



CONDUIT RE



Building resilience in a changing world

Conduit Holdings Limited

Business review

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Financial statements

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Financial performance

For the year ended 31 December 2022

Strong year-on-year growth: Gross premiums written increased by 68.3% and net premiums earned increased by 148.4%;

Efficient underwriting model, strong capital base, ideally positioned for continued growth into exceptional market conditions.

Trevor Carvey, Chief Executive Officer, commented:

“Our planned growth path has continued over the last 12 months while all the time we have maintained our same disciplined approach to risk selection. We have seen exceptional growth, supported by our legacy-free balance sheet and a strong capital base. In a year where the industry has experienced extreme natural and man-made losses, the resilience of our results validates our business model.

Looking forward, we are perfectly positioned to take advantage of the current exceptional market conditions. As the business grows, we will see the benefit from increasing efficiencies of scale and the significant pipeline of revenue we have in place which will continue to flow through to earnings. We are excited by our business prospects for 2023.”

Key financials (\$m)	2022	2021
Estimated ultimate premiums written	659.9	458.5
Gross premiums written	637.5	378.8
Net premiums written	580.9	346.2
Net premiums earned	482.3	194.2
Underwriting profit (loss)	0.3	(7.0)
Investment loss	(52.8)	(3.1)
Comprehensive loss	(89.7)	(42.0)
Financial ratios (%)	2022	2021
Return on equity	(9.1)	(4.0)
Net loss ratio	71.7	73.2
Net acquisition expense ratio	28.2	30.4
Other operating expense ratio	7.1	15.8
Combined ratio	107.0	119.4
Total net investment return	(5.0)	(0.3)

Key highlights:

2022 Results

- Gross premiums written for the twelve months ended 31 December 2022 of \$637.5 million, up 68.3% from the prior year
- Net premiums earned increased by 148.4% to \$482.3 million reflecting strong renewals and significant new business, plus continued recognition of quota share premiums from the prior year
- In our second year of operation, in a year with extreme natural catastrophe and man-made losses for the industry, Conduit Re's balanced and diversified portfolio recorded a small underwriting profit of \$0.3 million
- Conduit Re's estimated ultimate losses, net of reinsurance recoveries and reinstatement premiums, from Hurricane Ian and from the Ukraine crisis remain in line with previous announcements
- Net acquisition expense ratio reduced by 2.2 percentage points versus the prior year to 28.2% (from 30.4% in 2021)

Financial performance continued

- Other operating expense ratio of 7.1% on a continued downwards path due to increasing economies of scale and maturity of earnings
- High quality investment portfolio with average credit quality of AA; book yield 2.4%, market yield 5.2%
- Net investment loss of \$52.8 million which includes net unrealised losses of \$67.8 million
- Short 2.2 year duration of portfolio; opportunity to reinvest at higher interest rates
- Final dividend of \$0.18 (approximately 15 pence) per common share (in respect of H2 2022). This takes the full 2022 dividend to \$0.36 (approximately 30 pence) per common share in line with our stated dividend policy

Capacity for growth into a hard market

- \$1.1 billion of estimated ultimate premiums written from launch in December 2020 up to 31 December 2022
- Significant pipeline of unearned premium of approximately \$355 million which will flow through in subsequent years
- Single office location enables dynamic decision making in response to market opportunity
- Experienced team has rapidly developed a reputation for being a responsive, reliable and relevant counterparty
- Legacy-free balance sheet with ample capacity to support the growth we anticipate; AM Best A- (Excellent) rating affirmed, with “very strong” balance sheet strength

Outlook

- 1 January 2023 renewal season exhibited significant hardening of pricing and terms and conditions and Conduit Re's focused and disciplined approach delivered exceptional 1 January renewals
 - Estimated ultimate premiums written at 1 January 2023 of approximately \$421.4 million (2022: \$262.6 million), an annual increase of 60.5%
 - Overall portfolio year-on-year risk-adjusted rate change, net of claims inflation, increased by 19% at 1 January 2023
 - Reduced acquisition costs on new and renewed business
 - Continued high renewal retention ratio
 - Successful placement of planned retrocession coverage
- The significant movement in pricing and terms and conditions is evidence of a structural shift in the marketplace caused by a fundamental re-pricing of risk and an imbalance in the supply and demand of capital
- We see this as an enduring environment creating the opportunity for improved margins in our business throughout 2023 and beyond
- Exceptional pricing environment and continued focus on optimising our portfolio supports acceleration towards a mid-80's combined ratio in the medium-term, to deliver a mid-teens ROE across the cycle

Neil Eckert, Executive Chairman, commented:

“We have delivered outstanding premium growth in 2022 and have continued that trajectory at the 1 January 2023 renewals.

More importantly, we have delivered our first underwriting profit in a year notable for its elevated catastrophe activity. Our business has capital to continue its planned growth and to take advantage of the opportunities that we see.”

Underwriting update

During 2022, Conduit Re continued to show growth across all segments, benefiting from new business, high retention of renewal business and improving rates. Client count and submission numbers have increased in line with Conduit Re's growth strategy. Rate change continues to be positive, outpacing inflation.

Financial performance

continued

Premiums

Estimated ultimate premiums written - year ended 31 December

Segment	2022 \$m	2021 \$m	Change \$m	Change %
Property	319.3	205.0	114.3	55.8
Casualty	234.4	182.4	52.0	28.5
Specialty	106.2	71.1	35.1	49.4
Total	659.9	458.5	201.4	43.9

Gross premiums written - year ended 31 December

Segment	2022 \$m	2021 \$m	Change \$m	Change %
Property	299.6	183.4	116.2	63.4
Casualty	236.7	129.0	107.7	83.5
Specialty	101.2	66.4	34.8	52.4
Total	637.5	378.8	258.7	68.3

As Conduit Re concludes its second year of operations, and as its earnings mature, the ratio of net premiums earned to net premiums written was 83.0% for the year ended 31 December 2022 compared with 56.1% for the prior year.

