bermuda, amendments thereto and related Regulations (the "Act"). The Company provides a diversified range of specialty insurance and reinsurance coverage to the global insurance market.

Convex Re Limited ("CRL"), a Company incorporated in Bermuda in November 2018, is a wholly owned subsidiary of CGL and is registered as a Class 4 insurer under the Insurance Act 1978 of Bermuda, amendments thereto and related Regulations ("the Act").

Convex Insurance UK Limited ("CIL"), a Company incorporated in the United Kingdom in January 2019, is a wholly owned subsidiary of CRL and is authorised and licensed by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA").

Convex Europe S.A ("CES"), a Company incorporated in Luxembourg in March 2021, is a wholly owned subsidiary of CIL and has a UK branch approved by the PRA and FCA.

Convex Guernsey Limited ("CGU"), a Company incorporated in Guernsey in May 2021, is a wholly owned subsidiary of CRL.

Convex North America Insurance Services LLC ("CUS"), a Company incorporated in Delaware, United States of America in June 2021, is a wholly owned subsidiary of CIL and is a managing general agent.

2. Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and cover the year ended December 31, 2022. The consolidated financial statements include the accounts of the Company and its subsidiaries, including CRL, CIL, Convex UK Services Limited ("CSL"), CES, CGU and CUS.

All significant intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- the reserve for losses and loss adjustment expenses;
- the premium written on a line slip or proportional basis;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

The term "ASC" used in these notes refers to Accounting Standard Codification issued by the United States Financial Accounting Standards Board (the "FASB").

The presentation of comparative figures has been revised to conform with the current year presentation.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

3. Significant accounting policies

The following is a summary of significant accounting policies adopted by the Company:

(a) Premiums*Insurance and Assumed Reinsurance Premiums*

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

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

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

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

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

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

Reinstatement Premiums

Reinstatement premiums are calculated for all catastrophe events by applying coverage limits for the remaining life of the contract as per the predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss adjustment expense, which reflects management's judgment, as described in Note 3(c), "Reserve for losses and loss adjustment expense". Reinstatement premiums are fully earned when accrued.

Reinsurance

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

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

Reserves recoverable are estimated in a manner consistent with the claim liability associated with the reinsured policies and represent amounts that will be collectible from reinsurers once the losses are paid and includes an explicit allowance for Reinsurance Bad Debt provisions as appropriate.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(b) Deferred acquisition costs

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

A premium deficiency exists if the sum of expected losses and loss adjustment expense and deferred acquisition costs exceed the related unearned premiums (and, if appropriate, expected future premium) and anticipated investment income. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency. No premium deficiency was recorded for the years ended December 31, 2022 and December 31, 2021.

(c) Reserve for losses and loss adjustment expense

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

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

(d) Investments

The Company classifies its fixed maturity and short-term investments as trading. As such, all investments are carried at fair value with the change in unrealized gains and losses included in net income. All investment transactions are recorded on a first-in-first-out basis and realized gains and losses on the sale of investments are determined on the basis of amortized cost (or cost). Interest on fixed maturity securities is recorded in net investment income when earned and includes amortization of premium or accretion of discount.

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

Other investments consist of investments in externally managed funds, carried at fair value. Their fair value is established using the net asset value (NAV) as a practical expedient.

(e) Leases

The Company classifies any new and existing leases as operating or finance leases. For all types of leases, the Company calculates a lease liability and a corresponding right of use asset using an appropriate discount rate considering the type of lease, and its duration. The Company does not have any finance leases. For operating leases, the Company recognizes interest expense on the lease liability, and depreciation of the right of use asset on the statement of profit and loss, straight line over the life of the lease.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(f) Variable interest entities

The Company accounts for variable interest entities (“VIE”s) in accordance with FASB ASC Topic 810 “Consolidation”, which requires the consolidation of all VIEs by the primary beneficiary i.e. the investor that has the power to direct the activities of the VIE and that will absorb a portion of the VIE’s expected losses or residual returns that could potentially be significant to the VIE.

When the Company determines it has a variable interest in a VIE, it determines whether it is the primary beneficiary of that VIE by performing an analysis that principally considers: (i) the VIE’s purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders; (ii) the VIE’s capital structure; (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE; (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE; and (vi) related party relationships.

The Company reassesses its determination of whether the Company is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the Company’s assessment. Refer to Note 14 “Variable Interest Entities” for further details on the Company’s treatment of Hypatia Ltd which is the only entity accounted for as a variable interest entity.

(g) Fair value of financial instruments

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. ASC Topic 820 “Fair Value Measurement and Disclosure” provides a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The guidance further expands disclosures about such fair value measurements. The guidance applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements. The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction-based measurements are unavailable.

(h) Derivative instruments

The Company has entered into derivative instruments in the form of foreign currency forward exchange derivatives, industry loss derivative instruments, or inflation cap derivatives. These derivative instruments are used to manage exposures to currency fluctuations, to provide protection against the Company’s financial exposure to industry loss events, and protect against increases in inflation. All the Company’s outstanding derivative financial instruments are recognized in the Consolidated Balance Sheets at their fair values. Changes in the fair values of derivative instruments are reported in earnings. Refer to Note 6(a), “Derivatives not designated as hedging instruments,” for further details.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(i) Property and equipment

Property and equipment are carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis.

Leasehold improvements	5 years
Furniture/fixtures/fittings	2 years
Computer hardware	2 years
Computer equipment	2 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property or equipment is derecognized on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property and equipment are determined by comparing proceeds with the carrying amount of the asset and are included in the Consolidated Statements of Comprehensive Income (Loss). Costs for repairs and maintenance are charged to profit or loss as incurred.

Property and equipment are included in other assets on the Consolidated Balance Sheets.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash at bank in hand, deposits held at call with banks, and all investments and money market funds (including those held at the Company's investment managers) with a maturity of 90 days or less at the time of purchase.

(k) Foreign exchange

The U.S. dollar is the functional currency of the Company and its subsidiaries. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rates in effect at the balance sheet date and revenues and expenses denominated in foreign currencies are valued at the prevailing exchange rate on the transaction date with the resulting foreign exchange gains and losses included in earnings. Non-monetary assets and liabilities denominated in foreign currencies are valued at the exchange rate in effect at the time of the underlying transaction.

(l) Income taxes and uncertain tax provisions

Deferred tax assets and liabilities are recorded in accordance with ASC Topic 740 "Income Taxes." Consistent with ASC 740, the Company records deferred income taxes which reflect operating losses and tax credits carried forward and the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

The Company and its Bermuda domiciled subsidiary are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company also has operating subsidiaries in the U.K. Luxembourg, Guernsey and the US, where they are subject to relevant taxes.

