

### Best's Credit Rating Effective Date

May 31, 2023

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### Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

### Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

## Convex Group Limited

**AMB #:** 044173

**Ultimate Parent:** AMB # 044173 - Convex Group Limited

### Best's Credit Ratings - for the Rating Unit Members

**Financial Strength Rating (FSR)**

<b>A</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

**Issuer Credit Rating (ICR)**

<b>a</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

### Assessment Descriptors

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Neutral</b>
Enterprise Risk Management	<b>Appropriate</b>

### Rating Unit - Members

**Rating Unit:** Convex Group Limited | **AMB #:** 044173

**AMB #**   **Rating Unit Members**  
074790   Convex Europe S.A.  
074789   Convex Guernsey Limited

**AMB #**   **Rating Unit Members**  
071499   Convex Insurance UK Limited  
071498   Convex Re Limited

## Rating Rationale - for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

### Balance Sheet Strength: **Very Strong**

- Convex Group Limited's (Convex) risk-adjusted capitalisation was comfortably at the strongest level at year-end 2022, as measured by Best's Capital Adequacy Ratio (BCAR). Net required capital is expected to increase over the medium term as the group continues to grow its underwriting portfolio.
- The group's balance sheet strength is supported by good financial flexibility, notably demonstrated in the fourth quarter of 2020 by an equity capital raise of USD 1 billion and the issuance of perpetual preference shares of USD 500 million, of which USD 400 million remained undrawn at year-end 2022.
- A partially offsetting rating factor is Convex's material exposure to catastrophe risk and its dependence on reinsurance to manage this risk.

### Operating Performance: **Adequate**

- For the year-ended 2022, Convex recorded a profitable underwriting result, evidenced by a 98% combined ratio.
- Overall profitability in 2022 was negatively impacted by mark-to-market losses on the group's fixed-income portfolio. Given the short average duration of Convex's investment portfolio, AM Best expects a large part of those losses to unwind over the course of 2023.
- Underwriting profitability is expected to continue to improve as Convex's book of business gains scale and further diversification. The likelihood of successful execution of the business plan is enhanced by the strong record of senior management and underwriters that have extensive experience in the (re)insurance industry.

### Business Profile: **Neutral**

- Convex entered the very competitive specialty (re)insurance sector shortly after its creation in 2019. The group writes insurance and reinsurance from its London, Luxembourg and Guernsey platforms and reinsurance from its Bermuda platform.
- The group has demonstrated good market acceptance since its inception, exceeding USD 3 billion of consolidated gross written premium in 2022, its third full year of operation. Profitable growth is expected over the medium term.
- The group has a focused and scalable operating model that incorporates a modern IT infrastructure with no legacy systems as well as considerable use of outsourcing.

### Enterprise Risk Management: **Appropriate**

- The group's enterprise risk management (ERM) framework is considered to be appropriate for its risk profile.
- With operating entities domiciled in the United Kingdom, Luxembourg, and Bermuda, the group has to comply with Solvency II and Bermuda Solvency requirements, which has assisted in expediting the formalisation of the ERM framework.
- Catastrophe risk is recognised as a key risk and managed with a combination of internal and external models.

### Outlook

- The stable outlooks reflect AM Best's expectation that Convex's risk-adjusted capitalisation will remain comfortably at the strongest level, as measured by BCAR, supported by good organic capital generation. Convex's rating fundamentals are expected to be supported by robust underwriting performance and a business mix that will continue to diversify as the group develops its operations.

### Rating Drivers

- Negative rating pressure may arise should the group not be able to execute its business plan, resulting in weaker-than-anticipated operating performance.
- Positive rating pressure could arise should the group achieve a sustained record of strong underwriting performance.
- Negative rating pressure may arise should there be a sustained and significant weakening of Convex's risk-adjusted capitalisation.

## Key Financial Indicators

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	68.7	54.6	48.9	47.1

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2022 USD (000)	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018
Net Premium Written:					
Non-Life	1,983,760	1,323,687	674,474	26,154	...
Composite	1,983,760	1,323,687	674,474	26,154	...
Net Income	-131,881	-147,501	-179,263	-38,257	...
Total Assets	6,681,093	5,330,250	3,840,888	1,829,294	...
Total Capital and Surplus	2,266,213	2,400,313	2,478,283	1,634,128	...

