CONVEX GROUP LIMITED

(Incorporated in Bermuda)

Consolidated Financial Statements

For the year ended December 31, 2020

(Expressed in thousands of U.S. dollars)

March 22, 2021

Report of Independent Auditors

To the Board of Directors and Shareholders of Convex Group Limited

We have audited the accompanying consolidated financial statements of Convex Group Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and December 31, 2019, and the related consolidated statements of income (loss) and comprehensive income (loss), of shareholders' equity and of cash flows for the year ended December 31, 2020 and the period from October 24, 2018 (date of incorporation) to December 31, 2019.

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

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Convex Group Limited and its subsidiaries as of December 31, 2020 and December 31, 2019, and the results of their operations and their cash flows for the year ended December 31, 2020 and the period from October 24, 2018 (date of incorporation) to December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

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Other Matter
Accounting principles generally accepted in the United States of America require that the required supplemental information under Accounting Standards Update 2015-09, Disclosure about Short-Duration Contracts labelled as Unaudited within Note 8 on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

CONVEX GROUP LIMITED
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2020 AND THE PERIOD FROM OCTOBER 24, 2018 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS EXCEPT FOR SHARE AMOUNTS)

Assets	**2020**	**2019**
Investments		
Fixed maturity investments, at fair value (amortized cost: 2020: - $1,459,095, 2019: - $1,451,827)	$ 1,482,483	$ 1,463,752
Short-term investments, at fair value (amortized cost: 2020 - $1,092,839, 2019 - $124,419)	1,092,736	124,457
Other investments, at fair value (amortized cost: 2020 - $50,000, 2019 - $nil)	54,498	-
Total investments	**2,629,717**	**1,588,209**
Cash and cash equivalents	293,525	43,947
Accrued investment income	7,856	8,230
Insurance receivables	443,525	83,564
Prepaid reinsurance premiums	150,703	62,242
Deferred acquisition costs	44,388	2,736
Reserves recoverable	97,114	1,423
Receivable for securities sold	407	210
Deferred tax asset	860	1,339
Other assets	172,793	37,394
Total assets	**$ 3,840,888**	**$ 1,829,294**
Liabilities		
Reserve for losses and loss adjustment expense	$ 417,723	$ 7,019
Unearned premiums	513,581	84,943
Reinsurance payables	197,646	60,640
Liability for management incentive plan	10,200	2,409
Other liabilities	223,455	40,155
Total liabilities	**1,362,605**	**195,166**
Shareholders' equity		
Common shares ($0.01 par; authorized: 2,885,102,243; issued and outstanding: 2,427,231,039)	24,272	16,725
Preference shares ($1.00 par; authorized, issued and outstanding: 500,000,000; fully paid-up: 100,000,000)	100,000	-
Additional paid-in capital	2,571,531	1,655,660
Retained deficit	(217,520)	(38,257)
Total shareholders' equity	**2,478,283**	**1,634,128**
Total liabilities and shareholders' equity	**$ 3,840,888**	**$ 1,829,294**

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

CONVEX GROUP LIMITED CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2020 AND THE PERIOD FROM OCTOBER 24, 2018 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

	2020	2019
Revenues		
Gross premiums written	$ 1,095,258	$ 101,482
Reinsurance premium ceded	(380,206)	(71,304)
Net premiums written	715,052	30,178
Change in net unearned premiums	(340,177)	(22,701)
Net premiums earned	374,875	7,477
Net investment return	55,382	41,114
Foreign currency gains	17,366	87
Total Revenues	**447,623**	**48,678**
Expenses		
Losses and loss adjustment expenses	363,876	5,699
Policy acquisition costs	58,791	1,443
Operating expenses	155,245	77,146
Other underwriting expenses	40,578	4,024
Fair value adjustment of Management Incentive Plan	7,729	-
Total expenses	**626,219**	**88,312**
Net loss before tax	(178,596)	(39,634)
Tax (charge) / benefit	(667)	1,377
Net loss and comprehensive net loss	**$ (179,263)**	**$ (38,257)**

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

CONVEX GROUP LIMITED
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020 AND THE PERIOD FROM OCTOBER 24, 2018 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

		Common shares	Preferred shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At January 1, 2020	$	16,725	-	1,655,660	(38,257)	1,634,128
Ordinary shares issued		7,547	-	919,121	-	926,668
Preference shares issued		-	100,000	(3,250)	-	96,750
Loss for the year		-	-	-	(179,263)	(179,263)
At December 31,2020	**$**	**24,272**	**100,000**	**2,571,531**	**(217,520)**	**2,478,283**

		Common shares	Preferred shares	Additional paid-in capital	Retained deficit	Total shareholders' equity
At October 24, 2018 (Date of incorporation)	$	-	-	-	-	-
Ordinary shares issued		16,725	-	1,655,660	-	1,672,385
Loss for the period		-	-	-	(38,257)	(38,257)
At December 31, 2019	**$**	**16,725**	**-**	**1,655,660**	**(38,257)**	**1,634,128**

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

CONVEX GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND THE PERIOD FROM OCTOBER 24, 2018 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

