

CONVEX EUROPE S.A.

Solvency and Financial  
Condition Report 2021



# Contents

Directors' statement	3
<b>Executive summary</b>	<b>4</b>
Business and performance	4
Future Outlook	4
System of governance and Risk	5
Valuation for solvency	6
Capital management summary	7
<b>A. Business and performance</b>	<b>8</b>
A.1. Business	8
A.2. Underwriting performance	10
A.3. Investment performance	12
A.4. Performance of other activities	12
A.5. Any other information	12
<b>B. System of governance</b>	<b>13</b>
B.1. General information on the system of governance	13
B.2. Fit and proper requirements	16
B.3. Risk management system including the Own Risk and Solvency Assessment ("ORSA")	17
B.4. Internal control function	25
B.5. Internal audit function	25
B.6. Actuarial function	26
B.7. Outsourcing	27
B.8. Any other information	28
<b>C. Risk profile</b>	<b>29</b>
C.1. Underwriting risk	29
C.2. Market risk	30
C.3. Credit risk	32
C.4. Liquidity risk	33
C.5. Operational risk	34
C.6. Other material risks	36
C.7. Any other information	37
<b>D. Valuation for solvency purposes</b>	<b>38</b>
D.1. Assets	40
D.2. Technical provisions	41
D.3. Other liabilities	45
D.4. Alternative methods of valuation	45
D.5. Any other information	45
<b>E. Capital management</b>	<b>46</b>
E.1. Own funds	46
E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)	48
E.3. The use of the duration-based equity risk sub-module in the calculation of the SCR	51
E.4. Differences between the standard formula and any internal model used (not applicable)	51
E.5. Non-compliance with the MCR and non-compliance with the SCR	51
E.6. Any other information	51
<b>Appendix A: Glossary</b>	<b>52</b>
<b>Appendix B: QRTs</b>	<b>53</b>

# Directors' statement

We acknowledge our responsibility for preparing the Solvency and Financial Condition Report in all material respects in accordance with the Commissariat aux Assurances ("CAA") Rules and the Solvency II Regulations. We are satisfied that:

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

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

A handwritten signature in black ink, appearing to read "Richard Williams". The signature is fluid and cursive, with a long horizontal stroke at the end.

08.04.2022

Richard Williams

# 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 Luxembourg in the Commissariat aux Assurances (“CAA”). The SFCR contains qualitative and quantitative information on CES’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (“QRTs”) for 2021.

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

## Business and performance

Convex’s Luxembourg office opened in August 2021, home to the European insurance company, Convex Europe SA (CES), which manages Convex’s fully regulated insurance solution within the European Economic Area (EEA), enabling Convex Group (“Convex”) to write long-term business across the (EEA).

CES began writing business in November 2021, with fully paid up, tier 1, ordinary share capital of \$85 million, having spent the past year defining and implementing the processes required to allow it to begin underwriting business. On 1 December 2021, the UK branch of CES received approval from the Financial Conduct Authority and the Prudential Regulation Authority, effective immediately, allowing CES to write European business via the UK branch in London. This has further enabled Convex to establish relationships with and provide high-quality solutions for new and existing European clients.

As a result, gross premiums written in 2021 were \$30.1 million. A prudent approach to risk retention resulted in significant use of reinsurance protection which in turn resulted in a significant level of ceded premiums written.

The ramp up of operations during 2021 in Europe has meant that expenses incurred were significant as a proportion of the premium base, which further reduced the level of net income. As a result, CES made a net loss of \$1.3 million in the year.

## Future Outlook

CES views pricing in the insurance industry to be cyclical. Over the past decade there has been a significant decrease in pricing in both the insurance and reinsurance markets, which Convex believe is attributable primarily to the emergence of alternative sources of capital, less disciplined underwriting from incumbent providers, intermediary consolidation, and an expansion of delegated authorities. 2020 was a year of rate increase driven by COVID-19 and its impacts on a number of insurance and reinsurance players. While 2021 saw a continuation from 2020 of rate increases in many lines of business, this was against a backdrop of rising inflation rates. Despite these market developments and favourable market conditions, especially to Convex which has minimal legacy, CES’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 CES’s competitive position in a more difficult pricing environment.

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

Within these specialty insurance and reinsurance markets, CES will focus on the most complex end of the risk spectrum, supported by the Group’s differentiated operating model and underwriting experience and capabilities.

This differentiated proposition includes the following:

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

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

#### COVID-19

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

#### Ukraine/Russia Conflict

On 24 February 2022 Russia launched an invasion of Ukraine escalating the ongoing conflict between the two countries. The Company is monitoring, and complying, with sanctions and government guidance, and is in the process of assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures.

## System of Governance and Risk

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

#### Overall organisational risks

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

#### General insurance risk

General insurance risk arises from:

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

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

#### Market risk

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

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

#### Credit risk

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

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities.
- Reinsurance receivables, both intragroup and external, where credit risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits and receivables
- Insureds in the political and credit risk line of business, although no such business has been written to date.

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

#### Liquidity risk

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

### Valuation for solvency

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

Table 1 – Shareholders' equity

2021	\$000s
Shareholders' equity as shown in the financial statements	83,686
Solvency II valuation adjustments to assets (Note i)	(61,627)
Solvency II valuation adjustments to technical provisions (Note ii)	34,817
Solvency II valuation adjustments to other liabilities (Note iii)	28,064
<b>Solvency II EAL</b>	<b>84,940</b>

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

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

financial statements (relating to reinsurance ceded) and insurance and reinsurance payables not yet due, as these are taken into account in the valuation of reinsurance recoverables under Solvency II. CES has no material contingent liabilities that require recognition as liabilities in the Solvency II balance sheet.

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

### Capital management summary

CES' solvency position under Solvency II is determined by comparing eligible Own Funds with the Solvency II Solvency Capital Requirement ("SCR"). CES is required to meet the SCR at all times and is required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement ("MCR") is required to be rectified within three months. At 31 December 2021, the own funds of CES were \$84.9m compared to a standard formula SCR of \$16.9m, representing an SCR coverage ratio of 502%. CES' MCR was \$4.2m.

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

Table 2 – Solvency position

2021	\$000s
Solvency II EAL	84,940
Foreseeable dividend	-
Restrictions on eligibility	-
Eligible own funds (all Tier 1)	84,940
Minimum capital requirement	4,228
Solvency capital requirement	16,914
Solvency capital requirement ratio (%)	502%

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

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

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

# A. Business and performance

## A.1. Business

Convex Europe S.A. ('the Company') was incorporated on 26 March 2021 and is organised under the "Commercial Companies" laws of the Grand Duchy of Luxembourg as a public limited liability company (Société Anonyme). The Company is registered with the Register of Commerce and Companies of Luxembourg under section B221975.

The registered office of the Company is 7 Rue Robert Stümper, Luxembourg, L-2557, Luxembourg.

CES as a whole is supervised by the CAA. In addition, the UK branch is supervised by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

Their respective contact details are set out below.