Pricing

Pricing and terms and conditions continued to improve in the markets we targeted. We were presented with an increasing number of opportunities to deploy our capital into the areas and products which we know well, and where both renewal and new prospects met our profitability requirements.

Conduit Re's overall risk-adjusted rate change, net of claims inflation, in 2022 was 4%, and by segment was:

Property	Casualty	Specialty
7%	1%	2%

Ceded reinsurance premiums

Ceded reinsurance premiums for the year ended 31 December 2022 were \$56.6 million compared to \$32.6 million for the year ended 31 December 2021. The increase in cost relative to the prior period reflects additional limits purchased as the inwards portfolio and exposures grew over the period.

Losses

Both 2021 and 2022 were characterised by higher than average natural catastrophe losses for the industry, with 2022 also experiencing losses from the crisis in Ukraine. The Group's net loss ratio was 71.7% compared with 73.2% for 2021. The accident year loss ratio for 2022, including the impact of foreign exchange revaluations was 72.9% compared to 73.2% for 2021.

Hurricane Ian made landfall in Florida as a strong Category 4 hurricane on 28 September 2022, resulting in estimated industry losses of approximately \$55 billion. It continued its path north-east across Florida before making a second landfall in South Carolina. Our ultimate loss estimate, net of reinsurance recoveries and reinstatement premiums, for Hurricane Ian is \$40.9 million, which is in line with previously reported estimates, and contributed 8.8% to the net loss ratio. Our net loss ratio for the year, absent the impact of Hurricane Ian, was 62.9%.

As regards the ongoing conflict in Ukraine resulting from the Russian invasion commencing on 24 February 2022, Conduit Re has potential exposure across its property and specialty reinsurance books, via classes

Financial performance

continued

such as aviation, war on land and marine war. There is significant uncertainty in estimating losses emanating from the conflict, not least as it is an ongoing event. Based on current information, Conduit Re's previously announced estimated ultimate loss, net of reinsurance recoveries and reinstatement premiums, in relation to the conflict is unchanged at \$24.6 million, which represented 5.1% of the net loss ratio. Our net loss ratio for 2022, absent the impact of the Ukraine conflict, would have been 66.6%.

While there were a number of other smaller catastrophe events, such as European storms Eunice and Dudley, hailstorms in France, floods in Australia and South Africa, and winter storm Elliott in the United States, none of these had a material impact on our 2022 results.

During 2021, we experienced net losses from the significant events of Hurricane Ida and the European floods of \$27.1 million, net of reinsurance recoveries and reinstatement premiums. Absent these events our loss ratio would have been 58.8%.

Our ultimate loss estimates, net of reinsurance and reinstatement premiums, for the previously reported 2021 loss events remain relatively stable.

Our loss and reserve estimates have been derived from a combination of reports from brokers and cedants, modelled loss projections, pricing loss ratio expectations and reporting patterns, all supplemented with market data and assumptions. We will continue to review these estimates as more information becomes available.

Investments

In line with our stated strategy, we continue to maintain our conservative approach to managing our invested assets with a strong emphasis on preserving capital and liquidity. Our strategy remains maintaining a short duration, highly-rated portfolio, with due consideration of the duration of our liabilities.

The Federal Reserve raised rates seven times in 2022, and has indicated further increases going forward. As a result, the portfolio return is negative 5.0% for the year ended 31 December 2022, mostly due to unrealised losses. Conduit recorded a small loss on the investment portfolio in the year ended 31 December 2021 due to rising yields in the fourth quarter of the year. While we expect market volatility to remain elevated in the near term, Conduit expects to be able to reinvest at higher rates as the existing portfolio matures.

Net investment income, excluding realised and unrealised losses, was \$17.8 million for 2022 compared to \$5.5 million for 2021. Total investment return, including net investment income, net realised gains and losses, and net change in unrealised gains and losses, was a loss of \$52.8 million for 2022 compared to a gain of \$3.1 million in 2021.

The breakdown of the managed investment portfolio is as follows:

	As at 31 December 2022	As at 31 December 2021
Fixed maturity securities	91.3 %	95.3 %
Cash and cash equivalents	8.7 %	4.7 %
Total	100.0 %	100.0 %

Key investment portfolio statistics for our fixed maturities and managed cash were:

	As at 31 December 2022	As at 31 December 2021
Duration	2.2 years	2.4 years
Credit quality	AA	AA-
Book yield	2.4 %	0.9 %
Market yield	5.2 %	1.2 %

Financial performance continued

Other operating expenses and equity-based incentives

Other operating expenses were \$34.3 million for the year ended 31 December 2022 compared with \$30.6 million for the prior year, while our equity-based incentives expense was \$2.1 million compared with \$0.3 million.

Other operating expenses contributed 7.1% to Conduit's combined ratio in 2022 compared with 15.8% for the same period of 2021.

The prior year ratio was a reflection of our start-up nature with earnings yet to mature but employment costs and technology platform development costs incurred upfront.

Capital & dividends

Total capital and tangible capital available was \$0.81 billion as at 31 December 2022 compared to \$0.98 billion as at 31 December 2021.

Tangible net assets per share as at 31 December 2022 were \$5.08 (31 December 2021: \$5.93).