Cash flows provided by (used in) operating activities		**2020**		**2019**
Loss from operations	$	(179,263)	$	(38,257)
Adjustments to reconcile loss from operations to cash provided by operating activities:				
Depreciation		2,199		-
Change in fair value of management incentive plan		7,729		-
Fair value adjustment to derivatives		36,336		4,024
Change in net realized and unrealized gains on investments		(30,122)		(16,015)
Foreign exchange gains included in loss from operations		(12,672)		(363)
Amortization of premium on fixed maturity investments		3,624		2,351
Change in operational balance sheet items:				
Accrued investment income		374		(8,230)
Insurance receivables		(359,962)		(83,564)
Prepaid reinsurance premiums		(88,461)		(62,242)
Deferred acquisition costs		(41,652)		(2,736)
Reserves recoverable		(95,690)		(1,423)
Reserve for losses and loss adjustment expense		410,703		7,019
Unearned premiums		428,638		84,943
Reinsurance balances payable		137,005		60,640
Other operational balance sheet items, net		10,003		(2,834)
Net cash provided by (used in) operating activities		**228,789**		**(56,687)**
Cash flows provided by (used in) investing activities				
Proceeds on maturities of investments		56,733		1,750
Purchases of fixed maturity investments		(849,532)		(1,623,897)
Sales of fixed maturity investments		796,220		171,811
Sales (purchases) of short-term investments, net		(968,641)		(124,419)
Purchases of other investments		(50,000)		-
Net cash used in investing activities		**(1,015,220)**		**(1,574,755)**
Cash flows provided by (used in) financing activities				
Capital raised from common share issuance		926,668		1,672,385
Capital raised from preference share issuance		96,750		-
Cash received pursuant to management incentive plan		-		2,409
Net cash provided by financing activities		**1,023,418**		**1,674,794**
Effect of foreign currency rate changes on cash and cash equivalents		12,591		595
Net increase in cash and cash equivalents and restricted cash		**249,578**		**43,947**
Cash and cash equivalents and restricted cash - beginning of the period		**43,947**		**-**
Cash and cash equivalents and restricted cash - end of the period	**$**	**293,525**	**$**	**43,947**
Supplemental information				
Taxes paid during the period	$	Nil	$	Nil

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

1. Nature of the business

Convex Group Limited (the “Company” or “CGL”) was incorporated under the laws of Bermuda on October 24, 2018. The Company is registered as a Group insurer under The Insurance Act 1978 of Bermuda, amendments thereto and related Regulations (the “Act”). The Company provides a diversified range of specialty insurance and reinsurance coverage to the global insurance market.

In November 2018, the Company formed Convex Re Limited (“CRL”) in Bermuda as a wholly owned subsidiary. Convex Re Limited is a registered Class 4 insurer under the Act. In January 2019 the Company formed Convex Insurance UK Limited (“CIL”) in London, England as a wholly owned subsidiary of CRL. In May 2019, the Company raised initial capital of $1,576,712 from investors and management, with a further $915,804 raised from Ordinary shares and $100,000 from Preferred shares in 2020.

2. Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and cover the year ended December 31, 2020. The consolidated financial statements include the accounts of the Company and its subsidiaries, including CRL, CIL and Convex UK Services Limited (“CSL”).

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

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

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

3. Significant accounting policies

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

(a) Premiums

Insurance premiums are recorded as written at the inception of each policy and are earned over the exposure period. Accordingly, unearned premiums represent the portion of premiums written which is applicable to the unexpired risk portion of the policies in force.

Reinsurance premiums assumed are recorded at the inception of the policy and are estimated based on information provided by ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are recorded in the period in which they are determined. These premiums are earned over the terms of the related reinsurance contracts.

For direct insurance, and for facultative and losses occurring reinsurance contracts, the earnings period is generally the same as the term of the related contract or policy, which is typically 12 months.

(a) Premiums (continued)

For reinsurance contracts written on a risks-attaching basis, the earnings period is based on the terms of the underlying contracts and policies. As the underlying policies usually extend after the expiry date of the reinsurance contract, the earning period is generally assumed to be the contract period plus 12 months. Premiums written are earned on a pro-rated basis over the identified earning period of the related policy or contract.

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

The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force is recorded as unearned premiums.

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

(b) Deferred acquisition costs

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

A premium deficiency exists if the sum of expected losses and loss adjustment expense and deferred acquisition costs exceeds related unearned premiums (and, if appropriate, expected future premium) and anticipated investment income. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs, then a liability is accrued for the excess deficiency. No premium deficiency was recorded for the year ended December 31, 2020 and the period ended December 31, 2019.

Deferred acquisition costs also include profit commissions, which are recognized on a basis consistent with our estimate of losses and loss adjustment expense.

(c) Reserve for losses and loss adjustment expense

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

The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed.

(c) Reserve for losses and loss adjustment expense (continued)

Accordingly, losses and loss adjustment expenses ultimately paid may differ materially from the amounts recorded in the Consolidated Financial Statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. These adjustments sometimes lead to an increase or decrease in ultimate losses. Adjustments to ultimate loss estimates, if any, are recorded in earnings in the period in which they become known.

(d) Reinsurance

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

Certain reinsurance and retrocession agreements do not meet all of the criteria to be accounted for as reinsurance and have been accounted for at fair value in the consolidated financial statements. For further information please refer to Note 3(g), “Fair value of financial instruments”.

Reserves recoverable represent amounts that will be collectible from reinsurers once the losses are paid.

(e) Investments

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

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

Other investments consist of an investment in an externally managed fund, carried at fair value. Its fair value is established through the net asset value (NAV) practical expedient.