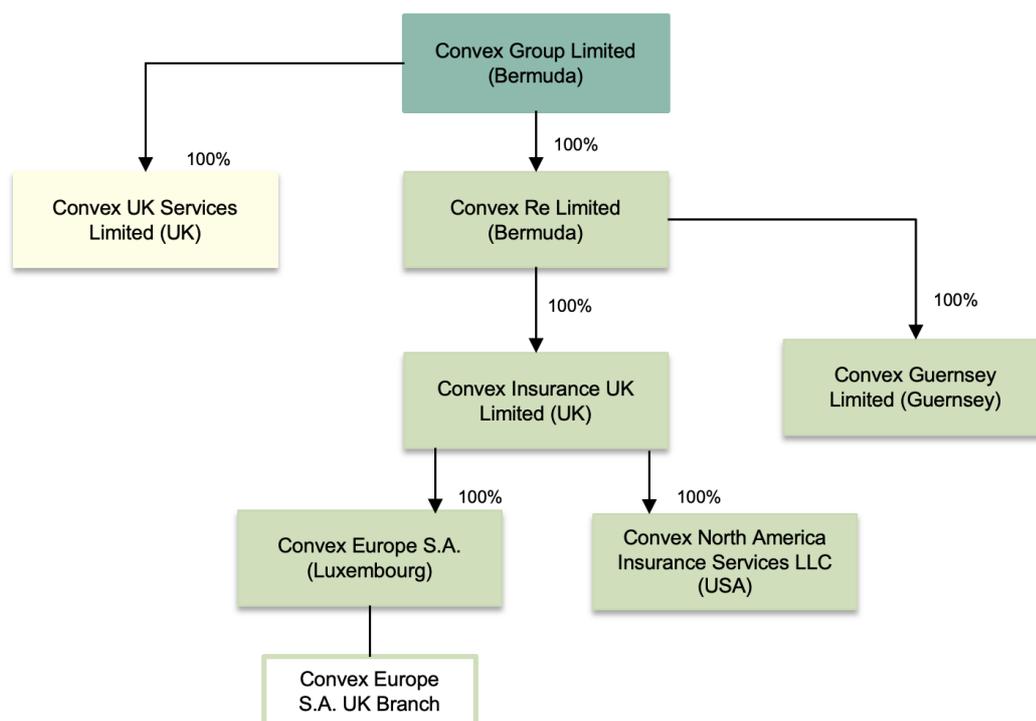
Commissariat aux Assurances 7 Boulevard Joseph II L-1840, Luxembourg	Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 25 The North Colonnade Canary Wharf London E14 5HS
--	---	--

The external auditor of CES is PricewaterhouseCoopers Société cooperative.

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

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

Diagram 1 – CES position within Group Structure



#### Convex Group

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

The Group has a streamlined organisational structure comprising of:

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

## A.2 Underwriting performance

### A.2.1 Measurement of underwriting performance

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

### A.2.2 Underwriting profit

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

Table A.1 – Underwriting Performance

As at 31 December 2021	\$000s
Gross written premiums	30,503
Premiums ceded to reinsurers	(24,521)
Premiums written net of reinsurance	5,532
Net change in provision for unearned premiums reinsurers	(5,304)
Net earned premiums	228
Net investment income	(17)
Income	211
Claims paid net of recoveries from reinsurers	-
Change in insurance liabilities, net of reinsurance	(208)
Fee and commission expense, net of reinsurance	3
Other expenses, net of reinsurance	(1,320)
Loss for the period before tax	(1,314)
Less: Net investment income	17
Add Back: Indirect Expenses	1,320
<b>Underwriting profit for the period</b>	<b>23</b>

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

In addition, the ramp up of operations during the year led to a high level of expenses in relation to premium recorded on a GAAP basis, and so as a result, CES's financial statements recorded a pre-tax loss of \$1.3m. However, the underwriting result, which excludes investment income and expenses not directly attributable to policies, was a profit of \$23,000.

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

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

#### A.2.3 Quantitative Reporting Templates S.05.01

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

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by Solvency II lines of business, is provided in the tables below.

Table A.3 – Summary of QRT S.05.01

\$000s	Direct and Proportional Reinsurance				Total	Non proportional Reinsurance			Total
	Marine, Aviation and Transport	Fire and property damage	General liability	Assistance		Marine, Aviation and Transport	Property	Total	
Gross written premium	19,587	2,820	6,931	136	29,474	497	82	579	30,053
Net earned premiums	195	(11)	49	4	237	(8)	-	(8)	229
Gross claims incurred	951	103	276	11	1,341	22	-	22	1,363
Net claims incurred	145	15	39	2	201	3	-	3	204
Direct Expenses Incurred	3	-	1	-	4	-	-	-	4

### A.3. Investment performance

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

CES's asset portfolio was invested solely in investment grade fixed income securities since its inception in Q4 2021. The investment assets produced a total return of -0.14% since its formation. The negative return was driven by increases in risk free yields in the latter half of the year, as central banks set out plans to unwind some of the extraordinary monetary policy put in place during the pandemic. This caused negative price returns within the portfolio that offset the steady coupon income received.

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

Debt Securities	\$000s
Interest income/(expense)	22
Realised gains/(losses)	(7)
Other (incl. investment expenses)	(32)
<b>Total Investment Return</b>	<b>(17)</b>

#### 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

The CES investment portfolio does not hold any investments in securitisation vehicles as at 31 December 2021.

### A.4. Performance of other activities

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

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

#### A.4.2. Leasing arrangements

CES has no material leasing arrangements.

### A.5. Any other information

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

# B. System of governance

## B.1. General information on the system of governance

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

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

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

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

#### CES Governance Framework - Governance Structure

##### **CES Boards**

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

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

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

##### **CES Executive Committees**

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

### B.1.2. Board Responsibilities

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

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

### B.1.3 Control Framework

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

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

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

The respective responsibilities of each line are shown below:

#### **First line: Management Monitoring**

Management is responsible for implementing and monitoring the system of internal control to ensure key business objectives are achieved and for complying with the risk appetite and controls set by the CES Board. Collectively the first line of defence is responsible for the day-to-day management of risk, including the identification and assessment of risks and controls.

#### **Second line: Risk and Compliance functions**

The Risk function 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 is responsible for implementing a compliance policy, a compliance plan and for assessing the adequacy of the measures adopted by the insurance undertaking to prevent non-compliance. Thus, the Compliance function monitors, evaluates and provides assurance on the effectiveness of the first line controls to CES Management and CES Board. The Compliance function of CES, with support from Group Compliance, further provides support and advice to 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.

