CONVEX INSURANCE UK LIMITED

Solvency and Financial Condition Report 2023

Contents

Directors’ statement

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

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

Signed on behalf of the Board of Directors on 3 April 2024 by:

Matthew Wilson
Director

Executive summary

The purpose of the Solvency and Financial Condition Report (“SFCR”) is to provide stakeholders with additional information over and above that contained in the annual financial statements. This SFCR is prepared in accordance with the requirements of the Solvency II Directive (as implemented in the UK in the Prudential Regulation Authority (“PRA”) Rulebook for Solvency II Firms) and the Solvency II regulations. The annual financial statements of Convex Insurance UK Limited (“CIL” or the “Company”) are available from Companies House. The SFCR contains qualitative and quantitative information on CIL’s business and performance, system of governance, risk profile, valuation for solvency purposes and capital management together with standardised Quantitative Reporting Templates (“QRTs”) for 2023.

The report covers CIL as a standalone entity, and fully meets all of the requirements for the SFCR as set out in the Solvency II rules and follows the prescribed structure as set out in Annex XX of Delegated Regulation EU 2015/35.

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

Business and performance

Convex Insurance UK Limited (“CIL” or the “Company”) is a Convex Group Limited (“CGL”, “Group”, “Convex” or “Convex Group”) company which was authorised and licensed by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”) in 2019. CIL’s immediate parent is Convex Re Limited (“CRL”). CIL has a listing on the National Association of Insurance Commissioners (“NAIC”) Quarterly Listing of Alien Insurers, ensuring that it can write United States business through surplus lines eligibilities. In addition, on 30 November 2021 CIL received approval from NAIC and the California Department of Insurance to operate as a reciprocal jurisdiction reinsurer, effective 1 January 2022.

In 2023 CIL focused on continued business growth, which has resulted in an increase in gross premiums written to $2,960.6 million (2022: $2,063.8 million). CIL maintained its prudent approach to risk retention which led to significant use of reinsurance protection resulting in net premiums written of $1,156.5 million (2022: $767.9 million).

In 2023, underwriting results showed an improvement from the previous year and CIL reported its first net profit. In addition to expected attritional losses, the Company was exposed to a number of large events from both man made and natural perils, including the Hawaii wildfire and Cyclone Gabrielle. However, the losses from these large events were in line with expectations given the Company’s market share. The Company also benefited from favourable development on prior year events. The Company continues to assess the propensity for inflationary pressures to impact each class of business, and applies what it believes are appropriate assumptions considering the latest inflationary outlook. The Investment result benefited from strong core fixed income returns, resulting from the fall in risk-free yields and tightening of credit spreads.

The higher expenses in 2023 were due to a combination of the continued growth of the Company, and increased investment in strategic projects as we continue to build our systems and infrastructure to support this growth. The majority of CIL’s expenses are recharged from Convex UK Services Limited ("CSL") and, being personnel-related and paid in Sterling, have been impacted by the weakening of the US Dollar. As a result of these factors, the Company made a net profit of $169.5 million in 2023 (2022: net loss of $42.0 million).

Future Outlook

Convex entered a dislocated market in 2019 against a backdrop of volatility and we are pleased with the scale and market presence we have achieved thus far.

The global geopolitical landscape remains volatile, and as we look ahead to 2024, the specialty insurance and reinsurance market remains dynamic. Uncertainty remains in the market with respect to a number of areas, including the impact of the ongoing Ukraine/Russia Conflict, and the developing situation in the Middle East, but the hard work Convex has undertaken since inception to build strong underwriting relevance in the market, scale and resilience means we are well placed to continue to build scale, and become our clients' favourite insurer.

System of Governance and Risk

CIL's Board of Directors (the "Board") is responsible for leadership and control, setting strategic direction, promoting the success of the Company and exercising oversight.

Overall Organisational Risks

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

Insurance risk

Insurance risk arises from:

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

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

Market risk

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

The key drivers of Financial risk are: interest rate risk, currency risk, credit risk, and inflation risk. A Financial Market Risk framework is in place to enable CIL to manage market risk using risk appetite limits, risk monitoring, stress and scenarios tests and formal reporting.

Credit risk

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

- Fixed income securities, that include investments in sovereign and corporate bonds, and collateralised securities;
- Insurance exposures arising from the political and credit risk line of business;
- Reinsurance assets, where credit risk arises in relation to the reinsurance asset held;
- Other assets, including bank deposits; and
- Insurance assets and receivables.

CIL has in place concentration limits and monitors its exposure to a single counterparty, or groups of related counterparties and subcategories of market risk (e.g. interest rate risk, equity risk, etc.).

Liquidity risk

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

Operational risk

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, CIL breaks down operational risk into the following sub-categories: people, process, IT, regulatory, data, conduct and outsourcing & third-party service provider risk.

Valuation for solvency

Assets and liabilities have been valued for solvency purposes in accordance with the Solvency II Directive (as implemented in the UK in the PRA Rulebook for Solvency II Firms) and the Solvency II Regulations. Table 1 shows the differences between CIL's shareholder's equity (as presented in the financial statements prepared under UK 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 – Shareholder's Equity

	2023 $000s	2022 $000s
Shareholder's equity as shown in the financial statements	1,799,353	1,510,139
Solvency II valuation adjustments to assets (Note i)	(3,319,021)	(2,372,737)
Solvency II valuation adjustments to technical provisions (Note ii)	2,118,173	1,453,364
Solvency II valuation adjustments to other liabilities (Note iii)	1,313,770	984,082
Solvency II EAL	**1,912,275**	**1,574,848**

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

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

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

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

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

Capital management summary

CIL's solvency position under Solvency II is determined by comparing eligible Own Funds with the Solvency II Solvency Capital Requirement ("SCR"). CIL is required to meet the SCR at all times and is required to rectify any breach within six months (though this period can be extended by a further three months). A breach of the lower Minimum Capital Requirement ("MCR") is required to be rectified within three months. As at 31 December 2023, the Own Funds of CIL were $1,912.3 million (2022: $1,574.8 million), compared to a standard formula SCR of $1,238.2 million (2022: $901.2 million), representing an SCR coverage ratio of 154% (2022: 175%). CIL's MCR was $309.5 million (2022: $225.3 million).

CIL's Eligible Own Funds are set out in Table 2 below.

Table 2 – Solvency Position

	2023 $000s	2022 $000s
Solvency II EAL	1,912,275	1,574,848
Foreseeable dividends	—	—
Restrictions on eligibility	—	—
Eligible own funds (all Tier 1)	1,912,275	1,574,848
Minimum capital requirement	309,542	225,293
Solvency capital requirement	1,238,167	901,171
Solvency capital requirement (SCR) ratio (%)	**154%**	**175%**

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

The appropriateness of the Solvency II Standard Formula has been assessed with respect to the risk profile of CIL. Overall, the qualitative and quantitative assessments of the appropriateness of the assumptions underlying the Standard Formula have concluded that it is 'not inappropriate' as a measure to calculate the capital requirements for CIL. The Standard Formula captures key features of CIL's risk profile and there are no material omissions in the Standard Formula of specific risks considered which could result in a material understatement of the SCR. As an approximate guide the assessment considers an understatement of the SCR of at least 10% as material.

Decisions on optimal capital levels are an integral part of CIL's business planning and forward-looking assessment of risk processes which cover a three-year time horizon. CIL manages its Own Funds in such a way that it will ensure it holds sufficient capital to meet its regulatory and business requirements.

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

A. Business and performance

A.1. Business

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

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

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

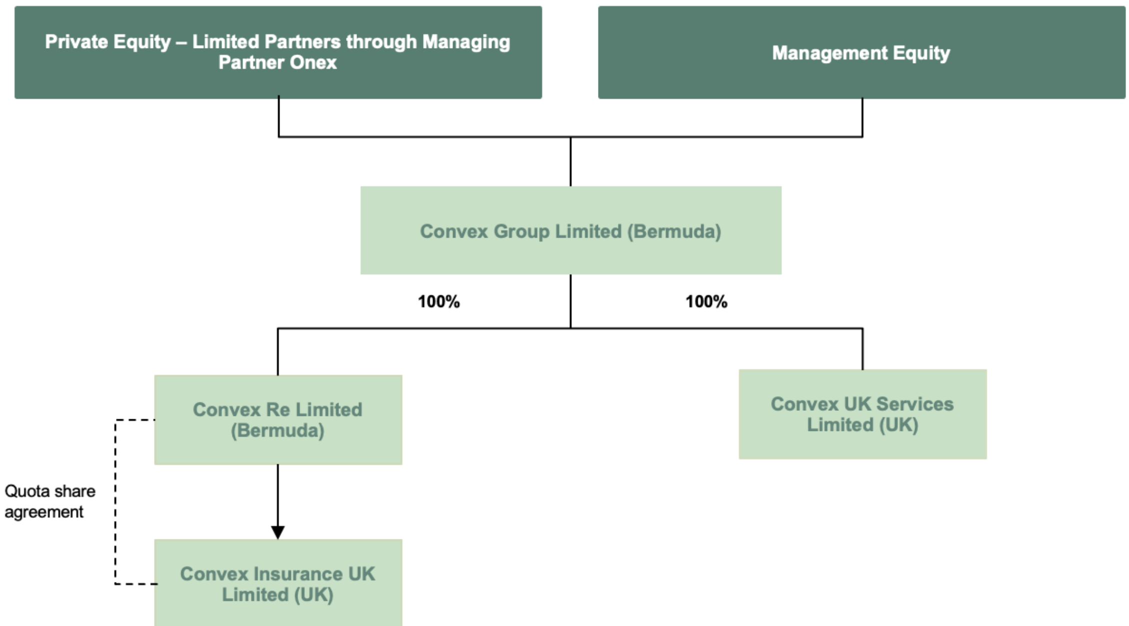
Prudential Regulation Authority Bank of England Threadneedle Street London EC2R 8AH	Financial Conduct Authority 12 Endeavour Square London E20 1JN

The external auditor of CIL is PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

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

Diagram 1 – CIL position within abbreviated Group Structure



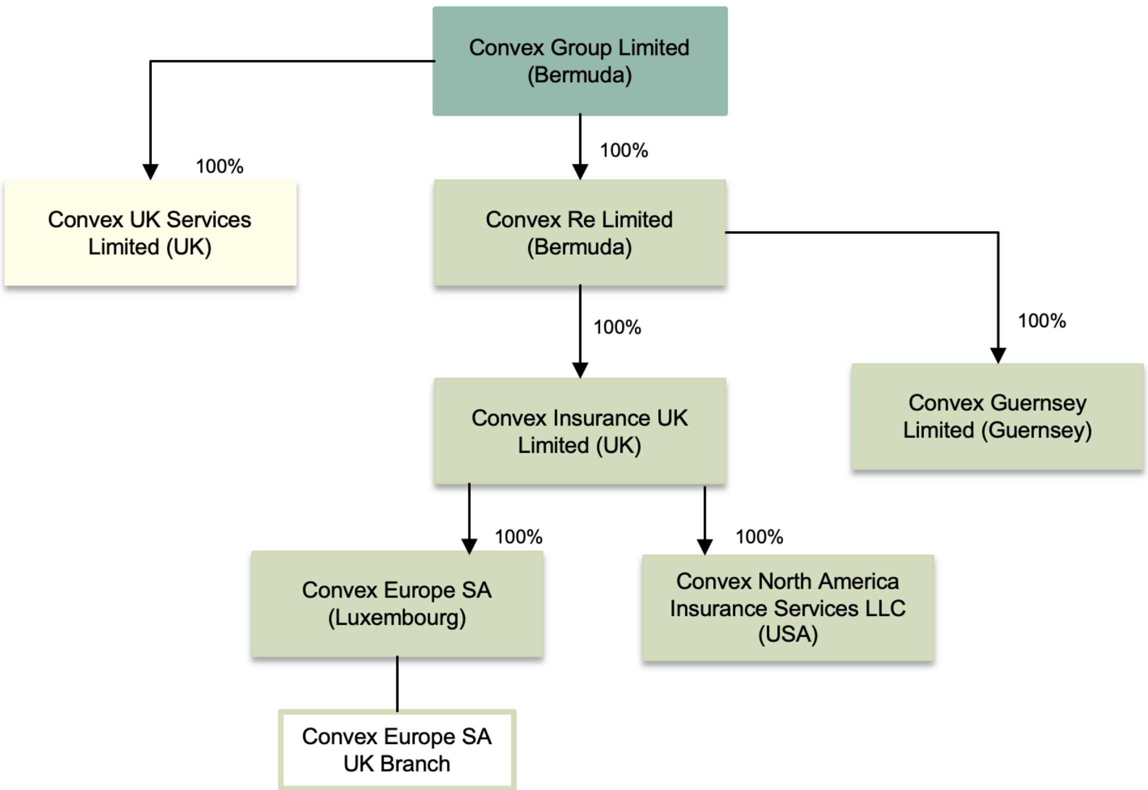
Convex Group

Convex Group is a property and casualty ("P&C") 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, closely aligned with the UK operating company
- **Convex Guernsey Limited ("CGU"):** Guernsey operating company
- **Convex North America Insurance Services LLC ("CUS"):** US Managing General Agent

Diagram 2 – Convex Group Structure



A.2. Underwriting performance

A.2.1. Measurement of underwriting performance

CIL uses underwriting result to measure its underwriting performance. Underwriting result is a non-GAAP financial performance measure, calculated on a UK GAAP basis. It excludes certain items to enhance comparability and understanding of underwriting performance by highlighting net underwriting income attributable to ongoing 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 profit for CIL for the years ended 31 December 2023 and 2022, as well as the reconciliation of profit/(loss) before tax to underwriting profit. Profit/(loss) before tax is as shown in CIL's financial statements.