(f) Variable interest entities

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

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

The Company reassesses its determination of whether the Company is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the Company’s assessment.

(g) Fair value of financial instruments

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

(h) Derivative instruments

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

(i) Property and equipment

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

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

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

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

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

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

(j) Cash and cash equivalents

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

(k) Foreign exchange

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

(l) Income taxes and uncertain tax provisions

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

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

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

(m) Recently adopted accounting pronouncements

Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13 “Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”).” ASU 2018-13 is part of the disclosure framework project with the objective to improve the effectiveness of disclosures in the notes to the financial statements. It modifies the disclosure requirements of fair value measurements. It permits the removal of the following disclosures: the amount and reasons for transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for transfers between levels; and the valuation processes for Level 3 fair value measurements. The Update became effective for all entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Accordingly, the Company adopted ASU 2018-13 effective January 1, 2020. ASU 2018-13 is related only to disclosures and did not have an effect on the Company’s Consolidated Statements of Income (Loss) and Balance Sheets.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16 “Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”).” ASU 2016-16 requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfers occur; this change modified the guidance which prohibited the recognition of current and deferred income taxes until the underlying assets have been sold to outside entities. The Update became effective for non-public business entities for annual and interim periods beginning after December 15, 2019. The adoption of this guidance did not have a material impact on the Company’s Consolidated Statements Income (Loss) and Balance Sheets.

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

4. Investments

The amortized cost (or cost) and fair value of the Company's investments as at December 31, 2020 and December 31, 2019 are as follows:

	2020	
	Amortized Cost or Cost	**Fair Value**
U.S. government and government agency	$ 458,572	$ 458,525
Agency residential mortgage-backed securities	61,851	63,400
Non-agency residential mortgage-backed securities	8,093	8,224
U.S. corporate	754,899	774,201
Non-U.S. corporate	5,032	5,237
Non-U.S. government and government agency	-	-
Asset-backed securities	151,587	153,520
Commercial mortgage-backed securities	19,061	19,376
Total fixed maturities	**1,459,095**	**1,482,483**
Short-term investments	**1,092,839**	**1,092,736**
Other investments	**50,000**	**54,498**
Total investments	**$ 2,601,934**	**$ 2,629,717**

	2019	
	Amortized Cost or Cost	**Fair Value**
U.S. government and government agency	$ 404,243	$ 406,885
Agency residential mortgage-backed securities	146,062	146,406
Non-agency residential mortgage-backed securities	8,342	8,373
U.S. corporate	647,397	655,416
Non-U.S. corporate	6,390	6,484
Non-U.S. government and government agency	2,997	2,997
Asset-backed securities	205,561	206,331
Commercial mortgage-backed securities	30,835	30,860
Total fixed maturities	**1,451,827**	**1,463,752**
Short-term investments	**124,419**	**124,457**
Other investments	**-**	**-**
Total investments	**$ 1,576,246**	**$ 1,588,209**

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

(a) Fixed maturity investments

The following table sets forth certain information regarding Standard & Poor's credit quality ratings (or an equivalent rating with another recognized rating agency) of the Company's fixed maturity investments as at December 31, 2020 and December 31, 2019:

	2020	
	Fair Value	**% of Total**
AAA	$ 695,882	47.0%
AA	102,525	6.9%
A	440,760	29.7%
BBB	243,074	16.4%
Total investment-grade fixed maturities	**1,482,241**	**100.0%**
BB	-	-
B	-	-
CCC	-	-
NR	242	0.0%
Total non-investment grade fixed maturities	**242**	**0.0%**
Total fixed maturities	**$ 1,482,483**	**100.0%**

	2019	
	Fair Value	**% of Total**
AAA	$ 763,774	52.1%
AA	74,143	5.1%
A	348,346	23.8%
BBB	276,133	18.9%
Total investment-grade fixed maturities	**1,462,396**	**99.9%**
BB	-	-
B	-	-
CCC	-	-
NR	1,356	0.1%
Total non-investment grade fixed maturities	**1,356**	**0.1%**
Total fixed maturities	**$ 1,463,752**	**100.0%**

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

(a) Fixed maturity investments (continued)

The amortized cost and fair values for the Company's fixed maturity investments held at December 31, 2020 and December 31, 2019 are shown below by contractual maturity. Actual maturity may differ from contractual maturity due to prepayment rights associated with certain investments.

	2020	
	Amortized Cost	Fair Value
Due in one year or less	$ 159,706	$ 161,488
Due after one year through five years	1,043,928	1,061,357
Due after five years through ten years	14,869	15,119
Due after 10 years	-	-
	1,218,503	1,237,964
Asset-backed and mortgage-backed securities	240,592	244,519
Total fixed maturities	**$ 1,459,095**	**$ 1,482,483**

	2019	
	Amortized Cost	Fair Value
Due in one year or less	$ 35,068	$ 35,231
Due after one year through five years	1,014,458	1,024,901
Due after five years through ten years	11,502	11,650
Due after 10 years	-	-
	1,061,028	1,071,782
Asset-backed and mortgage-backed securities	390,799	391,970
Total fixed maturities	**$ 1,451,827**	**$ 1,463,752**

(b) Net investment return

Net investment return was derived from the following sources for the year ended December 31, 2020 and the period ended December 31, 2019.