The Company recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained upon examination by tax authorities based upon the technical merits of the position. Based on the more-likely-than-not recognition threshold, we must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. The Company classifies all interest and penalties related to uncertain tax positions in income tax expenses.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(m) Recently adopted accounting pronouncements*Leases (Topic 842)*

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842) which changed the way entities account for leases. The FASB decided that lessees should apply a dual model where they will classify a lease as either a finance lease or an operating lease, while a lessor will classify a lease as either a sales-type, direct financing, operating leases.

Under the FASB model, a lessee should classify a lease based on whether the arrangement is effectively a purchase of the underlying asset. Leases that transfer control of the underlying asset to a lessee are classified as finance leases (and as a sales-type lease for the lessor); lessees will classify all other leases as operating leases. In an operating lease, a lessee obtains control of only the use of the underlying asset, but not the underlying asset itself.

A lease may meet the lessor finance lease criteria even when control of the underlying asset is not transferred to the lessee. Such leases should be classified as a direct finance lease by the lessor and as an operating lease by the lessee.

The dual model does not affect a lessee's initial recognition of assets and liabilities on its balance sheet, but differentiates how a lessee should recognize lease expense in the income statement. The accounting for lessors is largely unchanged under the new standard.

The standard is effective for private entities with reporting periods beginning after December 15, 2021 and interim reporting periods beginning after December 15, 2022.

The Company has undertaken an assessment of its office rental agreements using the guidance contained in the standard and has concluded that they will all be accounted for as operating leases with a lease liability equal to the present value of lease payments and right of use asset on the balance sheet. Lease expenses will be recorded in the income statement on a straight line basis over the lease term by adding interest expenses determined using the effective interest method to the amortization of the right of use asset.

(n) Recently issued accounting standards not yet adopted*Financial Instruments - Credit Losses (Topic 326)*

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", which would change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. This standard would replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally would result in earlier recognition of credit losses. This standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Between 2018 and 2022 the FASB issued a number of amendments and targeted improvements to ease with the application of this standard. These updates are effective in line with the effective date of ASU No. 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's financial statements.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

4. Investments

The amortized cost (or cost) and fair value of the Company's investments as at December 31, 2022 and December 31, 2021 are as follows:

	2022	
	Amortized Cost or Cost	Fair Value
U.S. government securities	\$ 1,597,295	\$ 1,528,535
Agency residential mortgage-backed securities	92,583	81,123
Non-agency residential mortgage-backed securities	1,008	963
U.S. corporate	826,900	787,963
Non-U.S. corporate	309,470	292,895
Non-U.S. government and government agency	34,901	33,624
Asset-backed securities	226,525	218,254
Commercial mortgage-backed securities	8,492	7,617
Total fixed maturities	3,097,174	2,950,974
Short-term investments	441,326	441,799
Other investments	154,283	177,460
Total investments	\$ 3,692,783	\$ 3,570,233

	2021	
	Amortized Cost or Cost	Fair Value
U.S. government securities	\$ 1,325,658	\$ 1,322,251
Agency residential mortgage-backed securities	69,001	68,392
Non-agency residential mortgage-backed securities	8,788	8,879
U.S. corporate	900,181	901,092
Non-U.S. corporate	81,177	79,989
Non-U.S. government and government agency	1,703	1,640
Asset-backed securities	118,592	117,717
Commercial mortgage-backed securities	13,777	13,740
Total fixed maturities	2,518,877	2,513,700
Short-term investments	510,607	510,322
Other investments	70,623	105,095
Total investments	\$ 3,100,107	\$ 3,129,117

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(a) Fixed maturity investments

The following table sets forth certain information regarding credit quality ratings (weighted average rating methodology using Standard & Poor's and other recognized rating agencies) of the Company's fixed maturity investments as at December 31, 2022 and December 31, 2021:

	2022	
	Fair Value	% of Total
AAA	\$ 1,792,147	\$ 60.7%
AA	196,187	6.6%
A	687,620	23.3%
BBB	257,354	8.7%
Total investment-grade fixed maturities	2,933,308	99.4%
BB	3,172	0.1%
B	—	—
CCC	—	—
NR	14,494	0.5%
Total non-investment grade fixed maturities	17,666	0.6%
Total fixed maturities	\$ 2,950,974	\$ 100.0%

	2021	
	Fair Value	% of Total
AAA	\$ 1,486,801	\$ 59.1%
AA	164,849	6.6%
A	580,716	23.1%
BBB	261,854	10.4%
Total investment-grade fixed maturities	2,494,220	99.2%
BB	3,800	0.2%
B	—	—
CCC	—	—
NR	15,680	0.6%
Total non-investment grade fixed maturities	19,480	0.8%
Total fixed maturities	\$ 2,513,700	\$ 100.0%

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(a) Fixed maturity investments (continued)

The amortized cost and fair values for the Company's fixed maturity investments held at December 31, 2022 and December 31, 2021 are shown below by effective maturity. Actual maturity may differ from final maturity due to prepayment rights associated with certain investments.

	2022	
	Amortized Cost	Fair Value
Due in one year or less	\$ 489,043	\$ 474,714
Due after one year through five years	2,200,807	2,092,124
Due after five years through ten years	78,715	76,179
Due after 10 years	—	—
	<u>2,768,565</u>	<u>2,643,017</u>
Asset-backed and mortgage-backed securities	328,609	307,957
Total fixed maturities	\$ 3,097,174	\$ 2,950,974

	2021	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,268,541	\$ 1,267,656
Due after one year through five years	1,022,010	1,019,268
Due after five years through ten years	18,168	18,048
Due after 10 years	—	—
	<u>2,308,719</u>	<u>2,304,972</u>
Asset-backed and mortgage-backed securities	210,158	208,728
Total fixed maturities	\$ 2,518,877	\$ 2,513,700

(b) Net investment return

Net investment return was derived from the following sources for the years ended December 31, 2022 and December 31, 2021.

	2022	2021
Fixed maturities and short-term investments	\$ 66,466	\$ 44,414
Other investments	—	—
Cash and cash equivalents	1,351	15
Total gross investment income	<u>67,817</u>	<u>44,429</u>
Accretion/(amortization) of premium on fixed maturity investments	3,176	(22,282)
Investment expenses	<u>(1,672)</u>	<u>(2,778)</u>
Total net investment income	69,321	19,369
Realized (losses)/gains	(32,892)	1,951
Change in unrealized (losses)/gains	<u>(143,466)</u>	<u>3,998</u>
Net investment return	\$ (107,037)	\$ 25,318

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(c) Pledged investments

The Company holds restricted assets comprising cash and cash equivalents, short-term investments and fixed maturity investments that were pledged and held in trust during the normal course of business with various regulatory authorities. At December 31, 2022, \$626,321 (2021: \$467,790) of assets were on deposit with custodians in respect of letter of credit facilities and trust accounts.