CHL continued on-market purchases of its shares under a share purchase programme announced on 29 December 2021, where shares may be repurchased pursuant to authority obtained at CHL's most recent annual general meeting. Shares repurchased by CHL and CHL's employee benefit trust during 2022 amounted to \$19.9 million and will be held in treasury and/or trust to meet future obligations under CHL's variable incentive schemes.

On 22 February 2023 CHL's Board of Directors declared a final dividend of US\$0.18 (approximately 15 pence) per common share, resulting in an aggregate payment of \$28.8 million. The dividend will be paid in pounds sterling on 21 April 2023 to shareholders of record on 24 March 2023 (the "Record Date") using the pound sterling / US dollar spot exchange rate at 12 noon BST on the Record Date.

CHL previously declared and paid an interim dividend during 2022 of US\$0.18 (approximately 15 pence) per common share. Consequently, the full 2022 dividend is \$0.36 (approximately 30 pence) per common share in line with our stated dividend policy.

Consolidated statement of comprehensive loss (unaudited)

For the year ended 31 December 2022

	Notes	2022 \$m	2021 \$m
Gross premiums written	4	637.5	378.8
Ceded reinsurance premiums	4	(56.6)	(32.6)
Net premiums written		580.9	346.2
Change in unearned premiums	4	(99.6)	(152.8)
Change in unearned premiums on premiums ceded	4	1.0	0.8
Net premiums earned		482.3	194.2
Net investment income	5	17.8	5.5
Net realised losses on investments	5	(2.8)	(1.0)
Net unrealised losses on investments	5, 12	(67.8)	(7.6)
Net foreign exchange losses		-	(0.5)
Total net revenue		429.5	190.6
Insurance losses and loss adjustment expenses	4, 14	386.1	191.0
Insurance losses and loss adjustment expenses recoverable	4, 14	(40.2)	(48.9)
Net insurance losses		345.9	142.1
Net insurance acquisition expenses	4, 6	136.1	59.1
Equity-based incentives	7	2.1	0.3
Other operating expenses	4, 7, 8, 15, 22	34.3	30.6
Total expenses		518.4	232.1
Results of operating activities		(88.9)	(41.5)
Financing costs	9, 15	(0.8)	(0.5)
Total comprehensive loss for the year		(89.7)	(42.0)
Loss per share			
Basic and diluted	21	\$(0.55)	\$(0.25)

Consolidated balance sheet (unaudited)

As at 31 December 2022

	Notes	2022 \$m	2021 \$m
Assets			
Cash and cash equivalents	11, 17	112.9	67.5
Accrued interest receivable		5.5	3.7
Investments	12, 13, 17	1,021.7	1,008.4
Inwards premiums receivable		260.5	155.0
Reinsurance assets			
– Unearned premiums on premiums ceded		1.8	0.8
– Reinsurance recoverable	14	76.6	48.9
– Other reinsurance receivables		12.8	0.3
Other assets		3.6	1.6
Right-of-use lease assets	15	2.2	2.9
Deferred acquisition expenses		69.4	44.6
Intangible assets	16	1.4	1.1
Total assets		1,568.4	1,334.8
Liabilities			
Reinsurance contracts			
– Losses and loss adjustment expenses	14	459.3	171.6
– Unearned premiums		252.4	152.8
– Other reinsurance payables		15.0	-
Amounts payable to reinsurers		16.2	7.3
Other payables		8.7	19.0
Lease liabilities	15	2.4	2.9
Total liabilities		754.0	353.6
Shareholders' equity			
Share capital	18	1.7	1.7
Own shares	18	(20.1)	(0.2)
Other reserves	19	1,058.1	1,056.0
Retained loss		(225.3)	(76.3)
Total shareholders' equity		814.4	981.2
Total liabilities and shareholders' equity		1,568.4	1,334.8

The consolidated financial statements were approved by the Board of Directors on 21 February 2023 and signed on its behalf by:

Trevor Carvey
Chief Executive Officer

Elaine Whelan
Chief Financial Officer

Consolidated statement of changes in shareholders' equity (unaudited)

For the year ended 31 December 2022

	Notes	Share capital \$m	Own shares \$m	Other reserves \$m	Retained loss \$m	Total shareholders' equity \$m
Balance as at 31 December 2020		1.7	-	1,055.7	(4.6)	1,052.8
Total comprehensive loss for the year		-	-	-	(42.0)	(42.0)
Purchase of own shares	18	-	(0.2)	-	-	(0.2)
Dividends on common shares	19	-	-	-	(29.7)	(29.7)
Equity-based incentives	7, 19	-	-	0.3	-	0.3
Balance as at 31 December 2021		1.7	(0.2)	1,056.0	(76.3)	981.2
Total comprehensive loss for the year		-	-	-	(89.7)	(89.7)
Purchase of own shares	18	-	(19.9)	-	-	(19.9)
Dividends on common shares	18	-	-	-	(59.3)	(59.3)
Equity-based incentives	7, 19	-	-	2.1	-	2.1
Balance as at 31 December 2022		1.7	(20.1)	1,058.1	(225.3)	814.4

Statement of consolidated cash flows (unaudited)