Table A.1 – Underwriting Performance

	2023 $000s	2022 $000s
Gross premiums written	2,960,596	2,063,825
Premiums ceded to reinsurers	(1,804,065)	(1,295,927)
Premiums written net of reinsurance	**1,156,531**	**767,898**
Net change in provision for unearned premium reinsurance	(235,178)	(129,794)
Net premiums earned	**921,353**	**638,104**
Net investment gain/(loss)	114,543	(41,419)
Total Revenues	**1,035,896**	**596,685**
Claims paid net of recoveries from reinsurers	(218,175)	(136,844)
Change in insurance liabilities, net of reinsurance	(188,152)	(180,362)
Fee and commission expense, net of reinsurance	(219,588)	(121,692)
Other expenses, net of reinsurance	(223,676)	(202,073)
Profit/(loss) for the period before tax	**186,305**	**(44,286)**
(Deduct)/add back: Net investment (gain)/loss	(114,543)	41,419
Add back: Indirect expenses	221,405	178,449
Underwriting profit for the period	**293,167**	**175,582**

As in 2022, Convex's prudent Group approach to risk retention in the early stages of operation resulted in a high level of ceded reinsurance spend in 2023, which served to reduce net written, and hence net earned, premium.

Although the continued build out of operations during the year led to increased expenses in 2023, CIL's GAAP financial statements recorded a pre-tax profit of $186.3 million (2022: pre-tax loss $44.3 million). The underwriting result, which excludes investment income and expenses not directly attributable to policies, was a profit of $293.2 million (2022: $175.6 million).

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 QRT S.05.01 (see Appendix B). This QRT has been prepared in accordance with the definitions and formats prescribed under Solvency II. It includes the items (except net investment income) excluded from underwriting result in the reconciliation presented in Section A.2.2, which are described in Section A.4.

A summary of the information provided in the premium, claims and expenses QRT S.05.01, analysed by Solvency II lines of business, is provided in Table A.3 below, set out separately for the 2022 and 2023 financial years.

Table A.2 – Summary of QRT S.05.01

	Direct and Proportional Reinsurance											Non Proportional Reinsurance					
Financial Year 2023	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, Aviation and Transport	Fire and Property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total	Health	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written	17,276	24,993	2,146	4,622	383,339	899,882	517,348	112,036	(22)	38,030	1,999,650	24,451	248,169	552,823	135,503	960,946	**2,960,596**
Net premiums earned	7,333	12,769	2,083	212	116,522	256,695	158,345	20,873	5	13,695	588,532	7,760	73,670	198,976	52,415	332,821	**921,353**
Gross claims incurred	8,071	13,940	3,959	2,625	186,345	301,346	224,496	14,606	12	18,242	773,642	15,922	98,787	222,614	71,890	409,213	**1,182,855**
Net claims incurred	2,483	4,961	1,650	894	59,700	97,613	69,190	6,461	5	5,743	248,700	5,702	31,771	82,171	27,234	146,878	**395,578**
Direct expenses incurred	2,030	6,181	801	725	30,626	91,420	46,376	8,990	(28)	4,072	191,193	1,033	1,980	32,803	8,575	44,391	**235,584**

	Direct and Proportional Reinsurance											Non Proportional Reinsurance					
Financial Year 2022	Medical expense insurance	Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Marine, Aviation and Transport	Fire and Property Damage	General Liability	Credit and suretyship insurance	Assistance	Miscellaneous financial loss	Total	Health	Marine, Aviation and Transport Aviation	Property	Casualty	Total $000s	Total $000s
Gross premiums written	12,196	24,265	4,532	4,619	394,515	623,853	380,393	77,344	209	31,992	1,553,918	8,698	78,665	322,168	100,376	509,907	**2,063,825**
Net premiums earned	6,423	11,563	1,572	1,685	111,216	171,110	112,123	15,130	73	9,967	440,862	3,578	27,095	130,769	35,800	197,242	**638,104**
Gross claims incurred	8,965	13,472	1,175	1,737	138,473	309,414	153,907	11,715	27	8,054	646,939	5,036	48,489	239,098	57,668	350,291	**997,230**
Net claims incurred	3,955	5,427	493	651	40,239	85,992	47,964	4,340	10	2,630	191,701	2,109	16,786	82,447	22,015	123,357	**315,058**
Direct expenses incurred	2,038	5,589	688	631	12,384	50,369	18,577	6,914	27	2,527	99,744	607	2,104	22,579	4,870	30,160	**129,904**

Table A.3 – Technical Result – Analysis by Geographic Area

31 December 2023	United Kingdom	United States of America	Bermuda	Canada	Switzerland	Japan	Other	Total $000s
Gross Premiums Written	969,055	1,261,893	142,014	123,645	38,403	38,294	387,292	2,960,596
Reinsurers' Share	649,437	712,144	76,439	65,193	19,147	21,882	259,823	1,804,065
Net Premiums Written	319,618	549,749	65,575	58,452	19,256	16,412	127,469	1,156,531
Gross Premiums Earned	823,705	1,051,624	103,699	91,205	23,238	33,064	321,332	2,447,867
Reinsurers' Share	562,331	595,854	61,355	49,552	13,225	19,233	224,964	1,526,514
Net Premiums Earned	261,374	455,770	42,344	41,653	10,013	13,831	96,368	921,353
Gross Claims Incurred	443,695	485,857	44,134	34,205	8,237	9,075	157,652	1,182,855
Reinsurers' Share	305,537	315,289	27,620	19,999	5,037	5,710	108,085	787,277
Net Claims Incurred	138,158	170,568	16,514	14,206	3,200	3,365	49,567	395,578
Expenses Incurred	143,739	227,613	18,453	27,307	5,130	6,752	24,712	453,706
Technical Result	(20,523)	57,589	7,377	140	1,683	3,714	22,089	72,069

31 December 2022	United Kingdom	United States of America	Bermuda	Canada	Australia	Japan	Other	Total $000s
Gross Premiums Written	752,112	805,442	107,731	77,999	23,293	22,036	275,212	2,063,825
Reinsurers' Share	492,410	482,498	60,221	44,150	15,914	13,463	187,271	1,295,927
Net Premiums Written	259,702	322,944	47,510	33,849	7,379	8,573	87,941	767,898
Gross Premiums Earned	659,909	704,080	64,153	71,491	21,419	20,657	250,178	1,791,887
Reinsurers' Share	443,344	429,291	40,396	41,254	14,921	12,523	172,054	1,153,783
Net Premiums Earned	216,565	274,789	23,757	30,237	6,498	8,134	78,124	638,104
Gross Claims Incurred	307,874	493,176	41,871	29,387	11,078	1,120	112,724	997,230
Reinsurers' Share	213,818	333,213	27,831	19,007	7,410	1,062	79,831	682,172
Net Claims Incurred	94,056	159,963	14,040	10,380	3,668	58	32,893	315,058
Expenses Incurred	96,044	148,507	11,125	18,068	2,894	4,444	23,197	304,279
Technical Result	26,465	(33,681)	(1,408)	1,789	(64)	3,632	22,034	18,767

A.3. Investment performance

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

CIL's asset portfolio was primarily invested in investment grade fixed income securities during 2023, with a small allocation to risk assets (c.4% of the market value of the portfolio at year end). During 2023, the investment assets produced a total investment return of 5.29% (2022: -2.64%). The positive return was predominately driven by the high starting yields and coupon income earned throughout the year. A sharp decrease in risk-free yields towards the end of 2023 supported the return generating positive mark to market unrealised gains.

As at 31 December 2023 the portfolio duration of 1.8 years is positioned neutral relative to the entity's liability benchmark given the uncertainty in outlooks for markets and the future path of policy rates. The yield on the portfolio is 4.57% for the year ended 31 December 2023.

Table A.4 below sets out net investment income by asset class for the 2023 and 2022 financial years.

Table A.4 – Net investment income analysed by asset class

Financial Year 2023	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	74,898	3,184	78,082
Realised losses	(9,397)	—	(9,397)
Unrealised gains	48,635	—	48,635
Other (incl. investment expenses)	(2,777)	—	(2,777)
Total Investment Return	**111,359**	**3,184**	**114,543**

Financial Year 2022	Debt Securities	Other Financial Investments	Total $000s
Interest income/(expenses)	28,779	1,056	29,835
Realised gains	(17,086)	—	(17,086)
Unrealised losses	(52,178)	—	(52,178)
Other (incl. investment expenses)	(1,990)	—	(1,990)
Total Investment Return	**(42,475)**	**1,056**	**(41,419)**

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 the Statement of Profit and Loss and Other Comprehensive Income under UK GAAP.

A.3.3. Information about any investments in securitisations

Investments were held in securitisation vehicles in the form of debt securities. These securities consisted of AA-rated agency mortgage backed securities ("Agency MBS"), AAA-rated residential mortgage backed securities ("RMBS") and AA/AAA-rated collateralised loan obligations ("CLO").

The fair value of investments in securitisations as at 31 December 2023 was $231.7 million (2022: $118.5 million).

A.4. Performance of other activities

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

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

A.4.2. Leasing arrangements

CIL has no material leasing arrangements.

A.5. Any other information

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

B. System of governance

B.1. General information on the system of governance

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

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

CIL is the UK operating entity within the Convex Group and carries out the business of insurance and reinsurance. It was incorporated on 30 January 2019, authorised by the PRA on 30 April 2019 and is regulated by the PRA and FCA. CIL underwrites risks located in many different parts of the world on an insurance and reinsurance basis.

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

CIL Governance Framework – Governance Structure

CIL Boards and Committees

CIL is governed by a Board of Directors which is responsible for leadership and control, setting strategic direction, promoting the success of the Company and exercising oversight. The Board operates in accordance with its legal and regulatory duties, its own Terms of Reference and according to established principles and requirements of good governance. The Board meets at least four times a year and receives sufficient and timely information to ensure that it can fulfil its responsibilities.

In 2023, the Board consisted of a Chairman, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), an executive Director and five independent non-executive Directors (including a Senior Independent Director).

The Board has established an Audit Committee (the "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.

The Board has established the Risk Committee consisting of non-executive Directors in order to assist it with the oversight of the risk management framework. The Risk Committee operates under Terms of Reference and assists the Board with the embedding of a strong risk culture and robust Risk Management Framework. The Risk Committee covers all types of risks faced by the Company and it monitors and reports the key risks and issues to the Board.

Certain members of the Board hold Senior Management Function ("SMF") positions under the PRA and FCA Senior Managers and Certification Regime ("SMCR"). The CEO and the CFO hold SMF positions, as well as the Chairman, the Chair of the Audit Committee, the Chair of the Risk Committee and the Senior Independent Director.

CIL Executive Committees

CIL has established a CIL Executive Committee ("UKEC") consisting of key executives under the leadership of the CIL CEO. The CIL Executive Committee meets on at least a monthly basis and is responsible for supporting the CEO in exercising the authority delegated by the Board for the management of CIL. CIL executives also participate in the Convex Group executive committees, namely, the Group Executive Committee ("GEC") and other internal Group executive committees.

B.1.2. Board Responsibilities

The Board's responsibilities and duties are derived from law and regulation, its own Term of Reference and principles of good governance. These include the matters set out in B.1.1 above and also include: determining risk appetite; approving the Company's financial and regulatory reporting; ensuring the company is adequately resourced; establishing and maintaining a culture of risk awareness and ethical behaviour; and ensuring the Company has an appropriate risk management framework which is subject to regular evaluation.

B.1.3. Control Framework

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

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

The Internal Audit function provides independent oversight across CIL and reports to the Audit Committee.

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 Board.