Source: BestLink® - Best's Financial Suite

Key Financial Ratios (%)	2022 USD (000)	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018	Weighted 5 Year Average
Profitability:						
Net Income Return on Revenue	-8.6	-14.2	-44.0	-85.7	...	...
Net Income Return on Capital and Surplus	-5.7	-6.1	-8.7	...	...	...
Balance on Non-Life Technical Account	31,787	-174,291	-251,344	-80,835	...	...
Non-Life Combined Ratio	98.1	117.2	175.2	999.9	...	...
Net Investment Yield	1.9	0.6	1.2	...	...	...
Leverage:						
Net Premium Written to Capital and Surplus	87.5	55.2	27.2	1.6	...	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

The BCAR scores presented under the "Best's Capital Adequacy Ratio (BCAR) Scores (%)" section of this report are based on financial year-end consolidated data as at December 2022.

### Capitalization

Convex's risk-adjusted capitalisation was comfortably at the strongest level at year-end 2022, as measured by BCAR. The group's BCAR benefits from low underwriting leverage and a conservative asset management strategy. At year-end 2022, consolidated capital and surplus fell to USD 2.3 billion, a 6% decline against 2021. The reduction was primarily driven by a net loss for the year of USD 132 million, before payment of dividends on preference shares.

The group's largest investor is Onex Corporation, a private equity investor with a track record of investing in the insurance industry. At inception, the Convex management team personally invested USD 50 million into the group, thereby aligning interests with other capital providers.

The investment horizon for the group's principal investor is 10 years. This longer-term view should allow Convex's management to take a disciplined approach to growth. In addition, shareholders' expectations are not considered overly aggressive in Convex's initial years of operation. Surplus capital, as defined by the Board, can be distributed to shareholders via annual dividends once the business has achieved a steady state and scale.

Although the group is not listed, financial flexibility is considered good, as Convex has demonstrated a track record of successful capital raises since its inception. Most recently in 2020, the company secured USD 1 billion of additional equity capital, as well as USD 500 million of preferred equity capital - of which USD 100 million was initially drawn down. AM Best considers that the addition of new

## Balance Sheet Strength (Continued...)

capital demonstrated Convex's financial flexibility and investor confidence in the venture. However, capital market conditions are somewhat unpredictable and have since become more constrained.

<b>Capital Generation Analysis</b>	<b>2022 USD (000)</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>
Beginning Capital and Surplus	2,400,313	2,478,283	1,634,128	...	...
Net Income after Non-Controlling Interests	-131,881	-147,501	-179,263	-38,257	...
Change in Paid-In Capital	8,156	79,964	1,023,418	1,672,385	...
Stockholder Dividends	10,375	10,433	...	...	...
Net Change in Capital and Surplus	-134,100	-77,970	844,155	1,634,128	...
Ending Capital and Surplus	2,266,213	2,400,313	2,478,283	1,634,128	...
Net Change in Capital and Surplus (%)	-5.6	-3.2	51.7	...	...

Source: BestLink® - Best's Financial Suite

<b>Liquidity Analysis</b>	<b>2022 USD (000)</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>
Net Operating Cash Flow	696,462	359,442	228,789	-56,687	...
Liquid Assets to Total Liabilities (%)	86.3	113.6	214.5	836.3	...

Source: BestLink® - Best's Financial Suite

## Asset Liability Management - Investments

The group maintains a conservative and liquid investment portfolio, consisting primarily of high-quality assets with an average duration of 1.6 year at the end of 2022. In particular, the group operates with sufficient liquidity to withstand a 1-in-200 year combined risk event and be able to pay its obligations while maintaining a surplus against regulatory capital requirements.

As at year-end 2022, the investment portfolio primarily consisted of investment-grade USD denominated fixed income securities. The portfolio was well diversified across government bonds (41% of total investments), corporate bonds (32%), treasury inflation protected bonds (14%) and high-grade structured securities, with no issuer exceeding 3% of the portfolio. Risk assets such as equities made up a very minor proportion of the portfolio.

Given concerns that inflation could become more permanent rather than transitory, the group took a number of mitigating steps in 2021 and 2022. A first step was taken to partially hedge claims inflation in 2021 through the purchase of two equal tranches of inflation caps (USD 100 million notional). The underlying reference index is the headline US CPI index.

In 2022, a further USD 500 million notional of inflation caps were purchased. As at year-end 2022, all of the inflation caps were in the money. The mark to market movements on the inflation caps are cash collateralised on a daily basis. There is very limited downside risk to Convex, aside from the loss of premium paid for the instruments.