For the year ended 31 December 2022

	Notes	2022 \$m	2021 \$m
Cash flows from operating activities			
Comprehensive loss		(89.7)	(42.0)
Depreciation	15	0.9	0.1
Interest expense on lease liabilities	9, 15	0.1	0.1
Net investment income	5	(18.7)	(6.2)
Net realised losses on investments	5	2.8	1.0
Net unrealised losses on investments	5	67.8	7.6
Net foreign exchange losses (gains)		0.3	0.3
Equity-based incentives	7	2.1	0.3
Change in operational assets and liabilities			
– Reinsurance assets and liabilities		239.6	82.0
– Other assets and liabilities		(2.0)	5.5
Net cash flows from operating activities		203.2	48.7
Cash flows used in investing activities			
Purchase of investments		(304.9)	(1,570.4)
Proceeds on sale and maturity of investments		206.2	558.9
Interest received		21.1	7.5
Purchase of intangible assets	16	(0.3)	(0.9)
Purchase of property, plant and equipment		-	(0.5)
Net cash flows used in investing activities		(77.9)	(1,005.4)
Cash flows used in financing activities			
Lease liabilities paid	15	(0.6)	(0.1)
Dividends paid	18	(59.3)	(29.7)
Purchase of own shares	18	(19.9)	(0.2)
Net cash flows used in financing activities		(79.8)	(30.0)
Net increase (decrease) in cash and cash equivalents		45.5	(986.7)
Cash and cash equivalents at the beginning of the year		67.5	1,054.0
Effect of exchange rate fluctuations on cash and cash equivalents		(0.1)	0.2
Cash and cash equivalents at end of year	11	112.9	67.5

Notes to the consolidated financial statements (unaudited)

For the year ended 31 December 2022

1. General information

CHL was incorporated under the laws of Bermuda on 6 October 2020 and, on 7 December 2020, all of its common shares of par value \$0.01 per share were admitted to the standard listing segment of the Official List of the UK Financial Conduct Authority and admitted to trading on the LSE's main market for listed securities. CHL's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. CHL's consolidated financial statements as at, and for the year ended 31 December 2022 include the Company's subsidiaries (together referred to as the "Group"). The principal activity of Conduit is to provide reinsurance products and services to its clients worldwide.

A full listing of Conduit's related parties can be found in note 22.

2. Summary of significant accounting policies

The basis of preparation, use of judgements and estimates, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Excluding percentages, share and per share data or where otherwise stated, all amounts in tables and narrative disclosures are in millions of US dollars.

Basis of preparation

These consolidated financial statements are prepared on a going concern basis in accordance with IFRS as issued by the IASB, prepared on a historical cost basis, except for items measured at fair value as disclosed in the relevant accounting policies. In accordance with the requirements of IAS 1, the financial statements' assets and liabilities have been presented in order of liquidity, which provides information that is more reliable and relevant for a financial institution.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of reinsurance contracts, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, Conduit's management determines appropriate measurement bases, to provide the most useful information to users of these consolidated financial statements, using their judgement and considering US GAAP. In the course of preparing these consolidated financial statements, no judgements have been made in the process of applying Conduit's accounting policies, other than those involving estimations as noted in the 'Use of judgements and estimates' section, that have had a significant effect on amounts recognised in these consolidated financial statements.

Going concern

The consolidated financial statements of Conduit have been prepared on a going concern basis. In assessing Conduit's going concern position as at 31 December 2022, the Directors have considered a number of factors, including the current balance sheet position, Conduit's strategic and financial plan, taking account of possible changes in trading performance and funding retention, stress testing and scenario analysis, and the COVID-19 pandemic. Conduit only commenced underwriting activities during the twelve months ended 31 December 2021 and, with COVID-19 exclusions included in policy wordings, does not believe it has any exposure to reinsurance losses from COVID-19. The assessment therefore concluded that Conduit has sufficient capital and liquidity for the next 12 months. Conduit's capital ratios and its capital resources are comfortably in excess of regulatory solvency requirements, and internal stress testing indicates Conduit can withstand severe economic and competitive stresses.

As a result of the assessment, the Directors have a reasonable expectation that Conduit and Conduit Re have adequate resources to continue in operational existence for the foreseeable future and therefore believe that Conduit is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Changes in accounting standards

While a number of amended IFRS standards have become effective during the year ended 31 December 2022, none of these standards have had a material impact on Conduit.

Notes to the consolidated financial statements (unaudited)

continued

Future accounting changes

Of the upcoming accounting standard changes, we anticipate that IFRS 17 will have the most material impact on the financial statements' results, and presentation and disclosures. Conduit will apply IFRS 17 for the first time on 1 January 2023. We have substantially completed the build-out of the necessary systems and processes to implement IFRS 17, and testing is in progress. As relevant to Conduit, a brief overview of each of these standards and the applicable accounting policies and the impact, where we can reliably quantify it, is provided below:

IFRS 17, Insurance Contracts

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts. The new standard replaces IFRS 4, Insurance Contracts, and is effective for accounting periods beginning on or after 1 January 2023 and will significantly change the accounting for, valuation of, and presentation of insurance contracts.

Classification

Contracts that transfer significant reinsurance risk at the inception of the contract are accounted for as reinsurance contracts. Contracts that do not transfer significant reinsurance risk are accounted for as investment contracts. The adoption of IFRS 17 will not change the classification of Conduit's reinsurance contracts.

Before accounting for a reinsurance contract based on the guidance in IFRS 17, Conduit analyses whether the contract contains components that must be separated. IFRS 17 distinguishes three categories of components that must be accounted for separately:

- Cash flows relating to embedded derivatives that are required to be separated.
- Cash flows relating to distinct investment components.
- Promises to transfer distinct goods or distinct non-insurance services.

Conduit applies IFRS 17 to all remaining components of the contract. Where contracts contain multiple reinsurance components that meet the requirements for separation, these are separated and accounted for as standalone contracts.

Some of Conduit's reinsurance contracts issued contain profit commission arrangements. Under these arrangements, there is a minimum guaranteed amount that the policyholder will always receive – either in the form of profit commission or as claims or another contractual payment, irrespective of the insured event happening. These are typically considered non-distinct investment components. The impact of the non-distinct investment components are excluded from the consolidated statement of comprehensive loss.