Second line: Risk and Compliance functions

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

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

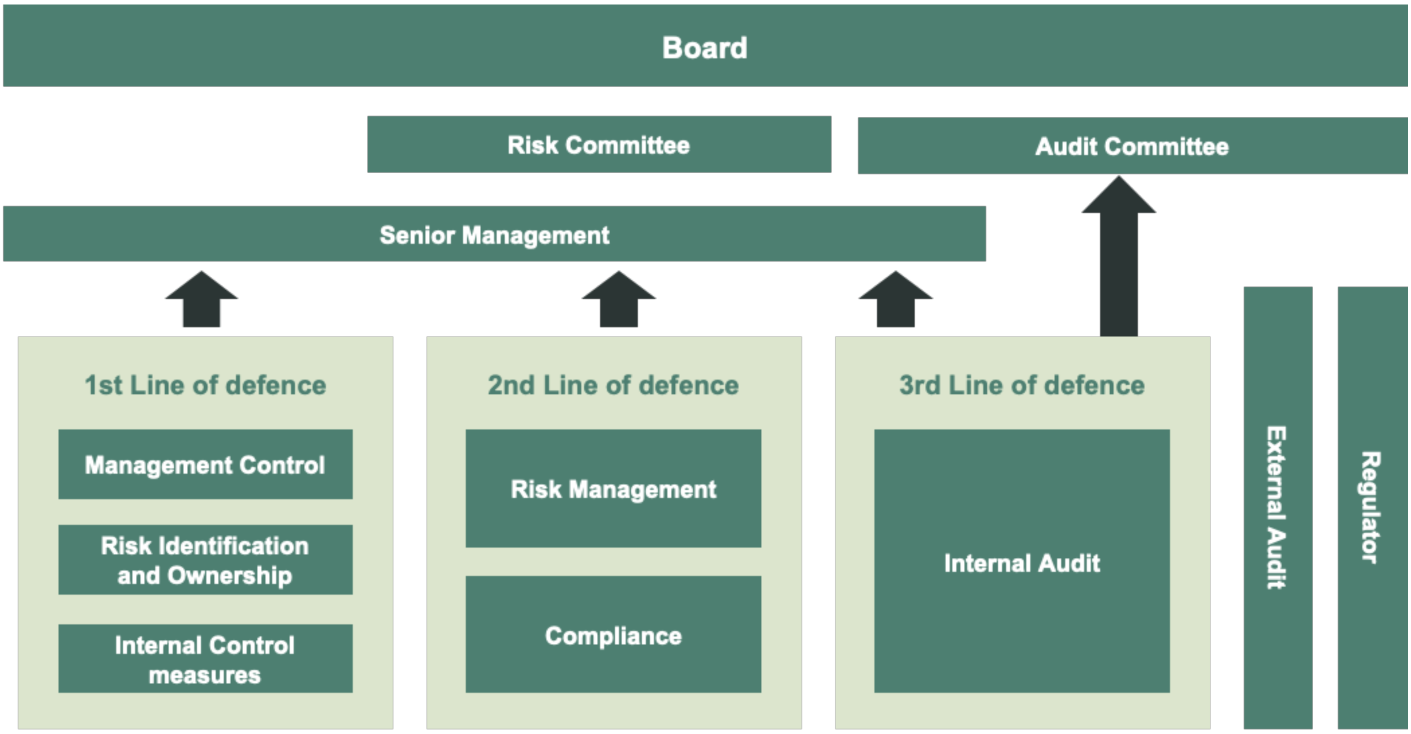
Third line: Internal Audit

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

CIL Three Lines of Defence Model

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

Diagram 2 – Three lines of defence model



B.1.4. Remuneration

CIL's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management. These principles adhere to the PRA's remuneration requirements as per PRA SS10/16, 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 UK 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 are 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 its shareholder, persons who exercise a significant influence on CIL 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 the Company's immediate parent company, Convex Re Limited ("CRL").

B.2. Fit and proper requirements

B.2.1. Specific Requirements Concerning Fit and Proper

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

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

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

The 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. Policies and Process for assessing fitness and propriety

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

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

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

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

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

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

B.2.3. Culture and ongoing monitoring

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

- Mandatory training that all staff need to complete on an annual basis;
- Assessment of fitness to perform the role through the ongoing 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 Board; and
- Adherence to the applicable conduct rules as per the requirements under SMCR.

B.3. Risk management system including the Own Risk and Solvency Assessment ("ORSA")

B.3.1. Description of the Risk management system

Risk Management Overview

Risk is defined by CIL as being the possibility of an adverse circumstance that will have a negative impact on CIL or its objectives. The Risk Committee and the CIL Risk Management Function provides risk oversight of the business for all risk types and categories. The CIL Chief Risk Officer attends the Board, Risk Committee and UKEC.

The Group Executive Reserving Committee and the Group Executive Risk Committee are Group Executive Committees, however, their oversight and responsibilities span across all of the entities of the Group, including CIL. A number of CIL Executives are members of these Committees and represent CIL in the oversight and decision making. UKEC review and approve relevant CIL matters discussed at either the Group Executive Reserving Committee or the Group Executive Risk Committee, and UKEC can escalate any matters for review or discussion to these Group Executive Committees.

B.3.2. Implementation of the risk management system

Risk Management Implementation

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

Risk Strategy

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

- Lead the development and implementation of the risk strategy across CIL and the wider Group;
- Implement and embed effective risk management frameworks across CIL and the wider Group;
- Coordinate an effective ORSA process;
- Oversee and implement an effective risk identification, assessment, management and monitoring process across CIL and the wider Group;
- Monitor risk exposures against approved risk appetite statements and limits;
- Carry out quarterly and annual risk and control assessments;
- Establish appropriate risk policies and processes for CIL and ensure they are in place to meet regulatory requirements;
- Provide risk management information to the Risk Committee and UKEC on the current concerns, risks and incidents affecting the business, as well as exposures against approved risk appetite limits;
- Carry out risk deep-dives across the business to assess key risks and the effectiveness of the controls in place;
- Lead the implementation of the climate change risk framework;

- Engage with the business on a number of ad hoc projects/initiatives to provide risk oversight and when relevant provide risk opinions; and
- Deliver risk training.

Further information on the role and responsibilities of the Risk Management Function can be found in the Group risk Management Function Charter.

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

The Board and Risk Committee are 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;
- Risk management process (as described below);
- Risk reporting and monitoring;
- Control frameworks; and
- Risk policies, procedures, systems processes and controls.

Risk Management Process

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

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

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

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

The Risk Management function together with relevant stakeholders from the business, review the emerging risks landscape for the year ahead and assess the impact on CIL's business profile and strategy. This process is performed in conjunction with the Oracle Partnership, an advisory group that specialises in agenda-setting foresight and strategic advice for future threats and opportunities. This annual emerging risk assessment also feeds into the ORSA process and ORSA report.

The Risk Register is the repository of all material risks and controls in the Company. It is one of the Risk Management function's most important management and monitoring tools and drives a significant portion of risk reporting to the Board, Risk Committee and UK Executive Committee on a quarterly basis.

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

- Strategic and Group risk – such as incorrect assessment of insurance market;
- Insurance risk – such as aggregate exposures and reserves;
- Market risk – such as investment value risk;
- Liquidity risk – such as failing to meet our on-going financial obligations as they fall due;
- Credit risk – such as risks of coverholder or reinsurer default; and
- Operational risk – such as operational resilience and disaster recovery.

Within these categories, CIL reports on Market and Liquidity risks together.

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

The Risk & Control Assessment ("RCA") process allows CIL to identify key risks, assess the materiality and status of the risks and controls, and then use this information to manage the CIL risks and potential impact to Group risks, and review and monitor them on a periodic basis. The outcome of the RCA process is shared with the relevant stakeholders, UK Executive Committee, Board and the Risk Committee on a regular basis.

Risk owners are responsible for the identification and day-to-day management of controls, including implementation, regular monitoring and reporting of the risk status. The Risk Management function holds quarterly risk and control assessment meetings with risk owners to review and provide challenge on the function's risk profile and effectiveness of controls in place. The output from these assessments enable the Risk Management function to focus their attention on those risks that have the worst performance but also have a high materiality.

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 CIL's risk appetite. Risk mitigation is mainly achieved through the implementation of controls and management actions. It is the responsibility of each function within CIL to own and manage their internal control environment. Risk Management provides an independent second line view of the function's internal control environment and reports findings to the relevant committee.

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

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

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

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

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

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

The purpose of Risk Reporting is to provide management with useful information, allowing them to make effective decisions about the risks the business faces. Risk Reporting is a regular, continuous and important process for CIL as it builds alignment and transparency of risk information between the business, management and the executive. The Risk Management Framework, system and processes facilitate this reporting throughout the year, allowing the Risk Committee 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 UKEC and Risk Committee, showing the current concerns and most material risks to the business and quarter-on-quarter changes in risk profile.

The Risk and Incident Report also provides the UKEC and the Risk 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, with qualitative commentary 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 Overview

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

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

- Strategy and business planning: The forward-looking assessment section of the ORSA, which is the assessment of CIL's strategic goals made up of the strategy and business planning processes;
- Risk profile: Assessment and understanding of the current and emerging risks facing CIL across all risk categories, also including stress and scenario testing and other RMF techniques to assess risk impacts;
- Risk appetite: Review of appetites and tolerances to allow CIL to measure the level of risk currently being taken;
- Capital requirements: Assessment of CIL's regulatory capital requirements; and
- Solvency Assessment: Assessment of CIL's solvency against requirements.

The ORSA provides a framework to enable the Board and Risk Committee 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 Board and Risk Committee in relation to the ORSA are:

- The capital and solvency position – the capital assessment is produced based on the risk profile of the firm and its business plan. Solvency has also been considered under both normal and stressed conditions;
- The risk profile of the firm is reviewed and reported. The ORSA is based on the risk profile of CIL;
- The risk appetite of the firm forms a key part of the risk profile reporting throughout the year and the Risk Committee 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:

The Audit Committee	• Provide independent oversight of the ORSA process through internal audit reports
The Board	• Set the overall business strategy and direction and ensure this is in line with Group objectives; • Set the risk appetite for the Company; • Review and sign off the ORSA Policy and annual ORSA Report; • Ensure that CIL has established appropriate governance arrangements and escalation procedures such that the risks are monitored and managed; • Review and sign off the results of any event driven ORSA reports arising from material changes to the business or business operating environment; • Approve the current and forward looking capital and changes to it in line with the entity's risk profile and operations; • Receive assurance relative to the effectiveness of the control environment from the Audit Committee and take actions as appropriate; and • Ensure compliance with regulatory requirements.
The Risk Committee	• Help to set the tone and develop a strong risk culture to promote open discussion regarding risk, integrate risk management into CIL strategic objectives and compensation structure, and create a corporate culture such that people at all levels manage risks; • Review and recommend the Risk Management Framework for approval by the Board, ensuring it covers all risk categories and key risk management processes, including Enterprise Risk Management; • Oversee the maintenance of the Risk Management Framework, including the risk policies, and ensure the risk identification, management and monitoring process is effective; • Advise the Board on the current risks facing CIL across its risk universe and supports the development of a risk management strategy; • Provide recommendations to the Board on the risk appetite statement and metrics for each key risk category (i.e. solvency, insurance, market, liquidity and operational risks); • Review and monitor CIL exposures against the agreed risk appetite and tolerances, to ensure that the risk profile remains within tolerances and that appropriate, timely mitigating action is taken if any tolerances are breached; • Propose remedial actions to the Board for any risk appetite breaches or for any issues escalated to the Risk Committee; • Provide oversight of the ORSA process; • Review and recommend the annual ORSA report for approval by the Board; • Review the effectiveness of the Risk Governance Framework; • Review and monitor material aggregate exposures across all categories of risk, as well as the output and findings from key stress and scenario testing; • Review the emerging risk and the associated mitigation plans on a regular basis; • Oversee the design and implementation of framework for assessing financial risks from climate change and make recommendations to the Board; • Review regulatory developments relating to governance and risk management and assess the implications; and • Propose and agree the annual Risk function work plan, including proposed deep-dive reviews. Monitor progress against plan and resourcing capability of the Risk function.
UK Executive Committee	• Review the Annual ORSA Report and ORSA Policy and recommend both documents to the Board for approval; • Review the quarterly risk appetite dashboard; • Review the quarterly risk and control assessment, and incident report; • Ensure CIL's risk profile remains within the Board approved risk appetite limits; and • Ensure CIL has an appropriate risk and controls framework in place.
Group Executive Reserving Committee	• Review the technical provisions and will make recommendations to the Board for sign-off

Supporting IT Systems

CIL uses a risk system to capture pertinent details about risks and controls and other Enterprise Risk Management processes in support of the ORSA process. Other risk systems are also used by CIL to assess the level of risk within the insurance and investment portfolios, how that risk has changed and to undertake scenario testing of the exposure.

Risk Management and Risk Appetite Frameworks

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

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

Reporting

ORSA reporting occurs throughout the year via the quarterly Risk Reporting, including the quarterly risk appetite dashboard, and also in an annual standalone report to the Board and to the PRA. The quarterly risk report contains information on all major risk categories considered by CIL, and includes current concerns, emerging risks, risk incidents, and risk appetite metrics.

Separately, the annual ORSA report:

- Recognises the risk, governance and management processes across CIL;
- Conveys the strategy, capital and risk matters for the Board and Risk Committee 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 UKEC for review, and ultimately to the Board and Risk Committee for sign-off.

The ORSA process considers all key risks faced by CIL, including Insurance, Operational, Credit, Market & Liquidity, Strategic and Group risk, as well as risks included within the SCR calculation.

CIL undertakes stress testing and scenario analysis to identify and quantify potential stress events that could heavily impact the performance and financial resilience of the business. The Risk Management function involves relevant subject matter experts from key business and functional areas in stress and scenario testing development and selection. This is reported to the Risk Committee and included in the annual ORSA report.

Sensitivity analyses are carried out on the business plan as part of the planning cycle, at a Group level, 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, in conjunction with the Oracle Partnership, to establish a list of the top emerging risks that Convex should consider. The emerging risk landscape is reviewed twice a year, with an annual emerging risk summary included in the annual ORSA report.

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

- The Cross-functional planning team meeting with Senior Management to gain their strategic views for the three-year planning period;
- The Cross-functional planning team 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 Board signing-off the business plan and risk and capital projections; and
- Independent challenge from the Risk Management Function on the three-year business plan, risks to the plan and capital requirements.

Capital Requirements Calculation

CIL has adopted the Standard Formula approach to calculating its SCR. The SCR is calculated by the Actuarial Team and signed off by the CIL Chief Actuary. The appropriateness of the SCR to cover the risks faced by CIL is validated on an annual basis. This is carried out via an assessment of the assumptions underlying the Standard Formula versus the risk profile of CIL, 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 CIL based on these differences is also included in the annual ORSA report.