	2020	2019
Fixed maturities and short-term investments	$ 31,608	$ 28,570
Other investments	-	-
Cash and cash equivalents	58	970
Total gross investment income	31,666	29,540
Investment expenses	(5,185)	(4,441)
Total net investment income	26,481	25,099
Realized gains	16,372	725
Change in unrealized gains	12,529	15,290
Net investment return	**$ 55,382**	**$ 41,114**

(c) Pledged investments

The Company holds restricted assets comprising cash and cash equivalents, short-term investments and fixed maturity investments that were pledged and held in trust during the normal course of business with various regulatory authorities. The Company held $77 (2019: $77) collateral for a FEC Letter of Credit, $6,187 (2019: $6,140) in NAIC Trust and $139,518 to provide collateral or guarantees for letters of credit to third parties, as detailed in Note 16, "Credit Facilities".

5. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

At December 31, 2020 and December 31, 2019 the Company's investments were allocated between Levels 1, 2 and 3 as follows:

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

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

	2020				
	Level 1	**Level 2**	**Level 3**	**Fair value based on NAV practical expedient** (a)	**Total**
U.S. government and government agency	$ 458,525	$ -	$ -	$ -	$ 458,525
Agency residential mortgage-backed securities	-	63,400	-	-	63,400
Non-agency residential mortgage-backed securities	-	8,224	-	-	8,224
U.S. corporate	-	774,201	-	-	774,201
Non-U.S. corporate	-	5,237	-	-	5,237
Non-U.S. government and government agency	-	-	-	-	-
Asset-backed securities	-	153,520	-	-	153,520
Commercial mortgage-backed securities	-	19,376	-	-	19,376
Total fixed maturities	**458,525**	**1,023,958**	**-**	**-**	**1,482,483**
Short-term investments	**1,070,108**	**22,628**	**-**	**-**	**1,092,736**
Other investments	**-**	**-**	**-**	**54,498**	**54,498**
Total investments	**$ 1,528,633**	**$ 1,046,586**	**$ -**	**$ 54,498**	**$ 2,629,717**

	2019				
	Level 1	**Level 2**	**Level 3**	**Fair value based on NAV practical expedient** (a)	**Total**
U.S. government and government agency	$ 406,885	$ -	$ -	$ -	$ 406,855
Agency residential mortgage-backed securities	-	146,406	-	-	146,406
Non-agency residential mortgage-backed securities	-	8,373	-	-	8,373
U.S. corporate	-	655,416	-	-	655,416
Non-U.S. corporate	-	6,484	-	-	6,484
Non-U.S. government and government agency	-	2,997	-	-	2,997
Asset-backed securities	-	206,331	-	-	206,331
Commercial mortgage-backed securities	-	30,860	-	-	30,860
Total fixed maturities	**406,885**	**1,056,867**	**-**	**-**	**1,463,752**
Short-term investments	**75,591**	**48,866**	**-**	**-**	**124,457**
Other investments	**-**	**-**	**-**	**-**	**-**
Total investments	**$ 482,476**	**$ 1,105,733**	**$ -**	**$ -**	**$ 1,588,209**

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

There were no transfers into or out of Level 3 during the year ended December 31, 2020 or the period ended December 31, 2019.

(b) Valuation techniques

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

Fixed maturity investments

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

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

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

U.S. government treasury securities

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

U.S. government agency securities

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

Agency residential mortgage-backed securities

The Company's agency residential mortgage-backed investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced market, which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

(b) Valuation techniques (continued)

Non-agency residential mortgage-backed securities

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

U.S. corporate

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

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

Non-US. corporate

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

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

(b) Valuation techniques (continued)

Commercial mortgage-backed securities

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

Short term investments

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

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

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

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

At December 31, 2020, the Company had $50,000 of investment in an independently managed external fund. There are no unfunded commitments. The fund is primarily focused on equity investment opportunities and investments are generally redeemable on a quarterly basis at the option of the shareholder, with a limit of 25% redemption in any one quarter.

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

6. Derivative instruments

(a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at December 31, 2020 and December 31, 2019:

	2020		
Derivatives not designated as hedging instruments:	**Notional exposure**	**Asset Derivative at Fair Value** (a)	**Liability Derivative at Fair Value** (a)
Industry Loss Warranties	$ 300,000	$ 60,779	$ (63,500)
Foreign currency forward contracts	62,300	85,040	(80,798)
	$ 362,300	**$ 145,819**	**$ (144,298)**

	2019		
Derivatives not designated as hedging instruments:	**Notional exposure**	**Asset Derivative at Fair Value** (a)	**Liability Derivative at Fair Value** (a)
Industry Loss Warranties	$ 100,000	$ 24,613	$ -
Foreign currency forward contracts	-	-	-
	$ 100,000	**$ 24,613**	**$ -**

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

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

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statement of Income relating to derivatives that were not designated as hedging instruments during the year ended December 31, 2020 and the period ended December 31, 2019.

Derivatives not designated as hedging instruments:	**Classification of (losses) recognised in earnings**	**2020**	**2019**
Industry Loss Warranties	Other Underwriting Expenses	$ (40,578)	$ (4,024)
Foreign currency forward contracts	Foreign currency gains (losses)	4,242	-
		$ **(36,336)**	**$ (4,024)**

(b) Balance sheet offsetting

There was no balance sheet offsetting activity as at December 31, 2020 and December 31, 2019.