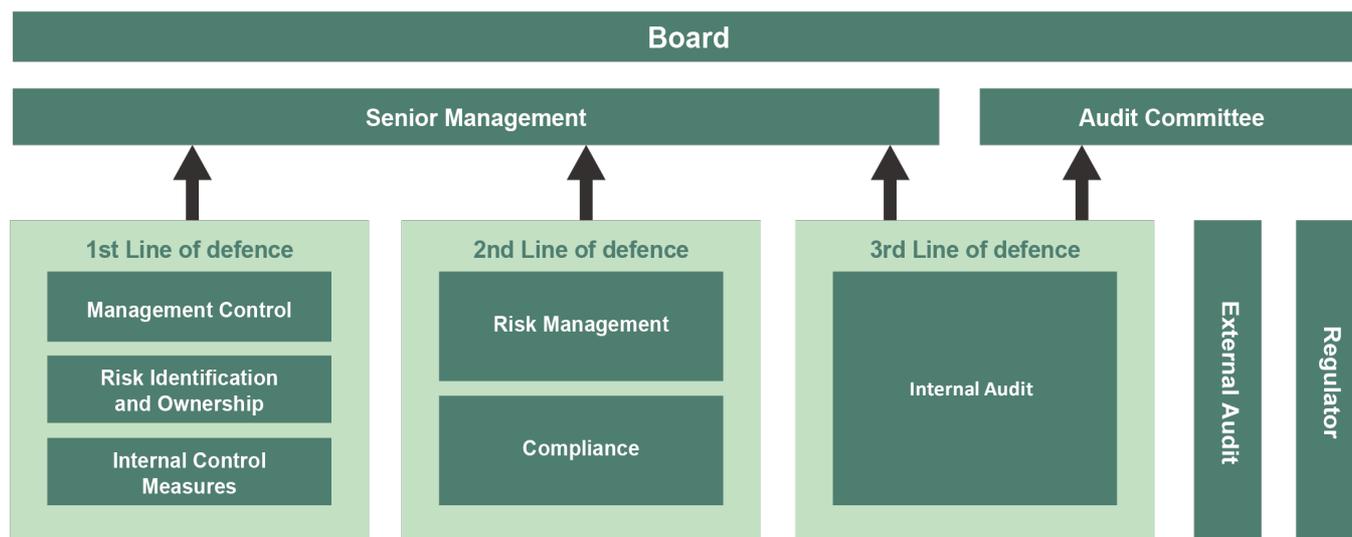
#### **Third line: Internal Audit**

This function provides independent and objective assurance on the robustness of the RMF and the appropriateness and effectiveness of internal controls to the CES Audit Committee and the Board.

### CES Three Lines of Defence Model

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

Diagram 2 – Three lines of defence model



#### B.1.4 Remuneration

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

Remuneration of staff is split between the following components:

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

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

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

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

The Company enters into transactions with other Convex group entities in the normal course of business. The most material transactions are the reinsurance cessions to Convex Re Limited ("CRL") which is a company within the Convex Group.

## B.2. Fit and proper requirements

### B.2.1. Specific Requirements Concerning Fit and Proper

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

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

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

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

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

### B.2.2 Polices and Process for assessing fitness and propriety

To ensure that CES identifies and recruits appropriate people to perform the roles which are key and/or are considered to effectively run the undertaking, the individual is assessed for:

- Fitness: skills and experience must be adequately matched to the role they are being employed to undertake.
- Propriety: checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

A basic level of screening is applied to all employees. Where an individual performs a role that is required to be approved by the CAA, a criminal record extract is required by the authorities of the country of residence and of the country of predominant residence during the last 10 years if different to the individual's current place of residence. Additionally, for individuals performing an executive function subject to a licence or a Solvency II key function role; a declaration of honour confirming the individual has not previously been declared bankrupt is required to be made before a notary.

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

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

### B.2.3 Culture and on-going monitoring

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

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

### B.3. Risk management system including the ORSA

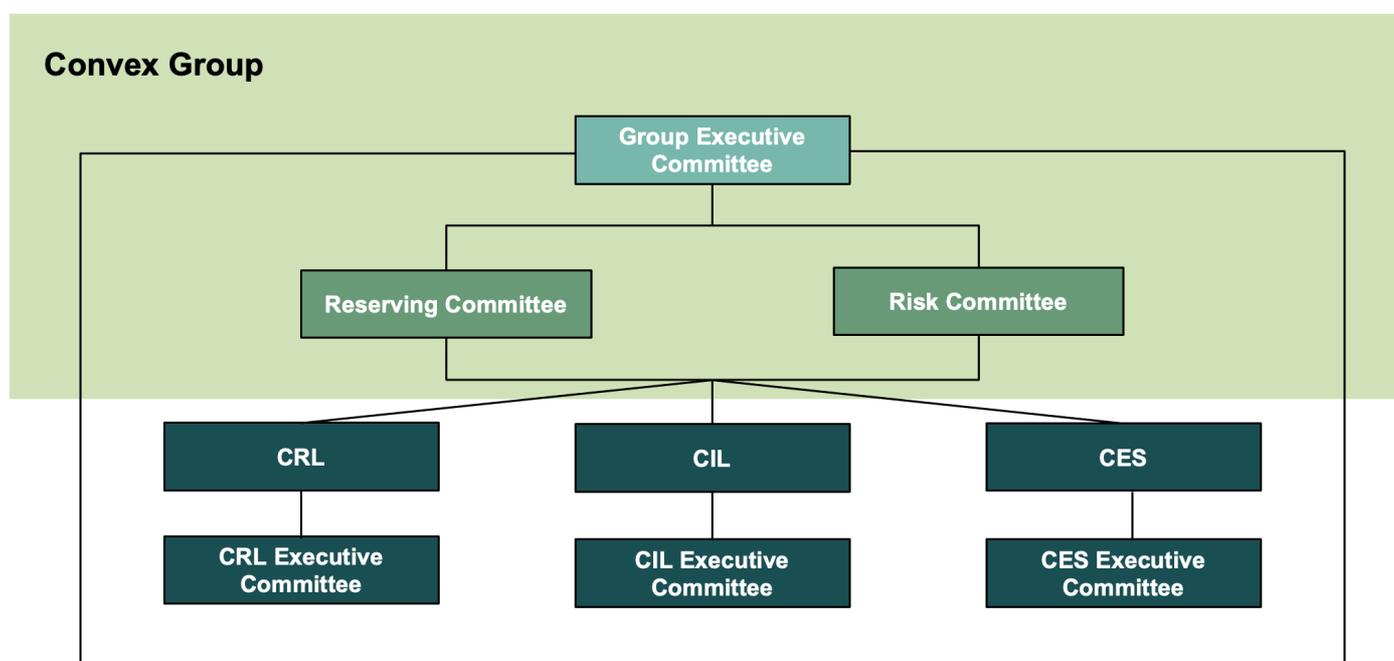
#### B.3.1. Description of the Risk management system

##### Risk Management Overview

The CES Risk Management Function provides risk oversight of the business for all risk types and categories. Oversight of the function's operations is provided by the Risk Committee and the Group Executive Committee ("GEC"). 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 CES as being the possibility of an adverse circumstance that will have a negative impact on CES or its objectives.

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

Diagram 3 – Convex Group committee structure



### B.3.2. Implementation of the risk management system

#### **Risk Management Implementation**

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

#### **Risk Strategy**

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

- 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 CES 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 CES.

CES operates the 'three lines of defence' structure, as defined in Section B.1.3.

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

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

A number of processes support the Risk Management Framework including:

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

## **Risk Management Process**

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

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

A key component of the risk identification process at CES is the Risk Register. CES has a comprehensive Risk Register which is mapped against the risk universe. The top risks included in the risk register are reported to the CES 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 CES's business strategy and underwriting performance. It helps to identify external trends, threats and opportunities, and improves risk selection and knowledge of future risk exposures.

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

The Risk 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 CES Board, CES Executive Committee and Group Executive 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 CES 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 CES 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 CES'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 CES Board, CES 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 CES's risk appetite. Risk mitigation is mainly achieved through the implementation of controls and management actions. It is the responsibility of each function within CES to own and manage their internal control environment. Risk Management provides an independent second line view of each function's internal control environment and reports findings to the relevant committees. Risk Management review the effectiveness of CES control environment on a quarterly basis.

Each control is scored for operational effectiveness (effective, partially effective, ineffective or not implemented) 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.