Solvency Assessment

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

ORSA Frequency

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

Ad hoc ORSAs and Triggers

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

Change to CIL risk profile

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

- Material change to the CIL risk profile;
- Failure in underlying controls or risk assessment process leading to an incorrect assessment of capital requirements;
- Significant insurance loss, especially major or multiple natural catastrophe events;
- Major financial market shock; and
- Failure of counterparties or reinsurers, where there is significant exposure.

If one of the above triggers occurs, the decision to run a full or partial ORSA report would be made through consultation involving, at least, the CIL CRO, the CIL Chief Actuary, the CIL CFO and the CIL CEO.

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. The Compliance function is an integral part of CIL's Risk Management system and constitutes a key part of the Company's corporate governance.

The Compliance function manages the relationships with the PRA, the FCA and other regulatory bodies, and is committed to transparent and constructive relationships with regulators. The Compliance function works closely with the Legal function and also with the Risk Management and Internal Audit functions.

The Compliance function activities include:

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

- Participating in the CIL Executive Committee; and
- Reporting to the Board.

The Compliance function is headed by the Group Chief Compliance Officer who is approved as the SMF16 (Compliance Oversight) for CIL.

B.5. Internal Audit function

B.5.1. Implementation of the Internal Audit function

Internal Audit's purpose is to provide independent and objective assurance over the adequacy, effectiveness and sustainability of risk management framework and the system of internal control to CGL's audit committee, its subsidiaries' audit committees, and to the Convex Executive Committees. It does this by establishing, undertaking and reporting on an approved assurance plan each year.

The Purpose, Authority and Responsibility of the Internal Audit function is defined within the Internal Audit Charter. Internal Audit operates in accordance with the Global Institute of Internal Auditors' international standards, the UK Chartered Institute of Internal Auditors Financial Services Code, all mandatory elements of the International Professional Practices Framework, and Convex's Internal Audit methodology. The Internal Audit Charter, which is reviewed annually, was approved by the Audit Committee in December 2023 and is available on https://convexin.com/.

Internal Audit is primarily staffed internally with a professional team that has 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.

Internal Audit maintains a quality assurance and improvement programme which includes continuous external quality assurance activity undertaken by a third party as well as feedback gathered via stakeholder and employee engagement surveys. On an annual basis, Internal Audit confirms to the Audit Committee that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with.

In order to operate an effective framework Internal Audit maintains regular and ongoing 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 is preserved to enable Internal Audit to provide an independent overview to the Audit Committee on the effectiveness of risk management and assurance processes within Convex.

The Audit Services Guide provides a framework to Internal Audit on the spectrum of assurance work the function may perform, to give the various stakeholders the most appropriate type of assurance. For example:

- Risk-based internal audits – Internal Audit's standard audit response, this methodology will also be used in the limited circumstances where Internal Audit responds to ad hoc management requests for assurance. This response 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 ongoing 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 Board and Audit Committee, including thematic reporting. Quarterly reporting is provided to the Audit Committee, where the Chief Audit Officer attends to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Reporting to the Convex Executive Committees, where the Chief Audit Officer presents a summary of the key successes/challenges within the period.
- 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 reports functionally to the respective independent Chairs of CGL and its subsidiaries' audit committees, and has a secondary reporting line to the CGL Chief Executive Officer. The CGL 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 CIL or the wider Group or direct the activities of any employee not employed by Internal Audit. Internal Audit maintains policies and procedures to ensure that potential conflicts of interest of audit staff are managed appropriately to maintain Internal Audit's independence.

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

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

B.7. Outsourcing

B.7.1. CIL outsourcing policy

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

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

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

CIL recognises that the responsibility and accountability of all outsourcing functions remains with the Board, who will ensure that due diligence, expertise and skill is exercised when entering into, managing or terminating any outsourcing arrangement. The Board also acknowledges that CIL remains fully responsible for discharging all the Solvency II Directive requirements, notwithstanding any outsourcing. Group Operations currently submits a report on the performance of services by the major service providers to the CIL Executive Committee on a quarterly basis, key highlights of which are discussed with the Board as appropriate.

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

CIL has outsourced the provision of products/services in the following categories:
- Claims Operations;
- Facilities & Workspace Management;
- Finance Operations;
- HR Operations;
- IT Desktop and Application Support;
- Underwriting Operations; and
- Investment Management.

During 2023, CIL undertook a retender of current services provided by our primary BPO provider, WNS, ahead of the 5 year contract renewal date in April 2024. Following extensive review and due diligence, the Board approved a transition away from WNS to new providers; EXL, Hexaware and ProGlobal. This transition initiated during late 2023 and will conclude by mid 2024.

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

B.8. Any other information

With regard to the conflict in Ukraine, CIL continues to monitor the development of the conflict, and is continually assessing the impact of this on its various operational functions including investments, compliance, and underwriting exposures.

CIL carried out an extensive project during 2023 to ensure that it met the requirements and spirit of the FCA's new Consumer Duty. CIL examined every aspect of the customer journey for retail and consumer clients with the aim of enhancing that journey where possible and providing data for monitoring and oversight.

C. Risk profile

C.1. Insurance risk

C.1.1. Risk description

At Convex, we consider Insurance Risk in hierarchy to provide a structure for managing the different components of Insurance Risk.

Within the hierarchy we consider 2 separate components of Insurance Risk:

- Primary Insurance Risk – This refers to the inherent risk taken on by selling Insurance business that timing, frequency and severity of insured events, may be adverse relative to the expectations of the firm at the time of underwriting. This includes Underwriting and Reserve Risk.

- Secondary Insurance Risk – This refers to the residual risks that emerge from the methods used to assess and manage primary Insurance risk. This includes Model Risk (produced from the use of models and other analytical tools to help with the assessment and monitoring of Insurance Risk and Ceded Reinsurance Risk (produced through the use of traditional reinsurance and non-traditional products to transfer Insurance Risk).

These risks are defined below**.**

Risk Title	Type	Definition
Level 1		
Insurance risk	Primary	The risk of adverse fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting while the policies are in-force or after the expiration of coverage. This may occur due to either inherent volatility or errors in the selection, approval, pricing, reserving and handling of risks being insured.
Level 2		
Underwriting risk	Primary	The risk of adverse fluctuations in the timing, frequency and severity of insurance claims, relative to the expectations of the firm at the time of underwriting while the policies are in-force. This may occur either due to inherent volatility or errors in the selection, approval and pricing of risks being insured.
Reserve risk	Primary	The risk of adverse development of the reserves for insurance claims either due to inherent volatility or due to errors in assessing the required reserves. This includes both the earned and unearned reserves.
Ceded reinsurance risk	Secondary	The risk that Convex has an inappropriate reinsurance programme either due to unexpected gaps in the programme, adverse gross experience relative to the known basis of coverage or because the level of coverage is less than required to meet net risk appetite. This does not include Reinsurer Credit risk which is considered separately under Credit Risk.
Model risk	Secondary	The risk that the models used to assess or manage risks are inappropriate, inaccurate, insufficient or misinterpreted leading to poor decision making.

C.1.2. Risk mitigation

Mitigation of Insurance risk at CIL is broadly achieved through the following interlinked processes that create an effective control cycle for the risk. These processes are:

1. Governance;
2. Risk appetite and limits;
3. Internal controls;
4. Risk Transfer; and
5. Monitoring and Reporting.

Governance

Insurance risk is overseen by the following governance committees, where they undertake review and challenge. The key committees are:

- Board of Directors;
- Risk Committee;
- UK Executive Committee;
- Group Executive Risk Committee;
- Reserving Committee;
- Major Event Committee;
- Insurance Underwriting Executive Committee; and
- Audit Committee.

Risk Appetites and Limits

- CIL has articulated risk appetites for underwriting risk, reserve risk and single risk exposure; and
- Each line of business also has specific appetites and underwriting guidelines which articulate our desired risk profile.

Internal Controls

Underwriting risk:

- As part of the business planning process, the portfolio is developed ground up with granular risk selection supported by an in-house tool;
- Underwriting Authorities and Monitoring System;
- Delegated Authority Approval Process;
- Underwriting Guidelines;
- Underwriting Game Plans;
- Peer Review;
- Product Oversight and Governance Process;
- Pricing Models; and
- Inflation Working Group.

Reserve risk:

- Claims Handling Authorities;
- Claims Core Principles and Procedures;
- Delegated Claims Core Principles and Procedures;
- Reserving Policy and Philosophy;
- Inflation Working Group; and
- Audit of Reserves.

Risk Transfer

Convex purchases a significant reinsurance programme (using traditional products and other transfer mechanisms to mitigate risk within acceptable limits). Convex has a policy in place to help deliver an effective ceded reinsurance programme and to control and mitigate residual underwriting risk. This is managed by a dedicated Ceded Re team.

Monitoring and Reporting

Insurance risk is monitored and reported through a number of mechanisms at Convex including:

- Natural Catastrophe analysis;
- Key Insurance and Reinsurance underwriting metrics;
- Quarterly Reserving Dashboard;
- Claims Trends Reporting;
- Reserve Report;

- Insurance Risk Monitor; and
- Insurance Risk Appetite Reporting.

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

Convex has a number of modelling tools to help assess both Underwriting and Reserve risk. These include:

- The Core Model;
- Vendor Catastrophe Model;
- Sequel Impact; and
- Renew Pricing / Ranking Models.

These tools are used to produce a range of risk measures and metrics which are monitored and reported.

C.1.5. Material changes over the reporting period

CIL's business volumes increased significantly over 2023, resulting in an increase to the level of both Premium and Reserve risk. As a result, CIL maintained a strong focus on continuing to develop the above controls to identify, analyse, mitigate, monitor and report on Insurance risks. As the volume of underwriting continues to grow this risk will continue to increase.

C.2. Market Risk

C.2.1. Risk Description

Market risk: The risk which arises from fluctuations in interest, inflation or exchange rates as well as asset risk premiums.

CIL is exposed to Market risk through the impact of market movements to its asset portfolio and to the market value of its insurance liabilities. Market risk impacts to the balance sheet arise from various factors, including the following:

- Rising interest rates and/or credit spreads of the fixed-income investments can reduce the market value of the asset portfolio. From an economic point of view, there is a natural hedge provided by the liabilities, as, as interest rates increase, this decreases the market value of the liabilities, thus absorbing part of the impact. However, the net position remains sensitive to interest rate movements.
- A decline in the market value of assets other than fixed income, driven by equity and/or property markets could adversely impact the availability of surplus of capital.
- A change in foreign exchange rates could have an impact for CIL, due to any potential currency mismatches between assets (cash exposures, investment assets and any currency hedging derivatives) and liabilities (claims and expenses), as well as any currency mismatch between claims and internal reinsurance recoverables.
- An increase in inflation rate may lead to a nominal increase in the value of CIL's liabilities and other expenses and affect valuation of assets in the CIL portfolio.

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

CIL manages its investment portfolio in line with the Prudent Person Principle as set out in Article 132 (Directive 2009/138/EC) by applying the requirements and principles described in the 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, CIL has modest exposure to Level 3 assets, and thus has increased certainty around the valuation of financial assets.

CIL ensures the availability of assets to pay in a timely manner claims and other obligations by having in place procedures that measure excess liquidity in stressed market conditions, in line with the risk framework.

C.2.3. Risk mitigation

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

The level of Market risk is managed by:

- Taking into consideration the market risks inherent in CIL's insurance business, expenses and other liabilities including shareholder's capital when managing the investment portfolio;
- Setting and monitoring an Aggregate Market Risk Limit of 25% of the available risk capital, defined as a 1-in-200 return period loss over a one year time horizon; and
- Setting individual stress test risk limits for the respective market sub-risks at two-thirds of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and at one-third of the Aggregate Market Risk Limit for Foreign Exchange ('FX').

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);
- Equity risk, including private equity and other illiquid assets;
- Foreign exchange risk;
- Real estate risk;
- Hedge Funds; and
- Inflation risk.

In addition, exposure to each market sub-risk is limited with a risk limit equal to two-thirds of the Aggregate Market Risk Limit for interest rate, spread, equity and property risks and to one-third of the Aggregate Market Risk Limit for FX.

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

C.2.6. Material changes over the reporting period

As at year end 2023, the size of the investment portfolio and the liabilities had increased considerably compared to 2022, in line with CIL's business plan and driven by business written and capital injected. Gross premiums written in 2023 increased significantly to $2,960.6 million (2022 gross premiums written: $2,063.8 million) and assets under management grew to $2,444.2 million (2022 assets under management: $1,932.2 million). As a result, market risk exposure increased in absolute terms, in line with the growth in assets under management. Market risk exposure remained within risk appetite throughout 2023.

C.3. Credit risk

C.3.1. Risk description

Credit Risk: the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Convex is exposed.

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, which includes investments in sovereign and corporate bonds, securitised assets and other credit risk assets.
- Insurance exposures arising from the political and credit risk line of business.
- Reinsurance assets, where credit risk arises in relation to the reinsurance asset held.
- Other assets, including bank deposits.
- Insurance assets and receivables.

