



CONVEX RE LIMITED

(Incorporated in Bermuda)

Consolidated Financial Statements
For the year ended December 31, 2021
(Expressed in thousands of U.S. dollars)





April 27, 2022

Report of Independent Auditors

To the Board of Directors and Shareholder of Convex Re Limited

Opinion

We have audited the accompanying consolidated financial statements of Convex Re Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and December 31, 2020, and the related consolidated statements of income (loss) and comprehensive income (loss), of shareholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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



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

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

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

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

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to *Short-Duration Contracts* disclosures labelled as "Unaudited" within Note 8 on pages 22 to 23 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

CONVEX RE LIMITED

Consolidated Balance Sheets

As of December 31, 2021 and December 31, 2020



(Expressed in Thousands of U.S. Dollars Except for Share Amounts)

Assets	2021	2020
Investments		
Fixed maturity investments, at fair value (amortized cost: 2021: - \$2,277,940, 2020: - \$1,251,170)	\$ 2,270,840	\$ 1,268,135
Short-term investments, at fair value (amortized cost: 2021: - \$405,621, 2020: - \$975,278)	405,424	975,245
Other investments, at fair value (amortized cost: 2021: - \$18,564, 2020: - \$nil)	18,667	-
Total investments	2,694,931	2,243,380
Cash and cash equivalents	160,473	244,871
Accrued investment income	9,400	6,796
Insurance receivables	882,822	443,525
Prepaid reinsurance premiums	342,136	150,703
Deferred acquisition costs	109,763	44,388
Reserves recoverable	339,377	97,114
Receivable for securities sold	164	407
Balances due from affiliates	363	-
Deferred tax asset	-	-
Other assets	80,626	68,008
Total assets	\$ 4,620,055	\$ 3,299,192
Liabilities		
Reserve for losses and loss adjustment expenses	\$ 1,183,990	\$ 417,723
Unearned premiums	1,014,008	513,581
Reinsurance payables	391,078	197,646
Balances due to affiliates	30,887	11,654
Other liabilities	61,403	77,076
Total liabilities	2,681,366	1,217,680
Shareholders' equity		
Common A shares (\$1.00 par; authorized, issued and outstanding: 1,000,000)	1,000	1,000
Additional paid-in capital	2,257,088	2,257,088
Retained deficit	(319,399)	(176,576)
Total shareholders' equity	1,938,689	2,081,512
Total liabilities and shareholders' equity	\$ 4,620,055	\$ 3,299,192

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

CONVEX RE LIMITEDConsolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2021 and December 31, 2020

(Expressed in Thousands of U.S. Dollars)

	<u>2021</u>	<u>2020</u>
Revenues		
Gross premiums written	\$ 2,114,853	\$ 1,095,258
Reinsurance premium ceded	(763,731)	(380,206)
Net premiums written	1,351,122	715,052
Change in net unearned premiums	(308,994)	(340,177)
Net premiums earned	1,042,128	374,875
Net investment return	(7,221)	33,513
Foreign currency (losses) / gains	(1,082)	12,727
Total Revenues	1,033,825	421,115
Expenses		
Losses and loss adjustment expenses	800,283	363,876
Policy acquisition costs	147,232	58,791
Operating expenses	206,113	114,999
Other underwriting expenses	27,435	40,578
Total expenses	1,181,063	578,244
Net loss before tax	(147,238)	(157,129)
Tax benefit / (charge)	4,415	282
Net loss and comprehensive loss	\$ (142,823)	\$ (156,847)

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

CONVEX RE LIMITEDConsolidated Statements of Shareholders' Equity
For the Years Ended December 31, 2021 and December 31, 2020

(Expressed in Thousands of U.S. Dollars)

	Common A shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At January 1, 2021	\$ 1,000	2,257,088	(176,576)	2,081,512
Loss for the year	-	-	(142,823)	(142,823)
At December 31, 2021	\$ 1,000	2,257,088	(319,399)	1,938,689
	Common A shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At January 1, 2020	\$ 1,000	736,088	(19,729)	717,359
Additional paid-in capital	-	1,521,000	-	1,521,000
Loss for the year	-	-	(156,847)	(156,847)
At December 31, 2020	\$ 1,000	2,257,088	(176,576)	2,081,512

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

CONVEX RE LIMITED

 Consolidated Statements of Cash Flows
 For the Years Ended December 31, 2021 and December 31, 2020


(Expressed in Thousands of U.S. Dollars)