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

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

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

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

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

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

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

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

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

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

##### ORSA Overview

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

The ORSA requires inputs from a number of key CES 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 CES Board to be aware of the impact strategic decisions have on the risk and overall solvency needs of the business. The main outcomes of the exercise reported to CES Board in relation to the ORSA are:

- The capital and solvency position – the capital assessment is produced based on the risk profile of the firm and its business plan. Solvency 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 CES;
- The risk appetite of the firm forms a key part of the risk profile reporting throughout the year and the CES Board is regularly informed of the position of the firm against its agreed risk appetite; and
- The adequacy of the standard formula and an assessment of any risk category which deviates significantly from the standard formula parameters.

### ORSA Oversight

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

<b>CES Audit Committee</b>	<ul style="list-style-type: none"> <li>Provides independent oversight of the ORSA process through internal audit reports.</li> </ul>
<b>CES Board</b>	<ul style="list-style-type: none"> <li>Reviews and signs off the ORSA process and annual ORSA report.</li> <li>Set the risk appetite the for Company.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.</li> </ul>
<b>Group Executive Risk Committee</b>	<ul style="list-style-type: none"> <li>Reviews the ORSA Policy</li> <li>Reviews the quarterly risk dashboard</li> </ul>
<b>Group Executive Reserving Committee</b>	<ul style="list-style-type: none"> <li>Reviews the technical provisions and will make recommendations to the CES Board for sign-off.</li> </ul>

### Supporting IT Systems

CES uses the RiskConnect 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 CES.

### Risk Management and Risk Appetite Frameworks

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

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

### Reporting

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

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

Separately, the annual ORSA report:

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

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

#### ORSA Process



The ORSA process considers all key risks faced by CES, including 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 CES Board and the Group Risk Committee, with summarised content also included in the annual ORSA report.

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

- The 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**

CES 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 CES, 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 CES, and any key differences are documented in the annual ORSA report. An overall assessment of the suitability of the SCR to calculate regulatory capital for CES based on these differences is also included in the annual ORSA report.

#### **Solvency Assessment**

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

#### **ORSA Frequency**

The ORSA process is continuous. There are quarterly updates to the Group Risk Committee and CES 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 CES's comprehensive risk appetite metric process. This is supported by an annual ORSA report.

#### **Ad hoc ORSAs and Triggers**

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

#### **Change to CES risk profile**

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

- 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 CES.

## B.4. Internal control function

### B.4.1. Description of the internal control system

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

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

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

### B.4.2. The Compliance function

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

The Compliance function manages the relationship with the CAA and other regulatory bodies and is committed to transparent and constructive relationships with regulators. The Compliance function is supported by Group Compliance and works closely with Legal, Risk Management and Internal Audit functions.

The Compliance function is responsible for implementing a compliance policy, a compliance plan and for assessing the adequacy of the measures adopted by the insurance undertaking to prevent non-compliance. Thus, the Compliance function monitors, evaluates and provides assurance on the effectiveness of the first line controls to CES Management and CES Board. The Compliance function of CES, with support from Group Compliance, further provides support and advice to 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.

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

## B.5. Internal Audit function

### B.5.1. Implementation of the internal audit function

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

Adequate and effective risk management, internal control, and governance processes reduce but cannot eliminate the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented or overridden, and the occurrence of unforeseeable circumstances. Adequate and effective risk management, internal control, and governance processes therefore provide reasonable, but not absolute, assurance that 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 Chief Audit Officer, a senior position within the Group, reports functionally to the respective independent Chairs of CGL and its subsidiary Audit Committees, and has a secondary reporting line to the CGL Chief Executive Officer and Deputy Chief Executive Officer. The CGL Board Audit Committee approves the performance evaluation, appointment, or removal of the Chief Audit Officer, and reviews his/her annual remuneration each year.

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

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

## B.6. Actuarial function

The Actuarial function is led by CES's Chief Risk Actuary ("CRA"), who reports to the CES Dirigeant Agréé. The Actuarial function is accountable for actuarial methodologies and calibrations. It also considers the appropriateness of the capital modelling activities. The Actuarial function produces an annual report to the 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. CES outsourcing policy

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

CES has considered the impact of all outsourcing and 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.

CES also works to ensure that the service provider must:

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

CES recognises that the responsibility and accountability of all outsourcing functions remains with the CES Board who will ensure that due diligence, expertise and skill is exercised when entering into, managing or terminating any outsourcing arrangement. The Board also acknowledges that CES remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing. Group operations currently submits a report to the CES 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 CES's major service provider has several layers, thereby ensuring the right audience and authority is engaged for discussion and agreement, whilst maintaining overall Board responsibility and accountability.

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

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

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

## B.8. Any other information

A COVID-19 Planning Working Group has been formed to implement and manage emergency plans to mitigate the impact of COVID-19 pandemic on CES'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

Insurance Risk consists of Premium Risk and Reserve risk; each is defined at Convex as follows:

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

Premiums may differ from estimates in the business plan as a result of poor pricing and external market events impacting pricing. For example, following a severe catastrophe event in a particular region, the line of business may see sudden rate increases and therefore a tactical decision to underwrite higher volumes of premiums is made. The opposite may also occur such as rates decreasing more than expected in a particular line of business, that may lead to inadequate pricing for the amount of risk, making it no longer profitable or even viable. As a consequence, the resultant mix of business may also differ from the business plan.

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

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

### C.1.2. Risk mitigation

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

For Premium Risk:

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

For Reserve Risk:

- The Actuarial Function feeds into the business planning using metrics such as loss ratio benchmarks;
- A Group Major Events Committee where complex claims and market situations are discussed as well as reserve trends to ensure adequate reserves are booked;
- An inflation working group has been set up in 2021 to develop a more holistic method to monitor inflation risk that Convex is exposed to;
- Monitoring claims by line of business regularly against the business plan;
- Information flow between underwriters and claims teams;
- Validation of amount of risk being taken using external data given CES does not have proprietary experience data;
- An effective reinsurance program to protect against some adverse claims experience;
- Technical pricing of select risks.

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

CES 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

The Company does not have material concentrations in our business, as it has developed a diversified book of business across lines of business and geographies.

### C.1.5. Material changes over the reporting period

The most material change over the reporting period is that CES commenced underwriting, which initiated insurance risk, and led the business to implement the above controls to identify, analyse, mitigate, monitor and report on insurance risks. These will continue to be embedded during 2022.

## 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, although CES does not currently hold these assets.
- A change in foreign exchange rates could have an impact for CES, as the asset portfolio is denominated in USD, while future liabilities are also denominated in other currencies, including GBP and EUR. Thus, FX movements are expected to have an impact on future non-USD denominated liability and expense related cashflows.

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

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

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

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

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

As a new entity, CES will be focusing on the embedding of these monitoring and reporting processes during 2022.

### C.2.3. Risk mitigation

Market Risk for CES is kept at a limited level, owing to the prudent investment strategy and asset allocation, which currently has no exposure to higher volatility classes such as equities.

The level of market risk is managed by:

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

### C.2.4. Measures used to assess risk

Measures used to assess Market Risk in the business include:

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

### C.2.5. Risk concentration

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

- Interest Rate Risk (separated by primary components such as parallel and steepening or flattening movements)
- Credit Spread Risk (separated by rating, duration and type of asset)
- Foreign Exchange Risk
- Inflation Risk

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

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

### C.2.6. Material changes over the reporting period

CES's investment portfolio was established in 2021 alongside the authorisation of the company. It is currently relatively small in size but will grow in line with the growth of CES written premiums and anticipated in the business plan.

