CONVEX INSURANCE UK LIMITED

Solvency and Financial Condition Report 2019

Contents

Directors’ statement

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

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

Signed on behalf of the Board of Directors on 6 April 2020 by:

Paul Brand
Director

Executive summary

The purpose of the Solvency and Financial Condition Report ("SFCR") is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with the requirements of the Solvency II Directive (as implemented in the UK in the Prudential Regulation Authority (PRA) Rulebook for Solvency II Firms) and the Solvency II regulations. The annual financial statements of Convex Insurance UK Limited ("CIL") are available from Companies House. The SFCR contains qualitative and quantitative information on CIL's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates ("QRTs") for 2019.

On 17 October 2018 the PRA published PS25/18 Solvency II: External audit of the public disclosure requirement. This Policy Statement confirms the removal of the audit requirement in respect of the public Solvency II reporting of smaller insurers. Given that CIL has only recently established its operations, CIL meets the requirements for the removal of audit requirements, and so has taken the opportunity not to audit the report this year. The report fully meets all of the requirements for the SFCR as set out in the Solvency II rules and follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

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

Business and performance

CIL's focus in 2019 was defining and implementing the processes required to allow it to begin underwriting business. As a result, written premium volumes in 2019 were limited, although over $90 million of gross premium was written by the end of the year. A prudent approach to risk retention resulted in significant use of reinsurance protection. As many of the contracts purchased cover both the 2019 and 2020 underwriting years, this resulted in a significant level of ceded premium, which in turn led to low levels of net written premium.

The ramp up of operations during 2019, from a standing start to a fully-operational insurer/reinsurer, also meant that expenses incurred were significant as a proportion of the premium base, which further reduced the level of net income. As a result, CIL made a net loss of $7.9 million for the year.

Future Outlook

Continued growth

CIL views pricing in the insurance industry to be cyclical. Over the past decade there has been a significant decrease in pricing in both the insurance and reinsurance market, which CIL believes is attributable primarily to the emergence of alternative sources of capital, less disciplined underwriting from incumbent providers, intermediary consolidation, and an expansion of delegated authorities.

However, the rate of decline slowed during 2017 and 2018, and both rate flattening and some increases have been seen in the year ending 31 December 2019. In light of these market developments, CIL's proposition will continue to be underpinned by a disciplined underwriting approach with a focus on profitability over volume. In addition, the cost advantage enabled by the efficient operating model further enhances CIL's competitive position in a more difficult pricing environment.

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

Within these specialty insurance and reinsurance markets, CIL will focus on the most complex end of the risk spectrum, supported by the Group's differentiated operating model and underwriting experience and capabilities. One of the key elements of differentiation within the operating model is CIL's use of outsourcing within Finance, HR, Underwriting Operations and Technology to supplement in-house capabilities. In this, one of our key partners, WNS will continue to provide a breadth and depth of expertise to CIL across a variety of areas.

CIL's differentiated proposition will include the following:

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

In order to guide management in implementing this proposition, CIL has constructed a business plan which considers different potential market-level scenarios for the short and long-tailed insurance markets, and how CIL would respond in each scenario.

Brexit

Following the United Kingdom's decision to leave the European Union ("EU") ("Brexit"), negotiations are still on-going to determine the future relationship between the United Kingdom and the European Union. There is significant change and associated uncertainty ahead for the market.

EU membership and access to the single market has enabled CIL's underwriters to underwrite insurance business in all of the other 27 member states on a freedom of services basis. CIL continues to be able to write both insurance and reinsurance business using these passporting rights until the end of the transition period, which is currently expected to be the end of December 2020. Thereafter, CIL will no longer have passporting rights and will no longer have the right to write EEA business unless that is negotiated as part of the trading agreement between the UK and the EU. CIL has a number of options for dealing with the loss of passporting rights which may involve using its own position or utilising Group resources. For example, some of the EU states permit cross border insurance on a non-admitted basis and this would be available to CIL or any other UK insurer irrespective of the terms of the trade agreement.

COVID-19

CIL is continuing to monitor Coronavirus 2019 ("COVID-19"). This pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilise economic conditions.

CIL has enacted its business continuity plans and is closely monitoring its potential exposures to COVID-19. The outbreak has the potential to affect negatively the risk of credit default for some issuers of the CIL's debt securities, as well as the change in market prices for those securities, however the overall portfolio is expected to retain its liquidity and high-quality characteristics. CIL also expects to see some impact on claims activity arising from COVID-19, although it has minimal exposure to event cancellation and contingency risk which are lines of business expected to be impacted from a broader industry perspective.

The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. As a result, it is not possible to estimate reliably the duration and severity of these developments, and the impact on the financial results and condition of CIL in future periods. However, CIL expects that they will not have a material effect on its business, nor its ability to meet its solvency and liquidity ratios. Further, CIL has taken steps to mitigate operational risks, for example, by having employees work remotely.

System of Governance and Risk

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

Overall organisational risks

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

General insurance risk

General insurance risk arises from:

- fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- unexpected claims arising from a single source;
- inadequate claims reserves; and
- inadequate reinsurance protection.

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

Financial risk

Financial risk arises through CIL's holdings in financial assets, financial liabilities, insurance/reinsurance assets and policyholder/cedant liabilities. The key financial risk is that proceeds from financial assets are insufficient to fund obligations arising from policies as they fall due.

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

CIL does not use hedge accounting to manage risks. Instead, it manages risks by calculating the value-at-risk for major asset components, and the tail value-at-risk for major liability components in the Statement of Financial Position. The value-at-risk is an indicator at a given confidence interval of the worst loss expected to be suffered over a specified duration from the measurement date. The tail value-at-risk, on the other hand, measures the loss expected to be suffered once the given confidence interval is breached.

Interest rate risk

Interest rate risk arises primarily from the CIL's investment portfolio which is comprised of debt securities, money market funds and cash deposits. To the extent that claims inflation is correlated with interest rates, liabilities to policyholders/cedants are also exposed to interest rate risk.

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

Currency risk

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

Credit risk

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

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

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

Liquidity risk

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

Valuation for solvency

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

Table 1 – Shareholders' equity

2019	$000s
Shareholders' equity as shown in the financial statements	303,873
Solvency II valuation adjustments to assets (Note i)	(192,580)
Solvency II valuation adjustments to technical provisions (Note ii)	90,173
Solvency II valuation adjustments to other liabilities (Note iii)	70,070
Solvency II EAL	**271,536**

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

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

ii. Valuation of technical provisions under Solvency II
Adjustments have been made to statutory technical provisions and reinsurance recoverables (consistent with the adjustments to valuation of assets) to reflect Solvency II valuation requirements. Solvency II requires the technical provisions ("claims provisions" plus "premium provisions") to be a best estimate of the current liabilities relating to insurance contracts, plus a risk margin. The best estimate liabilities are calculated as the discounted best estimate of all future cash flows relating to claim events prior to the valuation date, as well as the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date.

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

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

Capital management summary

CIL's solvency position under Solvency II is determined by comparing eligible own funds with the Solvency II SCR. CIL is required to meet the SCR at all times and is required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement ("MCR") is required to be rectified within three months. At 31 December 2019, the own funds of CIL were $272m compared to a standard formula SCR of $51m, representing an SCR coverage ratio of 534%. CIL's MCR was $13m.

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

Table 2 – Solvency position

2019	$000s
Solvency II EAL	271,536
Foreseeable dividend	-
Restrictions on eligibility	-
Eligible own funds (all Tier 1)	270,197
Minimum capital requirement	12,721
Solvency capital requirement	50,884
Solvency capital requirement ratio (%)	534%

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

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

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

A. Business and performance

A.1. Business

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

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

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

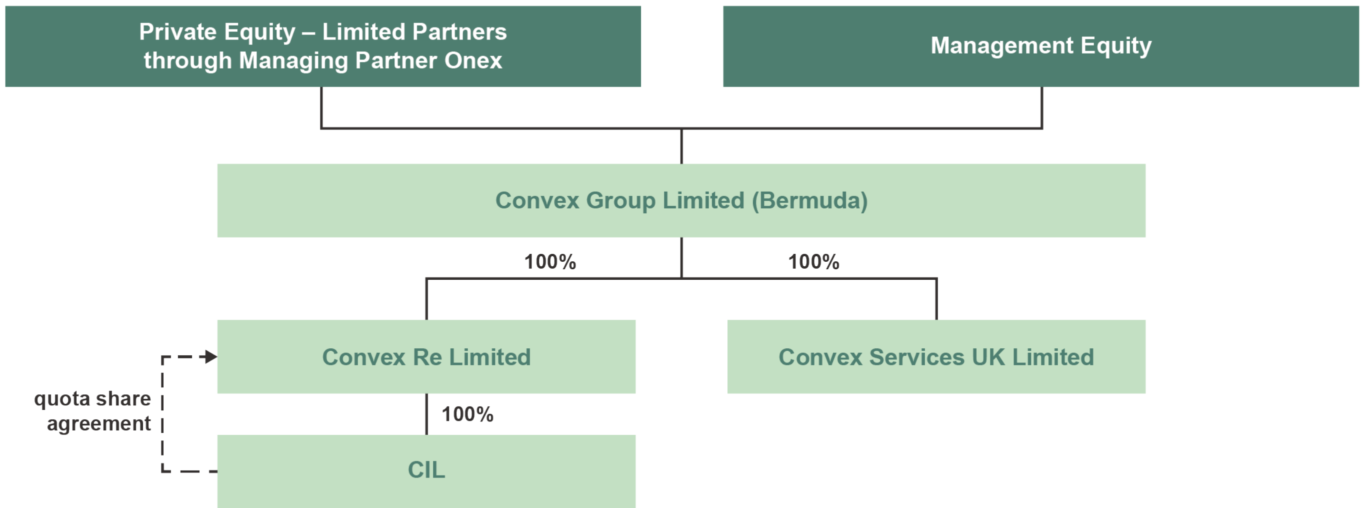
Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 25 The North Colonade Canary Wharf London E14 5HS

The external auditor of CIL is PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

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

Diagram 1 – CIL position within Group Structure



Convex Group

Convex Group is a newly-established property and casualty insurance and reinsurance carrier focused on large commercial clients with complex insurance requirements

The Group has a streamlined organisational structure comprising of:

- **Convex Group Limited:** Holding company in Bermuda
- **Convex Re:** Bermuda operating company, which seeks to be the best in class specialty P&C reinsurer focusing on complex risks
- **Convex Insurance UK (CIL):** UK operating company, closely aligned with the Bermuda operating company
- **Convex UK Services:** a services company, which is the main employing and contracting entity in the UK for efficiency and operational purposes

A.2 Underwriting performance

A.2.1 Measurement of underwriting performance

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

At time of writing, CIL believes its underwriting exposure to COVID-19 is minimal relative to normal exposures. As a result, CIL has not adjusted any of the values in the report or the accompanying QRTs for COVID-19.