5. Fair value measurements**(a) Classification within the fair value hierarchy**

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under U.S. GAAP, a Company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are described below:

Level 1 - Fair values are measured based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 - Fair values are measured based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Fair values are measured based on unobservable inputs that reflect the Company's own judgments about assumptions where there is little, if any, market activity for that asset or liability that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of the valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.

At December 31, 2022 and December 31, 2021 the Company's investments were allocated between Levels 1, 2 and 3 as follows:

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(a) Classification within the fair value hierarchy (continued)

	2022				Total
	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	
U.S. government securities	\$ 1,528,535	\$ —	\$ —	\$ —	\$ 1,528,535
Agency residential mortgage-backed securities	—	81,123	—	—	81,123
Non-agency residential mortgage-backed securities	—	963	—	—	963
U.S. corporate	—	787,963	—	—	787,963
Non-U.S. corporate	—	292,895	—	—	292,895
Non-U.S. government/government agency	—	33,624	—	—	33,624
Asset-backed securities	—	200,587	17,667	—	218,254
Commercial mortgage-backed securities	—	7,617	—	—	7,617
Total fixed maturities	1,528,535	1,404,772	17,667	—	2,950,974
Short-term investments	338,715	103,084	—	—	441,799
Other investments	—	—	—	177,460	177,460
Total investments	\$ 1,867,250	\$ 1,507,856	\$ 17,667	\$ 177,460	\$ 3,570,233

	2021				Total
	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	
U.S. government securities	\$ 1,322,251	\$ —	\$ —	\$ —	\$ 1,322,251
Agency residential mortgage-backed securities	—	68,392	—	—	68,392
Non-agency residential mortgage-backed securities	—	8,879	—	—	8,879
U.S. corporate	—	901,092	—	—	901,092
Non-U.S. corporate	—	79,989	—	—	79,989
Non-U.S. government/government agency	—	1,640	—	—	1,640
Asset-backed securities	—	98,237	19,480	—	117,717
Commercial mortgage-backed securities	—	13,740	—	—	13,740
Total fixed maturities	1,322,251	1,171,969	19,480	—	2,513,700
Short-term investments	430,024	80,298	—	—	510,322
Other investments	—	—	—	105,095	105,095
Total investments	\$ 1,752,275	\$ 1,252,267	\$ 19,480	\$ 105,095	\$ 3,129,117

(a) In accordance with ASC Topic 820 Fair Value Measurements, investments measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

There were no transfers into or out of Level 3 during the years ended December 31, 2022, or December 31, 2021.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(b) Valuation techniques

There have been no material changes in the Company's valuation techniques during the period represented by these Consolidated Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheet.

Fixed maturity investments

In general, valuation of the Company's fixed maturity investment portfolio is provided by pricing services, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide valuations for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Prices are generally verified using third party data. Index providers generally utilize centralized trade reporting networks, available market makers and statistical techniques.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however, they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.

The Company considers these Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government securities

U.S. government securities consist of debt securities issued by the U.S. Treasury. U.S. government securities are priced based on unadjusted market prices in active markets. As all of the inputs used to price these securities are observable, the fair value of these investments are classified as Level 1.

Agency residential mortgage-backed securities

Agency residential mortgage-backed securities consist primarily of mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Agency residential mortgage-backed securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company has no non-agency residential mortgage securities classified as sub-prime held in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

valuation, when applicable. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

U.S. corporate

U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. corporate issuers and industries. The Company's corporate fixed maturity investments are primarily priced by pricing services.

When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-US. corporate

Non-U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of non-U.S. corporate issuers and industries. The Company's non-U.S. corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-U.S. government and government agency securities

Non-U.S. government and government agency securities valuations are provided by independent pricing services, with prices typically provided through index providers and pricing vendors. The fair values of these securities are generally based on international indices or valuation models which include daily observed yield curves, cross-currency basis index spreads and country credit spreads. As the significant inputs used in the pricing process for non-U.S. government securities are observable market inputs, the fair value of these securities are classified within Level 2.

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.

As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. There are a small number of collateralized loan obligations held that are generally illiquid and where inputs used to price these securities may not be directly observable and as such these are classified as Level 3.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Short term investments

Short-term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the portfolio is generally determined using amortized cost which approximates fair value. As the highly liquid money market-type funds are actively traded, the fair value of these investments are classified as Level 1. To the extent that the remaining securities are not actively traded due to their approaching maturity, the fair value of these investments are classified as Level 2.

Other Investments – measured using net asset valuation (“NAV”) as a practical expedient

Other investments consist of investments in externally managed funds, carried at fair value. Their fair value is established through the net asset value (NAV) practical expedient. The fair value is generally established on the basis of the net valuation criteria determined by the manager of the investment; these criteria are established in accordance with the governing documents of the investment. Realized and unrealized gains and losses on other investments are included in net investment return.

The Company’s fund managers are occasionally unable to provide final fund valuations as of the Company’s current reporting date. In circumstances where there is a reporting lag between the current year end reporting date and the reporting date if the latest fund valuation, the Company estimates the fair value of these funds by starting with the prior month-end valuations, adjusting these for actual capital calls, redemptions or distributions, as well as the impact of changes in foreign currency exchange rates. Actual final fund valuations may differ, perhaps materially so, from the Company’s estimates and these differences are recorded in the Company’s net income in the year in which they are reported to the Company as a change in estimate.

At December 31, 2022, the Company had \$177,460 (2021: \$105,095) of investment in independently managed external funds. There are \$101,194 (2021: \$36,145) unfunded commitments. The funds are primarily focused on equity and credit investment opportunities with a mixture of open and closed end fund structures.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

6. Derivative instruments
(a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at December 31, 2022 and December 31, 2021:

	2022		
	Notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Derivatives not designated as hedging instruments:			
Industry Loss Warranties	\$ 350,000	\$ 11,229	\$ (12,921)
Foreign currency forward contracts	37,386	37,386	(41,888)
Inflation Caps	700,000	10,087	—
	\$ 1,087,386	\$ 58,702	\$ (54,809)

	2021		
	Notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Derivatives not designated as hedging instruments:			
Industry Loss Warranties	\$ 350,000	\$ 50,532	\$ (39,985)
Foreign currency forward contracts	209,210	209,485	(209,213)
Inflation Caps	200,000	1,695	—
	\$ 759,210	\$ 261,712	\$ (249,198)

(a) Derivatives are classified within Other Assets & Other Liabilities on the Consolidated Balance Sheets.