	2021	2020
Cash flows provided by (used in) operating activities		
Net loss	\$ (142,823)	\$ (156,847)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Fair value adjustment to Industry Loss Warranties	27,435	40,578
Change in net realized and unrealized gains on investments	23,490	(23,116)
Foreign exchange (losses) gains included in (loss) from operations	(1,383)	(14,103)
Amortization of premium on fixed maturity investments	21,646	2,413
Change in operational balance sheet items:		
Accrued investment income	(2,604)	(3,119)
Insurance receivables	(439,297)	(359,962)
Prepaid reinsurance premiums	(191,433)	(88,461)
Deferred acquisition costs	(65,374)	(41,652)
Reserves recoverable	(242,264)	(95,690)
Reserve for losses and loss adjustment expense	766,267	410,703
Unearned premiums	500,427	428,638
Reinsurance balances payable	193,432	137,005
Other operational balance sheet items, net	(30,774)	(10,984)
Net cash provided by (used in) operating activities	416,745	\$ 225,403
Cash flows provided by (used in) investing activities		
Proceeds on maturities of investments	150,598	23,634
Purchases of fixed maturity investments	(1,389,737)	(346,636)
Sales of fixed maturity investments	168,677	444,851
Sales (purchases) of short-term investments, net	592,581	(152,311)
Purchases of other investments	(18,564)	-
Net cash provided by (used in) investing activities	(496,445)	\$ (30,462)
Cash flows provided by (used in) financing activities		
Capital raised from share issuance	-	11,815
Net cash provided by (used in) financing activities	\$ -	\$ 11,815
Effect of foreign currency rate changes on cash and cash equivalents	(4,699)	12,008
Net (decrease) increase in cash and cash equivalents	(84,399)	218,764
Cash and cash equivalents - beginning of the year	244,871	26,107
Cash and cash equivalents - end of the year	\$ 160,472	\$ 244,871
Supplemental information		
Taxes paid during the year	\$ Nil	\$ Nil
Non-cash balance sheet movements excluded		
Capital contribution from parent in the form of fixed maturity investments	\$ -	\$ 808,218
Capital contribution from parent in the form of short-term investments	\$ -	\$ 700,967

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

(Expressed in Thousands of U.S. Dollars)

1. Nature of the business

Convex Re Limited (the "Company" or "CRL") is registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and related Regulations ("the Act"). The Company provides a diversified range of specialty insurance and reinsurance coverage to the global insurance market.

In January 2019 the Company formed Convex Insurance UK Limited ("CIL") in London, England as a wholly owned subsidiary.

The Company also formed a Luxembourg subsidiary to facilitate writing European business. On March 26, 2021, Convex Europe S.A ("CES") was incorporated, and its UK branch received regulatory approval from the UK regulators (Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") on December 2, 2021. CES is a wholly owned subsidiary of CIL and began writing business in November 2021.

On May 28, 2021, Convex Guernsey Limited ("CGU") was incorporated in Guernsey and is a wholly owned subsidiary of CRL.

On June 25, 2021, Convex North America Insurance Services LLC ("CUS") was incorporated in Delaware, United States of America. CUS is a managing general agent and is a wholly owned subsidiary of CIL.

2. Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and cover the year ended December 31, 2021. The consolidated financial statements include the accounts of the Company and its subsidiaries, including CIL, CUS, CGU and CES.

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

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

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

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

(Expressed in Thousands of U.S. Dollars)

3. Significant accounting policies

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

(a) Premiums

Insurance and Assumed Reinsurance Premiums

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

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

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

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

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

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

Reinstatement Premiums

Reinstatement premiums are recorded at the time a loss event occurs and coverage limits for the remaining life of the contract are reinstated under predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss adjustment expense, which reflects management's judgment, as described in Note 3(c), "Reserve for losses and loss adjustment expense". Reinstatement premiums are fully earned when accrued.

Reinsurance

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

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

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

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

(Expressed in Thousands of U.S. Dollars)

(b) Deferred acquisition costs

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

A premium deficiency exists if the sum of expected losses and loss adjustment expense and deferred acquisition costs exceed the related unearned premiums (and, if appropriate, expected future premium) and anticipated investment income. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency. No premium deficiency was recorded for the years ended December 31, 2021 and December 31, 2020.

(c) Reserve for losses and loss adjustment expense

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

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

(d) Investments

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

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

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

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

(Expressed in Thousands of U.S. Dollars)

(e) Variable interest entities

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

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

The Company reassesses its determination of whether the Company is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the Company's assessment. Refer to Note 14 "Variable Interest Entities" for further details on the Company's treatment of Hypatia Ltd.

(f) Fair value of financial instruments

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

(g) Derivative instruments

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

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

(Expressed in Thousands of U.S. Dollars)

(h) Property and equipment

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

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

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

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

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

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

(i) Cash and cash equivalents

The Company considers all investments with an original maturity of 90 days or less and money market funds held at the Company's investment managers as equivalent to cash.