A.2.2 Underwriting profit

Table A.1 below presents the underwriting loss for CIL for the period ended 31 December 2019, as well as the reconciliation of underwriting loss to profit before tax. Profit before tax is as shown in CIL's financial statements.

Table A.1 – Underwriting Performance

As at 31 December 2019	$000s
Gross written premiums	93,080
Premiums ceded to reinsurers	(81,457)
Premiums written net of reinsurance	11,623
Net change in provision for unearned premiums reinsurers	(8,560)
Net earned premiums	3,063
Net investment income	3,999
Income	7,062
Claims paid net of recoveries from reinsurers	(57)
Change in insurance liabilities, net of reinsurance	(2,503)
Fee and commission expense, net of reinsurance	(407)
Other expenses, net of reinsurance	(13,659)
Loss for the period before tax	(9,564)
Less: Net investment income	(3,999)
Add Back: Indirect Expenses	13,553
Underwriting loss for the period	**(10)**

As CIL only commenced operations in mid-2019, the volume of premium written is limited, and this, allied to a prudent Group approach to risk retention in the early stages of operation which resulted in a high level of reinsurance spend for coverages which will protect both the 2019 and 2020 years of account, resulted in low levels of net written and hence net earned, premium.

In addition, the ramp up of operations during the year led to a high level of expenses in relation to premium recorded on a GAAP basis, and so as a result, CIL's financial statements recorded a pre-tax loss of $9.6m. However, the underwriting result, which excludes investment income and expenses not directly attributable to policies, was a loss of $10k.

A.2.3 Quantitative Reporting Templates S.05.01

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

Table A.2 – Summary of QRT S.05.01

	Direct and Proportional Reinsurance				Non proportional Reinsurance				
$000s	Marine, Aviation and Transport	Fire and property damage	General liability	Total	Marine, Aviation and Transport	Property	Casualty	Total	Total
Gross written premium	69,466	7,433	1,439	78,338	823	13,675	243	14,741	**93,079**
Net earned premiums	1,471	180	22	1,673	96	1,274	19	1,389	**3,063**
Gross claims incurred	(4,178)	(518)	(46)	(4,742)	(101)	(1,336)	(23)	(1,460)	**(6,203)**
Net claims incurred	(1,646)	(175)	(18)	(1,839)	(44)	(628)	(8)	(680)	**(2,519)**
Direct Expenses Incurred	(94)	(18)	(3)	(115)	(15)	(422)	(2)	(439)	**(554)**

A.3. Investment performance

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

CIL's asset portfolio was invested in investment grade fixed income securities during 2019. Over the period, the investment assets produced a total return of 2.12%. Investment returns were supported by capital gains, as risk-free yields fell and credit spreads tightened. Asset duration was maintained broadly in line with liability duration over the period.

Table A.3 – Net investment income analysed by asset class

	Debt Securities	Other Financial Investments	Total - $000s
Interest income/(expense)	3,100	111	3,212
Realised gains/(losses)	34	-	34
Unrealised gains/(losses)	1,066	-	1,066
Other (incl. investment expenses)		(313)	(313)
Total Investment Return	4,201	(202)	3,999

A.3.2 Gains and losses recognised directly in equity

There were no gains and losses recognised directly in equity during the period. All investment gains and losses were recognised in profit and loss.

A.3.3. Information about any investments in securitisations

Investments were held in securitisation vehicles in the form of debt securities. These securities consisted of AAA-rated residential mortgage backed securities (RMBS) and AAA-rated asset backed securities (ABS).

The fair value of investments in securitisations as at 31 December 2019 was $6.01 million.

A.4. Performance of other activities

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

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

A.4.2. Leasing arrangements

CIL has no material leasing arrangements.

A.5. Any other information

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

B. System of governance

B.1. General information on the system of governance

The 'System of governance' section of this report sets out information regarding the system of governance in place within CIL. This includes a description of the CIL Board, executive committees and a description of the roles, responsibilities and governance of CIL's key control functions of risk management, compliance, and internal audit.

B.1.1 Overview of the Group's Governance Framework

CIL is the UK operating entity within the Convex Group and carries out the business of insurance and reinsurance. It was incorporated on 30 January 2019, authorised by the PRA on 30 April 2019 and is regulated by the PRA and FCA. CIL underwrites risks located in many different parts of the world on an insurance and reinsurance basis. In addition, CIL was added to the National Association of Insurance Commissioners ("NAIC") Quarterly Listing of Alien Insurers on 1 October 2019 which means that CIL is able to write excess and surplus lines insurance across the United States.

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

CIL Governance Framework - Governance Structure

CIL Boards

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

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

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

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

CIL Executive Committees

CIL has established a CIL Executive Committee consisting of key executives under the leadership of the CIL CEO. The CIL Executive Committee meets on a monthly basis and is responsible for supporting the CEO in exercising the authority delegated by the CIL Board for the management of CIL. CIL executives also participate in the Convex Group executive Committees, namely, the Group Executive Committee, Reserving Committee, Operations Committee, Risk Committee and Underwriting Committee.

B.1.2. Board Responsibilities

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

The Board's responsibilities include taking account of other stakeholders including employees, intermediaries, third party partners, policyholders and customers. This includes ensuring that an appropriate system of risk governance is in place throughout the

Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence model' to ensure that CIL is managed in accordance with the risk appetite established by the Board.

B.1.3 Control Framework

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

CIL operates a 'three lines of defence' controls framework whereby the business implements first line controls so as to ensure that the front-line business units comply with the requirements set by the Board regarding risk appetite and control. The compliance and risk management functions undertake monitoring to provide second line assurance that these controls are effective, meet the expectations of our regulators and are in accordance with the company's risk appetite. The Internal Audit function provides independent oversight across CIL and reports to the Audit Committee of the CIL Board.

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

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

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

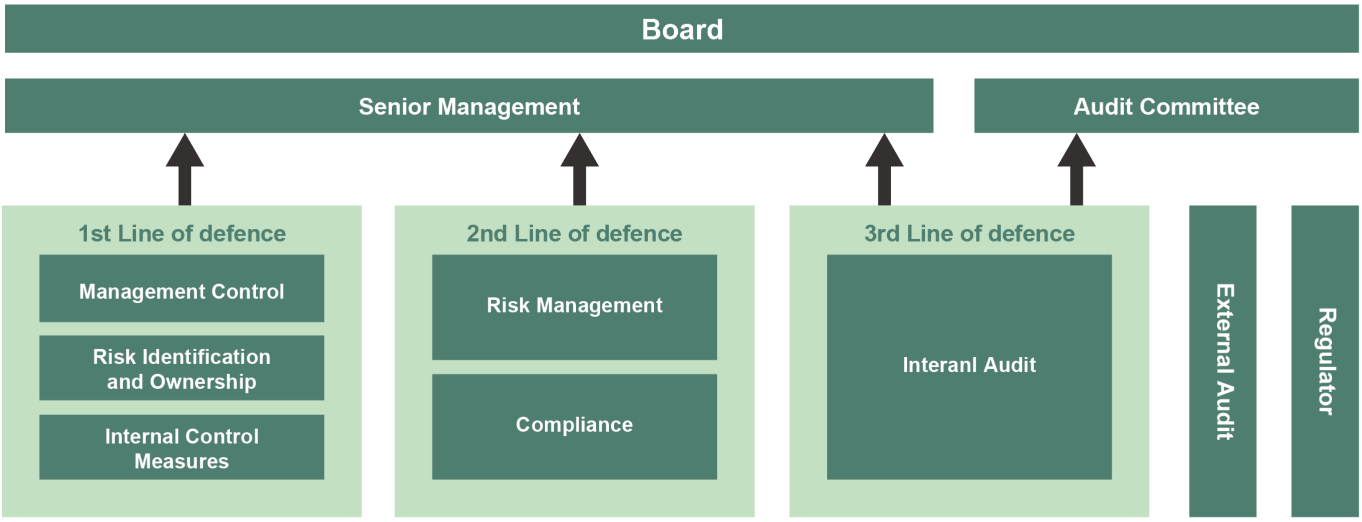
The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks; in this regard the Compliance function acts as part of the first line of defence. Compliance also monitors, evaluates and provides assurance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

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

CIL Three Lines of Defence Model

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

Diagram 2 – Three lines of defence model



B.1.4 Remuneration

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

Remuneration of staff is split between the following components:

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

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

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

There were no material transactions during the reporting period with shareholders, person who exercise a significant influence on CIL and with members of the Board.