The industry loss warranties are valued on the basis of modelled and other information. The Company reviews this information, which represents Level 3 inputs, as it is ultimately management's responsibility to ensure that the fair values reflected in the Company's financial statements are appropriate.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statement of Income relating to derivatives that were not designated as hedging instruments during the years ended December 31, 2022 and December 31, 2021.

Derivatives not designated as hedging instruments:	Classification of gains (losses) recognized in net income	2022	2021
Industry Loss Warranties	Other expenses	\$ (39,303)	\$ (27,435)
Foreign currency forward contracts	Foreign currency gains (losses)	(18,899)	(6,643)
Inflation Cap	Other expenses	1,602	485
		\$ (56,600)	\$ (33,593)

(b) Balance sheet offsetting

There was no balance sheet offsetting activity as at December 31, 2022 and December 31, 2021.

Our derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish terms that apply to all transactions. Daily margining takes place above a defined threshold and the amounts receivable from or payable to the counterparties are settled in cash.

7. Insurance receivables

Insurance receivables are composed of premiums in the course of collection, net of commissions and brokerage, premiums accrued but unbilled, net of commissions and brokerage, and paid losses recoverable. It is common practice in the (re)insurance industry for premiums to be paid on an instalment basis, therefore significant amounts will be considered unbilled and will not become due until a future date, which is typically no later than expiration of the underlying coverage period. The following is a breakdown of the components of insurance receivables as at December 31, 2022 and December 31, 2021.

	2022			
	Paid losses recoverable	Premiums in course of collection	Premiums accrued but unbilled	Total
Paid losses recoverable & Insurance receivables, beginning of year	\$ 39,732	\$ 67,244	\$ 775,846	\$ 882,822
Change during the year	47,137	78,347	328,986	454,470
Paid losses recoverable & Insurance receivables, end of year	\$ 86,869	\$ 145,591	\$ 1,104,832	\$ 1,337,292
	2021			
	Paid losses recoverable	Premiums in course of collection	Premiums accrued but unbilled	Total
Paid losses recoverable & Insurance receivables, beginning of year	\$ 4,336	\$ 16,999	\$ 422,190	\$ 443,525
Change during the year	35,396	50,245	353,656	439,297
Paid losses recoverable & Insurance receivables, end of year	\$ 39,732	\$ 67,244	\$ 775,846	\$ 882,822

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

8. Reserve for losses and loss adjustment expense

The following table summarizes the Company's reserve for losses and loss adjustment expenses, gross of reinsurance recoveries, as at December 31, 2022 and December 31, 2021:

	2022	2021
Case reserves	\$ 675,418	\$ 294,246
IBNR	1,461,591	889,744
Reserve for losses and loss adjustments expenses	\$ 2,137,009	\$ 1,183,990

The following table represents an analysis of paid and unpaid losses and loss adjustment expenses and a reconciliation of the beginning and ending unpaid losses and loss expenses for the years ended December 31, 2022 and December 31, 2021:

	2022	2021
Reserve for losses and loss adjustment expenses, beginning of year	\$ 1,183,990	\$ 417,723
Less: Reserves recoverable, beginning of year	(339,377)	(97,114)
Net reserves for losses and loss adjustment expenses, beginning of year	844,613	320,609
Increase in net reserves for losses and loss adjustment expenses in respect of losses occurring in:		
Current year	1,143,245	795,533
Prior year	(114,909)	4,750
Total losses and loss adjustment expenses	1,028,336	800,283
Foreign exchange (gain) / loss	(20,893)	(12,701)
Less net losses and loss adjustment expense paid in respect of losses occurring in:		
Current year	(215,039)	(147,259)
Prior year	(202,205)	(116,319)
Total net paid losses	(417,244)	(263,578)
Net reserve for losses and loss adjustment expenses, end of year	1,434,812	844,613
Add: Reserves recoverable	702,197	339,377
Reserve for losses and loss adjustment expenses, end of year	\$ 2,137,009	\$ 1,183,990

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

Reserving Methodology/ Process used to decide on assumptions

The Company's reserving methodology for each reserving class uses a combination of loss reserving processes that result in the Company's best estimate for its ultimate settlement and administration costs for losses and loss adjustment expenses. The Company records its best estimate of additional case reserves and IBNR in the consolidated financial statements. The Company does not discount any of its reserves for losses and loss adjustment expenses.

A full analysis of claims reserves is performed on a quarterly basis. The Company considers and evaluates inputs from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, the views of third-party actuarial firms, discussion with underwriters, actuaries, claims and finance personnel. These inputs are assessed and form the basis for the recommendations from the Reserving Committee, which includes members of the Company's senior management. The Reserving Committee's remit is to review the estimated claims reserves and to critically assess the claims reserving.

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known large losses and catastrophes, from inadequate provision for unknown losses, or from inadequate provision for the deterioration of existing notified losses. The prior year favourable development in the reserves is \$94,016 (2021: \$4,750 adverse development). This was primarily related to Casualty and Aerospace lines of business with Marine, Property and Property Re also contributing to the release in the year.

The following table is unaudited supplementary information which presents the average annual percentage payout of incurred loss and loss adjustment expense, by age, net of reinsurance:

Year 1 (Unaudited)	Year 2 (Unaudited)	Year 3 (Unaudited)	Year 4 (Unaudited)
14.8%	32.3%	18.0%	4.1%

Claims Frequency

The nature, size, terms and conditions of contracts that the Company enters into can vary from one accident year to the next. In addition, as a result of varying contractual or policy limits from one year to the next, the potential loss and loss expense associated with reported claims can range. For some contracts, such as proportional treaties, binders, and bulking lineslips, the Company may not have access to consistent claims frequency information. As a result of the nature of the business, it is not practicable to determine claims frequency.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

Claims Development Tables by Accident Year

Incurred and paid accident year claims denominated in foreign currency, have been remeasured using the current year end exchange rate.