(j) Foreign exchange

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

(k) Income taxes and uncertain tax provisions

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

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

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

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

(Expressed in Thousands of U.S. Dollars)

(l) Recently adopted accounting pronouncements

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB issued ASU 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”).” ASU 2018-15 provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. Specifically, the guidance aligns the capitalization requirement for implementation costs incurred in a hosting arrangement that is a service contract, with the requirements for capitalizing costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This update became effective for all entities for fiscal years starting on or after December 15, 2020, and interim periods within those fiscal years. The Company has performed an analysis using the guidance in Subtopic 350-40 to assess the capitalization requirements against the various hosting arrangements in place and concluded that none met the criteria to capitalize implementation expenses.

(m) Recently issued accounting standards not yet adopted

Financial Instruments - Credit Losses (Topic 326)

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326)”, which would change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. This standard would replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally would result in earlier recognition of credit losses. This standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. During 2018, 2019 and 2020, the FASB issued a number of amendments and targeted improvements to ease with the application of this standard. These updates are effective in line with the effective date of ASU No. 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company’s financial statements.

Codification Improvements

In October 2020, the FASB issued ASU No. 2020-10, “Codification Improvements”. The amendments in this update improve the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company’s financial statements.

(Expressed in Thousands of U.S. Dollars)

4. Investments

The amortized cost (or cost) and fair value of the Company's investments as at December 31, 2021 and December 31, 2020 are as follows:

	2021	
	Amortized Cost or Cost	Fair Value
U.S. government securities	\$ 1,221,125	\$ 1,217,838
Agency residential mortgage-backed securities	61,412	60,490
Non-agency residential mortgage-backed securities	6,922	6,989
U.S. corporate	796,488	795,813
Non-U.S. corporate	81,237	79,989
Non-U.S. government and government agency	1,703	1,640
Asset-backed securities	101,718	100,830
Commercial mortgage-backed securities	7,335	7,251
Total fixed maturities	2,277,940	2,270,840
Short-term investments	405,621	405,424
Other investments	18,564	18,667
Total investments	\$ 2,702,125	\$ 2,694,931

	2020	
	Amortized Cost or Cost	Fair Value
U.S. government securities	\$ 433,535	\$ 433,548
Agency residential mortgage-backed securities	59,874	60,764
Non-agency residential mortgage-backed securities	6,488	6,589
U.S. corporate	624,086	638,472
Non-U.S. corporate	5,121	5,237
Non-U.S. government and government agency	-	-
Asset-backed securities	109,716	111,074
Commercial mortgage-backed securities	12,350	12,451
Total fixed maturities	1,251,170	1,268,135
Short-term investments	975,278	975,245
Other investments	-	-
Total investments	\$ 2,226,448	\$ 2,243,380

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

(Expressed in Thousands of U.S. Dollars)

(a) Fixed maturity investments

The following table sets forth certain information regarding Standard & Poor's credit quality ratings (or an equivalent rating with another recognized rating agency) of the Company's fixed maturity investments as at December 31, 2021 and December 31, 2020:

	2021	
	Fair Value	% of Total
AAA	\$ 1,355,723	59.7%
AA	149,801	6.6%
A	509,911	22.5%
BBB	235,925	10.4%
Total investment-grade fixed maturities	2,251,360	99.1%
BB	3,800	0.2%
B	-	-
CCC	-	-
NR	15,680	0.7%
Total non-investment grade fixed maturities	19,480	0.9%
Total fixed maturities	\$ 2,270,840	100.0%

	2020	
	Fair Value	% of Total
AAA	\$ 623,865	49.2%
AA	86,246	6.8%
A	354,282	27.9%
BBB	203,742	16.1%
Total investment-grade fixed maturities	1,268,135	100.0%
BB	-	0.0%
B	-	0.0%
CCC	-	0.0%
NR	-	0.0%
Total non-investment grade fixed maturities	-	0.0%
Total fixed maturities	\$ 1,268,135	100.0%

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

(Expressed in Thousands of U.S. Dollars)

(a) Fixed maturity investments (continued)

The amortized cost and fair values for the Company's fixed maturity investments held at December 31, 2021 and December 31, 2020 are shown below by contractual maturity. Actual maturity may differ from contractual maturity due to prepayment rights associated with certain investments.

	2021	
	Amortized Cost	Fair Value
Due in one year or less	\$ 1,179,680	\$ 1,178,565
Due after one year through five years	907,210	903,291
Due after five years through ten years	13,663	13,424
Due after 10 years	-	-
	<u>2,100,553</u>	<u>2,095,280</u>
Asset-backed and mortgage-backed securities	177,387	175,560
Total fixed maturities	\$ 2,277,940	\$ 2,270,840

	2020	
	Amortized Cost	Fair Value
Due in one year or less	\$ 101,297	\$ 102,302
Due after one year through five years	946,729	960,221
Due after five years through ten years	14,716	14,733
Due after 10 years	-	-
	<u>1,062,742</u>	<u>1,077,256</u>
Asset-backed and mortgage-backed securities	188,428	190,879
Total fixed maturities	\$ 1,251,170	\$ 1,268,135

(b) Net investment return

Net investment return was derived from the following sources for the years ended December 31, 2021 and December 31, 2020.