### C.3. Credit risk

#### C.3.1. Risk description

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

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

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

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities.
- Reinsurance receivables, both intragroup and external, where credit risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits and receivables
- Insureds in the political and credit risk line of business, although no such business has been written to date.

#### 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 CES (corporate, Government agency and sub-sovereign) and are defined as a percentage of the Aggregate Market Risk Limit, with higher risk investments set at a lower percentage.

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

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

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

A net aggregate exposures limit is in place for the overall political and credit risk underwriting line of business, although no such business has yet been written in CES.

#### C.3.3. Measures used to assess risk

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

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

#### C.3.4. Risk concentration

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

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

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

### C.3.5. Material changes over the reporting period

The most material change over the reporting period is that CES commenced underwriting, which initiated credit risk, and led the business to implement the above controls to identify, analyse, mitigate, monitor and report on credit risks. These will continue to be embedded during 2022.

## C.4. Liquidity Risk

### C.4.1. Risk description

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

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

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

To satisfy the risk appetite statement, a Group Liquidity Stress Testing Framework is in place to ensure CES holds sufficient liquidity to meet an extreme stressed scenario, defined as the combination of a large loss event and a market liquidity shock, while ensuring sufficient liquidity is also available after the extreme stressed scenario to continue to support day-to-day operations. At the end of 2021 work was in progress to define the most appropriate CES large loss to use in this analysis.

### C.4.2. Risk mitigation

CES manages liquidity risk by using a liquidity risk framework, that measures excess liquidity over five horizons and in stressed scenarios and puts a limit that ensures excess liquidity is positive under all horizons and scenarios considered. As a new entity, this framework was being embedded at the end of 2021.

### 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.

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

### C.4.4. Expected profit included in future premiums

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

The Company’s Expected Gross Profit included in Future Premiums (EPIFP) was \$10.0 million.

### C.4.5. Risk concentration

There are no liquidity risk concentrations identified as at year end 2021.

### C.4.6. Material changes over the reporting period

The most material change over the reporting period is that CES commenced operations, which initiated liquidity risk, and led the business to implement the above controls to identify, analyse, mitigate, monitor and report on liquidity risks. These will continue to be embedded during 2022.

## C.5. Operational risk

### C.5.1. Risk description

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

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

#### **Financial and Accounting**

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

#### **Outsourcing & Third-Party Service Provider**

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

#### **Business Continuity Management**

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

#### **IT**

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

#### **Financial Crime (Including internal and external fraud)**

This is the risk that the firm might be used to further financial crime.

#### **Conduct Risk**

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

#### **People Risk**

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

### C.5.2. Risk mitigation

CES, as new entity, is embedding an effective control environment to mitigate against operational risk. These controls are rated according to their effectiveness and are stored within the RiskConnect system. Controls are reviewed periodically and analysed to ensure that the risk is being mitigated as expected, and this process will be further honed during 2022.

### C.5.3. Measures used to assess risk

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

#### C.5.4. Risk concentration

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

Risk incident data is analysed for trends or concentrations with regards to root causes, departments, risk owners and other such categories, although there has been very limited incident data for CES to date. 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

The most material change over the reporting period is that CES commenced operations, which initiated operational risk, and led the business to implement the above controls to identify, analyse, mitigate, monitor and report on operational risks. These will continue to be embedded during 2022.

### **COVID-19**

The operational risk associated with COVID-19 was well managed in 2021 given CES has been able to successfully operate in a remote working environment since 2020. The associated operational risk from COVID-19 has been mitigated well by CES' agile technology approach, and no material direct losses have been sustained on an operational basis. There has been the potential for employees to be exposed to the virus, and despite a relatively low mortality rate, with many people catching the virus there was the possibility of multiple employees becoming ill or severely ill, which could have affected CES negatively. To mitigate this risk, CES continues to strictly follow the Luxembourg government's advice as it did during 2021, including home working as appropriate, using company laptops and mobile phones. CES has also taken extensive precautions within its Luxembourg office to ensure that the relevant government guidelines for office working are followed and that employees feel comfortable working in the office.

In addition, CES continues to work closely with its main outsourcer, WNS, and WNS employees have been equipped to work from home to ensure continuity in CES's operations. CES communicates with WNS to monitor its performance of key services to ensure that operations are not interrupted by developments with COVID-19.

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

### **Information Security**

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

## C.6. Other material risks

### C.6.1. Description of other material risks

#### **Strategic Risk**

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

#### **Group Risk**

CES has a degree of Group Risk associated with it, as it is a subsidiary company of Convex Group. The Group structure also grew in 2021 with new underwriting entities and branches being established to allow for further growth and expansion of underwriting lines. However, the Group remains relatively small with a lean structure (one holding company and four underwriting entities). Further growth to the Group is anticipated in the coming years and the Risk function will ensure that this risk is reviewed and managed appropriately.

#### **Regulatory and Legal Risk**

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

#### **Financial Risks from Climate Change**

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

### C.6.2. Risk mitigation

#### **Strategic Risk**

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

Additionally, the business planning process has robust controls, taking into account a variety of different market backdrops.

#### **Group Risk**

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

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

#### **Regulatory and Legal Risk**

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

#### **Financial Risks from Climate Change**

Climate change risk is owned at Convex Group level by our Group CEO. Initial analysis of the financial impact of the risks on the investment portfolio and the insurance portfolio will be performed at the CES level in 2022. Other associated impacts from climate change risk such as reputation risk and other emerging risks are identified and monitored through our emerging risk management process.

### C.6.3. Measures used to assess risk

None of these additional risks are measured quantitatively at present, although the establishment of CES risk appetite statements in 2021 refined and enhanced the Conduct and Regulatory Risk statements that had previously been in place for other Convex entities. These will be further enhanced and embedded in 2022. Key regulatory, legal, strategic and group risks are noted within the Convex Risk Registers as operational risks.

#### C.6.4. Material changes over the reporting period

As with other risks, the material change over the reporting period is that CES commenced operations, which initiated these risks and led the business to implement the above controls to identify, analyse, mitigate, monitor and report on them.

### C.7. Any other information

#### C.7.1. Stress testing and sensitivity analysis

Stress testing and sensitivity analysis is an important part of the Risk Management Framework, and of the testing performed by the Risk team to ensure that CES remains prepared for potential deviations from expectations. As a new entity, no such testing took place in 2021, but work is planned as part of the 2022 ORSA report, primarily covering:

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

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

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

This currently does not apply to CES.

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

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

## D. Valuation for solvency purposes

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

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

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

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

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

Differences between the valuation of CES's assets and liabilities under Solvency II and Luxembourg GAAP are presented in column (f).