B.2. Fit and proper requirements

B.2.1. Specific Requirements Concerning Fit and Proper

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

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

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

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

B.2.2 Polices and Process for assessing fitness and propriety

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

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

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

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

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

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

B.2.3 Culture and on-going monitoring

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

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

B.3. Risk management system including the ORSA

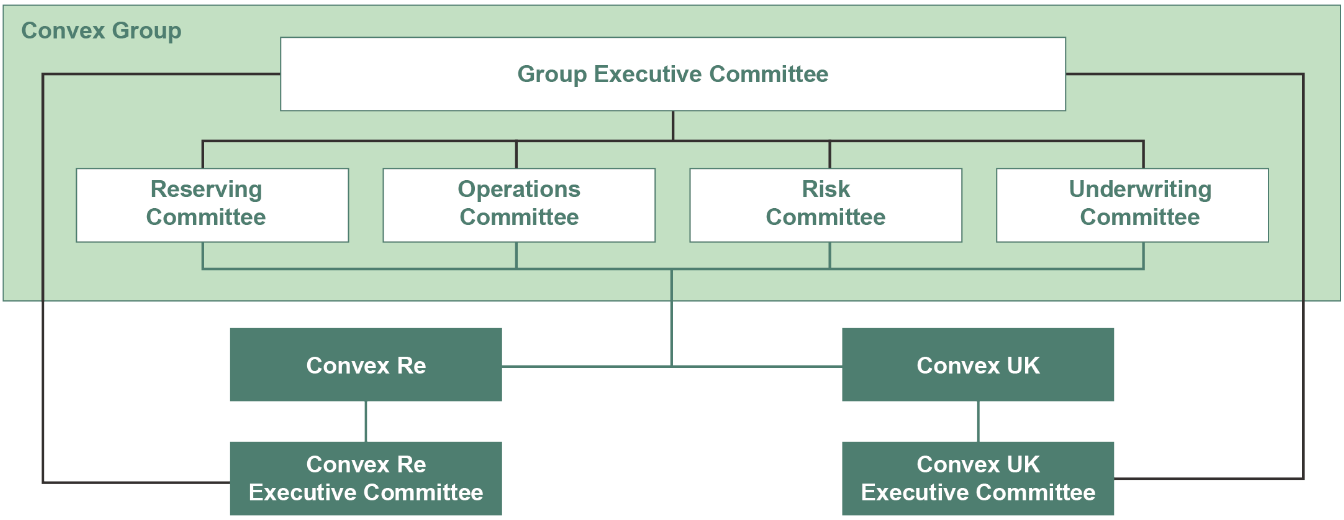
B.3.1. Description of the Risk management system

Risk Management Overview

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

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

Diagram 3 – Convex Group committee structure



B.3.2. Implementation of the risk management system

Risk Management Implementation

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

Risk Strategy

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

- Setting Board approved risk tolerances, and monitoring against those tolerances;
- Setting an appropriate "tone at the top" and fostering a risk management culture, whilst at the same time facilitating profitable business;
- Maintaining a strong solvency position within the approved thresholds above minimum regulatory solvency, as well as meeting shareholder and rating agencies expectations;
- Maintaining sufficient liquidity to meet the company's obligations as they fall due and under defined stressed scenarios;
- Identifying, managing and mitigating its risks proactively so they remain within the defined risk appetite;
- Maintaining a diversified underwriting portfolio across Property & Casualty ("P&C") and a profitable growth within established underwriting risk tolerances;
- Maintaining a high quality and well diversified investment portfolio, with due regard for interest rate risk, equity risk, currency risk, foreign exchange risk and credit risk, and their aggregation in accordance the company's Investment Guidelines and the CIL Financial and Market Risk Framework;
- Maintaining disciplined control of operational risk, including that related to BPO providers;
- Delivering good customer outcomes and treating them fairly; and
- Embedding a strong risk culture within CIL.

CIL operates the ‘three lines of defence’ structure, as defined in Section B.1.3.

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

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

A number of processes support the Risk Management Framework including:

- Risk Appetite framework;
- Risk Governance;
- Solvency and Risk Assessment Reports (ORSA);
- Risk registers;
- Regular risk reporting;
- Control Frameworks; and
- Risk policies, procedures, systems processes and controls.

Risk Management Process

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

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

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

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

The Risk Management team together with relevant stakeholders from the business review the emerging risks landscape for the year ahead and assess the impact on CIL’s business profile and strategy. This annual emerging risk assessment also feeds into the ORSA process and ORSA report.

Risk Registers are the repository of all material risks and controls in the company. They are one of the risk management function’s most important risk management and monitoring tools and drives a significant portion of risk reporting to the CIL Board, CIL Executive Committee and Group Risk Committee on a quarterly basis.

There are six fundamental sources of risk:

- People – Behaviour, skills, experience, knowledge, competence, integrity
- Processes – Failures in design, and effectiveness in operation, lack of supporting data
- Environment – The business, economic, legal and regulatory environment in which the Group operates
- External events – External events beyond the control of the company
- Infrastructure – Failures originating in the company’s own operating and IT infrastructure
- Third-parties – External providers of products and services

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

- Credit risk – such as risks of coverholder or reinsurer default
- Market risk – such as investment value risk
- Financial risk – such as FX rate fluctuations

- Liquidity risk – such as failing to meet our on-going financial obligations as they fall due
- Insurance risk – such as aggregate exposures and reserves
- Operational risk – such as operational resilience and disaster recovery
- Regulatory risk – such as conduct risk and regulatory compliance
- Legal risk – such as receipt of faulty legal opinions
- Strategic risk – such as incorrect assessment of insurance market

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

Risk Assessment is the process used to identify, evaluate and rank risks that require attention from Senior Management and the CIL Board.

The Heads of Function are the risk owners, responsible for the management, mitigation (controls) and monitoring of the risks. The Risk Management function holds regular risk assessment meetings with risk owners to review and provide challenge on the function's risk profile and validity of controls in place.

All risks in the Risk Registers will be assessed in terms of their inherent and residual likelihood and impact on the business. An inherent risk is the risk in the absence of any controls to alter the likelihood and impact of it occurring. A residual risk is deemed to be the remaining risk to the business, after the application of identified controls.

Inherent and residual risks are assessed in terms of the likelihood of their occurrence and the impact they would have on the business, including the evolution of the risk from the previous quarter.

A matrix of impact and probability will be used to rate the size of each risk, and a RAYG (Red, Amber, Yellow, Green) status for the risk is decided for each risk depending on how it sits at a residual level against the desired level of risk.

Impact risk assessment is made up of 4 considerations:

- Financial impact
- Regulatory impact
- Reputational impact
- Operational Impact

All four will be considered during the risk assessment process and discussions with the business. The highest score of the four is used for risk rating purposes. The risk banding matrix is reviewed every 6 months to ensure it remains appropriate for the risk assessment according to CIL's risk profile.

Risk assessments take place with Heads of Function and have a number of core objectives, including:

- To review, monitor and update the status of existing risks
- To evaluate the effectiveness of risk controls
- To understand the impact of risks on Convex Group
- To identify any new risks that have arisen or might arise

The output of risk assessment meetings will be included in the regular risk reporting to the CIL Board, CIL Executive Committee and Group Risk Committee, ensuring that regular updates on the risk profile of the business are escalated for consideration by senior management.

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

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

Each control is scored for operational effectiveness by the Risk Management Function, following extensive discussions with the respective function. The key controls responsible for the greatest level of risk mitigation are also noted.

These individual control scores are subsequently used by the Risk Management Function to provide an overall RAG (Red, Amber, Green) rating for the robustness of the control. This can be done by risk, control owner, operational function or in other ways.

The RAG assessment scale is provided below.

	Significant number of controls (including key) are ineffective, or not in place
	Majority of controls are in place and effective, including all key controls. Some controls remain ineffective or not operational
	All key controls are in place and working effectively. Some controls are either not fully operational or effective, but this does not greatly impact the risk

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

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

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

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

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

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

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

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

The risk report also provides the Board and the Executive Committee with the risk management function's opinion on the risks faced by each area of the business. The report is a combination of qualitative and quantitative information. Qualitative commentary is provided to support understanding of the current risk environment as well as the future risk outlook for the next reporting period. This provides an opportunity for breaches and key trends to be explicitly raised by the risk management function, where relevant.

B.3.3. Own Risk and Solvency Assessment (ORSA)

ORSA Overview

Overall responsibility for the ORSA framework, output and policy lies with the CIL Board. This policy is reviewed annually by the Risk Management Function and approved by the CIL Board in Q4 of each year.

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

- Strategic planning – the overall business strategy drives the business plan and hence impacts upon the risk profile of the business;
- Business planning – the business plan is a key driver behind the capital requirements and the risk profile of the business;
- Business monitoring – monitoring of performance of the business. This includes monitoring of the forward-looking assessment of the business and capital needs under stressed conditions.

- Corporate Governance – the system of governance is an important input to the ORSA as it determines the extent of control that the business has over its operations and legal and regulatory requirements.

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

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

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

CIL Audit Committee	• Provides independent oversight of the ORSA process through internal audit reports.
CIL Board	• Reviews and signs off the ORSA process and annual ORSA report. • Reviews and challenges the quarterly risk dashboard • Reviews and signs off the results of any event driven ORSA reports arising from material changes to the business or business operating environment.
Group Executive Risk Committee	• Reviews the ORSA Policy • Reviews the quarterly risk dashboard
Group Executive Reserving Committee	• Reviews the technical provisions and will make recommendations to the CIL Board for sign-off.