	2021	2020
Fixed maturities and short-term investments	\$ 39,052	\$ 19,918
Other investments	-	-
Cash and cash equivalents	34	73
Total gross investment income	<u>39,086</u>	<u>19,991</u>
Amortization of premium on fixed maturity investments	(22,100)	(3,925)
Investment expenses	(3,396)	(3,368)
Total net investment income	<u>13,590</u>	<u>12,698</u>
Realized (loss) gains	(157)	7,980
Change in unrealized (losses) gains	(20,654)	12,835
Net investment return	\$ (7,221)	\$ 33,513

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

(Expressed in Thousands of U.S. Dollars)

(c) Pledged investments

The Company holds restricted assets comprising cash and cash equivalents, short-term investments and fixed maturity investments that were pledged and held in trust during the normal course of business with various regulatory authorities. At December 31, 2021, \$467,790 (2020: \$145,782) of assets were on deposit with custodians in respect of letter of credit facilities and trust accounts.

5. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

At December 31, 2021 and December 31, 2020 the Company's investments were allocated between Levels 1, 2 and 3 as follows:

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(Expressed in Thousands of U.S. Dollars)

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

	2021				Total
	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	
U.S. government securities	\$ 1,217,838	\$ -	\$ -	\$ -	\$ 1,217,838
Agency residential mortgage-backed securities	-	60,490	-	-	60,490
Non-agency residential mortgage-backed securities	-	6,989	-	-	6,989
U.S. corporate	-	795,813	-	-	795,813
Non-U.S. corporate	-	79,989	-	-	79,989
Non-U.S. government and government agency	-	1,640	-	-	1,640
Asset-backed securities	-	81,350	19,480	-	100,830
Commercial mortgage-backed securities	-	7,251	-	-	7,251
Total fixed maturities	1,217,838	1,033,522	19,480	-	2,270,840
Short-term investments	328,927	76,497	-	-	405,424
Other investments	-	-	-	18,667	18,667
Total investments	\$ 1,546,765	\$ 1,110,019	\$ 19,480	\$ 18,667	\$ 2,694,931

	2020				Total
	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	
U.S. government securities	\$ 433,547	\$ -	\$ -	\$ -	\$ 433,547
Agency residential mortgage-backed securities	-	60,765	-	-	60,765
Non-agency residential mortgage-backed securities	-	6,589	-	-	6,589
U.S. corporate	-	638,472	-	-	638,472
Non-U.S. corporate	-	5,237	-	-	5,237
Non-U.S. government and government agency	-	-	-	-	-
Asset-backed securities	-	111,074	-	-	111,074
Commercial mortgage-backed securities	-	12,451	-	-	12,451
Total fixed maturities	433,547	834,588	-	-	1,268,135
Short-term investments	938,099	37,146	-	-	975,245
Other investments	-	-	-	-	-
Total investments	\$ 1,371,646	\$ 871,734	\$ -	\$ -	\$ 2,243,380

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

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There were no transfers into or out of Level 3 during the years ended December 31, 2021 or December 31, 2020.

(b) Valuation techniques

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

Fixed maturity investments

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

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

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

U.S. government securities

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

Agency residential mortgage-backed securities

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

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Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company has no non-agency residential mortgage investments classified as sub-prime held in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

U.S. corporate

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

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

Non-US. corporate

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

Non-U.S. government and government agency securities

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

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are

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primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. There are a small number of collateralized loan obligations held that are generally illiquid and where inputs used to price these securities may not be directly observable and as such these are classified as Level 3.

Commercial mortgage-backed securities

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

Short term investments

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

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

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

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

At December 31, 2021, the Company had \$18,667 (2020: \$nil) of investment in independently managed external funds. There are \$36,145 unfunded commitments. The funds are primarily focused on equity and credit

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investment opportunities and investments are generally redeemable on a quarterly basis at the option of the shareholder, with a limit of 25% redemption in any one quarter.

6. Derivative instruments

(a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at December 31, 2021 and December 31, 2020:

	2021		
	Notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Derivatives not designated as hedging instruments:			
Industry Loss Warranties	\$ 350,000	\$ 50,532	\$ (39,985)
	\$ 350,000	\$ 50,532	\$ (39,985)
	2020		
	Notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Derivatives not designated as hedging instruments:			
Industry Loss Warranties	\$ 300,000	\$ 60,779	\$ (63,500)
	\$ 300,000	\$ 60,779	\$ (63,500)

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

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

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The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statement of Income relating to derivatives that were not designated as hedging instruments during the years ended December 31, 2021 and December 31, 2020.