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

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

7. Insurance receivables

Insurance receivables are composed of premiums in the course of collection, net of commissions and brokerage, and premiums accrued but unbilled, net of commissions and brokerage. It is common practice in the (re)insurance industry for premiums to be paid on an instalment basis, therefore significant amounts will be considered unbilled and will not become due until a future date, which is typically no later than expiration of the underlying coverage period. The following is a breakdown of the components of insurance receivables as at December 31, 2020 and December 31, 2019.

	2020		
	Premiums in course of collection	**Premiums accrued but unbilled**	**Total**
Insurance receivables, beginning of period	$ 2,699	$ 80,865	$ 83,564
Change during the period	18,636	341,325	359,961
Insurance receivables, end of period	$ 21,335	$ 422,190	$ 443,525

	2019		
	Premiums in course of collection	**Premiums accrued but unbilled**	**Total**
Insurance receivables, beginning of period	$ -	$ -	$ -
Change during the period	2,699	80,865	83,564
Insurance receivables, end of period	$ 2,699	$ 80,865	$ 83,564

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

8. Reserves for losses and loss adjustment expense

The following table summarizes the Company's reserve for losses and loss adjustment expense as at December 31, 2020 and December 31, 2019:

	2020	2019
Case reserves	$ 94,383	$ -
IBNR	323,340	7,019
Reserve for losses and loss adjustments expenses	$ 417,723	$ 7,019

The following table represents an analysis of paid and unpaid losses and loss adjustment expense and a reconciliation of the beginning and ending unpaid losses and loss expenses for the year ended December 31, 2020 and for the period ended December 31, 2019:

	2020	2019
Reserve for losses and loss adjustment expense, beginning of period	$ 7,019	$ -
Less: Reserves recoverable, beginning of period	(1,423)	-
Net reserves for losses and loss adjustment expense, beginning of period	5,596	-
Increase in net reserves for losses and loss adjustment expense in respect of losses occurring in:		-
Current year	364,408	5,699
Prior year	(532)	-
Total losses and loss adjustment expense	363,876	5,699
Foreign exchange gain	3,611	11
Less net losses and loss adjustment expense paid in respect of losses occurring in:		
Current year	(51,337)	(114)
Prior year	(1,137)	
Total net paid losses	(52,474)	(114)
Net reserve for losses and loss adjustment expense, end of period	320,609	5,596
Add: Reserves recoverable	97,114	1,423
Reserve for losses and loss adjustment expense, end of period	$ 417,723	$ 7,019

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

Claims Development Tables by Accident Year

For incurred and paid accident year claims denominated in foreign currency, the Company has revalued using the current period end exchange rate.

Reserve for losses and loss adjustment expense		2019 AY Unaudited	2020 AY	Total
End of financial year 1	$	7,181	476,350	
End of financial year 2		7,425		
Current estimate of ultimate losses and loss adjustment expense		7,425	476,350	
Cumulative claims payments to date		2,279	63,773	
Reserve for losses and loss adjustment expense	$	5,146	412,577	417,723
Total IBNR liabilities and expected development on reported claims	$	4,326	319,013	323,339

Reserve for losses and loss adjustment expense - Net		2019 AY Unaudited	2020 AY	Total
End of financial year 1	$	5,748	368,495	
End of financial year 2		5,167		
Current estimate of ultimate losses and loss adjustment expense		5.167	368,495	
Cumulative payments to date		1,251	51,802	
Reserve for losses and loss adjustment expense - Net	$	3,916	316,693	320,609
Total IBNR liabilities and expected development on reported claims	$	3,404	243,171	246,575

Losses and loss adjustment expense for the year ended December 31, 2020 and the period ended December 31, 2019:

		2020		2019
Gross losses and loss adjustment expense	$	471,362	$	7,132
Ceded losses and loss adjustment expense		(107,486)		(1,433)
Losses and loss adjustment expense	$	363,876	$	5,699

9. Reinsurance

The Company's reinsurance balances recoverable at December 31, 2020 and December 31, 2019 are as follows:

		2020		2019
Reserves recoverable on unpaid:				
Case reserves	$	20,096	$	24
IBNR		77,018		1,399
Total reserves recoverable		97,114		1,423
Paid losses recoverable		12,919		13
Total reinsurance recoverable	$	110,033	$	1,436

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

(a) Effects of reinsurance on premiums written and earned

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

	2020	2019
Premiums written:		
Direct insurance	$ 614,520	$ 79,190
Treaty reinsurance	480,738	22,292
Ceded	(380,206)	(71,304)
Net premiums written	$ 715,052	$ 30,178
Premiums earned:		
Direct insurance	$ 335,152	$ 6,497
Treaty reinsurance	331,467	10,042
Ceded	(291,744)	(9,062)
Net premiums earned	$ 374,875	$ 7,477
Loss and loss adjustment expense:		
Direct insurance	$ 221,815	$ 5,055
Treaty reinsurance	249,547	2,077
Ceded	(107,486)	(1,433)
Loss and loss adjustment expense	$ 363,876	$ 5,699

(b) Credit risk

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

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

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating.