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

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

CES applied the following hierarchy of valuation approaches:

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

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

Table D.1 – Luxembourg GAAP & Solvency II

As at 31 December 2021 (\$000s)	Note in Financial Statements	UKGAAP balance sheet classified according to financial statements	Reclassification of UK GAAP balance sheet categories	Reclassified UK GAAP balance sheet	SII balance sheet	Valuation differences between SII & UK GAAP
	(a)	(b)	(c)	(d)=(b)+(c)	(e)	(f)=(b)-(d)
Deferred acquisition costs	6	3,595	-	3,595	-	3,595
Prepayments and accrued income	-	93	(93)	-	-	-
Listed debt securities	5	77,317	(77,317)	-	-	-
Government Bonds	-	-	56,191	56,191	56,168	23
Corporate Bonds	-	-	21,219	21,219	21,119	100
Reinsurance recoverables	6	23,548	-	23,548	(7,599)	31,147
Insurance and intermediaries receivables	7	31,178	-	31,178	4,416	26,762
Cash and cash equivalents	-	6,906	-	6,906	6,906	-
Other assets	-	120	-	120	120	-
<b>Assets</b>		<b>142,757</b>	<b>-</b>	<b>142,757</b>	<b>81,130</b>	<b>61,627</b>
Technical provisions	6	(29,007)	-	(29,007)	5,810	(34,817)
Insurance payables		(3,887)		(3,887)	-	(3,887)
Reinsurance payables	-	(20,607)	-	(20,607)	-	(20,607)
Amounts owed to group companies	8	(43)		(43)	(43)	-
Other liabilities	-	(1,294)	-	(1,294)	(1,957)	663
Accruals and deferred income	6,9	(4,233)	-	(4,233)	-	(4,233)
<b>Liabilities</b>		<b>(59,071)</b>	<b>-</b>	<b>(59,071)</b>	<b>3,810</b>	<b>(62,881)</b>
<b>Excess of assets over liabilities</b>	<b>-</b>	<b>83,686</b>	<b>-</b>	<b>83,686</b>	<b>84,940</b>	<b>(1,254)</b>

## D.1. Assets

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

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

### D.1.1 Deferred acquisition costs

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

### D.1.2 Deferred tax assets and liabilities

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

### D.1.3 Financial investments

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

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

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

Table D.2 below analyses financial assets measured at fair value at 31 December 2021, 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	56,168	-	-	56,168
Corporate Bonds	-	21,119	-	21,119
Cash and cash equivalents	55	6,851	-	6,906
<b>Total financial assets at fair value</b>	<b>56,223</b>	<b>27,970</b>	<b>-</b>	<b>84,193</b>

#### D.1.4 Reinsurance recoverables

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

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

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

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

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

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

The Company does not have any Special Purpose Vehicles.

#### D.1.5 Insurance receivables

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

## D.2. Technical provisions

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

Table D.3 – Net technical provisions

Solvency II Value 2021	\$000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	(6,877)
Best estimate reinsurance recoverables	7,599
Technical provisions risk margin – Non-life & health similar to non-life	1,067
<b>Net technical provisions</b>	<b>1,789</b>

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

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

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

The following adjustments are then made:

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

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

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

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

#### Calculation of the best estimate technical provisions

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

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

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

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

The reinsurance programme is then applied, including reinsurance contracts which are legally obliged but as yet not incepted. The recoveries assumed are consistent with those included in the Luxembourg GAAP earned reserves. Note that the full cost of the bound reinsurance programme is included within the technical provisions as CES are legally obliged to this. Additional provisions in respect of operating expenses, ULAE and an allowance for the expected reinsurer defaults are included within the best estimate provisions.

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

#### **Calculation of the risk margin**

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

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

Change in Net technical provisions during the period

This is the first year that CES has written business, so no change in technical provisions is shown.

#### **D.2.2 Key uncertainties**

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

- Given the immaturity of the business written to date, the reserves are largely based on the initial expectation of loss ratios. The expectation of loss ratio selected is heavily dependent on expert judgement, and it is visible from the history of the market that performance in any individual year can vary significantly from expectations.
- Reliance on market benchmarks in order to set expectations of loss ratio for the business, as we are unable to rely on historical performance of CES's business given its immaturity.
- The hardening market, and resulting uncertainty in the impact of this on profitability of business written, how this is captured in the benchmark loss ratios applied to estimate technical provisions, and whether CES's business can be expected to respond differently from the business underlying the benchmarks relied upon.
- One of the growth areas of CES's portfolio is into long tailed liability business. By its nature this business takes longer for claims to be notified and then settled, so there is increased uncertainty in the final settlement value of claims resulting from these classes of business.
- The final settlement value of claims will depend on events that have not yet occurred such as legislative changes and judicial decisions.

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

The following table summarises the bridge between Luxembourg GAAP reserves and Solvency II Technical Provisions, on a net of reinsurance basis.

Table D.5 – Bridge between the Luxembourg GAAP Reserves and the Solvency II provisions

2021 \$000s	Net of reinsurance
<b>GAAP Reserves</b>	<b>5,459</b>
Removal of Prudence Margin	(8)
Removal of Profit on UPR	(2,997)
Include Future Premium	(2,053)
Include Profit on Unincepted Business	(197)
Include New Expenses Allowance	537
Apply Discounting Credit	(72)
Include Risk Margin	1,067
Reinsurance Bad Debt	53
<b>Solvency II Provisions</b>	<b>1,789</b>

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

- **Removal of Prudence Margin:** An explicit margin for uncertainty is included within Luxembourg GAAP Provisions but removed under Solvency II. This reduces Solvency II Technical Provisions compared to Luxembourg GAAP Provisions.
- **Removal of Profit on UPR:** The unearned premium reserve established under Luxembourg GAAP is replaced with a Best Estimate premium provision which incorporates the expected cost of claims and expenses on the unearned periods of exposure.
- **Future Premium:** Premium receivables and payables form part of the Technical Provisions under Solvency II.
- **Profit on Unincepted Business:** Under Solvency II provisions are established for Legally Obligated Unincepted Business, whereas these provisions are not included within the Luxembourg GAAP valuation basis.
- **Additional Expenses Allowance:** Solvency II requires inclusion of expenses pertaining to the business in-force.
- **Discounting Credit:** Claims reserves are not discounted within Luxembourg GAAP Provisions, whereas all cash flows are discounted under Solvency II.
- **Risk Margin:** This is calculated as the cost of capital of transferring the insurance obligations of the business at the balance sheet date to a third party, who immediately place that business in run-off.
- **Reinsurance Bad Debt:** A bad debt provision has been calculated based on the probability of default of CES's reinsurers, using their credit rating.

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

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

There are no recoverables expected from SPVs.

### D.2.5 Transitional measures

No transitional measures have been applied.

### **D.3. Other liabilities**

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

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

#### **D.3.1 Payables and other financial liabilities**

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

#### **D.3.2 Accruals and deferred Income**

Reinsurers' share of deferred acquisition costs of \$3.5m included within accruals and deferred income under GAAP, are not recognised and therefore valued at \$nil in the Solvency II Balance Sheet. Material differences in the valuation of Technical Provisions are explained in Section D.2.3. There are no other material differences between the GAAP and Solvency II valuation bases.

#### **D.3.3 Assumptions, judgements and uncertainty**

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

### **D.4. Alternative methods of valuation**

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

### **D.5. Any other information**

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

# E. Capital management

This section of the report provides information on the Company's own funds and SCR.

## E.1. Own funds

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

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

- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to satisfy the requirements of regulators and other stakeholders;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to remain within risk appetite and drive value adding growth.

CES uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital efficiently. Sensitivities to economic and operating experience are regularly produced on CES's key financial performance metrics to inform decision making and planning processes over a five-year planning horizon, and as part of the framework for identifying and quantifying the risks to which CES is exposed.