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

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

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

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

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

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

Separately, the annual ORSA report:

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

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

ORSA Process

The ORSA process considers all key risks faced by CIL, including Conduct, Group, Reputational and Regulatory risk, as well as risks included within the SCR calculation.

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

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

The Risk Management Function uses the emerging risk process to establish a list of the top emerging risks that Convex should consider. Additionally, any results of relevant emerging risks scenarios, produced through engagement with the business, are considered. This is included within the quarterly risk dashboard update to the CIL Board and the Group Risk Committee, with summarised content also included in the annual ORSA report.

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

- The Risk Management Function meeting with Senior Management to gain their strategic views for the 3-year planning period;

- The Risk Management Function holding discussions with the Chief Underwriting Officers (Insurance and Reinsurance) to identify growth target, reinsurance trends, assumptions for rating levels and key risks facing the firm;
- The Actuarial Function drawing together planning assumptions around underwriting, investment income and expenses;
- The Board signing-off the business plan and risk and capital projections; and
- Independent challenge from the Risk Management Function on the three-year business plan, risks to the plan and capital requirements.

Capital Requirements Calculation
CIL has adopted the Standard Formula approach to calculating its SCR. The SCR is calculated by the Actuarial Team and reviewed by the Reserving Committee. To ensure that the SCR is appropriate for the risks faced by CIL, it will be validated annually. This will be carried out via an assessment of the assumptions underlying the Standard Formula versus the risk profile of CIL, and any key differences are be documented in the annual ORSA report. An overall assessment of the suitability of the SCR to calculate regulatory capital for CIL based on these differences is also included in the annual ORSA report.

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

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

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

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

- A significant change in risk profile will be defined to have occurred in the event of either:
  a) more than 15% change in total SCR relative to the position in the previous quarter; or
  b) More than 25% change to a risk category's 1-in-200 result risk on a stand-alone basis, relative to the position in the previous quarter and more than 5% of total SCR.
- Non-trigger based ad hoc ORSAs:

  In addition to changes in the risk profile as detailed above, certain types of external events may also make an ORSA process run necessary. This would include such significant changes as:
  - Failure in underlying controls or risk assessment processes leading to an incorrect assessment of capital requirements;
  - A major insurance loss, especially natural catastrophe event;
  - A major financial market shock;
  - A major change in the business plan (deviation of 15% or more of GWP or of underwriting performance); or
  - Failure of counterparties or Reinsurers, where there is significant exposure (top 5 exposures).

The final decision on whether an ORSA run is required in these circumstances would be made through consultation involving the CRO, Chief Actuary, CFO and the CEO for CIL.

B.4. Internal control function

B.4.1. The internal control system

CIL's internal control function comprises the Risk and Compliance functions, as second line of defence functions. In addition, control activities are carried out by the first line to mitigate risks across the business, and further oversight of this control environment is provided by both internal and external auditors.

Control activities are carried out by control owners within the business as part of the Risk Management Framework. These controls are assessed at least annually, though most are reviewed on a quarterly basis. These controls serve to reduce the likelihood of occurrence of risks, to ameliorate any impact caused by the risk crystallising, or to enable early detection of the risk's impact.

An assessment of the control framework of the business is carried out on a quarterly basis in accordance with the Risk Management Framework to ensure that any deficiencies in the environment are known, and appropriate actions can be taken to improve the overall control function.

B.4.2. The Compliance function

The primary purpose of the Compliance function is to assess and manage the company's exposure to regulatory risk. The Compliance function is an integral part of CIL's Risk Management system and constitutes a key part of the company's corporate governance. The Compliance function manages the relationships with the PRA and FCA and other regulatory bodies and is committed to transparent and constructive relationships with regulators. The Compliance function works closely with the legal function and also with the risk management and internal audit functions.

The compliance function activities include:

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

The compliance function is headed by the Chief Compliance Officer who holds the appropriate SMF position. The Chief Compliance Officer reports to the CIL CEO.

B.5. Internal audit function

B.5.1. Implementation of the internal audit function

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

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

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

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

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

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

The above are communicated through the following methods:

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

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

To ensure the independence of Internal Audit, the Group Head of Internal Audit, a senior position within the Group, reports functionally to the Chair of the Convex Group Limited Audit Committee, to the Chair of the subsidiary legal entity Audit Committees, and has a secondary reporting line to the Group Chief Executive Officer. The Convex Group Limited Audit Committee approves the performance evaluation, appointment, or removal of the Head of Group Internal Audit, and reviews his/her annual remuneration each year.

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

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

B.6. Actuarial function

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

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

B.7. Outsourcing

B.7.1. CIL outsourcing policy

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

CIL has considered the impact of all outsourcing and is establishing:

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

CIL also works to ensure that the service provider must:

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

CIL recognises that the responsibility and accountability of all outsourcing functions remains with the CIL Board who will ensure that due diligence, expertise and skill is exercised when entering into, managing or terminating any outsourcing arrangement. The Board also acknowledges that CIL remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing. Group operations currently submits a report to the CIL Board on the performance of services by the major service providers for each Board meeting.

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

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

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

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

B.8. Any other information

A COVID-19 Planning Working Group has been formed to implement and manage emergency plans to mitigate the impact of COVID-19 pandemic on CIL's operational procedures. The plans include, but are not limited to:

- Creation of plans for essential operational changes (e.g. employee reassignment, approval changes) if significant or key employee absence is a threat.
- Review and assurance that our IT infrastructure is able to support an increase in remote work and manage additional volumes of teleconference collaboration.
- Assessment of the risk level to key outsourcing partners such as WNS, as well as other suppliers / partners on whom we depend, and obtaining confirmation that they have robust business continuity plans ("BCP") and are able to deploy them. as needed.
- Monitoring the wellbeing of staff to ensure they cope well with the unfamiliar context of social distancing and self-isolation. This includes, and is not limited to, the launch of the Isolation Wellbeing Questionnaire and updated hints and tips to support successful working from home.

When devising the plans, 3 elements of potential impact on CIL have been considered

1. London and Bermuda offices closed
2. Significant illness / inability to work amongst staff
3. India pandemic affecting Pune operations of WNS

For each element, the business risks that arise have been identified and mitigation actions defined and put in place to ensure that CIL is able to operate effectively in each case. The first element came into force following the guidance issues by the UK Government on 16 March 2020 and at time of writing Management considers that the company is continuing to operate effectively.

The third element has also recently been implemented, with WNS home working capability almost fully established at time of writing, and expected to be at 100% within the next few working days. Productive capacity estimates are shared daily with the CIL team to ensure WNS remains operational and effective.

Additional contingency measures are also in advanced development to enable onshoring of activities to London, should there be a significant deterioration in India or capacity levels drop significantly.

C. Risk profile

C.1. Underwriting risk

C.1.1. Risk description

CIL focuses on large commercial clients and complex risk types, supported by the Group's differentiated operating model and underwriting experience and capabilities. CIL has developed its strategy and business plan being mindful of the on-going market conditions and the underwriting and reserving assumptions reflect current market realities.

Underwriting risk covers three risks:

Premium risk
Premiums may be lower/higher than expected in the business plan as a result of poor pricing and external market events impacting pricing.

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

Catastrophe risk
Higher natural and/or manmade catastrophe claims than expected in the business plan could occur given the nature of catastrophe perils which are low frequency and high severity events.

C.1.2. Risk mitigation

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

- Adequate pricing reflecting the level of risk
- Exposure selection and management
- A comprehensive process of external reinsurance and portfolio optimisation
- Strong underwriting guidelines and procedures
- Rigorous claims management
- Underwriting guidelines
- Underwriting authorities
- Peer reviews
- Normal Maximum Lines for all classes of business;
- Pre-bind and post-bind peer review
- Premium income monitoring

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

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

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

C.1.5. Material changes over the reporting period

The most material change over the reporting period is that CIL commenced underwriting, which initiated underwriting risk, and caused the business to develop the above controls to identify, analyse, mitigate, monitor and report on insurance risks. This will continue to grow as CIL develops.

As outlined in Section A.2.1, at time of writing, CIL considers that the impact of COVID-19 on underwriting risk will be minimal.

C.2. Market risk

C.2.1. Risk description

Market risk impacts to the balance sheet arise from various factors, including:

- Rising interest rates and / or credit spreads of the fixed-income investments can reduce the market value of the asset portfolio. There is a natural hedge provided by the liabilities, as interest rate increases increase their market value, thus absorbing part of the impact. Hence, the net position, managed in the line with the Minimum Risk Benchmark, is sensitive to interest rate movements
- A decline in the market value of risky assets other than fixed income, driven by equity and / or property markets could adversely impact the available surplus
- A change in foreign exchange rates would have limited impact for CIL, as the asset portfolio is denominated in USD, matching to a large extend the currency of future liabilities. Thus, any Foreign Exchange ("FX") movements are only expected to have an impact on future GBP denominated expense rated cashflows

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

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

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

Concentration risk limits are in place to ensure the portfolio is appropriately diversified and the overall level of risk is limited by an aggregate market risk limit. Further, CIL has no exposure to Level 3 assets, and thus has increased certainty around the valuation of financial assets.

CIL ensures the availability of assets to pay in a timely manner claims and other obligations by having in place a liquidity risk system that measures excess liquidity in stressed market conditions.