Derivatives not designated as hedging instruments:	Classification of gains (losses) recognized in net income	2021	2020
Industry Loss Warranties	Other underwriting expenses	\$ (27,435)	\$ (40,578)
		\$ (27,435)	\$ (40,578)

(b) Balance sheet offsetting

There was no balance sheet offsetting activity as at December 31, 2021 and December 31, 2020.

Our derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.

7. Insurance receivables

Insurance receivables are composed of premiums in the course of collection, net of commissions and brokerage, premiums accrued but unbilled, net of commissions and brokerage, and paid losses recoverable. It is common practice in the (re)insurance industry for premiums to be paid on an instalment basis, therefore significant amounts will be considered unbilled and will not become due until a future date, which is typically no later than expiration of the underlying coverage period. The following is a breakdown of the components of insurance receivables as at December 31, 2021 and December 31, 2020.

	2021			
	Paid losses recoverable	Premiums in course of collection	Premiums accrued but unbilled	Total
Paid losses recoverable & Insurance receivables, beginning of year	\$ 4,336	\$ 16,999	\$ 422,190	\$ 443,525
Change during the year	35,396	50,245	353,656	439,297
Paid losses recoverable & Insurance receivables, end of year	\$ 39,732	\$ 67,244	\$ 775,846	\$ 882,822
	2020			
	Paid losses recoverable	Premiums in course of collection	Premiums accrued but unbilled	Total
Paid losses recoverable & Insurance receivables, beginning of year	\$ -	\$ 2,699	\$ 80,865	\$ 83,564
Change during the year	4,336	14,300	341,325	359,961
Paid losses recoverable & Insurance receivables, end of year	\$ 4,336	\$ 16,999	\$ 422,190	\$ 443,525

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

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8. Reserve for losses and loss adjustment expense

The following table summarizes the Company's reserve for losses and loss adjustment expenses, gross of reinsurance recoveries, as at December 31, 2021 and December 31, 2020:

	<u>2021</u>	<u>2020</u>
Case reserves	\$ 294,246	\$ 94,383
IBNR	889,744	323,340
Reserve for losses and loss adjustments expenses	<u>\$ 1,183,990</u>	<u>\$ 417,723</u>

The following table represents an analysis of paid and unpaid losses and loss adjustment expenses and a reconciliation of the beginning and ending unpaid losses and loss expenses for the years ended December 31, 2021 and December 31, 2020:

	<u>2021</u>	<u>2020</u>
Reserve for losses and loss adjustment expenses, beginning of year	\$ 417,723	\$ 7,019
Less: Reserves recoverable, beginning of year	(97,114)	(1,423)
Net reserves for losses and loss adjustment expenses, beginning of year	320,609	5,596
Increase in net reserves for losses and loss adjustment expenses in respect of losses occurring in:		
Current year	795,533	364,408
Prior year	4,750	(532)
Total losses and loss adjustment expenses	<u>800,283</u>	<u>363,876</u>
Foreign exchange (gain) / loss	(12,701)	3,611
Less net losses and loss adjustment expense paid in respect of losses occurring in:		
Current year	(147,259)	(51,337)
Prior year	(116,319)	(1,137)
Total net paid losses	<u>(263,578)</u>	<u>(52,474)</u>
Net reserve for losses and loss adjustment expenses, end of year	844,613	320,609
Add: Reserves recoverable	339,377	97,114
Reserve for losses and loss adjustment expenses, end of year	<u>\$ 1,183,990</u>	<u>\$ 417,723</u>

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

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Reserving Methodology/ Process used to decide on assumptions

The Company’s reserving methodology for each reserving class uses a combination of loss reserving processes that result in the Company’s best estimate for its ultimate settlement and administration costs for losses and loss adjustment expenses. The Company does not discount any of its reserves for losses and loss adjustment expenses. The Company selects its best estimate from this range and, along with paid claims and case reserves, records its best estimate of additional case reserves and IBNR in the consolidated financial statements. The Company does not discount any of its reserves for losses and loss adjustment expenses

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

The claims reserves established can be more or less than adequate to meet individual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate reserves for known large losses and catastrophes, from inadequate provision for unknown losses, or from inadequate provision for the deterioration of existing notified losses. The prior year adverse development in the reserves is \$4,750. This was primarily related to increases within the Property line of business due to Covid related losses. This adverse development was partially offset by positive development across a number of lines of business, including aerospace.