<b>Composition of Cash and Invested Assets</b>	<b>2022 USD (000)</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>
Total Cash and Invested Assets	3,808,980	3,326,930	2,923,242	1,632,156	...
Composition Percentages (%):					
Unaffiliated:					
Cash and Short Term Investments	17.9	21.3	47.4	10.3	...
Bonds	77.5	75.6	50.7	89.7	...
Stocks	4.7	3.2	1.9	...	...
Total Unaffiliated Cash and Invested Assets	100.0	100.0	100.0	100.0	...
Total Cash and Invested Assets	100.0	100.0	100.0	100.0	...

Source: BestLink® - Best's Financial Suite

## Balance Sheet Strength (Continued...)

### Reserve Adequacy

Currently, Convex outsources certain aspects of its reserving process to a third party. The external actuary carries out regular US GAAP reserve reviews, as well as both Solvency II and Bermuda technical provisions and solvency capital requirements reporting.

The reserving process involves a high level of interaction between claims, underwriting, the wider portfolio optimisation functions and the third party partner. Reserves for attritional losses are determined using standard actuarial techniques, using market data. For large, catastrophe and complex losses, there is significant input from the exposure management and claims teams where their evaluation of a realistic outcome guides the reserving process. Reviews performed by the outsourced actuarial function are presented to the Convex Reserve Committee where findings are discussed and challenged.

Convex is building up a record of results and data, and over the course of 2023 its reserving process is expected to evolve, with a reduction in the scope of the outsourcing arrangement that had been utilised in the group's formative years. Over time, the function will become in-house, with external validations of reserves.

### Holding Company Assessment

#### Financial Leverage Summary - Holding Company

Financial Leverage Ratio (%)	4.40
Adjusted Financial Leverage Ratio (%)	1.30
Interest Coverage (x)	4.30

Holding Company Analytics	2022 USD (000)	2021 USD (000)	2020 USD (000)	2019 USD (000)	2018
Liquid Assets to Total Liabilities (%)	86.3	113.6	214.5	836.3	...
Interest Expense	2,186	1,095	...	...	...

Source: BestLink® - Best's Financial Suite

### Operating Performance

The operating performance assessment of adequate considers Convex's five-year business plan, taking into account its competitive environment and heightened execution risk during its start-up phase. For the year ended 2022, the group reported a net loss of USD 132 million (2021: USD 148 million loss).

Overall profitability in 2022 was negatively impacted by mark-to-market losses on the group's fixed-income portfolio. Given the short average duration of Convex's investment portfolio and its strategy to hold debt-securities to maturity, AM Best expects a large part of those losses to unwind over the course of 2023.

#### Underwriting Performance

For the year ended 2022, the group reported a 98% combined ratio (2021: 117%), representing Convex's first year of underwriting profitability.

Over the past three years, the company has broadly met its top line projections; however, the composition of the underlying portfolio has been somewhat different to initial expectations due to Convex's view of the pricing environment. In particular, the company has deliberately remained underweight in casualty reinsurance (just 4% of 2021 gross written premium [GWP]). Consequently, growth in the initial years came from property (re)insurance (circa 40% of 2021 GWP), where Convex viewed the rate adequacy to be more appropriate. Over the medium-to-long run, Convex's business mix is expected to diversify both by line of business and by geography, which should dilute the impact of catastrophe losses on results.

The 2022 underwriting result demonstrated early signs that diversification and economies of scale are having a positive impact on performance. Underwriting profitability is expected to continue to improve as Convex's book of business gains further scale and diversification. The likelihood of successful execution of the business plan is enhanced by the strong record of senior management and underwriters, who have extensive experience in the (re)insurance industry.

## Operating Performance (Continued...)

The operating expense ratio - as calculated by AM Best - amounted to 36% in 2022 (2021: 38%), which is broadly consistent with Convex's London Market peers. Considering that 2022 was the group's third full year of operations, and that it is still in its start-up phase, a sub-40% expense ratio is considered by AM Best to be robust. Given the rapid scaling up of the business, economies of scale are expected to significantly reduce the expense ratio over the medium term.

For the first three months (Q1) of 2023, the group wrote USD 1.4 billion of GWP, a significant increase against the same period in 2022. The combined ratio showed a good improvement against the prior year, falling to 90%.

## Investment Performance

Convex achieved an investment yield, including gains, of -3% in 2022 (2021: 1%). As a result of the rapid rise in global interest rates, the company reported USD 143 million of unrealised losses on its bond portfolio.

With Convex's average asset duration being just 1.6 years, AM Best expects a material portion of those unrealised losses to unwind over the course of 2023. This dynamic has already played out in the first quarter of 2023, with the company reporting circa USD 30 million of investment income related to the unwind of those mark-to-market losses.