C.2.3. Risk mitigation

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

The level of market risk is managed by:

- Implementing asset liability matching, with some limited flexibility for tactical asset management; and
- Setting and monitoring an aggregate risk Limit of 12.5% of the available risk capital (including the approved business plan profits). Once the overall business has reached a stable state, the AMRL is expected to increase as a percentage of capital to reflect future asset leverage as the balance sheet grows, with a view to maintain a stable risk profile.

C.2.4. Measures used to assess risk

Measures used to assess market risk in the business include Stress tests, in line with the enterprise-wide risk tolerance limit, currently set a 1-in-200 one year event, and the Solvency II Standard Formula to measure market risk by sub-risk and on aggregate.

C.2.5. Risk concentration

Concentration to market risk factors is monitored by the quantitative stress tests, including stress tests for:

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

In addition, exposure to each market sub-risk is limited with a risk limit equal to two-thirds of the total market risk limit.

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

C.2.6. Material changes over the reporting period

As at year end 2019, the insurance liabilities are limited in size. As the insurance book grows in line with the business plan, inflation risk will be introduced from the insurance liabilities, especially relevant for the long-tailed part of the business.

COVID-19

The economic shock triggered by the COVID-19 pandemic is becoming a financial crisis, with companies preparing for a cash crunch as economic activity slows down. Although the shock to the economies might be transitory, there is the risk that it might have significant long-run economic effects.

As at 30 March 2020, the impact of market movements to the aggregate investment portfolio year to date has been minimal. We note however that there is significant scope for spreads to widen further, combined with rating downgrades and potentially increased defaults. The Investment Team is closely monitoring the financial market conditions.

C.3. Credit risk

C.3.1. Risk description

Credit risk is defined as the risk of loss or adverse financial impact due to default by counterparties to which CIL is exposed.

Credit risk arises either from our asset portfolio, where a default of a counterparty would incur a financial loss, or through our insurance operations that involve transacting with counterparties such as brokers and reinsurance companies.

Our credit risks arise principally through the following exposures:

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities.
- Reinsurance assets, where credit risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits and receivables

C.3.2. Risk mitigation

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

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment function handles monitors on a monthly basis the exposure against the limits, with any issuer exposure breaches reported to the relevant committee for remediation on, in exceptional circumstances, a waiver.

Further, reinsurance credit risk is managed via a reinsurance approval process, which takes into account the credit rating of the reinsurer and the size of the exposure, and also by holding collateral posted by non-rated counterparties.

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

C.3.3. Measures used to assess risk

Credit risk is measured in terms of exposure to default, probability of default and loss given default, and is included in the capital model.

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

C.3.4. Risk concentration

Concentration risk is monitored by a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating of all bonds issued by the issuer and held by

CIL (corporate, Government agency and sub-sovereign) and are defined as a percentage of the AMRL, with higher risk investments set at a lower percentage.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment function handles monitors on a monthly basis the exposure against the limits, with any issuer exposure breaches reported to the relevant committee for remediation on, in exceptional circumstances, a waiver.

As at year end 2019, the fixed income portfolio is well-diversified, and all exposures remain within limits.

C.3.5. Material changes over the reporting period

The investment portfolio incepted in early May, following receipt of funds from the capital providers on April 29 which were deployed temporarily in short-term money market funds. These were assigned to each of the managers, who began the process of investing the proceeds. Funds were initially deployed into US Treasuries, with these holdings subsequently diversified into corporate credit and structured securities, in line with portfolio guidelines. The portfolios were ramped to a fully invested position in the following months, with all invested assets denominated in USD. Portfolio exposures remained relatively stable in 2019, with around 30% in sovereign exposure, 44% in investment grade corporate credit and the balance in mainly AAA rated structured securities.

COVID-19
As a result of the economic shock resulting from the COVID-19 pandemic, CIL might expect increased rates of default in our fixed income portfolio compared to average. CIL's fixed income portfolio is mainly comprised of high rated issuers, with an average credit rating of AA- and some exposure to BBB. In March 2020, actions have already been taken to de-risk the asset portfolio, including decreasing interest rate sensitivity by decreasing the aggregate asset duration, and selling some BBB exposures to corporate issuers expected to underperform.

C.4. Liquidity risk

C.4.1. Risk description

Liquidity risk is defined as the risk that CIL is unable to settle its financial obligations when they fall due. Liquidity risk is inherent to the business model of insurance companies given the delay between receiving an asset in the form of premium income and when liabilities fall due. As liquidity risk is contingent upon the local law under which the investment assets are regulated as well as the particular characteristics of the business driving the liquidity requirements, it is essential that liquidity risk is measured both at risk-bearing legal entity ("RBLE") level as well as on a group-wide basis.

C.4.2. Risk mitigation

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

C.4.3. Measures used to assess risk

The measure employed to assess liquidity risk is Excess Liquidity, defined as Available Liquidity less Required Liquidity and should remain positive for over the projected period defined within the Liquidity risk framework for both the normalised and stressed scenarios.

C.4.4. Expected profit included in future premiums

Expected Gross Profit included in Future Premiums ("EPIFP") is the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. EPIFP is presented in QRT S.23.01 'Own Funds' within Appendix 2

The Company's Expected Gross Profit included in Future Premiums (EPIFP) was $23.25 million.

C.4.5. Risk concentration

There are no liquidity risk concentrations identified as at year ended 2019. Liquidity risk concentrations will be monitored going forwards to ensure any risk concentrations are identified.

C.4.6. Material changes over the reporting period

In December 2019, $111.8m of capital was transferred to CIL in anticipation of the capital required to support 2020 new business. This transfer further increased the available liquidity. There was no material change in required liquidity during 2019, as the volume of business written was low.

C.5. Operational risk

C.5.1. Risk description

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

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

People
This risk includes the uncertainty in relation to:

- shortfalls in skills, training and competency of employees and contractors;
- shortfalls in recruiting, retaining and ensuring appropriate headcounts are in place across the business and in each of its operating entities;
- deliberate or unintentional actions, including fraud by employees, contractors or third parties which lead to operational disruptions or detriments.

Process and Systems
This risk includes the uncertainty of the occurrence of errors and omissions arising within any of the operational functions within CIL such as: Underwriting (Re)Insurance, Ceded Reinsurance, Portfolio Optimisation, Claims, Exposure Management, Reserving, Finance, Investment, Human Resources, IT Services, Facilities Management, Legal and CIL's outsourced arrangements.

This risk also includes all uncertainties related to ensuring the continued availability and effective functioning of Convex Group information technology infrastructure and encompasses information security, the network, software, hardware, communications, and internal and external data interfaces.

Data
This risk includes all uncertainties related to maintaining the quality of data used within CIL's daily operations and encompasses: External data, internal data input, data loss and data corruption.

Project & Change Management
This risk includes the uncertainty of the occurrence of issues and incidents that could delay successful and timely delivery of projects and change initiatives in accordance with agreed plans.

Financial Misstatement
This risk focuses upon the uncertainty of the possibility unintentional or deliberate misstatement of financial results or financial regulatory reporting.

Business Interruption
This risk focuses on the uncertainty that external and internal events could occur at any time in the future that cause normal business operations to be halted or disrupted.

Outsourcing & Third-Party Service Provider
This risk includes the uncertainty of unintentional or deliberate failures of service providers to deliver services in accordance with pre-agreed service standard contracts or engaging with service providers with no service standards in place.

C.5.2. Risk mitigation

A wide programme of controls exists to mitigate against operational risk. These controls are rated according to their effectiveness and are stored within the RisKonnect system. Controls are reviewed periodically and analysed to ensure that the risk is being mitigated as expected.

C.5.3. Measures used to assess risk

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

C.5.4. Risk concentration

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

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

C.5.5. Material changes over the reporting period

Operational risk has grown throughout 2019, as the operational element of the company has grown substantially.
The key developments in operational risk have been:

- Headcount has increased from single to triple digits
- Major outsourcing deal signed and put into operation
- Systems and infrastructure development to allow for underwriting

COVID-19

The potential operational risk associated with COVID-19 is significant. There is the potential for employees to be exposed to the virus, and despite a relatively low mortality rate, with many people catching the virus there is the possibility of multiple employees becoming ill or severely ill, which will affect CIL negatively. To mitigate this risk, CIL has strictly followed the UK government advice and its personnel have been asked to work from home and are conducting business via their company laptops and phones remotely.

In addition, CIL has worked closely with its main outsourcer, WNS, and WNS employees have been equipped to work from home to ensure continuity in CIL's operations. This was brought into effect following the Indian government announcement of a lockdown on 23 March 2020.

To date the implications of COVID-19 on our operations has been minimal thanks to CIL's agile technology approach, operating with cloud-based systems and providing portable devices to all staff. This has facilitated the rolling-out of the Business Continuity Plan by the Coronavirus Crisis Team, and the work of the COVID-19 Planning Working Group. A number of initiatives have been taken to ensure the wellbeing of our staff and to mitigate the impacts of social-distancing and isolation. Wellbeing of CIL staff in this unfamiliar and difficult context remains a priority.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic Risk

There is a degree of strategic risk inherent in the plans of CIL. The aim of the company is to become a scale player in the P&C market, and the timeframe for completing this goal is, market conditions permitting, relatively quickly. A lot, therefore, relies on the strategy of the business and the understanding of the insurance market environment in the UK and other locations where risks will be located.

Group Risk

CIL has a degree of group risk associated with it, as it is a subsidiary company of Convex Group. This is, however, a very simple Group structure composed of a parent company and two underwriting entities. Whilst this does not mean that there is no risk, it is limited compared to more complex structures.