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

Year 1 (Unaudited)	Year 2 (Unaudited)	Year 3 (Unaudited)
12.3%	37.3%	26.3%

Claims Frequency

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

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(Expressed in Thousands of U.S. Dollars)

Claims Development Tables by Accident Year

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

Incurred Loss and Loss Adjustment Expenses, Net of reinsurance

Cumulative incurred claims at end of accident year	For the years ended 31 December			IBNR plus expected development on reported claims
	2019 (Unaudited)	2020 (Unaudited)	2021	
2019	5,748	5,167	2,594	11
2020		368,495	375,818	125,812
2021			782,252	492,006
	5,748	373,662	1,160,664	617,829

Paid Loss and Loss Adjustment Expense, Net of reinsurance

Paid claims at end of accident year	For the years ended 31 December		
	2019 (Unaudited)	2020 (Unaudited)	2021
2019	114	1,251	1,934
2020		51,638	167,274
2021			146,844
Total	114	52,889	316,052

Change in losses and loss adjustment expenses for the years ended December 31, 2021 and December 31, 2020:

	2021	2020
Gross losses and loss adjustment expenses	\$ 1,131,485	\$ 471,362
Ceded losses and loss adjustment expenses	(331,202)	(107,486)
Losses and loss adjustment expenses	\$ 800,283	\$ 363,876

9. Reinsurance

The Company's reinsurance balances recoverable at December 31, 2021 and December 31, 2020 are as follows:

	2021	2020
Reserves recoverable on unpaid:		
Case reserves	\$ 67,462	\$ 20,096
IBNR	271,915	77,018
Total reserves recoverable	339,377	97,114

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(Expressed in Thousands of U.S. Dollars)

(a) Effects of reinsurance on premiums written and earned

The effects of reinsurance on net premiums written and earned, and on losses and loss adjustment expenses for the years ended December 31, 2021 and December 31, 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Premiums written:		
Direct insurance	\$ 1,184,286	\$ 614,520
Treaty reinsurance	930,567	480,738
Ceded	(763,731)	(380,206)
Net premiums written	<u>\$ 1,351,122</u>	<u>\$ 715,052</u>
Premiums earned:		
Direct insurance	\$ 856,876	\$ 335,152
Treaty reinsurance	757,551	331,467
Ceded	(572,299)	(291,744)
Net premiums earned	<u>\$ 1,042,128</u>	<u>\$ 374,875</u>
Loss and loss adjustment expenses:		
Direct insurance	\$ 516,902	\$ 221,815
Treaty reinsurance	614,583	249,547
Ceded	(331,202)	(107,486)
Loss and loss adjustment expenses	<u>\$ 800,283</u>	<u>\$ 363,876</u>

(b) Credit risk

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

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

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. In 2021 CRL placed 85% (2020: 71%) of its business with reinsurers rated A- or above. Reinsurers with less than A- rating are fully collateralized.

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10. Share capital

The Company's authorized share capital is 1,000,000 (2020: 1,000,000) common shares with a par value of \$1.00 each. At December 31, 2021, there were 1,000,000 (2020: 1,000,000) common shares outstanding.

The Company did not declare dividends on common shares during the year ended December 31, 2021 (2020: nil).

11. Pension contributions

The Company provides pension benefits to eligible employees through various plans which are managed externally and sponsored by the Company. The Company's contributions are expensed as incurred. The Company's expenses for its defined contribution plans for the year ended December 31, 2021 were \$921 (2020: \$415).

12. Income taxes

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

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

The Company's net loss before tax for the years ended December 31, 2021 and December 31, 2020 was generated in the following domestic and foreign jurisdictions:

	2021	2020
Domestic	\$ 77,672	\$ 110,799
Foreign	69,566	46,330
Net loss before tax	<u>\$ 147,238</u>	<u>\$ 157,129</u>
Current taxation		
Bermuda current tax at 0% (2020: 0%)	-	-
Bermuda corporation tax	<u>\$ -</u>	<u>\$ -</u>
Foreign taxation – current year	3,735	1,522
Foreign taxation – adjustment in respect of prior years	680	397
Foreign taxation	<u>4,415</u>	<u>\$ 1,919</u>
Total current taxation charge	<u>\$ (4,415)</u>	<u>\$ (1,919)</u>
Deferred taxation		
Origination & reversal of timing differences	\$ 761	\$ (1,254)
Adjustments in respect of prior periods	(761)	(383)
Total deferred tax benefit (charge)	<u>-</u>	<u>(1,637)</u>
Tax benefit (charge) on ordinary activities	<u>\$ 4,415</u>	<u>\$ 282</u>

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The table below is a reconciliation of the actual income tax benefit (charge) for the years ended December 31, 2021 and December 31, 2020 to the amount computed by applying the effective tax rate of 0% under Bermuda law to income before taxes:

	<u>2021</u>	<u>2020</u>
Expected tax benefit (charge) at local rate of tax	\$ -	\$ -
Effects of:		
Expected tax benefit (charge) on foreign profits	13,289	8,803
Rate change adjustment	5,267	148
Prior year adjustment - current tax	(761)	14
Prior year adjustment – deferred tax	680	-
Permanent differences	(13)	-
Deferred tax not recognized	(14,047)	(8,683)
Actual income tax benefit (charge)	<u>\$ 4,415</u>	<u>\$ 282</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax asset related to	\$	\$
Tax losses carried forward at local tax rates	22,547	8,683
GAAP Differences	150	-
Pension contributions	14	-
Total deferred tax assets	<u>22,711</u>	<u>8,683</u>
Less: valuation allowances	<u>(22,711)</u>	<u>(8,683)</u>
Total net deferred income tax assets	<u>-</u>	<u>-</u>
Net deferred income tax asset/(liability)	<u>\$ -</u>	<u>\$ -</u>

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(Expressed in Thousands of U.S. Dollars)

The Company has \$22,547 (2020: \$8,700) net deferred tax assets in respect of carried forward net operating losses ('NOLs') as at December 31, 2021. A 100% (2020: 100%) valuation allowance has been applied in order to reduce the deferred tax asset recognized on the Consolidated Balance Sheets, on the basis that future profits against which the NOLs can be offset are uncertain. During the year the UK government substantively enacted a change to the rate of UK corporation tax, which will rise from 19% to 25% from April 1, 2023. This has led to an uplift in the value of NOLs by \$5,267 against which a 100% valuation allowance has been applied.

The movement in the deferred tax asset for the years ended December 31, 2021 and December 31, 2020 can be explained as follows:

	2021	2020
Balance at beginning of the year asset/(liability)	\$ -	\$ 1,637
Movement due to creation of tax losses carried forward	8,643	-
Movement of deferred tax on pension asset	13	-
Movement of GAAP differences	885	-
Prior year adjustment	(761)	(383)
Rate change	5,267	148
Deferred tax asset on losses not recognized	(14,047)	(1,402)
Balance at end of the year asset/(liability)	\$ -	\$ -

13. Commitments and contingencies

(a) Concentrations of credit risk

The Company underwrites a significant amount of its reinsurance business through three (2020: three) brokers as set out below. There is credit risk associated with payments of (re)insurance balances to the Company in regard to these brokers' ability to fulfil their contractual obligations. These brokerage companies are large and well established, and there are no indications they are financially distressed. There was no other broker or (re)insured party that accounted for more than 10% of gross premiums written for the periods mentioned.

The following table shows the percentage of gross premiums written through each of these three brokers for the years ended December 31, 2021 and December 31, 2020:

Broker	2021	2020
Marsh & McLennan Companies, Inc.	27.8%	28.7%
Aon Benfield	20.0%	19.5%
Willis Towers Watson	13.7%	19.8%

(b) Employment agreements

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

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(c) Operating leases

The Company leases office space and office equipment under various operating leases. All of these leases, the expiration terms of which range from 2029 to 2031, are for the rental of office space. Total rent expense with respect to these operating leases for the year ended December 31, 2021 was approximately \$1,302 (2020: \$255). Future minimum lease commitments are as follows:

	2021
2022	\$ 1,350
2023	1,350
2024	1,350
2025	1,350
2026 and thereafter	6,975
Total	\$ 12,375

14. Variable Interest Entities

Hypatia Ltd.

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

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

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

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

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15. Credit Facilities

Bilateral Letter of Credit Facilities

Uncommitted Standby Letter of Credit Facility with Citibank Europe

The Company and certain of its subsidiaries and affiliates are parties to a Standby Letter of Credit Agreement dated February 12, 2020 with Citibank Europe Plc, under which Citibank made available a letter of credit facility in the amount of \$200,000. The facility was renewed on November 25, 2021 and increased to \$300,000. The agreement provides for a secured, uncommitted facility under which letters of credit may be issued from time to time. The facility will be used to secure obligations to its policyholders. Pursuant to the agreement, the applicants may request secured letter of credit issuances. The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. At December 31, 2021, there were \$189,485 (2020: \$105,225) of secured letters of credit outstanding under this agreement, secured by collateral in the amount of \$304,745 (2020: \$139,518).

Uncommitted Standby Letter of Credit Facility with Lloyds Bank plc

On November 10, 2021, a new Standby Letter of Credit Facility Agreement with Lloyds Bank plc ("Lloyds") was established, under which Lloyds committed to a letter of credit facility in the amount of \$200,000. On November 22, 2021, the facility was amended to increase the overall commitments to \$300,000. The letter of credit facility is secured and supports the Company's insurance and reinsurance obligations. As at December 31, 2021, there were letters of credit outstanding under this facility totaling \$35,329 (2020: Nil), secured by collateral in the amount of \$149,932 (2020: Nil).