Incurred Loss and Loss Adjustment Expenses, Net of reinsurance

Cumulative incurred claims at end of accident year	For the years ended 31 December				IBNR plus expected development on reported claims
	2019 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2022	
2019	5,748	5,167	2,594	3,517	(70)
2020		368,495	375,818	356,278	91,806
2021			782,252	685,961	192,523
2022				1,122,352	657,368
	5,748	373,662	1,160,664	2,168,108	941,627

Paid Loss and Loss Adjustment Expense, Net of reinsurance

Paid claims at end of accident year	For the years ended 31 December			
	2019 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2022
2019	114	1,251	1,934	2,048
2020		51,638	167,274	207,704
2021			146,844	308,505
2022				215,039
	114	52,889	316,052	733,296

Change in losses and loss adjustment expenses for the years ended December 31, 2022 and December 31, 2021:

	2022	2021
Gross losses and loss adjustment expenses	\$ 1,569,714	\$ 1,131,485
Ceded losses and loss adjustment expenses	(541,378)	(331,202)
Losses and loss adjustment expenses	\$ 1,028,336	\$ 800,283

9. Reinsurance

The Company's reinsurance balances recoverable at December 31, 2022 and December 31, 2021 are as follows:

	2022	2021
Reserves recoverable on unpaid:		
Case reserves	\$ 182,564	\$ 67,462
IBNR	519,633	271,915
Total reserves recoverable	\$ 702,197	\$ 339,377

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on net premiums written and earned, and on losses and loss adjustment expenses for the years ended December 31, 2022 and December 31, 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Premiums written:		
Direct insurance	\$ 1,612,560	\$ 1,184,286
Treaty reinsurance	1,422,814	930,567
Ceded	(1,012,311)	(763,731)
Net premiums written	<u>\$ 2,023,063</u>	<u>\$ 1,351,122</u>
Premiums earned:		
Direct insurance	\$ 1,385,883	\$ 856,876
Treaty reinsurance	1,198,754	757,551
Ceded	(898,141)	(572,299)
Net premiums earned	<u>\$ 1,686,496</u>	<u>\$ 1,042,128</u>
Loss and loss adjustment expenses:		
Direct insurance	\$ 737,895	\$ 516,902
Treaty reinsurance	831,819	614,583
Ceded	(541,378)	(331,202)
Loss and loss adjustment expenses	<u>\$ 1,028,336</u>	<u>\$ 800,283</u>

(b) Credit risk

The cession of reinsurance does not legally discharge the Company from its primary liability for the full amount of the (re)insurance policies it writes, and the Company is required to pay the loss and bear collection risk regarding reinsurers' obligations under reinsurance and retrocession agreements. The Company records provisions for uncollectible reinsurance recoverable when collection becomes unlikely due to the reinsurer's inability to pay.

To the extent the creditworthiness of the Company's reinsurers were to deteriorate due to adverse events affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying loss reserves.

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependant on rating. In 2022 CGL placed 99% (2021: 85%) of its business with reinsurers rated A- or above. Reinsurers with less than A- rating are fully collateralized.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

10. Share capital**Class A Shares**

The Company's authorized share capital is 2,885,102,243 (2021: 2,885,102,243) Class A common shares ("Class A shares") with a par value of \$0.01 each. The holders of Class A shares are entitled to receive dividends and are allocated one vote per share. At December 31, 2022, there were 2,494,572,604 (2021: 2,488,868,741) Class A shares outstanding.

In May 2022, the Company issued 5,564,003 (May 2021: 14,040,786) Class A shares to Convex Friends & Family ("Friends & Family") at a price of \$1.43 (May 2021: \$1.25) per share. A subsidiary of the Company, Convex Nominee Limited ("CNL"), acts as a trustee for the Company's Friends and Family share purchase program.

In August 2022, the Company issued 139,860 (June 2021: 140,358) Class A shares to certain directors of the Company at a price of \$1.43 (June 2021: \$1.25) per share in lieu of payment of director's fees.

Class B Shares

Certain members of the management team of the Company were invited to participate in a Management Incentive Plan ("MIP") through the purchase of Class B common shares ("Class B shares") at fair value. The purpose of the MIP is to incentivize key members of the Company's management team by providing an equity incentive the value of which is linked to the performance of the business. The Company's authorized share capital is 2,600,000 Class B shares with a par value of \$0.01 each, and at the end of 2022 all authorized shares were issued for combined purchase price of \$2,963. There were no compensation costs relating to the issuance of the Class B shares recognized in the Statement of Profit and Loss.

The holders of Class B shares are not entitled to receive dividends but are allocated one vote per share. Class B shares are subject to transfer restrictions based on employee tenure at the Company, and vest over 10 years from the date of share issuance. As at December 31, 2022 all shares were unvested, and no shares have been forfeited. The Class B shares include a put option where the shareholder can request the Company to repurchase shares. The puts are exercisable for a 12-month period beginning on April 29, 2029. On a return of capital, completion of a Sale or Listing the Class B shares will participate in the distribution of surplus assets the extent to which is determined with reference to the internal rate of return achieved by the Class A shareholders.

The Class B shares will only participate after the Class A shares have received amounts equal to or greater than the Class A shares investment cost. Class B shares are accounted for in accordance with ASC 718-10 Stock Based Compensation due to the vesting conditions containing the requisite service periods. Fair value of the shares at issuance date was estimated using a Monte Carlo model, which requires certain inputs and assumptions including a risk-free interest rate, expected term, and internal rate of return.

Preference Shares

During November 2020, the Company issued 500,000,000 perpetual cumulative Preference Shares. The Preference Shares have no stated maturity date and will remain outstanding perpetually unless and until the Company elects to redeem them, in part or in whole, solely at the Company's option. The aggregate gross initial acquisition price was \$100,000 for 100,000,000 fully paid-up shares and 400,000,000 Nil-paid shares. The subscription includes a requirement that investors purchase additional Nil-paid shares upon receipt of a valid "Call Notice" from the Company. Call Notices are issued subject to the terms and conditions of the subscription agreement. Investors cannot cancel, revoke or alter their respective portion of the capital commitment prior to the expiry of the commitment period, or other specified termination dates within the subscription agreement. The commitment period ends on November 24, 2023.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

Fully-paid shares have a liquidation preference equal to the applicable acquisition price per share (initially \$1.00 per share) plus accrued and unpaid dividends (even if such dividends have not been declared by the Board). Nil-paid shares are Preference Shares of the Company that have been issued and allotted, but for which the acquisition price has not been fully paid. Each Nil-paid share generally has a liquidation preference of \$0.00 and does not accrue or accumulate dividends. Investor payments under Call Notices will result in the related Nil-paid shares becoming fully-paid shares.

Holders of the Preference Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Preference Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bylaws.

Dividends

The Company did not declare dividends on common shares during the year ended December 31, 2022 (2021: Nil).

Cumulative dividends on the Preference Shares, when, as and if declared by the Company's Board of Directors, will accrue and be payable quarterly in arrears at an annual fixed rate of 10.375% of the liquidation preference (subject to any adjustments) until the seventh anniversary of the initial issue date. Subsequent to that, floating rate payments will be at the rate of the 3-month LIBOR (or at a "Fallback" or "Replacement" rate, per the issuance agreement) plus a margin of 9.3% of the liquidation preference.

The Board is not required to declare and pay dividends on the Preference Shares. However, dividends are accrued, regardless of Board declaration, for purposes of the calculation of the liquidation preference. Dividend payments of \$10,375 were made to preference shareholders in 2022 (2021: \$10,433).