10. Liability for management incentive plan

Certain members of the management team of Convex were invited to participate in a Management Incentive Plan ("MIP") through the purchase of Class B ordinary shares ("Class B shares"). The purpose of the MIP is to incentivize key members of the Company's management team by providing an equity incentive the value of which is linked to the performance of the business. If there is an 'Exit Event', which in broad terms would be a sale of the Company ("Sale") or a listing of the Company ("Listing"), the holders of Class B shares will be able to realize the value of their shares (such value to be determined in accordance with specified Internal Rate of Return ("IRR") thresholds).

The Company's authorized share capital is 2,600,000 Class B shares with a par value of $0.01 each. At the time of authorization, the Class B shares were determined to have a fair value $2,600, or $1.00 per Class B Share. The holders of Class B shares are not entitled to receive dividends but are allocated one vote per share. Class B shares are subject to vesting and transfer restrictions and include a put option right for the holder to request the Company to repurchase the shares. This right is executable for a 12-month period preceding the 11th anniversary from when the holder invested in the Class B shares. On a return of capital, completion of a Sale or Listing the Class B shares will participate in the distribution of surplus assets as follows:

I. The Class B shares will only participate after the Class A shares have received amounts equal to or greater than the Class A shares investment cost.

II. The accretion of value of the Class B shares will be determined by the IRR of the Company from its inception until the return of capital, completion of sale or initial public offering ("Project IRR") in accordance with the following:

   a. If the Project IRR is equal to or less than 0.0%, the Class A Shares are entitled to a receive a distribution in proportion to the number of Class A Shares held;

   b. If the Project IRR is greater than 0.0% but less than or equal to 8.0%, the Class B Shares are entitled to an amount equal to 0.02/1.02 as a percentage of the Surplus Assets in proportion to the number of Class B Shares held and the Class A Shares are entitled to receive the balance in proportion to the number of Class A Shares held;

   c. If the Project IRR is greater than 8.0% but less than or equal to 15.0%, the Class B Shares are entitled to an amount equal to (0.02+6.5[Project IRR −0.08)/7])/(1+[0.02+6.5[Project IRR −0.8/7]]) as a percentage of the Surplus Assets in proportion to the number of Class B Shares held and the Class A Shares are entitled to receive the balance in proportion to the number of Class A Shares held;

   d. If the Project IRR is greater than 15.0% but less than or equal to 20.0%, the Class B Shares are entitled to an amount equal to (0.085+0.75[(Project IRR −0.15)/5])/(1+[0.085+0.75[Project IRR −0.15)/5]]) as a percentage of the Surplus Assets in proportion to the number of Class B Shares held and the Class A Shares are entitled to receive the balance in proportion to the number of Class A Shares held; and

   e. Thereafter, if Project IRR is greater than 20.0%, the Class B Shares are entitled to an amount equal to 0.0925/1.0925 as a percentage of the Surplus Assets in proportion to the number of Class B Shares held and the Class A Shares are entitled to receive the balance in proportion to the number of Class A Shares held.

The Class B shares were determined to meet the definition of a liability under U.S. GAAP and will be revalued at each reporting date with the changes in fair value being reflected in earnings. As at December 31, 2020, 2,492,620 (2019: 2,409,420) Class B shares have been issued and have been recorded at fair value of $10,200 (2019: $2,409).

11. Share capital

The Company's authorized share capital is 2,885,102,243 (2019: 1,899,702,243) Class A ordinary shares ("Class A shares") with a par value of $0.01 each. The holders of Class A shares are entitled to receive dividends and are allocated one vote per share. At December 31, 2020, there were 2,427,231,039 (2019: 1,672,451,525) Class A shares outstanding.

During June 2020, the Company issued 146,340 Class A shares to certain directors of the Company at a price of $1.00 per share in lieu of payment of director's fees.

In July 2020, the Company issued 2,089,732 Class A shares to Convex Friends & Family ("Friends & Family") at a price of $1.025 per share. A subsidiary of the Company, Convex Nominee Limited ("CNL"), acts as a trustee for the Company's Friends and Family share purchase program.

Following a successful capital raise in December 2020, the Company issued a further 752,543,442 Class A shares to initial investors at a price of $1.25 per share, and 100,000,000 Preferred Shares at a price of $1.00 per share.

Preferred Shares

During November 2020, the Company issued 500,000,000 perpetual cumulative Preferred Shares. The Preferred Shares have no stated maturity date and will remain outstanding perpetually unless and until the Company elects to redeem them, in part or in whole, solely at the Company's option. The aggregate gross initial acquisition price was $100,000 for 100,000,000 fully paid-up shares and 400,000,000 nil-paid shares. The subscription includes a requirement that investors purchase additional nil-paid shares upon receipt of a valid "Call Notice" from the Company. Call Notices are issued subject to the terms and conditions of the subscription agreement. Investors cannot cancel, revoke or alter their respective portion of the capital commitment prior to the expiry of the commitment period, or other specified termination dates within the subscription agreement. The commitment period ends on 24 November 2023.

Fully-paid shares have a liquidation preference equal to the applicable acquisition price per share (initially $1.00 per share) plus accrued and unpaid dividends (even if such dividends have not been declared by the Board). Nil-paid shares are Preferred Shares of the Company that have been issued and allotted, but for which the acquisition price has not been fully paid. Each nil-paid share generally has a liquidation preference of $0.00 and does not accrue or accumulate dividends. Investor payments under Call Notices will result in the related nil-paid shares becoming fully-paid shares.

Holders of the Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's byelaws.

Dividends

The Company did not declare dividends during the year ended December 31, 2020 (2019: nil).