C.3.2. Risk mitigation

Credit risk is mitigated by monitoring a set of limits that control the risk of loss from a potential failure of an individual issuer or issue. These limits aim at managing the default risk of a given issuer, depending on its rating of all bonds issued by the issuer and held by CIL (corporate, Government agency and sub-sovereign) and are defined as a percentage of the Assets Under Management, 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. CIL 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 functions monitor the exposure against the limits on a daily basis, and report on a monthly basis, with any issuer exposure breaches reported to the CIL CFO for remediation or a waiver if the risk is accepted.

Insurance exposures arising from the political and credit risk line of business are subject to an overall limit set at the entity level and monitored monthly though a defined governance process.

Credit risk on insurance assets is managed through CIL's Finance function, which monitors the aging 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 withing risk appetite.

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

A net aggregate exposures limit is in place for the overall political and credit risk underwriting line of business.

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. CIL uses external credit ratings as well as market adjusted ratings which adjust rating according to spread levels.

CIL uses a 'loss given default' measure to assess reinsurance counterparty risk. This measures the probable loss given a reinsurer default in a set of clash scenarios. For insurance assets and receivables an 'exposure to risk' metric is utilised.

A counterparty credit risk model producing a distribution of counterparty credit losses for Investment and Treasury exposures based on stochastic Economic Scenario Generator scenarios was implemented during 2023.

CIL also utilises a Reinsurance Counterparty risk module within the Core Model. The RI Credit Risk calculation process simulates output variables in respect of “Credit Loss per Unit Exposure”. In particular, it is responsible for generating losses (as a proportion of exposure) from counterparties defaulting on their obligations. Losses related to a reinsurer’s future exposure as well as potential losses on current recoverables represent the reinsurance counterparty’s obligation. The generated loss are used for determining credit losses by taking into account exposure to each counterparty at each time period.

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 CIL CFO for remediation or, in exceptional circumstances, a waiver.

As at 31 December 2023, Credit risk was well-diversified; concentration limits were adhered to, thereby limiting concentration risk in exposure to counterparties.

C.3.5. Material changes over the reporting period

Treasury exposures to banking counterparties increased over 2023, mainly to fund Letters of Credit. There has also been an increase in both premium and reinsurance receivables over the period, driven by the increased size of the balance sheet.

The exposure of CIL to CRL via the Intragroup Reinsurance also increased in line with line with the growth in business written but remained well collateralised.

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 would 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 counterparties hesitant to place longer term risks with the Company and thus erode franchise value.

The current risk appetite statement on liquidity requires that “CIL 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 CIL 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.

C.4.2. Risk mitigation

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

C.4.3. Measures used to assess risk

The measure employed to assess Liquidity risk is 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 B.

As at 31 December 2023 the Company's EPIFP was $887.6million (2022: $651.1 million).

C.4.5. Risk concentration

There are no Liquidity risk concentrations identified as at 31 December 2023.

C.4.6. Material changes over the reporting period

Available liquidity increased significantly over the reporting requirement due to an increase in assets under management that remained invested in liquid assets.

The increase in available liquidity was partly offset by an increase in encumbered assets mainly due to the funding of Letters of Credit in place for 2023.

C.5. Operational risk

C.5.1. Risk description

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

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

Sub-risk	Description
People risk	Risk / uncertainty associated with employee hiring, training, management, key person dependency, and competency of employees and contractors and retention to have sufficiently competent and experienced personnel to accomplish a business function's goals and objectives.
Process risk	Risk / uncertainty associated with process and systems, including occurrence of errors and omissions arising within any of the functions within Convex. Risk / uncertainty around external and internal events that could occur at any time in the future that cause normal business operations to be halted or disrupted and impact Convex's ability to be operational resilient as a business. In addition, business interruption that has significant wide-reaching impact on the operational capability such as disruptions and the unavailability of important business services and/or systems will be monitored and reported. Risk / uncertainty around the occurrence of issues and incidents that could delay successful and timely delivery of projects and change initiatives in accordance with agreed plans. Risk / uncertainty around the possibility of unintentional or deliberate misstatement of financial results or financial regulatory reporting.
IT risk	Risk / uncertainty associated with IT systems.
Regulatory risk	Risk / uncertainty relating to Convex's efforts to operate within / adhere to the laws, regulatory guidelines, and agreements. In addition, risks regulatory risk relating to potential changes in laws and regulations and compliance related matters.
Data risk	Risk / uncertainty relating to and or maintaining the quality of data used within Convex Group's daily operations and encompasses: external data, internal data input, data loss and data corruption. That data is accurate to within acceptable tolerances.
Conduct risk	Risk / uncertainty relating to activities or employee behaviour which adversely affect customer outcomes or fair competition.
Outsourcing & Third-Party risk	Risk / uncertainty of unintentional or deliberate failures of service providers to deliver services in accordance with pre-agreed service standard contracts or engaging with service providers with no service standards in place.

C.5.2. Risk mitigation

CIL has developed and embedded an effective control environment to mitigate against operational risk. These controls are rated according to their effectiveness and are stored within a risk system. Controls are reviewed periodically and analysed to ensure that the risk is being mitigated as expected.

C.5.3. Measures used to assess risk

Operational risk is assessed via the risk 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, which indicates how comfortable the business is with the level of risk.

C.5.4. Risk concentration

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

Risk incident data is analysed for trends or concentrations with regards to root causes, departments, risk owners and other such categories.

C.5.5. Material changes over the reporting period

Operational risk has continued to be an area of focus for management throughout 2023 as the operational element of the Company has grown substantially.

The key developments in operational risk have been:

- Continued systems and infrastructure development to support underwriting; and
- Ongoing transition to a new main Group outsourcing partner.

Information Security

Information Security and Cyber resilience remains an area of attention for Convex, as the emerging threat landscape coupled with the increasing sophistication of cyber-attacks has highlighted the necessity for CIL to ensure it has robust and effective controls in place to mitigate against these threats. CIL's IT Security team regularly assess its maturity on cyber security controls with updates provided to the 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 Business Continuity Planning ("BCP") exercises covering the cyber-breach scenarios to test the capabilities of our preparations to deal with a cyber incident.

Third-party and Outsourcing Management

Whilst Convex utilises third-party and outsourcing arrangements, it recognises the risk of these agreements and there is ongoing assessment and monitoring of the risk level to key outsourcing partners. Risks related to these arrangements and risk incidents are incorporated into the risk management framework, with monitoring and oversight.

C.6. Other material risks

C.6.1. Description of other material risks

Strategic risk

There is a degree of Strategic risk inherent in the plans of CIL. The aim of the Company is to become a scale player in the P&C market, and therefore there is an execution risk if CIL fails to deliver on its strategic objectives.

Group risk

CIL has a degree of Group risk associated with it, as it is a subsidiary company of Convex Group; however, the Group remains relatively small with a lean structure (1 holding company and 5 underwriting entities), which therefore reduces complexity and impact of this risk.

Regulatory and legal risk

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

Climate change risk

Physical risk deep dive

Convex conducted a deep dive assessment in 2022 (Project Berlin) to determine how climate change is expected to influence Convex's risk from climate-related perils and other sources of physical risk over a shorter term time frame than is typically considered in climate studies. This project involved reviewing the latest scientific research on the impact of climate change on natural hazards. One of the insights from this project was a range of projections for the changes in the median frequency and intensity of natural hazards which were used to derive confidence intervals around the potential changes. These intervals gave a basis upon which to perform stress testing, as Convex can assume various extreme scenarios by taking the changes at the upper and lower bounds, and assessing the impact on the losses from natural perils.

The findings from this assessment have given Convex some comfort that the near term effect of climate change on hazard rates is not expected to cause a material impact to losses from natural catastrophe perils. The more significant insight from the hazard projections is the range of uncertainty around potential changes. Notably in the case of wind perils, frequency is increasing at the upper bound however at the lower bound frequency is decreasing. Therefore any assumption on changes in number of events and loss impact is highly uncertain.

The assessment also identified US Wildfire and both US and EU Flood as additional areas of focus for stress testing, as the losses from these hazards are highly dependent on the interaction with the built environment which can change dynamically and has significant local nuance which is not well captured by vendor models. Therefore, a more detailed understanding of downside exposure to these perils is a focus of continued analysis.

In 2023, Convex has worked with a leading consultant to develop a tool to allow more localised climate related stress testing, which draws on the findings of Project Berlin. The will further enable stress testing of downside exposure referred to above.

During 2023, we have also begun a project focused on examining climate related liability risk. The project reviews existing and current climate related litigation across different sectors and seeks to envisage how Convex's casualty lines could be impacted were this to continue to grow.

Investment portfolio

With regard to Convex's investment portfolio, we have undertaken climate-related scenario analysis on our fixed income portfolio using the PRA's General Insurance Stress Test ("GIST") 2019 scenarios.

Convex's portfolio comprises of sovereign debt, high-grade corporate debt and minimal equity related investments. Transition risk exposures are considered to be limited. These results were confirmed by an original 2021 stress test exercise which was rerun in 2023 with similar conclusions. Convex anticipates further refinement to the assessment of portfolio exposures through new tools and advisory services, aligned to the projected growth of the portfolio in the next few years and the potential for more diversification.

Convex's external asset managers provide quarterly reporting which includes an assessment and rating of our investment portfolio on carbon intensity and ESG metrics against a relevant benchmark. This allows the investment team to monitor how exposure to ESG and climate risks in the portfolio are evolving over time and enables us to engage in dialogue with our managers over particular issuers or sector concentrations which may detract from the overall sustainability of the portfolio. Convex considers its aggregate Climate Change risk and ESG exposure in the portfolio to be moderately low, manageable and in line with risk appetite.

In addition to ESG considerations in our broader investment portfolio, we started to implement our 'Impact Investing' strategy, targeting investment opportunities which contribute to specific environmental or social outcomes. As awareness and focus on the impact of investments has grown over time, and in line with the belief that as an asset owner Convex has an ability to direct capital to investments that contribute to specific environmental or social outcomes, a strategic framework is developed to enable the identification, screening, and allocation of impact investments.

Governance

Convex is aware that effective management of climate risk is critical to the long-term success of its business. Accordingly, primary responsibility for climate risk is vested in the Convex Group Board, which is responsible for directing the ESG strategy (including towards climate risk) across the Group. The Group strategy is further adopted by the CIL Board. Convex has an established ESG Committee led by the Head of Sustainability. This reviews and recommends priorities which are reported through the quarterly ESG Summary prepared by the Head of Sustainability. In addition, Convex has also formed a Sustainable Underwriting Group to help inform our Net Zero underwriting strategy and to develop ESG-linked underwriting opportunities.

The CIL Board has engaged on Climate risk and broader Sustainability issues over the past few years in a variety of contexts. These include considering the adequacy of the identification and management of climate risk through the Own Risk and Solvency Assessment ("ORSA") and quarterly CRO reporting and monitoring progress of the ESG strategy and reviews priorities through the quarterly ESG Summary Report prepared by the Head of Sustainability.

Convex, as a member of Climatewise, reported against Climatewise Principles for the second year running in 2023, with the report published on the Convex website. This represents Convex's key climate related reporting, and is aligned to the TCFD reporting framework.

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, and on the Board, 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, setting out the plan against a variety of different market backdrops, and thereby indicating a range of differing outcomes on a multi-year basis.

Group risk

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

Regulatory and legal risk

The Compliance and Legal teams have continued to make enhancements and refinements to its control framework in 2023, including around the key areas of regulatory and legal risk, including licensing, sanctions, wordings, and conduct risk.

Financial risks from Climate Change

Convex's financial risks from Climate Change are mitigated through a number of techniques. On the Investment side, the external asset managers are responsible for the tactical asset allocation, including the integration of ESG factors. There is also ongoing review of new products and strategies that have a dedicated ESG or Climate Change related focus, in particular those that can have high impact to key climate or social themes.

Convex has also formed a Sustainable Underwriting Group to help inform our Net Zero underwriting strategy and to develop ESG-linked underwriting opportunities. Convex has taken a leading position in the underwriting of Offshore wind across both energy and liability lines.

C.6.3. Measures used to assess risk

Whilst there is scenario testing in relation to the Climate Change risk, none of other additional risks are measured quantitatively at present, although work continues to assess and define an appropriate risk management approach for these risk. 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 changes were the ones associated with the growth of Convex and continuing to embed a fully operational insurer of scale.

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 CIL remains prepared for potential deviations from expectations. Convex performs a significant number of stress tests within BAU processes at Group level and at subsidiary level as well as performing specific, bespoke stress tests for the annual ORSA report.

The testing throughout the year ranges from:

1. Sensitivity tests to understand the impact of key assumptions within models and business planning;
2. Stress testing to better understand and mitigate what could arise from single events;
3. Scenario analysis where several stresses across risks occur at the same time; and
4. Reverse stress testing.

The tests included in the latest ORSA report give a comprehensive view of the stress and sensitivity analysis performed at Convex both as BAU and bespoke tests. These include:

Underwriting risk:

1. Underwriting stress test (stochastic) - Analysis of natural catastrophe and non-natural catastrophe perils at a number of high return periods and bases.
2. Underwriting stress tests (deterministic) - Analysis of natural catastrophe and non-natural catastrophe perils at a number of high return periods and bases.

Reserve risk:

1. Reserve stress test (stochastic) - Analysis of the reserve risk distribution to ultimate.
2. Reserve stress test (deterministic) - Stress tests that are used to monitor the reserve risk appetite limit.