Regulatory and Legal Risk

There is a risk that CIL fails to comply with regulations and laws within jurisdictions in which it operates. This risk is managed primarily by the Compliance function and the Legal function, which report to the Chief Compliance Officer and General Counsel respectively.

C.6.2. Risk mitigation

Strategic Risk

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

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

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

Regulatory and Legal Risk
The Compliance and Legal teams have worked hard in 2019 to ensure that a suitable control framework was established around the key areas of regulatory and legal risk, including licensing, sanctions, wordings and conduct risk.

C.6.3. Measures used to assess risk

None of these additional risks are measured quantitatively at present, although during 2020 a full review of key risk indicators (KRIs) and risk appetite will investigate whether or not there should be some form of specific reporting on these risks, especially the conduct aspects of Regulatory Risk.

C.6.4. Material changes over the reporting period

As with other risks, the material changes were the ones associated with the growth of the company, and setting up an operational insurer of scale in a short time.

C.7. Any other information

C.7.1. Stress testing and sensitivity analysis

Stress testing and sensitivity analysis is an important part of the business planning process, and of the testing performed by the Risk team to ensure that CIL remains prepared for potential deviations from expectations. This includes performing scenario analyses which test both the asset and liability sides of the balance sheet.

A key piece of stress and scenario work in the 2019 business planning activity was the creation of four scenarios/underwriting conditions as part of the business plan activity. The scenarios were created based on flexing the performance of long tailed and short tailed markets in each direction.

The underlying assumptions regarding loss ratios and volumes by line of business were predominantly derived from applying expert judgement from the underwriting office and finance function.

A baseline business plan was then created based on underwriting function's consensus on the profitability of the insurance market as a whole over the next few years which is a combination of the underlying four scenario plans. The plan indicated a range around 2020 net written premium of -$25 million to +$51 million, and an increase in SCR of $4.8 million to $18.1 million.

Stress tests were also carried out on specific perils or plausible scenarios, such as an insurance market downturn.

An impact of $18.1m in SCR represents an increase in capital intensity from 34% to 44%. As CIL is capitalised to a level well above that, and can call on further capital from Group entities, the current capital levels are considered prudent.

In addition to this there were further stress and sensitivity tests in both positive and negative directions, including a positive 'outperform' analysis conducted at Group level. These did not necessarily affect the SCR, but considered different upside scenarios for CIL.

Further, to ensure CIL can absorb possible financial shocks without breaching its Solvency II ratio, we measure and monitor the sensitivities of the Solvency II ratio to financial shocks (both on the asset and liability sides of the balance sheet) on corporate bond spreads, on interest rates, and increased defaults as shown in the table below:

Sensitivity	Impact on eligible own funds ($k)	Available own funds after stress ($k)	Solvency II ratio	Change in pts
+100bps interest rates	(4,245).	267,291	525%	(8)
-100bps interest rates	4,245	275,781	542%	8
+100bps corporate spreads	(2,963)	268,573	528%	(6)

Note that in the above sensitivities the Solvency Capital Requirement is assumed to remain unchanged.

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

This currently does not apply to CIL.

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

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

D. Valuation for solvency purposes

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

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

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

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

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

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

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

CIL applied the following hierarchy of valuation approaches:

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

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

Table D.1 – UK GAAP & Solvency II

As at 31 December 2019 ($000s)	Note in Financial Statements (a)	UKGAAP balance sheet classified according to financial statements (b)	Reclassification of UK GAAP balance sheet categories (c)	Reclassified UK GAAP balance sheet (d)=(b)+(c)	SII balance sheet (e)	Valuation differences between SII & UK GAAP (f)=(b)-(d)
Deferred acquisition costs	15,19	5,992	(6,013)	(21)		21
Prepayments and Accrued income		1,987	(1,987)	-		-
Deferred Tax Assets	9	1,339		1,339	1,339	-
Financial Investments					-	-
Listed debt securities	10,11	290,938	(290,938)		-	-
Participation in investment pools	11	8,691	(8,691)		-	-
Government Bonds			127,418	127,418	127,418	-
Corporate Bonds			129,932	129,932	129,932	-
Collateralised securities			35,355	35,355	35,355	-
Collective Investments Undertakings			8,690	8,690	8,690	-
Deposits other than cash equivalents			77	77	77	-
Reinsurance recoverables	3,4	74,903		74,903	(40,977)	(115,880)
Receivables						-
Insurance and intermediaries receivables	12	78,860		78,860	2,139	(76,721)
Reinsurance receivables	12	69		69	69	-
Receivables (trade, not insurance)	13	1,087		1,087	1,087	-
Cash and cash equivalents		5,102	(76)	5,025	5,025	-
Other Assets	14	343	220	563	563	-
Assets		469,312	(6,013)	463,299	270,719	(192,580)
Technical Provisions	3,4	(86,077)		(86,077)	4,096	90,173
Payables						-
Reinsurance payables		(70,070)		(70,070)	-	70,070
Payables (trade, not insurance)	17,18	(1,734)		(1,734)	(1,734)	-
Other Liabilities	17,18	(358)	(1,187)	(1,545)	(1,545)	0
Accruals and deferred income	19	(7,200)	7,200			-
Liabilities		(165,439)	6,013	(159,426)	817	160,243
Excess of assets over liabilities		**303,873**	**0**	**303,873**	**271,536**	**(32,337)**

D.1. Assets

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

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

D.1.1 Deferred acquisition costs

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

D.1.2 Deferred tax assets and liabilities

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

D.1.3 Financial investments

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

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

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

Table D.2 below analyses financial assets measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurements is categorised:

Table D.2 – Asset table with hierarchies

Financial Assets ($000s)	Level 1	Level 2	Level 3	Total
Government Bonds	125,777	1,641	-	127,418
Corporate Bonds	-	129,932	-	129,932
Collateralised securities	-	35,355	-	35,355
Collective Investments Undertakings	8,690	-	-	8,690
Deposits other than cash equivalents	77	-	-	77
Cash and cash equivalents	5,025	-	-	5,025
Total financial assets at fair value	**139,569**	**166,928**	**-**	**306,497**

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

COVID-19
As at 30 March 2020, the impact of market movements to the aggregate investment portfolio year to date has been minimal. We note however that there is significant scope for spreads to widen further, combined with rating downgrades and potentially increased defaults. The Investment Team is closely monitoring financial market conditions.

D.1.4 Reinsurance recoverables

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

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

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

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

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

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

The Company does not have any Special Purpose Vehicles.

D.1.5 Insurance receivables

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

D.2. Technical provisions

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

Table D.3 – Net technical provisions

Solvency II Value 2019	$000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	(8,205)
Best estimate reinsurance recoverables	40,977
Technical provisions risk margin – Non-life & health similar to non-life	4,109
Net technical provisions	**36,881**

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

Technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using risk-free discount rates. The risk margin is then added to reflect the uncertainty in the underlying cash flows. The risk margin is calculated by estimating the cost of the capital required to run off the business, discounted using the risk-free discount rates. The risk-free discount rates described here are prescribed by EIOPA for each reporting period.

The best estimate technical provisions are calculated by using the UK GAAP reserves as the starting point. The following adjustments are then made:

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

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

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

Solvency II value - $000s	Best estimate	Risk margin	Total
Marine, aviation and transport insurance	8,909	2,649	**11,558**
Fire and other damage to property insurance	5,434	(69)	**5,365**
General liability insurance	2,532	(28)	**2,505**
Non-proportional casualty reinsurance	405	7	**412**
Non-proportional marine, aviation and transport reinsurance	181	45	**226**
Non-proportional property reinsurance	15,310	1,506	**16,816**
Net technical provisions	**32,772**	**4,109**	**36,881**

Calculation of the best estimate technical provisions
The majority of business written to date has been:

- Airlines business, and smaller amounts of aviation products and space business, which are included in the 'marine, aviation and transport insurance' Solvency II class;
- Upstream and downstream energy business, which is included in the 'fire and other damage to property' Solvency II class; and
- High excess property reinsurance, which is included in the 'non-proportional property reinsurance' Solvency II class.

Additionally, small amounts of direct property and casualty business, and excess of loss reinsurance of energy, marine and casualty business has been written.

CIL has been writing business since June 2019, and as such has very limited claims history to date. Therefore, gross UK GAAP best estimate earned reserves have been estimated at a class of business level using market benchmark expectations of loss ratio, including an allowance for Events Not in Data ("ENIDs"). This best estimate reserves are then uplifted to include a margin to reflect the uncertainty in the reserves.

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

The reinsurance programme is then applied. Where in respect of a reinsurance that had incepted at the balance sheet date, allowance is made consistently with the approach within the UK GAAP reserves. Where reinsurance was bound but had not yet incepted, allowance for these contracts was included in excess of the reinsurance recoverables within the UK GAAP reserves.

The best estimate technical provisions, as shown in Table D.3, are driven by recognition of the cost of the extensive reinsurance programme that CIL has in place, for which it is obliged to recognise the whole cost. As this reinsurance covers the 2020 year of writing inwards business too, some of the benefit is not yet visible in the provisions.

Additional provisions in respect of operating expenses and an allowance for the expected reinsurer defaults are included within the best estimate provisions.

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

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

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

D.2.2 Key uncertainties

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

- The lack of historical claims experience data upon which to base assumptions, as a result of CIL's recent inception, increases the uncertainty in the loss ratios selected and by extension the level of profit expected in the business written.
- The claims reserves set implicitly assume that the level of future inflation will be consistent with that seen historically for a given class of business, should future inflation differ significantly from this assumption the reserves required could change significantly.
- CIL's portfolio is currently small, and as such a significant catastrophe or large loss event could cause a material deterioration.
- The final settlement value of claims will depend on events that have not yet occurred such as legislative changes and judicial decisions.
- The final settlement value of claims could be impacted by external events such as changes to policyholder behaviour or management actions, which it is not possible to make allowance for.