Cumulative dividends on the Preferred Shares, when, as and if declared by the Company's Board of Directors, will accrue and be payable quarterly in arrears at an annual fixed rate of 10.375% of the liquidation preference (subject to any adjustments) until the seventh anniversary of the initial issue date. Subsequent to that, floating rate payments will be at the rate of the 3-month LIBOR (or at a "Fallback" or "Replacement" rate, per the issuance agreement) plus a margin of 9.3% of the liquidation preference.

The Board is not required to declare and pay dividends on the Preferred Shares. However, dividends are accrued, regardless of Board declaration, for purposes of the calculation of the liquidation preference. There were no dividends on the Preferred Shares declared in 2020.

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

12. Pension contributions

The Company provides pension benefits to eligible employees through various plans which are managed externally and sponsored by the Company. The Company's contributions are expensed as incurred. The Company's expenses for its defined contribution plans for the year ended December 31, 2020 were $3,786k (2019: $559k).

13. Income taxes

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

The Company has subsidiaries with operations in Bermuda and the U.K. and is subject to relevant taxes in the U.K. The Company’s net loss before tax for the year ended December 31, 2020 and the period ended December 31, 2019, was generated in the following domestic and foreign jurisdictions:

		2020		2019
Domestic: Bermuda	$	(136,555)	$	(31,233)
Foreign: United Kingdom		(42,041)		(8,401)
Net loss before tax	$	(178,596)	$	(39,634)
Current taxation				
Bermuda current tax at 0% (2019: 0%)		-		-
Bermuda corporation tax	$	-	$	-
Foreign taxation – current year		30		-
Foreign taxation – adjustment in respect of prior years		119		-
Foreign taxation		149		-
Total current taxation charge	$	149	$	-
Deferred taxation				
Origination & reversal of timing differences	$	600	$	(1,377)
Adjustments in respect of prior periods		(82)		-
Total deferred tax charge / (credit)		518		(1,377)
Tax charge / (credit) on ordinary activities	$	667	$	(1,377)

The table below is a reconciliation of the actual income tax (benefit) for the year ended December 31, 2020 and the period ended December 31, 2019 to the amount computed by applying the effective tax rate of 0% under Bermuda law to income before taxes:

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

13. Income taxes (continued)

	2020	2019
Expected tax charge/(credit) at local rate of tax	$ -	$ -
Effects of:		
Expected tax charge/(credit) on foreign profits	(7,988)	(1,620)
Rate change adjustment	(172)	158
Prior year adjustment - current tax	27	-
Prior year adjustment - deferred tax	11	-
Permanent differences	76	85
Deferred tax not recognised	8,683	-
Other foreign taxes	30	-
Actual income tax charge/(credit)	$ 667	$ (1,377)

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

	2020	2019
Deferred tax asset related to	$	$
Tax losses carried forward at 19%	8,683	1,339
Capital allowances in excess of depreciation	779	-
Pension contributions	81	-
Total deferred tax assets	9,543	1,339
Less: valuation allowances	(8,683)	-
Total net deferred income tax assets	860	1,339
Net deferred income tax asset/(liability)	$ 860	$ 1,339

The Company has approximately $8,700 (2019: $1,350) net deferred tax assets in respect of carried forward net operating losses (“NOLs”) as at December 31, 2020. A 100% (2019: 0%) valuation allowance has been applied in order to reduce the deferred tax asset recognised on the balance sheet, on the basis that future profits against which the NOLs can be offset are uncertain.

The movement in the deferred tax asset for the year ended December 31, 2020 and the period ended December 31, 2019 can be explained as follows:

	2020	2019
Balance at beginning of period asset/(liability)	$ 1,339	$ -
Additional deferred tax assets	38	-
Movement due to creation of tax losses carried forward	-	1,339
Movement of deferred tax on capital allowances	568	-
Movement of deferred tax on pension asset	63	-
Prior year adjustment	82	-
Rate change	172	-
Deferred tax asset on losses not recognised	(1,402)	-
Balance as at December 31, 2020 asset/(liability)	$ 860	$ 1,339

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

14. Commitments and contingencies

(a) Concentrations of credit risk

The Company underwrites a significant amount of its reinsurance business through three (2019: four) brokers as set out below. There is credit risk associated with payments of (re)insurance balances to the Company in regard to these brokers' ability to fulfil their contractual obligations. These brokerage companies are large and well established, and there are no indications they are financially distressed. There was no other broker or (re)insured party that accounted for more than 10% of gross premiums written for the periods mentioned.

The following table shows the percentage of gross premiums written through each of these three brokers for the year ended December 31, 2020 and the period ended December 31, 2019:

Broker	2020	2019
Aon Willis	39.2%	41.9%
Marsh & McLennan Companies, Inc.	28.7%	19.2%
Arthur J. Gallagher & Co.	5.7%	17.7%
AON Special Risk Resources Inc.	n/a	14.2%

(b) Employment agreements

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

(c) Operating leases

The Company leases office space and office equipment under various operating leases. All of these leases, the expiration terms of which range from 2021 to 2029, are for the rental of office space. Total rent expense with respect to these operating leases for the year ended December 31, 2020 was approximately $6,862 (2019: $1,430). Future minimum lease commitments are as follows:

		2020
2021	$	4,023
2022		6,861
2023		6,861
2024		6,861
2025 and thereafter		33,124
Total	$	**57,730**

15. Variable Interest Entities

Hypatia Ltd.