Financial and Market risk:

1. Middle East conflict expands.
2. Outcome of 2024 US Presidential election.
3. Stubborn inflation in US, Europe and UK.
4. Escalation of Russia-Ukraine conflict.

Operational risk:

1. Third-party Cloud storage provider is hit by a material cyber attack which leads to the loss of sensitive data pertaining to Convex staff and employees.
2. Convex is held ransom by hackers after a material cyber attack, in which the hackers access systems, networks and sensitive data.
3. Various scenario testing the operational resilience of the Company.

Combined Stress Tests:

1. Analysis of high return period profit & loss shocks which are a combination of underwriting risk, reserve risk, credit risk and market risk.

In all of these scenarios CIL maintained an adequate SCR coverage ratio.

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

This currently does not apply to CIL.

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

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

D. Valuation for solvency purposes

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

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

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

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

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

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

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

CIL applied the following hierarchy of valuation approaches:

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

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

Table D.1 – UK GAAP & Solvency II

As at 31 December 2023 ($000s)	Note in Financial Statements (a)	UK GAAP balance sheet classified according to financial statements (b)	Reclassification of UK GAAP balance sheet categories (c)	Reclassified balance sheet (d)=(b)+(c)	Solvency II balance sheet (e)	Valuation differences between Solvency II & UK GAAP (f)=(d)-(e)
Deferred acquisition costs	3	320,429	—	320,429	—	320,429
Prepayments and accrued income		19,738	(19,738)	—	—	—
Deferred tax assets	8	6,407	—	6,407	—	6,407
Financial investments	9	—	—	—	—	—
Listed debt securities	1k, 9,10	—	—	—	—	—
Participation in investment pools	10	—	—	—	—	—
Investment in subsidiaries	15	123,419	—	123,419	116,135	7,284
Government bonds		2,389,916	(1,117,576)	1,272,340	1,235,741	36,599
Corporate bonds		—	1,117,576	1,117,576	853,556	264,020
Collateralised securities		—	—	—	231,748	(231,748)
Collective investment undertakings		—	—	—	191,923	(191,923)
Deposits other than cash equivalents		—	—	—	23,011	(23,011)
Reinsurance recoverables	3	2,232,698	—	2,232,698	360,450	1,872,248
Receivables		—	—	—	—	—
Insurance and intermediaries' receivables	10	1,343,710	—	1,343,710	231,053	1,112,657
Reinsurance receivables	10	170,205	—	170,205	170,205	—
Receivables (trade, not insurance)		5,788	—	5,788	5,788	—
Cash and cash equivalents		161,271	—	161,271	32,861	128,410
Other assets	12-13	19,362	19,738	39,100	21,451	17,649
Assets		**6,792,943**	**—**	**6,792,943**	**3,473,922**	**3,319,021**
Technical provisions	3	(3,546,540)	—	(3,546,540)	(1,428,367)	(2,118,173)
Payables		—	—	—	—	—
Reinsurance payables	11	(1,204,256)	—	(1,204,256)	(2,174)	(1,202,082)
Insurance and intermediaries' payables	11	(16,618)	—	(16,618)	(16,618)	—
Payables (trade, not insurance)	16	(50,922)	—	(50,922)	(50,922)	—
Other liabilities	17	(28,469)	(146,785)	(175,254)	(63,566)	(111,688)
Accruals and deferred income	18	(146,785)	146,785	—	—	—
Liabilities		**(4,993,590)**	**—**	**(4,993,590)**	**(1,561,647)**	**(3,431,943)**
Excess of assets over liabilities		**1,799,353**	**—**	**1,799,353**	**1,912,275**	**(112,922)**

D.1. Assets

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

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

D.1.1. Deferred acquisition costs

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

D.1.2. Deferred tax assets and liabilities

Deferred tax is determined on a non-discounted basis in accordance with the principles in International Accounting Standard ("IAS") 12 on temporary differences between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base. Deferred tax asset recognition for Solvency II purposes is subject to the more prudent requirements of PRA Supervisory Statement 2/14 compared to the principles of IAS 12 which govern recognition in the financial statements.

D.1.3. Financial investments

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

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

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

Table D.2 below analyses financial assets measured at fair value at 31 December 2023 and 31 December 2022, 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 2023	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	1,224,538	11,203	—	1,235,741
Corporate Bonds	—	853,556	—	853,556
Collateralised securities	—	231,748	—	231,748
Collective Investments Undertakings	94,400	97,523	—	191,923
Deposits other than cash equivalents	23,011	—	—	23,011
Cash and cash equivalents	32,861	—	—	32,861
Holdings in related undertakings	—	—	116,135	116,135
Total financial assets at fair value	**1,374,810**	**1,194,030**	**116,135**	**2,684,975**

Financial Assets 2022	Level 1 $000s	Level 2 $000s	Level 3 $000s	Total $000s
Government Bonds	1,043,122	39,218	—	1,082,340
Corporate Bonds	—	689,491	—	689,491
Collateralised securities	—	118,498	—	118,498
Collective Investments Undertakings	—	105,556	—	105,556
Deposits other than cash equivalents	—	17,168	—	17,168
Cash and cash equivalents	31,408	—	—	31,408
Holdings in related undertakings	—	—	92,869	92,869
Total financial assets at fair value	**1,074,530**	**969,931**	**92,869**	**2,137,330**

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

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, include expected recoveries from pre-inception contracts where they occur within the premium or claims provisions.

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

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

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

The Company does not have any Special Purpose Vehicles.

D.1.5. Insurance receivables

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

D.1.6. Investment in subsidiaries

Investment in subsidiaries is recognised at fair value in the UK GAAP balance sheet. Under Solvency II, where quoted prices in active markets are not available, an adjusted equity method based on Solvency II valuation is used.

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	2023 $000s	2022 $000s
Best estimate technical provisions (best estimate) – Non-life & health similar to non-life	1,313,204	940,330
Best estimate reinsurance recoverables	(360,450)	(310,492)
Technical provisions risk margin – Non-life & health similar to non-life	115,163	127,172
Net technical provisions	**1,067,917**	**757,010**

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 the PRA for each reporting period.

The best estimate technical provisions are calculated by using the UK GAAP reserves as the starting point. The UK GAAP reserves include an explicit allowance for Events Not In Data ("ENID"). The following adjustments are then made:

- Removal of the prudence margin within the UK GAAP reserves;
- Allowance for profit on the unearned premium within the UK GAAP reserves;
- 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;
- Discounting of future cash flows; and
- Addition of a risk margin.

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

Solvency II Value – 2023	Best Estimate	Risk Margin	Total $000s
Motor vehicle liability and proportional reinsurance	1,349	336	1,685
Other motor insurance	786	101	887
Marine, aviation and transport insurance and proportional reinsurance	127,334	14,182	141,516
Fire and other damage to property insurance and proportional reinsurance	207,827	25,567	233,394
General liability insurance and proportional reinsurance	205,266	24,551	229,817
Income protection insurance	10,213	1,068	11,281
Credit and Suretyship insurance and proportional reinsurance	(59,355)	5,852	(53,503)
Assistance and its proportional reinsurance	32	1	33
Medical expense insurance	4,296	978	5,274
Miscellaneous financial loss insurance and proportional reinsurance	7,457	917	8,374
Non-proportional casualty reinsurance	72,434	10,057	82,491
Non-proportional health reinsurance	7,699	1,117	8,816
Non-proportional marine, aviation and transport reinsurance	93,097	10,463	103,560
Non-proportional property reinsurance	274,319	19,973	294,292
Net technical provisions	**952,754**	**115,163**	**1,067,917**

Solvency II Value – 2022	Best Estimate	Risk Margin	Total $000s
Motor vehicle liability and proportional reinsurance	502	476	978
Other motor insurance	2,085	143	2,228
Marine, aviation and transport insurance and proportional reinsurance	110,873	18,041	128,914
Fire and other damage to property insurance and proportional reinsurance	170,063	27,408	197,471
General liability insurance and proportional reinsurance	144,580	18,242	162,822
Income protection insurance	2,371	856	3,227
Credit and Suretyship insurance and proportional reinsurance	(50,219)	5,410	(44,809)
Assistance and its proportional reinsurance	—	5	5
Medical expense insurance	2,136	467	2,603
Miscellaneous financial loss insurance and proportional reinsurance	6,618	807	7,425
Non-proportional casualty reinsurance	56,836	8,589	65,425
Non-proportional health reinsurance	2,962	1,240	4,202
Non-proportional marine, aviation and transport reinsurance	34,119	5,692	39,811
Non-proportional property reinsurance	164,883	21,825	186,708
Net technical provisions	**647,809**	**109,201**	**757,010**

Calculation of the best estimate technical provisions

CIL has been writing business since June 2019, and currently writes a diverse portfolio. The largest segments written to date are:

- Non-proportional property reinsurance: both catastrophe and per risk cover with worldwide coverage.
- Fire and other damage to property insurance and proportional reinsurance: written both direct and through delegated authorities on a worldwide basis but with a particular focus on the US. This also includes smaller amounts of agriculture, bloodstock, construction, terrorism and energy downstream (including renewables) business.
- General liability insurance and proportional reinsurance: covering general liability, directors & officers and professional indemnity business worldwide, as well as smaller amounts of medical malpractice, warranty & indemnity, energy liability and construction business.
- Marine, aviation and transport insurance and proportional reinsurance: covering airlines, aviation products, energy upstream property, marine (including hull, cargo and liability) and space business.

Given its recent establishment, CIL has limited claims history to date. Therefore, gross UK GAAP best estimate earned reserves have been estimated at a class of business level using externally sourced market benchmark expectations of loss ratio and development patterns, and comparing these to the experience that we have seen to date. We then include an allowance for ENID. These best estimate reserves are then uplifted to include a margin to reflect the uncertainty in the reserves.

- This margin is removed from the UK GAAP earned reserves to reach the best estimate reserve for inclusion in the technical provisions.
- The unearned premium included within the UK GAAP reserves is reduced for the expected profit on that unearned business using the same market 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 UK GAAP earned reserves. Note that the full cost of the bound reinsurance programme is included within the technical provisions as CIL are legally obliged to this.

Additional provisions in respect of operating expenses, unallocated loss adjustment 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 CIL has written or is legally obliged to write at the balance sheet date to another party, and immediately placing that business into run-off. This is calculated by applying the prescribed 4% 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 the 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 the technical provisions over the year

Table D.5 – Change in Net technical provisions during the year

Solvency II Value	2023 $000s	2022 $000s	Movement
Motor vehicle liability and proportional reinsurance	1,685	979	706
Other motor insurance	887	2,228	(1,341)
Marine, aviation and transport insurance and proportional reinsurance	141,516	128,914	12,602
Fire and other damage to property insurance and proportional reinsurance	233,394	197,471	35,923
General liability insurance and proportional reinsurance	229,817	162,823	66,994
Miscellaneous financial loss insurance and proportional reinsurance	8,374	7,424	950
Income protection insurance	11,281	3,227	8,054
Credit and Suretyship insurance and proportional reinsurance	(53,503)	(44,809)	(8,694)
Assistance and its proportional reinsurance	33	5	28
Medical expense insurance	5,274	2,603	2,671
Non-proportional casualty reinsurance	82,491	65,425	17,066
Non-proportional health reinsurance	8,816	4,202	4,614
Non-proportional marine, aviation and transport reinsurance	103,560	39,811	63,749
Non-proportional property reinsurance	294,292	186,707	107,585
Net technical provisions	**1,067,917**	**757,010**	**310,907**

The technical provisions have increased significantly during the year as a result of the growth in business written. There has been particular growth in the Non-proportional property, marine, aviation and transport reinsurance classes, and the General liability and Fire and other damage to property Direct and Proportional classes, as this is where the majority of business to date has been written by CIL.

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:

- The fact that reserves are based on standard actuarial techniques (e.g. initial expectation of loss ratios, Bornhuetter-Ferguson and Basic Chain Ladder). However, given the immaturity of the business written to date the expectation of loss ratios and development patterns selected are heavily dependent on externally sourced market benchmarks and 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 externally sourced market benchmarks in order to set expectations of loss ratio for the business, as we are unable to rely on historical performance of CIL'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 CIL's business can be expected to respond differently from the business underlying the benchmarks relied upon;
- One of the growth areas of CIL'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; and
- 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 UK GAAP reserves and Solvency II Technical Provisions, on gross of reinsurance, ceded reinsurance and net of reinsurance bases.

Table D.6 – Bridge between the UK GAAP reserves and Solvency II Technical Provisions

Adjustment	Net of insurance 2023 $000s	Net of insurance 2022 $000s
GAAP Reserves	**1,313,842**	**868,207**
Removal of Prudence Margin and other accounting adjustments	(11,704)	(11,640)
Allowance for Profit on UPR	(364,209)	(209,720)
Include Future Premium	91,458	56,135
Include Profit on Unincepted Business	(39,129)	(2,298)
Include New Expenses Allowance	56,240	23,712
Apply Discounting Credit	(100,796)	(81,388)
Include Risk Margin	115,163	109,201
RI Bad Debt	7,052	4,801
Solvency II Provisions	**1,067,917**	**757,010**

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

- Removal of Prudence Margin and other accounting adjustments: An explicit margin for uncertainty is included within UK GAAP Provisions but removed under Solvency II. This reduces Solvency II Technical Provisions compared to UK GAAP Provisions. Additionally, small accounting adjustments are made.
- Allowance for Profit on UPR: The unearned premium reserve established under UK 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 Obliged Unincepted Business, whereas these provisions are not included within the UK GAAP valuation basis.