Level of aggregation

Conduit manages reinsurance contracts issued by class of business within an operating segment. Classes of business are then aggregated into portfolios of contracts that are subject to similar risks. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which reinsurance contracts are initially recognised and measured. Such groups are not subsequently reconsidered.

Conduit assumes there are no contracts in the portfolio that are onerous at initial recognition, unless there are facts and circumstances which may indicate otherwise. Management considers the following in order to determine whether there are facts and circumstances that mean a group of contracts are onerous:

- Pricing information.
- Results of similar contracts it has recognised.
- External factors, e.g., a change in market experience or regulations.

Measurement model

Under IFRS 17, Conduit's reinsurance contracts issued and reinsurance contracts held are substantially all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of reinsurance contracts in comparison with the General Model under IFRS 17.

Notes to the consolidated financial statements (unaudited)

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The measurement principles of the PAA differ from the 'earned premium approach' used under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred acquisition expenses less amounts recognised in revenue for reinsurance services provided.
- If contracts are assessed as being onerous, a loss component is recognised.
- The recognition of reinsurance acquisition cash flows includes an allocation of acquisition-related operating expenses incurred in the period. All acquisition related cash flows are deferred and amortised over the coverage period of the group of contracts.
- Measurement of the liability for incurred claims (previously losses and loss adjustment expenses) is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk.

Significant judgements and estimates

Conduit will estimate the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. They reflect current estimates from the perspective of the entity and include an explicit adjustment for non-financial risk (the risk adjustment). The liability for incurred claims is discounted using market-based yield curves.

Conduit will generally determine yield curves by leveraging the bottom-up method of applying a liquidity premium to a risk-free yield curve to reflect the differences between the liquidity characteristics of the risk-free rate and the liquidity characteristics of the insurance liabilities.

Conduit intends to determine the risk adjustment by leveraging indications developed by Conduit's actuaries, historical reinsurance loss experience and estimates of pricing adequacy trends, as well as a combination of management's judgement and experience. The risk adjustment is then translated to a confidence interval, which will be disclosed in the financial statements as a significant judgement and estimate.

Presentation and disclosure

Presentation and disclosure will change significantly. The balance sheet will continue to contain related assets and liabilities for reinsurance business, albeit in a different, more condensed form. The most significant change will be in the presentation of the consolidated statement of comprehensive loss where premiums and claims related line items will be replaced by reinsurance revenue and reinsurance service expenses. Certain commissions on reinsurance contracts issued which were previously presented as acquisition expenses will now be presented as a deduction to revenue under IFRS 17. Commissions and reinstatement premiums on reinsurance contracts that are dependent on claims will be treated as claims cash flows and presented as part of reinsurance service expenses. All insurance contract assets and liabilities will be monetary items with any revaluation adjustments being recognised in the consolidated statement of comprehensive loss.

Under IFRS 17, changes in the carrying amounts of groups of contracts arising from the effects of the time value of money are presented as reinsurance finance income or expenses. Conduit has elected not to disaggregate reinsurance finance income or expenses and will present the total amount in the consolidated statement of comprehensive loss.

Transition

Conduit will adopt the full retrospective approach for all changes in accounting policies due to the implementation of IFRS 17.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provided a temporary exemption from applying IFRS 9 for companies whose predominant activity is to issue insurance contracts. The carrying value of Conduit's liabilities connected with insurance activities comprised over 90% of the total liabilities. The activities of Conduit are therefore predominantly connected with insurance which satisfies the criteria set out in IFRS 4 for the temporary exemption from IFRS 9. The exemption lasts until the

Notes to the consolidated financial statements (unaudited)

continued

implementation date of IFRS 17 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17.

Classification and measurement

IFRS 9 introduces new classification and measurement requirements for financial instruments. IFRS 9 requires all financial assets to be assessed based on a combination of Conduit's business model for the management of the assets and the instruments' cash flow characteristics. Conduit currently anticipates that all investments will be classified as at FVTPL, because they are managed on a fair value basis. Conduit's fixed maturity securities portfolio is currently classified as FVTPL. As a result, the adoption of IFRS 9 is not expected to result in any changes to the measurement of Conduit's investments, which will continue to be at FVTPL. Conduit will apply any changes resulting from IFRS 9 retrospectively.

Presentation and disclosure

To reflect the differences between IAS 39 and IFRS 9, IFRS 7 Financial Instruments: Disclosures was also amended. Conduit will apply the amended disclosure requirements at the same time as applying IFRS 9.

Estimated impact of the adoption of IFRS 17 and IFRS 9

Conduit has assessed the estimated impact that the initial application of IFRS 17 and IFRS 9 will have on its consolidated financial statements. Based on the assessments undertaken to date, we estimate that the cumulative IFRS 17 impact will be an increase to shareholders' equity as at 1 January 2022 of between \$6.0 million and \$9.0 million, which represents between 0.6% and 0.9% of Conduit's reported shareholders' equity as at 31 December 2021. No financial impact is expected from the initial application of IFRS 9.

The increase to shareholders' equity from IFRS 17 is predominantly driven by the discounting of loss reserves which were previously undiscounted, the deferral of certain acquisition related operating expenses and the revaluation of insurance balances that are now considered monetary items under IFRS 17. The impacts of discounting and the deferral of acquisition related operating expenses are timing differences as both will be unwound over the settlement of claims liabilities and insurance contract coverage periods respectively.

Conduit is still performing assessments of the impact of IFRS 17 for the financial year ended 31 December 2022, however we expect the impact of discounting, given the rising rate environment, to be significant.