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

The following table summarises gross of reinsurance Solvency II Technical Provisions by material line of business and compares these to UK GAAP reclassified Technical Provisions. The information contained in this table is an extract from the Solvency II Balance Sheet QRT S.02.01, presented in Appendix B.

Table D.5 – Material differences between the Solvency II & UK GAAP valuation bases

Non- Life (Excluding Health) As at 31 December 2019 ($000s)	Best Estimate Liability (BEL)	Risk Margin (RM)	SII Technical Provisions =(BEM)+(RM)	UK GAAP reclassified Technical Provisions	Difference between SII & UK GAAP reclassified Technical Provisions
Direct and Proportional reinsurance:					
Marine, Aviation and Transport	(5,440)	2,649	(2,791)	68,413	(71,204)
Fire and property damage	(1,258)	(69)	(1,327)	7,312	(8,639)
General liability	(375)	(28)	(403)	1,423	(1,826)
	(7,073)	2,552	(4,521)	77,147	(81,669)
Non proportional Reinsurance:					
Marine, Aviation and Transport	(7)	45	38	649	(611)
Property	(1,038)	1,506	468	8,075	(7,607)
Casualty	(87)	7	(80)	205	(286)
	(1,132)	1,558	426	8,929	8,504)
Total	**(8,205)**	**4,109**	**(4,096)**	**86,077**	**(90,173)**

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

- Solvency II Technical Provisions include the Risk Margin, which is not included within UK GAAP Provisions, and which increases Solvency II Technical Provisions compared to UK GAAP Provisions. This impacts on all lines of business;
- An explicit margin for uncertainty is included within UK GAAP Provisions but removed under Solvency II. This impacts all lines of business and reduces Solvency II Technical Provisions compared to UK GAAP Provisions;
- Currently, claims reserves are not discounted within UK GAAP Provisions, whereas all cash flows are discounted under Solvency II. This difference reduces Solvency II Technical Provisions compared to UK GAAP Provisions and affects all lines of business;
- The unearned premium reserve established under UK GAAP for all lines of business is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure. This typically leads to a lower premium provision under Solvency II than the equivalent unearned premium reserves under UK GAAP; and
- Under Solvency II provisions are established for Legally Obliged Unincepted Business, whereas these provisions are not included within the UK GAAP valuation basis. This difference impacts all lines of business. This will reduce Solvency II Technical Provisions compared to UK GAAP Provisions.

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

Recoverables from reinsurance contracts are included within the best estimate of technical provisions (Table D.3.).
There are no recoverables expected from SPVs.

D.2.5 Transitional measures

No transitional measures have been applied.

D.3. Other liabilities

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

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

D.3.1 Payables and other financial liabilities

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

D.3.2 Accruals and deferred Income

Reinsurers' share of deferred acquisition costs of $6m included within accruals and deferred income under UK GAAP, are not recognised and therefore valued at $nil in the Solvency II Balance Sheet. Material differences in the valuation of Technical Provisions are explained in Section D.2.3. There are no other material differences between the UK GAAP and Solvency II valuation bases.

D.3.3 Assumptions, judgements and uncertainty

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

D.4. Alternative methods of valuation

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

D.5. Any other information

All material information relating to CIL's valuation for solvency purposes has been disclosed in Sections D.1 to D.4 of this document.

E. Capital management

This section of the report provides information on the Company's own funds and SCR and includes a description of the internal model.

E.1. Own funds

E.1.1 Objectives, processes employed by CIL for managing its own funds

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

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

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

CIL's own funds comprise unrestricted Tier 1 capital which consists of its ordinary share capital and retained earnings. Retained earnings are not separately disclosed in own funds but are notionally included in the Reconciliation Reserve, which reconciles the total excess of assets over liabilities with identifiable capital investments included in own funds. Own funds by tier are presented in QRT S.23.01.01 'Own Funds' within Appendix B. The table below sets out a summary of the Company's own funds by tier for the year ended 31 December 2019:

Table E.1 – Own Funds

Basic own funds by tier ($000)	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	311,800	-	-	-
Reconciliation reserve	(41,603)	-	-	-
An amount equal to net deferred tax assets	-	-	-	1,339
Total Basic Own Funds	**270,197**		**-**	**1,339**

Table E.2 – Reconciliation reserve

Reconciliation Reserve as at 31 December 2019	$000s
Solvency II excess of assets over liabilities	271,536
Ordinary Share Capital	(311,800)
Amounts equal to net deferred tax assets	(1,339)
Reconciliation Reserve	**(41,603)**

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

Own funds items are unrestricted Tier 1 and Tier 3 and therefore all available own funds are eligible to cover the SCR, as shown in Table E.3.

Table E.3 – SCR

2019	$000s
Total eligible own funds to meet the SCR	271,536

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

As Tier 3 own funds are not eligible to cover the MCR, the own funds to cover the MCR are restricted to Tier 1, as shown in Table E.4.

Table E.4 – MCR

2019	$000s
Total eligible own funds to meet the MCR	270,197

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

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

Table E.5 – Reconciliation of Equity

2019	$000s
Shareholders' equity as shown in the financial statements	303,873
Solvency II valuation adjustments to assets	(192,580)
Solvency II valuation adjustments to technical provisions	90,173
Solvency II valuation adjustments to other liabilities	70,070
Solvency II EAL	271,536

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

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

E.1.7. Ancillary own funds

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

E.1.8. Own funds restrictions

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement and Minimum Capital Requirement results

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

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

The Standard Formula SCR and MCR under Solvency II at 31 December 2019 are shown in Table E.6 below.

Table E.6 – SCR & MCR

Solvency II value 2019	$000s
Solvency Capital Requirement (SCR)	50,884
Minimum Capital Requirement (MCR)	12,721

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

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

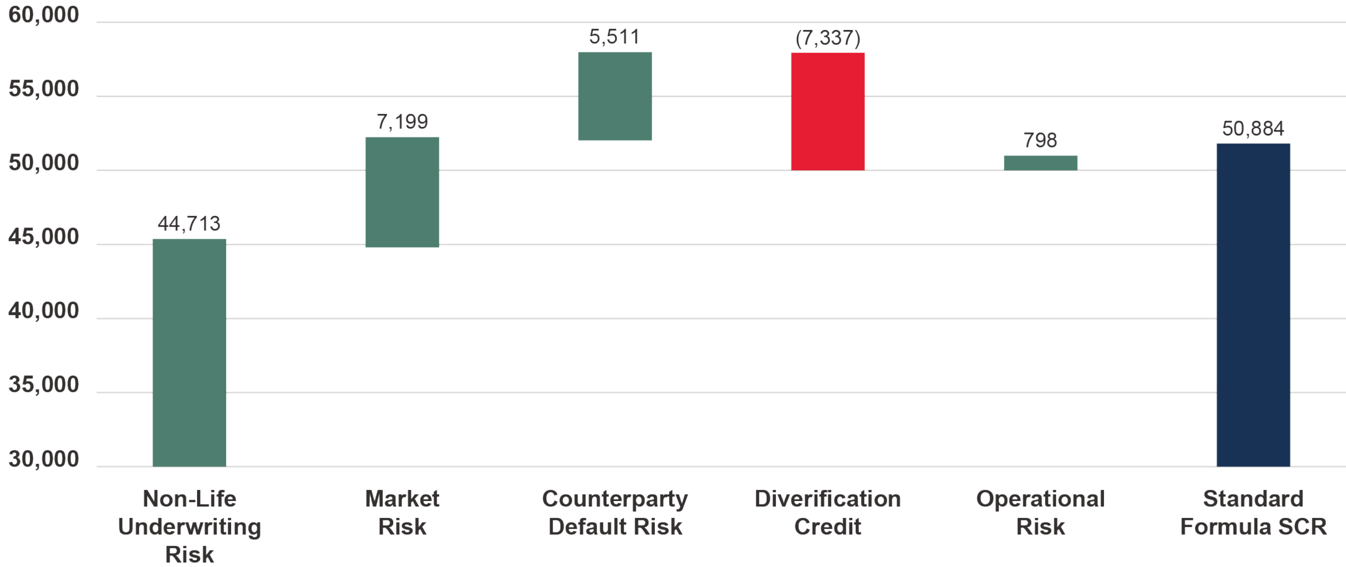
The company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

E.2.2 Solvency Capital Requirement calculation

Overview

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

Graph G.1



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

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

Table E.7 – Diversified non-life underwriting risk

Solvency II value 2019	$000s
Premium and reserve risk	31,369
Catastrophe risk	23,626
Lapse risk	9,299
Undiversified non-life underwriting risk	64,295
Diversification credit	(19,581)
Diversified non-life underwriting risk	**44,713**

The largest component of non-life underwriting risk charge is 'premium and reserve risk', which reflects the risks that:

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

The other significant risk charge comes from the risk of a catastrophe occurring that impacts CIL's inwards business. CIL has written business across a variety of lines of business that are exposed to catastrophe events. Their extensive reinsurance program acts to mitigate the impact of this on the overall capital requirement.

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

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

Table E.8 – Diversified market risk

Solvency II value 2019	$000s
Interest rate risk	4,461
Spread risk	4,392
Currency risk	1,843
Concentration risk	1,041
Property risk	-
Equity risk	-
Undiversified market risk	11,737
Diversification credit	(4,538)
Diversified market risk	**7,199**

CIL's asset portfolio (excluding cash) consists predominantly of bonds, so the risks associated with holding bonds drive the risk charges here.