- New Expenses Allowance: Solvency II requires inclusion of expenses pertaining to the business in-force.
- Discounting Credit: Currently, claims reserves are not discounted within UK 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 ("RI") Bad Debt: A bad debt provision has been calculated based on the probability of default of CIL's reinsurers, using their credit ratings.

The UK GAAP reserves include an explicit allowance for ENID, and therefore no bridging adjustment is required.

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

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

D.2.5. Transitional measures

No transitional measures have been applied.

D.3. Other liabilities

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

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

D.3.1. Payables and other financial liabilities

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

D.3.2. Accruals and deferred Income

Reinsurers' share of deferred acquisition costs of $143.7 million, included within accruals and deferred income under UK GAAP, are not recognised and therefore valued at $nil in the Solvency II Balance Sheet. Material differences in the valuation of Technical Provisions are explained in Section D.2.3. There are no other material differences between the UK GAAP and Solvency II valuation bases.

D.3.3. Assumptions, judgements and uncertainty

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

D.4. Alternative methods of valuation

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

D.5. Any other information

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

E. Capital management

The 'Capital management' section of this report provides information on the Company's Own Funds and SCR.

E.1. Own Funds

E.1.1. Objectives, processes employed by CIL for managing its Own Funds

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

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

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

CIL's Own Funds comprise unrestricted Tier 1 capital which consists of its ordinary share capital and retained earnings. Retained earnings are not separately disclosed in Own Funds but are notionally included in the Reconciliation Reserve, which reconciles the total excess of assets over liabilities with identifiable capital investments included in Own Funds. Own Funds by tier are presented in QRT S.23.01.01 'Own Funds' within Appendix B. Table E.1 below sets out a summary of the Company's Own Funds by tier for the years ended 31 December 2023 and 31 December 2022:

Table E.1 – Own Funds

Basic Own Funds by Tier ($000) – 2023	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	390,552	—	—	—
Share premium account	1,396,296	—	—	—
Reconciliation reserve	125,427	—	—	—
An amount equal to net deferred tax assets	—	—	—	—
Total Basic Own Funds	**1,912,275**	**—**	**—**	**—**

Basic Own Funds by Tier ($000) – 2022	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
Ordinary share capital	384,565	—	—	—
Share premium account	1,282,533	—	—	—
Reconciliation reserve	(92,250)	—	—	—
An amount equal to net deferred tax assets	—	—	—	—
Total Basic Own Funds	**1,574,848**	**—**	**—**	**—**

Table E.2 below sets out a reconciliation of the total excess of assets over liabilities with identifiable capital investments included in Own Funds.

Table E.2 – Reconciliation Reserve

Reconciliation Reserve as at 31 December	2023 $000s	2022 $000s
Solvency II excess of assets over liabilities	1,912,275	1,574,848
Ordinary Share Capital	(390,552)	(384,565)
Share premium account	(1,396,296)	(1,282,533)
Amounts equal to net deferred tax assets	—	—
Reconciliation Reserve	**125,427**	**(92,250)**

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 therefore all available Own Funds are eligible to cover the SCR. The total Own Funds eligible to meet the SCR are set out in Table E.3.

Table E.3 – SCR

	2023 $000s	2022 $000s
Total eligible own funds to meet the SCR	1,912,275	1,574,848

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. The total Own Funds eligible to meet the MCR are set out in Table E.4.

Table E.4 – MCR

	2023 $000s	2022 $000s
Total eligible own funds to meet the MCR	1,912,275	1,574,848

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

Differences between CIL’s shareholder's equity per the financial statements and the Solvency II excess of assets over liabilities ("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

	2023 $000s	2022 $000s
Shareholder's equity as shown in the financial statements	1,799,353	1,510,139
Solvency II valuation adjustment to assets	(3,319,021)	(2,372,737)
Solvency II valuation adjustment to technical provisions	2,118,173	1,453,364
Solvency II valuation adjustment to other liabilities	1,313,770	984,082
Solvency II EAL	**1,912,275**	**1,574,848**

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

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

E.1.7. Ancillary Own Funds

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

E.1.8. Own Funds restrictions

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

E.2. Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement and Minimum Capital Requirement results

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

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

The Standard Formula SCR and MCR under Solvency II at 31 December 2023 and 31 December 2022 are shown in Table E.6 below.

Table E.6 – SCR & MCR

Solvency II Value	2023 $000s	2022 $000s
Solvency Capital Requirement (SCR)	1,238,167	901,171
Minimum Capital Requirement (MCR)	309,542	225,293

As at 31 December 2023, the Own Funds of CIL were $1,912.3 million compared to a standard formula SCR of $1,238.2 million, resulting in an SCR coverage ratio of 154%. CIL's MCR was $309.5 million, leading to an MCR coverage ratio of 618%.

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.

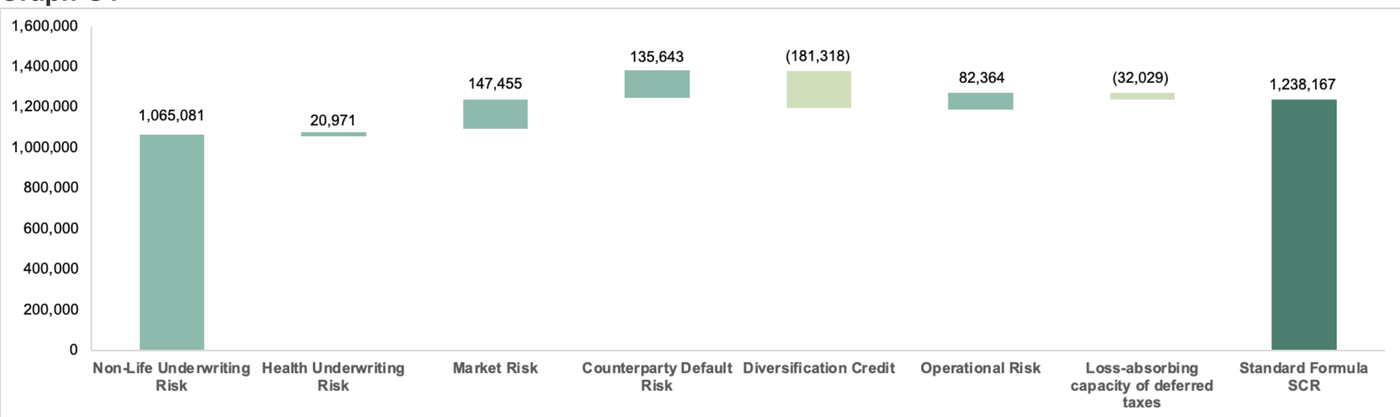
The Company uses Finance and the Standard Formula SCR inputs to calculate the MCR.

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 G1



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

SCR simplifications

There are two areas in which a simplification is made in the calculation of the SCR:

- The first is to assume that the risk mitigating effect of CIL's reinsurance in the 1-in-200 one-year event will split between reinsurers in proportion to the recoverables in the best estimate technical provisions, in accordance with Article 107 of the Delegated Acts. Given the significant portion of CIL's reinsurance is quota shares, and the vast majority of CIL's reinsurers have very strong credit ratings, this is considered a reasonable approximation.
- The second is to use the prescribed simplification to allow for market risk on collateral supporting CIL's reinsurance recoveries, noting that a sensitivity test comparing this simplification to the detailed calculation has been carried out and demonstrated to be immaterial to the SCR, so this is considered a reasonable approximation.

Non-life underwriting risk

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

Table E.7 – Diversified non-life underwriting risk

Solvency II Value	2023 $000s	2022 $000s
Premium and Reserve risk	486,662	340,061
Catastrophe risk	828,731	571,875
Lapse risk	95,424	67,829
Undiversified non-life underwriting risk	**1,410,817**	**979,765**
Diversification credit	(345,736)	(241,850)
Diversified non-life underwriting risk	**1,065,081**	**737,915**

The largest component of the Non-life underwriting risk charge is 'Catastrophe Risk' which reflects the risk of catastrophe events occurring that impact CIL's inwards business. CIL has written business across a variety of lines of business that are exposed to catastrophe events. The reinsurance programme purchased by CIL 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.

Health underwriting risk

Table E.8 below shows the components of the health risk charge.

Table E.8 – Health underwriting risk

This relates to a small amount of planned premium, which maps to the Solvency II Health class.

Solvency II Value	2023 $000s	2022 $000s
NSLT underwriting risk	16,310	9,785
SLT underwriting risk	—	—
Catastrophe risk	9,721	7,352
Undiversified health underwriting risk	**26,031**	**17,137**
Diversification credit	(5,060)	(3,507)
Diversified heath underwriting risk	**20,971**	**13,630**

The largest component of the health underwriting risk charge is in respect of the NSLT (Not Similar to Life Techniques) underwriting risk. This is calculated in the same way as the non-life premium and reserve risk, using the same inputs but for the health lines of business.

The other component of the health underwriting risk charge is in respect of catastrophe risk which reflects the risk of health catastrophe event occurring that impacts CIL's inwards business. The reinsurance program purchased by CIL acts to significantly mitigate the impact of this on the overall capital requirement.

Market risk

Table E.9 below shows the components of the market risk charge.

Table E.9 – Diversified market risk

Solvency II Value	2023 $000s	2022 $000s
Interest rate risk	59,561	37,245
Spread risk	92,954	68,844
Currency risk	20,396	70,051
Concentration risk	—	—
Property risk	—	—
Equity risk	39,994	27,039
Undiversified market risk	**212,905**	**203,179**
Diversification risk	(65,450)	(64,542)
Diversified market risk	**147,455**	**138,637**

CIL'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 Spread risk, reflecting the risk that the spread of the bonds, loans, and collateralised securities within CIL's asset portfolio will differ from expectations.

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

Currency risk reflects the risk exchange rates differing from expectations, resulting in a mismatch between assets and liabilities.

The equity risk charge reflects the risk of a change to the value of equities held by CIL.

CIL 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, therefore no risk charge is required for the remaining two modules of the Standard Formula.

Counterparty default risk

A breakdown of the Counterparty default risk charge is shown in Table E.10 below.

Table E.10 – Diversified counterparty default risk

Solvency II Value	2023 $000s	2022 $000s
Type 1 counterparty default risk	50,950	43,573
Type 2 counterparty default risk	93,177	55,860
Undiversified counterparty default risk	**144,127**	**99,433**
Diversification credit	(8,484)	(6,321)
Diversified counterparty risk	**135,643**	**93,112**

There has been an increase both in respect of the risk of default by banks in which cash is held and recoverables from CIL's reinsurers, shown as Type 1 in the above table, and 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.11 below shows each of the potential operational risk charges and so resulting risk charge used in the SCR.

Table E.11 – Operational risk

Solvency II Value	2023 $000s	2022 $000s
Gross premiums earned in the previous 12 months	2,447,867	1,791,887
Gross premiums earned in 12 months prior to the previous 12 months	1,791,887	1,202,601
Operational risk – premium calculation	82,364	64,220
Gross technical provisions	1,313,204	958,300
Operational risk – technical provisions calculation	39,396	28,749
Calculated operational risk	**82,364**	**64,220**
Cap – 30% SCR	356,350	251,086
Operational risk	**82,364**	**64,220**

Loss-absorbing capacity of deferred tax

During 2023, CIL recognised deferred tax on its brought forward tax losses. As such it was also appropriate to recognise deferred tax on losses arising on a 1-in-200 scenario. As a result, CIL has included an allowance of $32m for the loss-absorbing capacity of deferred tax when assessing the SCR.

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 the PRA.

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

Table E.12 – Minimum Capital Requirement

Solvency II Value	2023 $000s	2022 $000s
Linear MCR	281,489	185,814
Floor – 25% SCR	309,542	225,293
Cap – 45% SCR	557,175	405,527
Absolute Floor of the MCR	2,655	2,677
Minimum Capital Requirement	**309,542**	**225,293**

As at both 31 December 2023 and 31 December 2022, the MCR has been calculated as 25% of the SCR.