16. Related party transactions

Included in "Operating expenses" in the Consolidated Statements of Income (Loss) are expenses which relate to professional services, accommodation, travel and entertainment which were provided by various related parties of the Company and totaled \$212 for the year ended December 31, 2021 (2020: \$15). There were \$nil balances in accounts payable at December 31, 2021 (2020: nil) relating to these transactions.

Included in "Gross premium written" in the Consolidated Statements of Income (Loss) are gross premiums written with various related parties of the Company and totaled \$128,430 (2020: \$18,849). The primary related party was Howden UK Group Limited which produced \$84,738 of the gross premium written (2020: Miller Insurance Services which produced \$17,198 of the gross premium written.)

Kelly Lyles, who was appointed a director of the Company in 2021, serves as a director for Howden UK Group Limited. There was \$21,210 balance in insurance receivables at December 31, 2021 related to Howden UK Group Limited. Nicholas Lyons, a director of the Company, serves as a director for Miller Insurance Services. There was \$19,205 balance in insurance receivables at December 31, 2021 related to Miller Insurance Services (2020: \$8,457).

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17. Statutory and regulatory requirements

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

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

The Company and its subsidiaries are required to maintain certain measures of solvency and liquidity which provide restrictions on declaring dividends and distributions. Statutory capital and surplus as of December 31, 2021 and statutory net income for the year ended December 31, 2021 for our Bermuda reinsurance subsidiary will not be filed with the BMA until April 2022. Statutory capital and surplus as at December 31, 2021 and statutory net income for the year ended December 31, 2021 for our (re)insurance subsidiaries in Bermuda, U.K., Luxembourg, and Guernsey were as follows:

	2021		
	Statutory Capital and Surplus		Statutory Net Loss
	Required	Actual	
Bermuda	907,755	1,936,658	142,823
U.K.	714,323	1,202,753	57,025
Luxembourg	16,915	84,940	1,314
Guernsey	451	2,000	591
	2020		
	Statutory Capital and Surplus		Statutory Net Loss
	Required	Actual	
Bermuda	626,108	2,080,690	156,847
U.K.	433,110	863,996	49,960

(a) Bermuda

At December 31, 2021 the Company, a Class 4 Bermuda-based insurer, is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model.

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

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

The Company's primary restrictions on net assets consist of regulatory requirements placed upon it to hold minimum amounts of total statutory capital and surplus. There were no other material restrictions on net assets in place as of December 31, 2021.

(b) U.K.

The required and actual statutory requirements in the U.K. category in the table above relate to CIL. Under the jurisdiction of the United Kingdom's Prudential Regulation Authority ("PRA"), the Company's London based subsidiary, CIL must always maintain a margin of solvency under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and solvency capital requirement ("SCR"). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. CIL has utilized the standard formula for the SCR. As of December 31, 2021, the SCR of CIL was \$714,323, (2020: \$428,245) and there was surplus capital of \$488,430, (2020: \$440,678) with actual Own Funds Available of \$1,202,753, (2020: \$868,923).

The PRA regulatory requirements impose no explicit restrictions on CIL's ability to pay a dividend, but the company would have to notify the PRA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distribution. At December 31, 2021 CIL had \$nil, (2020: nil) retained profits available for distribution.

(c) Luxembourg

The required and actual statutory requirements in the Luxembourg category in the table above relate to CES. Under the jurisdiction of Luxembourg's Commissariat aux Assurances ("CAA"), the Company's Luxembourg based subsidiary, CES must always maintain a margin of solvency under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and solvency capital requirement ("SCR"). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. CES has utilized the standard formula for the SCR. As of December 31, 2021, the SCR of CES was \$16,915 and there was surplus capital of \$68,025, with actual Own Funds Available of \$84,940.

The CAA regulatory requirements impose no explicit restrictions on CES's ability to pay a dividend, but the company would have to notify the CAA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distribution. At December 31, 2021 CES had \$nil retained profits available for distribution.

(d) Guernsey

The required and actual statutory requirements in the Guernsey category in the table above relate to CGU. Under the jurisdiction of the Guernsey Financial Services Commission ("GFSC"), the Company's Guernsey based subsidiary, CGU must always maintain a margin of solvency under the Insurance Business (Solvency) Rules and Guidance, 2021. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and prescribed capital requirement ("PCR"). As of December 31, 2021, the MCR of CGU was \$135 and the PCR was \$451 and there was surplus capital of \$1,549, with actual Regulatory Capital Available of \$2,000.

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

18. Subsequent events

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

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



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