Over the mid-term, and due to the aforementioned base rate rises, AM Best expects Convex to achieve investment yield in the 3% to 5% range.

<b>Financial Performance Summary</b>	<b>2022 USD (000)</b>	<b>2021 USD (000)</b>	<b>2020 USD (000)</b>	<b>2019 USD (000)</b>	<b>2018</b>
Pre-Tax Income	-131,891	-151,091	-178,596	-39,634	...
Net Income (after Non-Controlling Interests)	-131,881	-147,501	-179,263	-38,257	...

Source: BestLink® - Best's Financial Suite

<b>Operating and Performance Ratios (%)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Overall Performance:					
Return on Assets	-2.2	-3.2	-6.3	...	...
Return on Capital and Surplus	-5.7	-6.1	-8.7	...	...
Non-Life Performance:					
Loss and LAE Ratio	62.4	78.9	108.9	165.0	...
Expense Ratio	35.6	38.3	66.3	999.9	...
Combined Ratio	98.1	117.2	175.2	999.9	...

Source: BestLink® - Best's Financial Suite

## Business Profile

Convex is a specialty (re)insurance group headquartered in Bermuda with subsidiaries in the UK, Bermuda, Luxembourg and Guernsey. Insurance and reinsurance is written from the UK, Luxembourg and Guernsey, and reinsurance from Bermuda.

2022 represented the group's third full year of operations in the very competitive specialty (re)insurance market. To date, Convex has successfully raised USD 3.2 billion of capital and wrote more than USD 3 billion of GWP in 2022, despite declining a material portion of business that did not meet its underwriting risk criteria. Renewals in 2023 have reflected a continuation of the positive market acceptance experienced by Convex during the prior year, with the group expected to surpass USD 4 billion of top line in the year.

GWP in 2022 was split as follows: property reinsurance 29% (2021: 33%), casualty 15% (16%), energy & marine 14% (15%), aerospace 9% (10%), property 10% (9%), specialty reinsurance 9% (5%), casualty reinsurance 6% (4%), with other lines such as accident & health, crisis management and political risk comprising the remainder. Approximately 60% of the group's risks lie in North America, with the bulk of the remaining exposures in the UK, Europe, Japan and Australasia.

As a new entrant in the specialty (re)insurance sector, Convex faces strong competition from well-established peers and is highly reliant on brokers to access business. In recent years, market conditions, particularly in the reinsurance sector, have been strained given excess capacity and pressure on rates. However, Convex has entered the market at a time when strong rate increases have been noted on a range of lines, with good momentum expected to last at least in the short to medium term. Regardless, it remains a difficult

**Business Profile (Continued...)**

market in which to establish a new company. For Convex, market acceptance is likely to have been aided by senior management and underwriting teams that have an excellent network and proven track record in its target markets.

**Enterprise Risk Management**

Convex's enterprise risk management is considered supportive of an appropriate assessment. The obligation of subsidiaries to comply with either Solvency II or Bermuda Solvency requirements has assisted in expediting the formalisation of the ERM framework.

In 2021 and 2022 to date, Convex's focus has begun to shift from recruiting teams, implementing systems, and building an effective control environment, to enhancing the group's risk management capabilities. Some of these enhancements include: refining the group's risk appetite, capturing and quantifying emerging risks such as inflation and climate risk, and the inclusion of further stress tests within the liquidity risk framework.

Looking ahead, AM Best expects that Convex's risk management capabilities will continue to develop to remain aligned with the expanding risk profile of the group, supported by a clear sponsorship from the senior management team.

**Reinsurance Summary**

The key objective of the reinsurance programme is to protect the group's capital, particularly in the start-up phase, by reducing the exposure to large single risk losses, catastrophe losses and an adverse aggregation of losses. A combination of proportional, non-proportional, and alternative capital cover has been used in the reinsurance programme.

Intra-group quota share agreements are in place between Convex Insurance UK Limited and Convex Re Limited (CRL), and between Convex Europe SA and CRL, in order to optimise the group's capital allocation. Additionally, there is a 100% intra-group quota share between Convex Guernsey Limited and CRL.

The use of external reinsurance will be high during the 'build-up' phase. The overwhelming majority of the reinsurance panel are rated A- or above by AM Best, with the remainder made up of exposures to collateralised reinsurers (collateral held by trustees of a strong credit quality). Concentration risk is closely monitored to ensure it remains in line with risk appetite.

**Environmental, Social & Governance**

As a writer of global property (re)insurance, Convex is exposed to the impacts of changing climate trends, namely increased severity and frequency of natural catastrophe losses. Natural catastrophe losses have been the main driver for underwriting losses in the first two full years of operations.