The assessment above is preliminary as the transition work has not yet been fully finalised or subject to external audit. Therefore, the reported impact of the adoption of IFRS 17 in the 2023 consolidated financial statements may deviate from that noted above, although any such deviation is unlikely to be material.

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires Conduit to make judgements and estimates that affect the reported and disclosed amounts at the balance sheet date, revenues and expenses during the reporting period and the associated financial statement disclosures. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their prediction of future events. Actual results may differ significantly from the estimates made.

The most significant estimates made by management are in relation to losses and loss adjustment expenses, both gross and net of ceded reinsurance, as discussed within the "Risk disclosures" section and in note 14.

Less significant estimates are made in determining the estimated fair value of certain financial instruments, as discussed in note 12.

In addition, some management judgement is exercised in determining the ultimate premiums expected from which to establish the recognition of gross premiums written.

While not significant, estimates are also used in the estimated fair value of the MIP as discussed in note 7 and the valuation of intangible assets as discussed in note 16.

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Consolidation principles

These consolidated financial statements comprise the financial statements of Conduit and its subsidiaries as at and for the year ended 31 December 2022. Subsidiaries are those entities that are controlled by Conduit and are fully consolidated from the date on which Conduit obtains control and continue to be consolidated until the date when such control ceases. Control is achieved when Conduit is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Intragroup balances and transactions are eliminated in preparing the consolidated financial statements. Subsidiaries' accounting policies are generally consistent with Conduit's accounting policies.

Foreign currency

The functional currency, which is the currency of the primary economic environment in which the entity operates, for all Group entities is US dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. These consolidated financial statements are presented in US dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting foreign exchange differences on revaluation are recorded in the consolidated statement of comprehensive loss within net foreign exchange gains (losses). Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the fair value was determined.

Reinsurance contracts

Classification

Contracts that transfer significant reinsurance risk at the inception of the contract are accounted for as reinsurance contracts. Contracts that do not transfer significant reinsurance risk are accounted for as investment contracts. Reinsurance risk is transferred when a reinsurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

Premiums

Conduit writes both excess of loss and proportional (also known as quota share or pro-rata) reinsurance contracts.

Excess of loss contracts

For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the ceding company. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound, if later. Subsequent adjustments, based on reports of actual premium by ceding companies, or revisions in estimates, are recorded in the period in which they are determined. For multi-year policies that are payable in annual instalments generally only the initial annual instalment is included as premiums written at policy inception due to the ability of the reinsured to commute or cancel the policy. The remaining annual instalments are included as premiums written at each successive anniversary date within the multi-year term.

Premiums written are generally earned evenly over the term of the underlying risk period of the reinsurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums. Where contract terms require the reinstatement of coverage after a ceding company's loss, the estimated mandatory reinstatement premiums are recorded as premiums written and earned when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

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Proportional contracts

Premiums written for proportional contracts are recognised based on estimates of ultimate premiums provided by the ceding company, supplemented by management's estimates of premiums based on its experience with the ceding company, familiarity with each market, the timing of the reported information and its understanding of the characteristics of each class of business. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound, if later. Contracts written on a 'risks attaching' basis cover claims which attach to the underlying reinsurance policy written during the term of the respective policy. Premiums earned on such policies generally extend beyond the original term of the contract. Subsequent adjustments, based on reports of actual premium by the ceding company, or revisions in estimates, are recorded in the period in which they are determined.

Premiums receivable

Reinsurance premiums receivable from cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. A significant portion of amounts included as premiums receivable are not currently due based on the terms of the underlying contracts. These balances are regularly reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined. Based on currently available information, management believes that the premium estimates included in premiums receivable will be collectable and therefore no provision for doubtful accounts has been recorded.

Acquisition expenses

Acquisition expenses represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and renewing existing contracts. Generally, acquisition expenses are deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition expenses are recognised as an expense when incurred.

Ceded reinsurance premiums

Ceded reinsurance is purchased in the normal course of business to increase capital capacity, limit the impact of individual risk losses and loss events impacting multiple cedants (such as natural catastrophes), or both. Conduit may purchase ceded reinsurance on both an excess of loss and proportional basis, and may in future supplement this with the use of catastrophe bonds or other capital market products. Ceded reinsurance premiums, being the cost of reinsurance contracts entered into, are accounted for in the period in which the contract incepts or is bound if that date is later. Ceded reinsurance premiums are generally earned in the same manner as the inwards contracts, depending on the terms of the contract. The provision for the reinsurers' share of unearned premiums represents the part of ceded reinsurance premiums which are estimated to be earned in future periods. Deferred ceded acquisition expenses are recognised as a liability using the same principles.

Net losses and loss adjustment expenses

Net losses and loss adjustment expenses in the consolidated statement of comprehensive loss include changes in the provision for outstanding losses and ACRs, changes in the provision for IBNR, plus related expenses and losses paid in the period. Amounts are net of any changes in the provision for reinsurance recoverable and related expenses for the period. Net losses and loss adjustment expenses are recognised in total comprehensive income as they are incurred.