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

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

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

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

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

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

E.6. Any other information

All material information relating to CIL's capital management has been disclosed in sub-sections E.1 to E.5 above. All amounts in the Solvency and Financial Condition Report, unless otherwise stated, are shown in United States 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.

convex

Appendix A

Independent auditor's report to the Directors of Convex Insurance UK Limited

Report of the external independent auditors to the Directors of Convex Insurance UK Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2023, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Validating management's analysis and supporting documentation as it related to the Company's going concern basis of accounting; and

- Reviewing and performing sensitivity analysis on management's going concern assessment and assessing the impact on the Company's capital, solvency, and liquidity positions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulatory Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the Solvency II Regulations and the Solvency II Directive. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- Discussions with the Board, management, internal audit, the risk and compliance functions, and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the whistleblowing helpline and the results of investigations of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant company meeting minutes;
- Testing, and challenging where appropriate, the assumptions and judgements made in establishing significant accounting estimates, particularly in relation to the Solvency II technical provisions and judgements made in the calculation of the Solvency Capital Requirement;
- Identifying and testing journal entries based on our criteria;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT
4 April 2023

Appendix B

QRTs

This Appendix contains the templates listed below, 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 QRTs in this report are presented in US dollars rounded to the nearest thousand. Rounding differences of +/- one unit can occur. The rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	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)	2,652,115
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	116,135
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	2,321,046
R0140	*Government Bonds*	1,235,741
R0150	*Corporate Bonds*	853,556
R0160	*Structured notes*	0
R0170	*Collateralised securities*	231,748
R0180	*Collective Investments Undertakings*	191,923
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	23,011
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	360,450
R0280	*Non-life and health similar to non-life*	360,450
R0290	*Non-life excluding health*	348,846
R0300	*Health similar to non-life*	11,604
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	231,051
R0370	Reinsurance receivables	170,205
R0380	Receivables (trade, not insurance)	5,788
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	32,861
R0420	Any other assets, not elsewhere shown	21,451
R0500	**Total assets**	3,473,922

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,428,367
R0520	*Technical provisions - non-life (excluding health)*	1,391,392
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	1,279,392
R0550	*Risk margin*	112,000
R0560	*Technical provisions - health (similar to non-life)*	36,975
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	33,812
R0590	*Risk margin*	3,163
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	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	32,029
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	16,617
R0830	Reinsurance payables	2,174
R0840	Payables (trade, not insurance)	50,922
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	31,537
R0900	**Total liabilities**	1,561,647
R1000	**Excess of assets over liabilities**	1,912,275

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	16,210	21,959		0	4,622	316,638	641,325	406,731	28,153		0	32,615					1,468,253
R0120	Gross - Proportional reinsurance accepted	1,066	3,034		2,146	0	66,702	258,555	110,618	83,883		-22	5,415					531,396
R0130	Gross - Non-proportional reinsurance accepted													24,451	135,503	248,169	552,823	960,947
R0140	Reinsurers' share	9,471	12,013		961	4,542	248,833	559,258	305,885	46,816		0	23,450	15,079	75,148	164,873	337,737	1,804,065
R0200	Net	7,806	12,980		1,186	81	134,506	340,622	211,463	65,220		-22	14,580	9,372	60,355	83,297	215,086	1,156,531
	Premiums earned																	
R0210	Gross - Direct Business	15,705	21,070		0	4,709	282,718	519,286	335,249	8,970		0	28,935					1,216,642
R0220	Gross - Proportional reinsurance accepted	723	3,187		3,704	0	54,620	190,346	68,561	27,677		43	5,833					354,695
R0230	Gross - Non-proportional reinsurance accepted													19,968	119,818	229,079	507,664	876,529
R0240	Reinsurers' share	9,095	11,488		1,621	4,498	220,817	452,935	245,465	15,775		38	21,073	12,208	67,404	155,409	308,688	1,526,514
R0300	Net	7,333	12,769		2,083	212	116,522	256,697	158,345	20,873		5	13,695	7,760	52,415	73,670	198,976	921,353
	Claims incurred																	
R0310	Gross - Direct Business	8,129	12,481		0	2,625	158,614	176,087	190,039	486		0	15,756					564,216
R0320	Gross - Proportional reinsurance accepted	-58	1,460		3,959	0	27,731	125,260	34,457	14,120		12	2,486					209,427
R0330	Gross - Non-proportional reinsurance accepted													15,922	71,889	98,787	222,614	409,212
R0340	Reinsurers' share	5,589	8,979		2,309	1,732	126,645	203,733	155,307	8,145		6	12,499	10,220	44,655	67,015	140,443	787,277
R0400	Net	2,482	4,961		1,650	894	59,700	97,613	69,190	6,461		5	5,743	5,702	27,234	31,771	82,171	395,578
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0		0	0	0	0	0	0		0	0	0	0	0	0	0
R0550	**Expenses incurred**	3,766	9,204		1,294	775	58,212	152,191	83,863	13,932		-27	7,314	2,870	20,984	19,421	79,908	453,706
R1200	**Other expenses**																	813
R1300	**Total expenses**																	454,519

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			US	BM	CA	CH	JP	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	778,687	607,674	3	12,329	114	861	1,399,668
R0120	Gross - Proportional reinsurance accepted	57,923	214,614	53,232	89,550	21,064	22,109	458,492
R0130	Gross - Non-proportional reinsurance accepted	132,445	439,605	88,779	21,766	17,225	15,324	715,143
R0140	Reinsurers' share	649,437	712,144	76,439	65,193	19,147	21,882	1,544,241
R0200	Net	319,618	549,749	65,575	58,452	19,257	16,412	1,029,062
	Premiums earned							
R0210	Gross - Direct Business	669,887	483,841	29	11,357	89	527	1,165,730
R0220	Gross - Proportional reinsurance accepted	36,964	155,185	31,703	58,454	8,858	18,452	309,616
R0230	Gross - Non-proportional reinsurance accepted	116,854	412,598	71,967	21,393	14,291	14,085	651,187
R0240	Reinsurers' share	562,331	595,854	61,355	49,552	13,225	19,233	1,301,550
R0300	Net	261,374	455,769	42,343	41,652	10,013	13,830	824,983
	Claims incurred							
R0310	Gross - Direct Business	370,018	178,849	3	-1,794	-47	93	547,124
R0320	Gross - Proportional reinsurance accepted	29,251	89,087	15,483	28,676	6,294	6,775	175,565
R0330	Gross - Non-proportional reinsurance accepted	44,426	217,921	28,648	7,323	1,990	2,207	302,516
R0340	Reinsurers' share	305,537	315,289	27,620	19,999	5,037	5,710	679,192
R0400	Net	138,157	170,568	16,515	14,207	3,201	3,366	346,013
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	143,738	227,613	18,453	27,307	5,130	6,752	428,993
R1200	**Other expenses**							813
R1300	**Total expenses**							429,807

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		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	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0	0		0	0	0	0	0	0		0	0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	510	1,651		-21	661	3,294	86,223	61,647	-47,912		2	-1,563	1,846	7,515	-22,051	-18,207	73,595
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	1,328	925		316	1,150	10,966	66,611	43,106	-2,020		1	-683	1,241	4,071	-5,144	-95,787	26,082
R0150	**Net Best Estimate of Premium Provisions**	-818	726		-336	-489	-7,672	19,612	18,541	-45,892		1	-881	605	3,444	-16,907	77,580	47,514
	Claims provisions																	
R0160	Gross	5,802	13,217		2,746	214	162,495	174,058	390,312	-12,358		30	7,759	10,785	126,711	145,014	212,822	1,239,608
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	689	3,730		1,061	-1,060	27,489	-14,156	203,586	1,105		-1	-579	3,691	57,721	35,010	16,083	334,368
R0250	**Net Best Estimate of Claims Provisions**	5,114	9,487		1,685	1,275	135,006	188,214	186,726	-13,463		31	8,338	7,094	68,990	110,004	196,739	905,240
R0260	**Total best estimate - gross**	6,313	14,868		2,725	876	165,789	260,281	451,959	-60,270		32	6,196	12,631	134,226	122,963	194,615	1,313,204
R0270	**Total best estimate - net**	4,296	10,213		1,349	786	127,334	207,827	205,266	-59,355		32	7,457	7,699	72,434	93,097	274,318	952,754
R0280	**Risk margin**	978	1,068		336	101	14,182	25,567	24,551	5,852		1	917	1,117	10,057	10,463	19,972	115,163
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	7,291	15,936		3,061	976	179,971	285,848	476,510	-54,418		33	7,113	13,749	144,284	133,426	214,587	1,428,367
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	2,017	4,655		1,376	90	38,456	52,455	246,692	-915		0	-1,261	4,932	61,792	29,866	-79,704	360,450
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	5,274	11,280		1,685	887	141,516	233,394	229,817	-53,502		33	8,374	8,817	82,492	103,560	294,290	1,067,917

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)

(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	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	-9	0	0	0	0	0	0	0	0	0	0		0	0
R0170	-8	0	0	0	0	0	0	0	0	0			0	0
R0180	-7	0	0	0	0	0	0	0	0				0	0
R0190	-6	0	0	0	0	0	0	0					0	0
R0200	-5	0	0	0	0	0	0						0	0
R0210	-4	126	12,042	10,510	1,939	7,922							7,922	32,540
R0220	-3	29,595	146,713	90,083	72,891								72,891	339,282
R0230	-2	68,948	171,790	192,121									192,121	432,859
R0240	-1	134,551	344,263										344,263	478,813
R0250	0	83,772											83,772	83,772
R0260												Total	700,968	1,367,265

Gross Undiscounted Best Estimate Claims Provisions

(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	-9	0	0	0	0	0	0	0	0	0	0		0
R0170	-8	0	0	0	0	0	0	0	0	0			0
R0180	-7	0	0	0	0	0	0	0	0				0
R0190	-6	0	0	0	0	0	0	0					0
R0200	-5	0	0	0	0	0	0						0
R0210	-4	-2,372	34,284	14,484	11,411	8,825							64,292
R0220	-3	118,141	317,997	209,659	185,968								782,811
R0230	-2	222,706	431,692	377,392									939,896
R0240	-1	328,809	625,532										857,569
R0250	0	184,722											150,717
R0260												Total	2,795,285

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	390,552	390,552		0	
R0030	Share premium account related to ordinary share capital	1,396,296	1,396,296		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	125,427	125,427			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	1,912,275	1,912,275	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,912,275	1,912,275	0	0	0
R0510	Total available own funds to meet the MCR	1,912,275	1,912,275	0	0	
R0540	Total eligible own funds to meet the SCR	1,912,275	1,912,275	0	0	0
R0550	Total eligible own funds to meet the MCR	1,912,275	1,912,275	0	0	
R0580	**SCR**	1,238,167				
R0600	**MCR**	309,542				
R0620	**Ratio of Eligible own funds to SCR**	154.44%				
R0640	**Ratio of Eligible own funds to MCR**	617.78%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	1,912,275
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,786,848
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	125,427
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	887,592
R0790	**Total Expected profits included in future premiums (EPIFP)**	887,592

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	147,455		
R0020	Counterparty default risk	135,643		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	20,971		
R0050	Non-life underwriting risk	1,065,081		
R0060	Diversification	-181,318		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	1,187,832		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	82,364
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-32,029
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	1,238,167
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	1,238,167
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	Yes

	Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
		C0130
R0640	LAC DT	-32,029
R0650	LAC DT justified by reversion of deferred tax liabilities	-32,029
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	317,549

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	C0010
R0010	MCR_{NL} Result	281,489

		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	4,296	7,806
R0030	Income protection insurance and proportional reinsurance	10,213	12,980
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	1,349	1,186
R0060	Other motor insurance and proportional reinsurance	786	81
R0070	Marine, aviation and transport insurance and proportional reinsurance	127,334	134,506
R0080	Fire and other damage to property insurance and proportional reinsurance	207,827	340,622
R0090	General liability insurance and proportional reinsurance	205,266	211,463
R0100	Credit and suretyship insurance and proportional reinsurance	0	65,220
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	32	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	7,457	14,580
R0140	Non-proportional health reinsurance	7,699	9,372
R0150	Non-proportional casualty reinsurance	72,434	60,355
R0160	Non-proportional marine, aviation and transport reinsurance	93,097	83,297
R0170	Non-proportional property reinsurance	274,318	215,086

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	281,489
R0310	SCR	1,238,167
R0320	MCR cap	557,175
R0330	MCR floor	309,542
R0340	Combined MCR	309,542
R0350	Absolute floor of the MCR	2,655
R0400	**Minimum Capital Requirement**	309,542

Appendix C

Glossary of Terms

Abbreviation	Details of abbreviations
ABS	Asset Backed Securities
ALM	Asset Liability Management
AMRL	Aggregate Market Risk Limit
CAD	Canadian Dollar
CFO	Chief Financial Officer
CEO	Chief Executive Officer
CIL	Convex Insurance UK Limited
CRA	Chief Risk Actuary
CRO	Chief Risk Officer
D&O	Directors and Officers
EAL	Excess of assets over liabilities
EIOPA	European Insurance and Occupational Pensions Authority
EEA	European Economic Area
ERM	Enterprise Risk Management
ESG	Economic Scenario Generator
EU	European Union
EUR	Euro
FCA	Financial Conduct Authority
GAAP	Generally Accepted Accounting Principles
GBP	British Pound Sterling
GEC	Group Executive Committee
GPW	Gross Premiums Written
HR	Human Resources
IMA	Investment Management Agreement
IMMMR	Identify, Measure, Manage, Monitor and Report
JPY	Japanese Yen
MCR	Minimum Capital Requirement
NAIC	National Association of Insurance Commissioners
NSLT	Not Similar to Life Techniques
ORSA	Own Risk and Solvency Assessment
P&C	Property & Casualty
PI	Professional Indemnity
PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Templates
RAG	Red, Amber, Green
RAYG	Red, Amber, Yellow, Green
RBLE	Risk-bearing Legal Entity

RMBS	Residential Mortgage-Backed Securities
RMF	Risk Management Framework
SCR	Solvency Capital Requirement
SLT	Similar to Life Techniques
SM&CR	Senior Managers & Certification Regime
SMF	Senior Management Function
SYSC	Senior Management Arrangement Systems and Controls
The Company	Convex Insurance UK Limited
The Group	Convex Group Limited
UKEC	UK/CIL Executive Committee
ULAE	Unallocated loss adjustment expenses
USD	United States Dollar
WNS	WNS Global Services (UK) International Limited

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