11. Pension contributions

The Company provides pension benefits to eligible employees through various plans which are managed externally and sponsored by the Company. The Company's contributions are expensed as incurred. The Company's expenses for its defined contribution plans for the year ended December 31, 2022 were \$8,003 (2021: \$6,952).

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

12. Income taxes

The Company provides for income taxes based upon profits/losses reported in the financial statements and the provisions of currently enacted tax laws. The Company is registered in Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not taxed on any Bermuda income or capital gains and has received an undertaking from the Bermuda Minister of Finance that, in the event of any Bermuda income or capital gains taxes being imposed, the Company will be exempt from such taxes until March 31, 2035.

The Company's subsidiaries that operate outside of Bermuda are subject to tax outside of Bermuda.

The Company's net loss before tax for the years ended December 31, 2022 and December 31, 2021 was generated in the following domestic and foreign jurisdictions:

	2022	2021
Domestic	\$ 56,941	\$ 89,640
Foreign	74,950	61,451
Net loss before tax	<u>\$ 131,891</u>	<u>\$ 151,091</u>
Current taxation		
Bermuda current tax at 0% (2021: 0%)	—	—
Bermuda corporation tax	<u>\$ —</u>	<u>\$ —</u>
Foreign taxation – current year	\$ (341)	\$ (37)
Foreign taxation – adjustment in respect of prior years	112	(72)
Foreign taxation	<u>\$ (229)</u>	<u>\$ (109)</u>
Total current taxation (charge)	<u>\$ (229)</u>	<u>\$ (109)</u>
Deferred taxation		
Origination & reversal of timing differences	\$ 1,057	\$ 3,710
Adjustments in respect of prior periods	(818)	(11)
Total deferred tax benefit (charge)	<u>\$ 239</u>	<u>\$ 3,699</u>
Tax benefit (charge) on ordinary activities	<u>\$ 10</u>	<u>\$ 3,590</u>

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

The table below is a reconciliation of the actual income tax benefit (charge) for the years ended December 31, 2022 and December 31, 2021 to the amount computed by applying the effective tax rate of 0% under Bermuda law to income before taxes:

	<u>2022</u>	<u>2021</u>
Expected tax benefit (charge) at local rate of tax	\$ —	\$ —
Effects of:		
Expected tax benefit (charge) on foreign profits	15,543	11,748
Rate change adjustment	2,339	6,164
Prior year adjustment - current tax	99	17
Prior year adjustment - deferred tax	(818)	(11)
Permanent differences	175	(157)
Deferred tax not recognized	(16,987)	(14,047)
Other foreign taxes	(341)	(124)
Actual income tax benefit (charge)	<u>\$ 10</u>	<u>\$ 3,590</u>

Deferred tax assets primarily represent the tax effect of temporary differences between the carrying value of assets and liabilities for financial statement purposes and such values as measured by tax laws and regulations in countries in which the operations are taxable. Deferred tax assets may also represent the tax effect of tax losses carried forward.

	<u>2022</u>	<u>2021</u>
Deferred tax asset related to		
Tax losses carried forward at local tax rates	\$ 38,933	\$ 22,547
Deferred bonuses	1,871	2,167
GAAP differences	809	150
Capital allowances in excess of depreciation	2,999	2,285
Pension contributions	98	120
Total deferred tax assets	<u>\$ 44,710</u>	<u>\$ 27,269</u>
Less: valuation allowances	(39,912)	(22,710)
Total net deferred income tax assets	<u>\$ 4,798</u>	<u>\$ 4,559</u>
Net deferred income tax asset/(liability)	<u>\$ 4,798</u>	<u>\$ 4,559</u>

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

The Company has \$38,933 (2021: \$22,547) net deferred tax assets in respect of carried forward net operating losses ('NOLs') as at December 31, 2022. A 100% (2021: 100%) valuation allowance has been applied in order to reduce the deferred tax asset recognized on the Consolidated Balance Sheets, on the basis that future profits against which the NOLs can be offset are uncertain. During the year the UK government substantively enacted a change to the rate of UK corporation tax, which will rise from 19% to 25% from April 1, 2023. This has led to an uplift in the value of NOLs by \$8,083 against which a 100% valuation allowance has been applied.

The movement in the deferred tax asset for the years ended December 31, 2022 and December 31, 2021 can be explained as follows:

	2022	2021
Balance at beginning of the year asset/(liability)	\$ 4,559	\$ 860
Additional deferred tax assets	—	—
Movement due to creation of tax losses carried forward	14,278	8,643
Movement of deferred tax on capital allowances	690	791
Movement of deferred tax on pension asset	(10)	39
Movement of Deferred bonus	232	1,235
Movement of GAAP differences	515	885
Prior year adjustment	(818)	(11)
Rate change	2,339	6,164
Deferred tax asset on losses not recognized	(16,987)	(14,047)
Balance as at end of year asset/(liability)	\$ 4,798	\$ 4,559

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

13. Commitments and contingencies

(a) Concentrations of credit risk

The Company underwrites a significant amount of its reinsurance business through three (2021: three) brokers as set out below. There is credit risk associated with payments of (re)insurance balances to the Company in regard to these brokers' ability to fulfil their contractual obligations. These brokerage companies are large and well established, and there are no indications they are financially distressed. There was no other broker or (re)insured party that accounted for more than 10% of gross premiums written for the periods mentioned.

The following table shows the percentage of gross premiums written through each of these three brokers for the years ended December 31, 2022 and December 31, 2021:

Broker	2022	2021
Marsh & McLennan Companies, Inc.	28.2 %	27.8%
Aon Benfield	19.8 %	20.0%
Willis Towers Watson	9.9 %	13.7%

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

(b) Employment agreements

The Company has entered into employment agreements with certain individuals that provide for executive benefits and severance payments under certain circumstances.

(c) Leases

The Company adopted ASC 842, the revised lease standard, effective January 1, 2022.

The Company leases office space and office equipment under various operating leases. All of these leases, the expiration of which range from 2024 to 2031, are for the rental of office space across the UK, the US, Luxembourg, Bermuda, and Guernsey.

In line with the revised standard, the Company has recognised a lease liability, and a corresponding right of use asset.

The lease liability recognised is the total of the present value of the fixed payments in line with the signed lease agreements across the various jurisdictions. The fixed payments were discounted using the treasury rates in each jurisdiction for the duration of the lease term.

The right of use asset recognised is the present value of the the lease liability adjusted for the payment holiday received at the inception of the lease. The payment holiday is amortised over the remaining life of the lease.

The following table summarizes the operating lease charge for the twelve months ended December 31, 2022.