Losses and loss adjustment expenses in the consolidated balance sheet represent the estimated ultimate cost of settling all reinsurance claims arising from events which have occurred up to the end of the reporting period, including a provision for IBNR. Conduit does not currently discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reported losses received from cedants. ACRs are determined where management's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by cedants, as well as a provision for losses which have occurred but have not yet been reported by cedants. IBNR reserves are estimated initially using expected loss and loss adjustment expense ratios which are selected based on information derived by underwriters and actuaries during the initial pricing of the business. These estimates are reviewed regularly and, as experience develops and new information is received, the reserves are adjusted as necessary. As actual loss information is reported, and Conduit develops its own loss experience, management will use various actuarial methods as well as a combination

Notes to the consolidated financial statements (unaudited)

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of management's judgement and experience, historical reinsurance industry loss experience and estimates of pricing adequacy trends to estimate IBNR reserves. Any adjustments to initial expectations are reflected in the consolidated statement of comprehensive loss in the period in which they are determined.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties in the reserving process, delays in cedants reporting losses to Conduit, together with the potential for unforeseen adverse developments, could lead to a material change in estimated net losses and loss adjustment expenses.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. Management monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Liability adequacy tests

At each balance sheet date, Conduit performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums for the period of unexpired risk by using current best estimates of future cash outflows generated by its reinsurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of Conduit's reinsurance liabilities is found to be inadequate, the deficiency is charged to the consolidated statement of comprehensive loss for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

Financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, money market funds, and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Investments

Conduit's fixed maturity securities portfolio is classified as FVTPL and carried at estimated fair value in the consolidated balance sheet. The classification of financial assets is determined at the time of initial purchase. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis or if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Presentation of these securities in the FVTPL category is consistent with how management monitors and evaluates the performance of these securities.

Regular way purchases and sales of investments are recognised at estimated fair value on the trade date, and are subsequently carried at estimated fair value. Balances pending settlement are reflected in the consolidated balance sheet in other assets or other payables. The estimated fair value of Conduit's fixed maturity securities portfolio is determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Changes in estimated fair value of investments classified as FVTPL are recognised in the consolidated statement of comprehensive loss within net unrealised gains and losses on investments.

Investments are derecognised when Conduit has transferred substantially all the risks and rewards of ownership. On derecognition of an investment held at FVTPL, previously recorded unrealised gains and losses are recycled from net unrealised gains and losses on investments to net realised gains and losses on investments.

Interest income, amortisation and accretion of premiums and discounts on fixed maturity securities are calculated using the effective interest rate method and recognised in net investment income. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. An intangible asset with a finite useful life is amortised on a straight-line basis

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over the useful life. The useful life is reviewed annually to determine if any changes are required to the amortisation period.

Leases

Conduit recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at the expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

The lease liability is initially measured at the present value of the future lease payments at the lease commencement date. Lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Conduit's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and reducing the carrying amount to reflect the lease payments made. Conduit re-measures the lease liability and the related right-of-use asset whenever there is a change in future lease payments arising from a change in index or rate, if Conduit changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Right-of-use assets and lease liabilities are presented as separate financial statement line items in the consolidated balance sheet.

Employee benefits

Equity-based incentives

Conduit currently operates a MIP under which shares are subscribed for or nil cost options are granted. The fair value of the instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

During 2022 Conduit established a DSBP. A percentage of each employee's bonus is automatically deferred into shares as nil cost options. These nil cost awards vest annually in separate equal tranches over a three-year period from the date of grant and do not have associated performance criteria attached to the awards. These awards accrue dividend equivalents for all dividends declared where the record date falls between the grant date and date of exercise, and are paid at the time of exercise.

At each balance sheet date, Conduit revises its estimate of the number of instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as equity-based incentive expense in the consolidated statement of comprehensive loss, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive loss and the actual cost to Conduit, if any, is transferred to other reserves in shareholders' equity.

Pensions

Conduit's pension plans are based on defined contributions or equivalent cash in lieu, subject to applicable law and local market standards. On payment of contributions to the plans or cash in lieu there is no further obligation to Conduit. Contributions or payments of cash in lieu are recognised as employee benefits in the consolidated statement of comprehensive loss in the period when the services are rendered.

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Tax

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the year-end reporting date and any adjustments to tax payable in respect of prior periods.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised in the consolidated balance sheet to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Own shares

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity-based incentive schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

Share capital and issuance costs

Shares are classified as shareholders' equity if there is no obligation to transfer cash or other financial assets. Transaction costs that are attributable to the issuance of new shares are treated as a deduction from equity.

3. Risk disclosures

Introduction

Conduit is exposed to risks from several sources, classified into six primary risk categories. The primary risk categories are: (a) reinsurance risk; (b) market risk; (c) liquidity risk; (d) credit risk; (e) operational risk; and (f) strategic risk. These are discussed in detail on the following pages. The primary risk to Conduit is reinsurance risk.

The Board is responsible for determining the nature and extent of the principal risks Conduit is willing to take in achieving its strategic objectives and should maintain sound risk management and internal control systems. To this end, the Board has established various committees to support the execution of its responsibilities and has reviewed the committee structures at CRL. The Board, and committees thereof, define the risk preferences and appetites within which management is authorised to operate.

The risk function is responsible for supporting the Board, and the CRL Board, with the day-to-day oversight of the risks that Conduit seeks or is exposed to in pursuit of its strategic objectives, and the satisfaction of certain regulatory risk management expectations relevant to CRL. The framework under which risks are managed contemplates risk appetite and tolerance constraints, prescribed by the Board and which are reviewed at least annually, with consideration of the financial and operational capacity of Conduit. The use of financial capacity in this context relates to calculated or modelled capital requirements, based on residual unmitigated risk exposures. Current capital requirements are determined by reference to rating agency and regulatory capital requirements, with an internal capital model to be developed in due course.