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

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

There is a currency risk charge, reflecting the risk exchange rates differ from expectations, resulting in a mismatch between assets and liabilities.

Finally, there is a concentration risk charge as a result of CIL holding more than 3% of its assets in two individual investments.

CIL does not hold any property or equities, therefore no risk charge is required for these two modules of the Standard Formula.

Counterparty default risk
There is a small amount of counterparty default risk, as shown in Table E.9 below.

Table E.9 – Diversified counterparty default risk

Solvency II value 2019	$000s
Type 1 counterparty default risk	5,127
Type 2 counterparty default risk	499
Undiversified counterparty default risk	5,626
Diversification credit	(115)
Diversified counterparty default risk	**5,511**

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

There is also a small charge in respect of the risk of default by over-due balance sheet debtors, shown as Type 2 in the table.

Operational risk
Operational risk is calculated by applying factors to the items below, compared to a cap of 3% of the SCR excluding operational risk.

- Premium earned in the previous 12 months;
- Premium earned in the 12 months prior to the previous 12 months (nil for CIL, as this is the first year of operation); and
- Gross best estimate technical provisions with a floor of 0 (CIL's gross best estimate technical provisions are negative, as shown in Table D.3, so the floor applies).

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

Table E.10 – Operational risk

Solvency II value 2019	$000s
Gross earned premium in the previous 12 months	13,295
Operational risk - premium calculation	798
Gross technical provisions	(8,205)
Operational risk - technical provisions calculation	-
Calculated operational risk	798
Cap – 3% SCR	1,503
Operational risk	**798**

Therefore, the driver of the operational risk charge is the premium earned in the previous 12 months.

E.2.3 Minimum Capital Requirement calculation

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

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

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

Table E.11 – Minimum Capital Requirement

Solvency II value 2019	$000s
Linear MCR	5,409
Floor – 25% SCR	12,721
Cap – 45% SCR	22,898
Absolute Floor of the MCR	4,188
Minimum Capital Requirement	**12,721**

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

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

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

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

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

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

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

E.6. Any other information

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

Appendix A: Glossary of terms

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

Appendix B: QRTs

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

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

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	1,339
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	301,473
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	292,705
R0140	*Government Bonds*	127,417
R0150	*Corporate Bonds*	129,932
R0160	*Structured notes*	0
R0170	*Collateralised securities*	35,356
R0180	*Collective Investments Undertakings*	8,690
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	77
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-40,977
R0280	*Non-life and health similar to non-life*	-40,977
R0290	*Non-life excluding health*	-40,977
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,139
R0370	Reinsurance receivables	69
R0380	Receivables (trade, not insurance)	1,087
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,025
R0420	Any other assets, not elsewhere shown	563
R0500	**Total assets**	270,720

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	-4,096
R0520	*Technical provisions - non-life (excluding health)*	-4,096
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	-8,205
R0550	*Risk margin*	4,109
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,734
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,545
R0900	**Total liabilities**	-817
R1000	**Excess of assets over liabilities**	271,537

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business						35,767	5,279	1,439									42,484
R0120	Gross - Proportional reinsurance accepted						33,700	2,155										35,854
R0130	Gross - Non-proportional reinsurance accepted														243	823	13,675	14,741
R0140	Reinsurers' share						55,188	11,180	1,974						1,197	886	11,032	81,457
R0200	Net						14,278	-3,746	-535						-954	-63	2,644	11,622
	Premiums earned																	
R0210	Gross - Direct Business						3,065	487	70									3,623
R0220	Gross - Proportional reinsurance accepted						2,288	181										2,468
R0230	Gross - Non-proportional reinsurance accepted														61	282	6,863	7,206
R0240	Reinsurers' share						3,882	488	48						42	185	5,589	10,234
R0300	Net						1,471	180	22						19	96	1,274	3,063
	Claims incurred																	
R0310	Gross - Direct Business						2,359	358	46									2,763
R0320	Gross - Proportional reinsurance accepted						1,819	160										1,980
R0330	Gross - Non-proportional reinsurance accepted														23	101	1,336	1,460
R0340	Reinsurers' share						2,532	343	29						15	57	708	3,684
R0400	Net						1,646	175	18						8	44	628	2,519
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net						0	0	0						0	0	0	0
R0550	**Expenses incurred**						6,656	822	101						89	448	6,156	14,273
R1200	**Other expenses**																	
R1300	**Total expenses**																	14,273

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			US	RU	ET	AE	BM	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	38,100	2,762					40,861
R0120	Gross - Proportional reinsurance accepted	4,586	2,820	4,912	3,746	2,586	1,331	19,981
R0130	Gross - Non-proportional reinsurance accepted	264	11,650			768	255	12,937
R0140	Reinsurers' share	30,888	18,432	2,871	864	1,206	833	55,094
R0200	Net	12,061	-1,201	2,041	2,883	2,148	753	18,685
	Premiums earned							
R0210	Gross - Direct Business	3,274	188					3,463
R0220	Gross - Proportional reinsurance accepted	353	307	38		324	113	1,135
R0230	Gross - Non-proportional reinsurance accepted	136	5,901			386	191	6,614
R0240	Reinsurers' share	1,673	4,109	15		240	80	6,117
R0300	Net	2,091	2,287	22	0	470	224	5,095
	Claims incurred							
R0310	Gross - Direct Business	2,512	183					2,695
R0320	Gross - Proportional reinsurance accepted	387	226	29		218	112	973
R0330	Gross - Non-proportional reinsurance accepted	166	1,031			100	27	1,323
R0340	Reinsurers' share	764	206	6		53	29	1,058
R0400	Net	2,301	1,234	23	0	265	111	3,933
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	4,738	5,527	54		1,066	510	11,894
R1200	**Other expenses**							
R1300	**Total expenses**							11,894

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**						0	0	0						0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross						-4,648	-873	-359						-83	5	217	-5,743
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-13,401	-6,268	-2,895						-490	-142	-14,288	-37,484
R0150	**Net Best Estimate of Premium Provisions**						8,752	5,395	2,536						406	147	14,505	31,741
	Claims provisions																	
R0160	Gross						-791	-385	-16						-4	-12	-1,255	-2,463
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-948	-424	-12						-2	-46	-2,060	-3,493
R0250	**Net Best Estimate of Claims Provisions**						157	39	-4						-1	34	805	1,030
R0260	**Total best estimate - gross**						-5,440	-1,258	-375						-87	-7	-1,038	-8,205
R0270	**Total best estimate - net**						8,909	5,434	2,532						405	181	15,310	32,772
R0280	**Risk margin**						2,649	-69	-28						7	45	1,506	4,109
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**						-2,791	-1,327	-403						-80	38	468	-4,096
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**						-14,349	-6,692	-2,908						-492	-188	-16,348	-40,977
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**						11,558	5,365	2,505						412	226	16,816	36,881

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 | **Accident year / underwriting year** | Accident Year

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

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2011	0	0	0	0	0	0	0	0	0			0	0
R0180	2012	0	0	0	0	0	0	0	0				0	0
R0190	2013	0	0	0	0	0	0	0					0	0
R0200	2014	0	0	0	0	0	0						0	0
R0210	2015	0	0	0	0	0							0	0
R0220	2016	0	0	0	0								0	0
R0230	2017	0	0	0									0	0
R0240	2018	0	0										0	0
R0250	2019	126											126	126
R0260												Total	126	126

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2010	0	0	0	0	0	0	0	0	0	0		0
R0170	2011	0	0	0	0	0	0	0	0	0			0
R0180	2012	0	0	0	0	0	0	0	0				0
R0190	2013	0	0	0	0	0	0	0					0
R0200	2014	0	0	0	0	0	0						0
R0210	2015	0	0	0	0	0							0
R0220	2016	0	0	0	0								0
R0230	2017	0	0	0									0
R0240	2018	0	0										0
R0250	2019	-2,372											-2,463
R0260												Total	-2,463

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	311,800	311,800		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-41,603	-41,603			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	1,339				1,339
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	271,537	270,197	0	0	1,339
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	271,537	270,197	0	0	1,339
R0510	Total available own funds to meet the MCR	270,197	270,197	0	0	
R0540	Total eligible own funds to meet the SCR	271,537	270,197	0	0	1,339
R0550	Total eligible own funds to meet the MCR	270,197	270,197	0	0	
R0580	**SCR**	50,884				
R0600	**MCR**	12,721				
R0620	**Ratio of Eligible own funds to SCR**	533.64%				
R0640	**Ratio of Eligible own funds to MCR**	2124.04%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	271,537
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	313,139
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-41,603
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	23,248
R0790	**Total Expected profits included in future premiums (EPIFP)**	23,248

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	7,199		
R0020	Counterparty default risk	5,511		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	44,713		
R0060	Diversification	-7,337		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	50,086		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	798
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	50,884
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	50,884
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	5,409

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	8,909	997
R0080	Fire and other damage to property insurance and proportional reinsurance	5,434	-327
R0090	General liability insurance and proportional reinsurance	2,532	145
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	405	28
R0160	Non-proportional marine, aviation and transport reinsurance	181	190
R0170	Non-proportional property reinsurance	15,310	3,739

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	5,409
R0310	SCR	50,884
R0320	MCR cap	22,898
R0330	MCR floor	12,721
R0340	Combined MCR	12,721
R0350	Absolute floor of the MCR	4,127
R0400	**Minimum Capital Requirement**	12,721

Convex Insurance UK

52 Lime Street, London EC3M 7AF

convexin.com