	2022
Amortization charge on right-of-use operating leased assets	\$ 6,606
Interest on operating lease liabilities	323
Release of lease incentive	(1,951)
Operating lease charge	\$ 4,978

The following table presents the lease balances within the consolidated balance sheet as of December 31, 2022.

	2022
Operating lease right-of-use assets	\$ 22,923
Operating lease liabilities	\$ 26,628
Weighted average lease term (years)	5
Weighted average discount rate	1.2 %

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

Future minimum rental commitments as of December 31, 2022 under these leases are expected to be as follows:

	2022
2023	\$ 6,609
2024	5,066
2025	3,748
2026	2,620
2027 and thereafter	5,730
Total future annual minimum rental payments	23,773
Less: present value discount	(850)
Total lease liability as of December 31, 2022	\$ 22,923

14. Variable Interest Entities
Hypatia Ltd.

Hypatia Ltd. (“Hypatia”) is licensed as a Bermuda domiciled special purpose insurer to provide reinsurance capacity to the Company and its subsidiaries through derivatives agreements which are collateralized and funded by Hypatia through the issuance of one or more tranches of principal-at-risk variable rate catastrophe bonds to third-party investors.

Upon issuance of a tranche of bonds by Hypatia, all of the proceeds are deposited into collateral accounts, separated by tranche, to fund any potential obligation under the agreements entered into with the Company and its subsidiaries underlying the tranche. The outstanding principal of each tranche generally will be returned to holders of the bonds upon the expiration of the risk period underlying each tranche, unless an event occurs, which causes a loss under the applicable tranche, in which case the amount returned will be reduced by such bondholder’s pro rata share of such loss, as specified in the applicable governing documents of such bonds. In addition, holders of the bonds are generally entitled to interest payments, payable quarterly, as determined by the applicable governing documents of each tranche of bonds.

Hypatia meets the definition of a VIE because it does not have sufficient equity capital to finance its activities. The Company has evaluated its relationship with Hypatia and concluded that the Company is not the primary beneficiary because it does not have an obligation to absorb losses or receive benefits that could potentially be significant to the VIE. As a result, the Company does not consolidate the financial position or results of operations of Hypatia. The Company has not provided any financial or other support to Hypatia that it was not contractually required to provide.

The only transactions related to Hypatia that are recorded in the Company’s consolidated financial statements are the payments made to Hypatia which are required to be accounted for as derivatives under ASC 815, Derivatives and Hedges.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

15. Credit Facilities
Bilateral Letter of Credit Facilities
Uncommitted Standby Letter of Credit Facility with Citibank Europe

The Company and certain of its subsidiaries and affiliates are parties to a Standby Letter of Credit Agreement dated February 12, 2020 with Citibank Europe Plc, under which Citibank made available a letter of credit facility in the amount of \$200,000. The facility was renewed on November 25, 2021 and increased to \$300,000. The agreement provides for a secured, uncommitted facility under which letters of credit may be issued from time to time. The facility will be used to secure obligations to its policyholders. Pursuant to the agreement, the applicants may request secured letter of credit issuances. The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. At December 31, 2022, there were \$198,390 (2021: \$189,485) of secured letters of credit outstanding under this agreement, secured by collateral in the amount of \$249,839 (2021: \$304,745).

Committed Standby Letter of Credit Facility with Lloyds Bank plc

On November 10, 2021, a new Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds") was established, under which Lloyds committed to a letter of credit facility in the amount of \$200,000. On November 22, 2021, the facility was amended to increase the overall commitments to \$300,000. On November 23, 2022, the facility was amended to include a \$100,000 unsecured accordion clause. The letter of credit facility is secured and supports the Company's insurance and reinsurance obligations. As at December 31, 2022, there were letters of credit outstanding under this facility totalling \$273,753 (2021: \$35,329), secured by collateral in the amount of \$335,655 (2021: \$149,932).

Committed Standby Letter of Credit Facility with Barclays Bank plc

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

16. Related party transactions

Included in "Operating expenses" in the Consolidated Statements of Income (Loss) are expenses which relate to professional services, accommodation, travel and entertainment which were provided by various related parties of the Company and amounted to \$605 for the year ended December 31, 2022 (2021: \$625). There were Nil balances in accounts payable at December 31, 2022 (2021: Nil) relating to these transactions.

Included in "Gross premium written" in the Consolidated Statements of Income (Loss) are gross premiums written with various related parties of the Company and amounted to \$173,007 (2021: \$128,430). The primary related party was Howden UK Group Limited which produced \$129,993 of the gross premium written (2021: Howden UK Group Limited which produced \$84,738 of the gross premium written.)

Kelly Lyles, who was appointed a director of the Company in 2022, serves as a director for Howden UK Group Limited. There was \$22,918 balance in insurance receivables at December 31, 2022 (2021: \$21,210) related to Howden UK Group Limited. Nicholas Lyons, a director of the Company, serves as a director for Miller Insurance Services. There was \$11,580 balance in insurance receivables at December 31, 2022 related to Miller Insurance Services (2021: \$19,205).

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

17. Statutory and regulatory requirements

The Company has operations which are subject to laws and regulations in Bermuda, United Kingdom, Luxembourg, Guernsey and the United States of America.

The Company's (re)insurance subsidiaries prepare their statutory financial statements in conformity with statutory accounting practices prescribed or permitted by the applicable local laws and relevant regulatory authority. The statutory financial statements may vary materially from statements prepared in accordance with U.S. GAAP.

The Company and its subsidiaries are required to maintain certain measures of solvency and liquidity which provide restrictions on declaring dividends and distributions. Statutory capital and surplus as of December 31, 2022 and statutory net income for the year ended December 31, 2022 for our Bermuda reinsurance subsidiary will not be filed with the BMA until April 2022. Statutory capital and surplus as at December 31, 2022 and statutory net income for the year ended December 31, 2022 for our (re)insurance subsidiaries in Bermuda, U.K., Luxembourg and Guernsey were as follows:

	2022		Statutory Net Loss
	Statutory Capital and Surplus		
	Required	Actual	
Bermuda	608,434	2,061,547	(65,850)
U.K.	901,171	1,574,848	(42,047)
Luxembourg	45,188	82,869	(17,682)
Guernsey	225	3,624	(3,471)

	2021		Statutory Net Loss
	Statutory Capital and Surplus		
	Required	Actual	
Bermuda	395,368	1,936,657	(142,823)
U.K.	714,323	1,202,753	(57,025)
Luxembourg	16,914	84,940	(1,314)
Guernsey	254	2,004	(587)

(a) Bermuda

At December 31, 2022, CRL is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model. The BSCR for the relevant insurer for the year ended December 31, 2022 will not be filed with the BMA until the end of April 2023. As a result, the required statutory capital and surplus as at December 31, 2022 is being estimated based on the MSM. It is likely that the ECR will exceed the MSM once the BSCR model has been completed.