Catastrophe modelling and accumulations are closely managed to ensure that the group's exposure to natural catastrophes is maintained within its risk appetite.

Convex also writes a growing book of US casualty business that is susceptible to adverse social inflation trends. AM Best defines social inflation as the risk in current or future claims caused by higher court awards and legislated rises in claims payments driven by changing social behaviour. Given that Convex is a new entrant into the casualty space, to date, it has not experienced any material reserve strengthening due to the effects of social inflation, though the group monitors this risk closely.



## Financial Statements

	12/31/2022		12/31/2021
	USD (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	680,546	10.2	708,135
Bonds	2,950,974	44.2	2,513,700
Equity Securities	177,460	2.7	105,095
Total Cash and Invested Assets	3,808,980	57.0	3,326,930
Reinsurers' Share of Reserves	1,158,502	17.3	681,513
Debtors / Amounts Receivable	1,337,958	20.0	882,986
Other Assets	375,653	5.6	438,821
<b>Total Assets</b>	<b>6,681,093</b>	<b>100.0</b>	<b>5,330,250</b>
Gross Technical Reserves:			
Unearned Premiums	1,464,745	21.9	1,014,008
Non-Life Reserves	2,137,009	32.0	1,183,990
Total Gross Technical Reserves	3,601,754	53.9	2,197,998
Other Liabilities	813,126	12.2	731,939
<b>Total Liabilities</b>	<b>4,414,880</b>	<b>66.1</b>	<b>2,929,937</b>
Capital Stock	124,972	1.9	124,915
Paid-in Capital	2,658,951	39.8	2,650,852
Retained Earnings	-517,710	-7.8	-375,454
<b>Total Capital and Surplus</b>	<b>2,266,213</b>	<b>33.9</b>	<b>2,400,313</b>
<b>Total Liabilities, Mezzanine Items and Surplus</b>	<b>6,681,093</b>	<b>100.0</b>	<b>5,330,250</b>

Source: BestLink® - Best's Financial Suite

				12/31/2022	12/31/2021
	Non-Life	Life	Other	Total	Total
	USD (000)	USD (000)	USD (000)	USD (000)	USD (000)
<b>Income Statement</b>					
Gross premiums written	3,035,374	...	...	3,035,374	2,114,853
Net Premiums Earned	1,647,193	...	...	1,647,193	1,014,693
Net Investment Income	...	...	69,321	69,321	19,369
Net realized gains/(losses)	...	...	-32,892	-32,892	1,951
Net unrealized gains/(losses)	...	...	-143,466	-143,466	3,998
Other income	...	...	1,602	1,602	485
Total Revenue	1,647,193	...	-105,435	1,541,758	1,040,496
Losses and Benefits	1,028,336	...	...	1,028,336	800,283
Net Operating Expense	587,070	...	...	587,070	388,701
Other Expense	...	...	56,057	56,057	1,508
Total Losses, Benefits, and Expenses	1,615,406	...	56,057	1,671,463	1,190,492
<b>Earnings before interest &amp; taxes (EBIT)</b>	<b>31,787</b>	<b>...</b>	<b>-161,492</b>	<b>-129,705</b>	<b>-149,996</b>
Interest Expense	...	...	...	2,186	1,095
<b>Income Taxes Incurred</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>-10</b>	<b>-3,590</b>
Net income before Non-Controlling interests	...	...	...	-131,881	-147,501
Net income/(loss) from continuing operations	...	...	...	-131,881	-147,501
<b>Net Income</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>-131,881</b>	<b>-147,501</b>

Source: BestLink® - Best's Financial Suite





<b>Statement of Cash Flows</b>	<b>12/31/2022</b>	<b>12/31/2021</b>
	<b>USD (000)</b>	<b>USD (000)</b>
Net cash provided/(used) in Operating Activities	696,462	359,442
Net cash provided/(used) in Investing Activities	-619,704	-518,497
Net cash provided/(used) in Financing Activities	-2,219	69,531
Effect of Exchange Rates/Discontinued Operations on Cash	-33,605	-6,188
Total increase (decrease) in cash	40,934	-95,712
Cash, beginning balance	197,813	293,525
Cash, ending balance	238,747	197,813

Source: BestLink® - Best's Financial Suite

## Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 03/10/2023](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Rating New Company Formations, 09/09/2022](#)

[Scoring and Assessing Innovation, 02/27/2023](#)

[Understanding Global BCAR, 06/30/2022](#)

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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