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

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

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

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

16. Credit Facilities

Bilateral Letter of Credit Facilities

<u>Uncommitted Standby Letter of Credit Facility with Citibank Europe</u>

The Company and certain of its subsidiaries and affiliates are parties to a Standby Letter of Credit Agreement dated February 12, 2020 with Citibank Europe Plc. The agreement provides for a secured, uncommitted facility under which letters of credit may be issued from time to time. The facility will be used to secure obligations of CIL to its policyholders. Pursuant to the agreement, the applicants may request secured letter of credit issuances. The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. At December 31, 2020, there were $69,266 of secured letters of credit outstanding under this agreement.

<u>Uncommitted Standby Letter of Credit Facility with Citibank Europe</u>

The Company is party to a Standby Letter of Credit Agreement dated April 10, 2020 with Citibank Europe. The agreement provides for a secured, uncommitted facility under which letters of credit may be issued from time to time. The facility will be used to secure obligations of CRL to its policyholders. Pursuant to the agreement, the applicants may request secured letter of credit issuances. The agreement contains representations, warranties and covenants that are customary for facilities of this type. Under the agreement, each applicant is required to pledge eligible collateral having a value sufficient to cover all of its obligations under the agreement with respect to secured letters of credit issued for its account. At December 31, 2020, there were $35,958 of secured letters of credit outstanding under this agreement.

(EXPRESSED IN THOUSANDS OF U.S. DOLLARS)

17. Related party transactions

Included in “Operating expenses” in the Consolidated Statement of Income are Expenses which relate to professional services, accommodation, travel and entertainment which were provided by various related parties of the Company and totaled $15, (2019: $109) for the period ended December 31, 2020. There were $nil, (2019: nil) balances in accounts payable at December 31, 2020 relating to these transactions.

Included in “Gross premium written” in the Consolidated Statement of Income are gross premiums written with various related parties of the Company and totaled $18,849 (2019: nil). The primary related party was Miller Insurance Services which produced $17,198 of the gross premium written. Nicholas Lyons, a director of the Company, serves as a director for Miller Insurance Services. There was $8,457 (2019: nil) balance in insurance receivables at December 31, 2020 related to these transactions.

18. Statutory and regulatory requirements

The Company has operations which are subject to laws and regulations in Bermuda and the United Kingdom.

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

The Company and its subsidiaries are required to maintain certain measures of solvency and liquidity which provide restrictions on declaring dividends and distributions. Statutory capital and surplus as of December 31, 2020 and statutory net income for the period ended December 31, 2020 for our Bermuda reinsurance subsidiary will not be filed with the BMA until April 2021. Statutory capital and surplus as at December 31, 2020 and statutory net income for the period ended December 31, 2020 for our Bermuda reinsurance subsidiary and our U.K. (re)insurance subsidiary were as follows:

	2020		
	Statutory Capital and Surplus		Statutory Net Loss
	Required	Actual	
Bermuda	222,908	2,080,690	156,847
U.K.	433,110	863,996	49,960

	2019		
	Statutory Capital and Surplus		Statutory Net Loss
	Required	Actual	
Bermuda	100,000	716,461	19,729
U.K.	50,884	271,536	7,900

18. Statutory & regulatory requirements (continued)

(a) Bermuda

At December 31, 2020 the Company' s Bermuda-based insurance subsidiary, Convex Re. Ltd. a Class 4 insurer, is required to maintain minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") where applicable. The ECR is equal to the higher of the MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model. The BSCR for the relevant insurer for the period ended December 31, 2020 will not be filed with the BMA until April 2021. As a result, the required statutory capital and surplus as at December 31, 2020 is being estimated based on the MSM. It is possible that the ECR will exceed the MSM once the BSCR model has been completed.

The Company expects that at December 31, 2020 the actual statutory capital and surplus of the Bermuda based insurance subsidiary exceeded the relevant regulatory requirements.

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

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

The Company' s primary restrictions on net assets of insurance subsidiaries consist of regulatory requirements placed upon the regulated insurance subsidiaries to hold minimum amounts of total statutory capital and surplus. There were no other material restrictions on net assets in place as of December 31, 2020 of unrestricted net assets as dividend payments and/or return of capital to Convex Group without prior regulatory approval.

(b) U.K.

The required and actual statutory requirements in the U.K. category in the table above relate to CIL. Under the jurisdiction of the United Kingdom’s Prudential Regulation Authority (“PRA”), the Company’s London based subsidiary, CIL must always maintain a margin of solvency under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement (“MCR”) and solvency capital requirement (“SCR”). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. CIL has utilized the standard formula for the SCR. As of December 31, 2020, the SCR of CIL was $433,110, (2019: $50,884) and there was surplus capital of $863,996, (2019: $271,536) with actual Own Funds Available of $863,996, (2019: $270,197).

The PRA regulatory requirements impose no explicit restrictions on CIL’s ability to pay a dividend, but the company would have to notify the PRA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distribution. At December 31, 2020 CIL had $nil, (2019: nil) retained profits available for distribution.

19. Subsequent events

The Company has evaluated subsequent events through March 22, 2021, the date the financial statements were available to be issued, and has determined that there were no subsequent events requiring adjustment or disclosure to the financial statements.

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