There have been no material changes to the objectives, policies or processes with respect to the management of own funds during the year.

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

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

Table E.1 – Own Funds

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

Table E.2 – Reconciliation reserve

Reconciliation Reserve as at 31 December 2021	\$000s
Solvency II excess of assets over liabilities	84,940
Ordinary Share Capital	(85,000)
Amounts equal to net deferred tax assets	-
<b>Reconciliation Reserve</b>	<b>(60)</b>

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

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

E.1.4. The eligible amount of own funds to cover the Minimum Capital Requirement, classified by tiers  
As Tier 3 own funds are not eligible to cover the MCR, the own funds to cover the MCR are restricted to Tier 1, as shown in Table E.4.

Table E.4 – MCR

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

E.1.5. Explanation of any material differences between equity as shown in CES's financial statements and the EAL as calculated for solvency purposes  
Differences between CES's shareholders' equity per the financial statements and the Solvency II EAL per the Solvency II balance sheet relate to valuation differences as shown in Table E.5 and explained in Sections D.1 to D.3 this document.

Table E.5 – Reconciliation of Equity

2021	\$000s
Shareholders' equity as shown in the financial statements	83,686
Solvency II valuation adjustments to assets	(61,627)
Solvency II valuation adjustments to technical provisions	34,817
Solvency II valuation adjustments to other liabilities	28,064
Solvency II EAL	84,940

E.1.6. Own Fund items included under transitional arrangements under Solvency II  
All Own Funds items are unrestricted Tier 1 Own Funds and no other items are included in Own Funds under transitional arrangements under Solvency II.

E.1.7. Ancillary own funds

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

E.1.8. Own funds restrictions

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

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

### E.2.1 Solvency Capital Requirement and Minimum Capital Requirement results

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

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

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

Table E.6 – SCR & MCR

Solvency II value 2021	\$000s
Solvency Capital Requirement (SCR)	16,914
Minimum Capital Requirement (MCR)	4,228

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

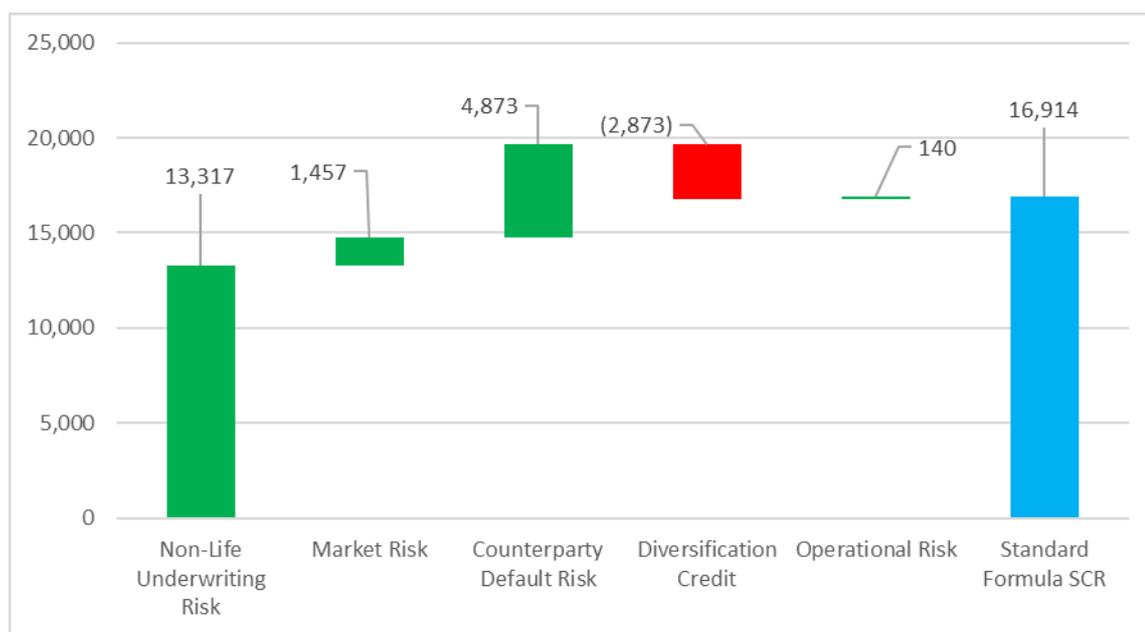
The company is not subject to any capital add-ons prescribed by the regulator. The company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

### E.2.2 Solvency Capital Requirement calculation

#### Overview

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

Graph G.1



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

### Non-life underwriting risk

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

Table E.7 – Diversified non-life underwriting risk

Solvency II value 2021	\$000s
Premium and reserve risk	6,912
Catastrophe risk	9,765
Lapse risk	675
Undiversified non-life underwriting risk	17,352
Diversification credit	(4,035)
<b>Diversified non-life underwriting risk</b>	<b>13,317</b>

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

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

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

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

### Market Risk

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

Table E.8 – Diversified Market Risk

Solvency II value 2021	\$000s
Interest rate risk	530
Spread risk	609
Currency risk	961
Concentration risk	-
Property risk	-
Equity risk	-
Undiversified market risk	2,100
Diversification credit	(643)
<b>Diversified market risk</b>	<b>1,457</b>

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

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

The next largest charge is Spread Risk, reflecting the risk that the values of the bonds, loans, and collateralised securities within CES's asset portfolio will differ from expectations due to changes in the level of credit spreads over the risk-free interest rate term structure.

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

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

### Counterparty default risk

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

Table E.9 – Diversified Counterparty Default Risk

Solvency II Value	\$000s
Type 1 counterparty default risk	4,602
Type 2 counterparty default risk	354
Undiversified counterparty default risk	4,956
Diversification credit	(83)
<b>Diversified counterparty default risk</b>	<b>4,873</b>

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

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

### Operational Risk

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

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

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

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

Table E.10 – Operational risk

Solvency II value 2021	\$000s
Gross earned premium in the previous 12 months	2,338
Gross earned premium in 12 months prior to the previous 12 months	-
Operational risk - premium calculation	140
Gross technical provisions	(6,877)
Operational risk - technical provisions calculation	-
<b>Calculated operational risk</b>	<b>140</b>
Cap – 30% SCR	5,032
<b>Operational risk</b>	<b>140</b>

### 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 2021	\$000s
Linear MCR	180
Floor – 25% SCR	4,228
Cap – 45% SCR	7,611
Absolute Floor of the MCR	2,911
<b>Minimum Capital Requirement</b>	<b>4,228</b>

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

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

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

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

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

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

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

## E.6. Any other information

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

# Appendix A: Glossary of terms

Abbreviation	Details of abbreviations
CAA	Commissariat aux Assurances
CES	Convex Europe S.A.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRA	Chief Risk Actuary
CRO	Chief Risk Officer
EAL	Excess of assets over liabilities
EU	European Union
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GEC	Group Executive Committee
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 Europe S.A.
The Group	Convex Group

## Appendix B: QRTs

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

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

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

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Assets</b>		
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	77,288
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	0
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	77,288
R0140	<i>Government Bonds</i>	56,168
R0150	<i>Corporate Bonds</i>	21,119
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	0
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	0
R0260	<i>Other loans and mortgages</i>	0
R0270	Reinsurance recoverables from:	-7,599
R0280	<i>Non-life and health similar to non-life</i>	-7,599
R0290	<i>Non-life excluding health</i>	-7,599
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	0
R0330	<i>Life excluding health and index-linked and unit-linked</i>	0
R0340	<i>Life index-linked and unit-linked</i>	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,415
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	6,906
R0420	Any other assets, not elsewhere shown	120
R0500	<b>Total assets</b>	<b>81,130</b>