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

The Company expects that at December 31, 2022 the actual statutory capital and surplus of the Bermuda based insurance subsidiary will exceed the relevant regulatory requirements.

The ability of the insurance subsidiary to pay dividends to the Company is limited under Bermuda law and regulations. The Insurance Act provides that the Class 4 Bermuda subsidiary may not declare or pay, in any financial year, dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files with the BMA at least seven days prior to the payment, an affidavit signed by at least two directors and such insurance subsidiary's principal representative, stating that in their opinion, such subsidiary will continue to satisfy the required margins following declaration of those dividends, however, there is no additional requirement for BMA approval.

In addition, before reducing its total statutory capital by 15% or more the Class 4 Bermuda insurance subsidiary must make application to the BMA for permission to do so. Such application shall consist of an affidavit signed by at least two directors and such insurance subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiary to fail to meet its relevant margins, and such other information as the BMA may require.

The Company's primary restrictions on net assets of insurance subsidiaries consist of regulatory requirements placed upon the regulated insurance subsidiaries to hold minimum amounts of total statutory capital and surplus. There were no other material restrictions on net assets in place as of December 31, 2022.

(b) U.K.

The required and actual statutory requirements in the U.K. category in the table above relate to CIL. Under the jurisdiction of the United Kingdom's Prudential Regulation Authority ("PRA"), the Company's London based subsidiary, CIL must always maintain a margin of solvency under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and solvency capital requirement ("SCR"). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. CIL has utilized the standard formula for the SCR. As of December 31, 2022, the SCR of CIL was \$901,171 (2021: \$714,323) and there was surplus capital of \$673,677 (2021: \$488,430) with actual Own Funds Available of \$1,574,848 (2021: \$1,202,753).

The PRA regulatory requirements impose no explicit restrictions on CIL's ability to pay a dividend, but the Company would have to notify the PRA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distribution. At December 31, 2022 CIL had \$Nil (2021: \$Nil) retained profits available for distribution.

(c) Luxembourg

The required and actual statutory requirements in the Luxembourg category in the table above relate to CES. Under the jurisdiction of Luxembourg's Commissariat aux Assurances ("CAA"), the Company's Luxembourg based subsidiary, CES must always maintain a margin of solvency under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and solvency capital requirement ("SCR"). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. CES has utilized the standard formula for the SCR. As of December 31, 2022, the SCR of CES was \$45,188 (2021: \$16,914) and there was surplus capital of \$82,824 (2021: \$68,026) with actual Own Funds Available of \$82,869 (2021: \$84,940).

The CAA regulatory requirements impose no explicit restrictions on CES's ability to pay a dividend, but the Company would have to notify the CAA 28 days prior to any proposed dividend payment. Dividends may only be

The accompanying notes are an integral part of these Consolidated Financial Statements

CONVEX GROUP LIMITED

Notes to The Consolidated Financial Statements
For the Years Ended December 31, 2022 and December 31, 2021

(Expressed in Thousands of U.S. Dollars)

distributed from profits available for distribution. At December 31, 2022 CES had \$Nil (2021: \$Nil) retained profits available for distribution.

(d) Guernsey

The required and actual statutory requirements in the Guernsey category in the table above relate to CGU. Under the jurisdiction of the Guernsey Financial Services Commission (“GFSC”), the Company’s Guernsey based subsidiary, CGU must always maintain a margin of solvency under the Insurance Business (Solvency) Rules and Guidance, 2021. The regulations stipulate that insurers are required to calculate their minimum capital requirement (“MCR”) and prescribed capital requirement (“PCR”). As of December 31, 2022, the MCR of CGU was \$121 (2021: \$135) and the PCR was \$225 (2021: \$254) and there was surplus capital of \$3,400 (2021: \$1,750), with actual Regulatory Capital Available of \$3,624 (2021: \$2,004).

The GFSC regulatory requirements impose no explicit restrictions on CGU’s ability to pay a dividend. Dividends may only be distributed from profits available for distribution. At December 31, 2022 CGU had \$Nil (2021: \$Nil) retained profits available for distribution.

18. Subsequent events

The Company has completed its review of events after the Statement of Financial Position date of December 31, 2022 through March 30, 2023, the date the financial statements were authorised for issue.

Effective January 24, 2023, CRL and CIL as the borrowers on the Lloyds Letter of Credit Facility, increased the facility to include a \$50,000 USD unsecured tranche.

Convex Group has completed a preliminary assessment of any potential impacts on the Company as a result of the events surrounding Credit Suisse, and notes that it has minimal exposure.

The accompanying notes are an integral part of these Consolidated Financial Statements



Convex Re Limited

Point House, 6th Floor, 6 Front Street,
Hamilton HM 11, Bermuda

Convex Insurance UK Limited

52 Lime Street, London, EC3M 7AF

Convex Europe S.A.

37 Boulevard Joseph II, 2ème étage,
L-1840 Luxembourg, Grand-Duchy of Luxembourg

Convex Europe S.A. UK Branch

52 Lime Street, London, EC3M 7AF

Convex Guernsey Limited

Bucktrout House, Gategny Esplanade, St Peter port,
Guernsey, GY1 IWR

Convex North America Insurance Services LLC

1 Palmer Square East, Suite 441, Princeton, NJ 08542, USA

convexin.com

Convex Group is the trading name of Convex Group Limited, a company incorporated in Bermuda, and the ultimate parent company of the Convex Group of companies, as follows: Convex Re Limited, a company incorporated in Bermuda, which is a wholly-owned subsidiary of Convex Group Limited and licensed and supervised by the Bermuda Monetary Authority; Convex Insurance UK Limited, a company incorporated in England & Wales, which is a wholly-owned subsidiary of Convex Re Limited and authorised by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); Convex Europe S.A. a company incorporated in Luxembourg, which is a wholly-owned subsidiary of Convex Insurance Limited authorised and supervised by the Commissariat aux Assurances (CAA). Convex Europe S.A. UK Branch is a branch of Convex Europe S.A. and authorised by the FCA. Convex Guernsey Limited, a company incorporated in Guernsey, which is a wholly owned subsidiary of Convex Re Limited and licensed and regulated by Guernsey Financial Services Commission. Convex North America Insurance Services LLC, a company incorporated in Delaware, USA, which is a wholly owned subsidiary of Convex Insurance UK Limited and is a managing general agent; and Convex UK Services Limited, a company incorporated in England & Wales, which is a wholly-owned subsidiary of Convex Group Limited.