## S.02.01.02

## Balance sheet

		Solvency II value
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	-5,810
R0520	<i>Technical provisions - non-life (excluding health)</i>	-5,810
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	-6,877
R0550	<i>Risk margin</i>	1,067
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	0
R0630	<i>Best Estimate</i>	0
R0640	<i>Risk margin</i>	0
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	0
R0670	<i>Best Estimate</i>	0
R0680	<i>Risk margin</i>	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	0
R0710	<i>Best Estimate</i>	0
R0720	<i>Risk margin</i>	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	43
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	0
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	1,957
R0900	<b>Total liabilities</b>	-3,810
R1000	<b>Excess of assets over liabilities</b>	84,940





## 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	<b>Technical provisions calculated as a whole</b>																
						0	0	0				0			0		0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																
						0	0	0				0			0		0
	<b>Technical provisions calculated as a sum of BE and RM</b>																
	<b>Best estimate</b>																
	<b>Premium provisions</b>																
R0060	Gross																
						-4,946	-831	-517				-16			-126		-6,436
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																
						-5,275	-904	-726				8			-83		-6,981
R0150	<b>Net Best Estimate of Premium Provisions</b>																
						330	73	208				-24			-43		545
	<b>Claims provisions</b>																
R0160	Gross																
						-303	-91	-32				-2			-13		-441
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																
						-404	-129	-75				1			-11		-618
R0250	<b>Net Best Estimate of Claims Provisions</b>																
						102	38	42				-3			-2		177
R0260	<b>Total best estimate - gross</b>																
						-5,248	-922	-549				-18			-139		-6,877
R0270	<b>Total best estimate - net</b>																
						431	111	251				-27			-45		722
R0280	<b>Risk margin</b>																
						748	65	234				6			14		1,067
	<b>Amount of the transitional on Technical Provisions</b>																
R0290	Technical Provisions calculated as a whole																
						0	0	0				0			0		0
R0300	Best estimate																
						0	0	0				0			0		0
R0310	Risk margin																
						0	0	0				0			0		0
R0320	<b>Technical provisions - total</b>																
						-4,501	-858	-315				-12			-125		-5,810
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total																
						-5,680	-1,033	-800				9			-94		-7,599
R0340	<b>Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total</b>																
						1,179	176	485				-21			-31		1,789

S.19.01.21

**Non-Life insurance claims**

**Total Non-life business**

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Development year										In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	0
R0160	2012	0	0	0	0	0	0	0	0	0	0	0	0
R0170	2013	0	0	0	0	0	0	0	0	0		0	0
R0180	2014	0	0	0	0	0	0	0				0	0
R0190	2015	0	0	0	0	0	0					0	0
R0200	2016	0	0	0	0	0						0	0
R0210	2017	0	0	0	0							0	0
R0220	2018	0	0	0								0	0
R0230	2019	0	0									0	0
R0240	2020	0	0									0	0
R0250	2021	0										0	0
R0260												<b>Total</b>	0

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	2012	0	0	0	0	0	0	0	0	0	0	0	0
R0170	2013	0	0	0	0	0	0	0	0	0		0	0
R0180	2014	0	0	0	0	0	0	0				0	0
R0190	2015	0	0	0	0	0	0					0	0
R0200	2016	0	0	0	0	0						0	0
R0210	2017	0	0	0	0							0	0
R0220	2018	0	0	0								0	0
R0230	2019	0	0									0	0
R0240	2020	0	0									0	0
R0250	2021	-431										-441	-441
R0260												<b>Total</b>	-441

S.23.01.01

**Own Funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

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

R0220 **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

R0230 **Deductions for participations in financial and credit institutions**

R0290 **Total basic own funds after deductions**

**Ancillary own funds**

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

**Available and eligible own funds**

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

R0580 **SCR**

R0600 **MCR**

R0620 **Ratio of Eligible own funds to SCR**

R0640 **Ratio of Eligible own funds to MCR**

**Reconciliation reserve**

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

**Expected profits**

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

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
85,000	85,000		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-60	-60			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
0				
0				
0				
0				
0			0	0
84,940	84,940	0	0	0
84,940	84,940	0	0	
84,940	84,940	0	0	0
84,940	84,940	0	0	
16,914				
4,228				
502.19%				
2008.75%				
C0060				
84,940				
0				
85,000				
0				
-60				
9,960				
9,960				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	1,457		
R0020 Counterparty default risk	4,873		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	13,317		
R0060 Diversification	-2,873		
R0070 Intangible asset risk	0		
R0100 <b>Basic Solvency Capital Requirement</b>	16,774		
<b>Calculation of Solvency Capital Requirement</b>			
R0130 Operational risk	140		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes			
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 <b>Solvency Capital Requirement excluding capital add-on</b>	16,914		
R0210 Capital add-ons already set	0		
R0220 <b>Solvency capital requirement</b>	16,914		
<b>Other information on SCR</b>			
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		
<b>Approach to tax rate</b>			
R0590 Approach based on average tax rate	0		
<b>Calculation of loss absorbing capacity of deferred taxes</b>			
	LAC DT		
R0640 LAC DT			
R0650 LAC DT justified by reversion of deferred tax liabilities	0		
R0660 LAC DT justified by reference to probable future taxable economic profit	0		
R0670 LAC DT justified by carry back, current year	0		
R0680 LAC DT justified by carry back, future years	0		
R0690 Maximum LAC DT	4,229		

**USP Key**

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

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

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

S.28.01.01

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

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR<sub>NL</sub> Result

C0010

180

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
---	---

C0020

C0030

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

0	0
0	0
0	0
0	0
0	0
431	700
111	12
251	6
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

Linear formula component for life insurance and reinsurance obligations

R0200 MCR<sub>L</sub> Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	--

C0050

C0060

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations


Overall MCR calculation

C0070

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

180
16,914
7,611
4,228
4,228
2,911
4,228



## **Convex Europe S.A.**

7, rue Robert Stümper, L-2557 Luxembourg, Grand-Duché de Luxembourg

[convexin.com](http://convexin.com)

Convex Group is the trading name of Convex Group Limited, a company incorporated in Bermuda, and the ultimate parent company of the Convex Group of companies, as follows: Convex Re Limited, a company incorporated in Bermuda, which is a wholly-owned subsidiary of Convex Group Limited and licensed and supervised by the Bermuda Monetary Authority; Convex Insurance UK Limited, a company incorporated in England & Wales, which is a wholly-owned subsidiary of Convex Re Limited and authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and the PRA; and Convex UK Services Limited, a company incorporated in England & Wales, which is a wholly-owned subsidiary of Convex Group Limited.

This presentation contains general information about the Convex Group and although Convex Group endeavours to ensure that the content is accurate and up to date, users should make appropriate enquiries before taking any action based on its contents. Convex Group accepts no responsibility for any information contained within this presentation and disclaims and excludes any liability in respect of its contents or for action taken based on this information.

The content of this presentation is the property of Convex Group and is strictly confidential. None of the information contained in this presentation may be reproduced, copied, distributed or published without the prior written consent of Convex Group.