Day-to-day management of risk is the responsibility of management, operating within the defined appetite and tolerances of the Board, or the CRL board, approved delegations of authority. The risk framework prescribes a standardised approach to the management of risk, oversight and challenge by the risk function and independent assurance provided by the internal audit function. The risk framework also addresses the reporting of risks, emerging risks, risk events and compliance with risk appetite and tolerance statements to executive management and the Board, and relevant Board committees, of CRL and CHL. To ensure transparency and accountability of the business across all independent Non-Executive Directors, four independent Non-Executive Directors from the Board have been appointed to the Board of CRL. Furthermore, the Board is invited to attend operating entity board level meetings and see all minutes and records of such operating entity Board and committee meetings.

COVID-19

The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what

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the ultimate impact for the reinsurance industry will be. Conduit only commenced underwriting operations during the twelve months ended 31 December 2021 and, for any reinsurance business underwritten during that period, had COVID-19 related exclusions in its reinsurance contracts and policy wordings. As a result, Conduit does not believe it has any exposure to reinsurance losses associated with the COVID-19 pandemic during the period. The impacts of the COVID-19 pandemic on Conduit are discussed throughout these consolidated financial statements.

Climate change

Conduit is exposed to risks associated with climate change but also potential opportunities arising from that risk. Risks from climate change can include physical risk and those associated with a changing economy. Physical risks are those relating to the physical impacts of climate change, which can be from increased frequency and/or severity of climate-related events, or structural, due to longer-term shifts in climate patterns. Economic risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputational risk. The potential financial impact from these risks is mitigated by Conduit's strategic and risk management policies.

Global tax reform

Conduit continues to monitor and assess the implications arising from the Organisation for Economic Co-operation and Development's inclusive framework agreement that aims to implement a global minimum tax rate of 15%, along with the potential impacts of other global tax reforms that are relevant to Conduit's business operations.

a. Reinsurance risk

Conduit underwrites both short-tail and long-tail reinsurance contracts on a worldwide basis. These reinsurance contracts transfer insurance risk, including risks exposed to both natural and man-made catastrophes, and risk and liability losses. The risk in connection with underwriting reinsurance contracts is, in the event of a covered loss, whether the premiums will be sufficient to meet the associated loss payments and expenses. The underwriters evaluate and estimate the level of premiums sufficient to cover expected losses, expenses and profitability through a combination of sophisticated risk modelling tools, past experience and knowledge of loss events, current industry trends and broader economic indicators. In order to ensure appropriate reinsurance risk selection and limits on the concentration and diversification of the aggregate portfolio, Conduit has established risk management and internal control systems to evaluate and assess the expected losses of each individual contract, class of business, geographic region and the aggregate portfolio. These controls, include, but are not limited to:

- Conduit has a five-year strategic plan that defines the over-riding business goals that management and the Board aim to achieve.
- A detailed business plan is produced annually and considers current market conditions and the risk-adjusted profitability of the underwriting portfolio.
- Conduit's internal capital requirements consider the probability and magnitude of reinsurance losses varying adversely from the expected losses considered during the underwriting and subsequent reserving processes.
- Forecasts are produced periodically to assess the progress toward the business plan and the strategic plan.
- Each underwriter has a clearly defined limit of underwriting authority.
- Each contract underwritten is subject to a pre-bind peer review.
- An underwriting roundtable meeting, typically held daily, where deal flow, pricing and opportunities are discussed.
- Pricing models are used in all areas of the underwriting process.
- Risk appetite and tolerance statements have been established and the CRO reports quarterly on adherence.
- A number of modelling tools are used to model catastrophes and expected losses.
- Outwards reinsurance is purchased to mitigate both frequency and severity of losses, and to protect Conduit's capital base.

Catastrophe management

Certain of Conduit's classes of business provide coverage for natural catastrophes (e.g., earthquakes, floods, hurricanes and wildfires) and are subject to seasonal variation and the impacts of climate change. Conduit's business has exposure to large catastrophe losses in North America, Europe and Japan as a result of

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windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. Conduit also has exposure to other natural catastrophes, such as earthquakes, tsunamis, droughts, floods, hail and tornadoes, which can occur throughout the year. In addition, Conduit is exposed to risk losses throughout the year from perils such as fire, explosion, war, terrorism, political risk and other events, including loss arising from legal liabilities rather than physical damage.

Conduit has defined its appetite and tolerances for risk accumulations and uses models to determine the expected frequency and severity of aggregating exposures. As with all such models, there is a risk that modelled expectations may not reflect actual outcomes and the scope of the models are such that not all exposures are captured.

Conduit has set tolerances around various scenarios. Of these, at the commonly reported 100-year and 250-year return periods, Conduit's most significant exposures to any single peril and region combination are to Florida windstorm and California earthquake perils, respectively. The table below shows the estimated net exposures to these peak zone perils on a first occurrence basis. Net positions are calculated by applying relevant reinstatement premiums and outwards reinsurance to the respective modelled gross exposures.

Return period	Peril	As at 31 December 2022		As at 31 December 2021	
		Net \$m	% of tangible capital %	Net \$m	% of tangible capital %
100-year	Florida windstorm	18.5	2.3	9.6	1.0
250-year	California earthquake	74.8	9.2	61.8	6.3

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. The models also contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Operating segments

The underwriting business is comprised of three principal divisions: property, casualty and specialty. These divisions are also considered to be Conduit's operating segments. Details of each operating segment and gross premiums written by geographic region and operating segment are as follows:

Year ended 31 December 2022	Property \$m	Casualty \$m	Specialty \$m	Total \$m	Total %
US	174.7	171.9	8.7	355.3	55.7
Worldwide	93.5	29.0	81.2	203.7	32.0
Europe	16.3	33.3	10.2	59.8	9.4
Other	15.1	2.5	1.1	18.7	2.9
Gross premiums written	299.6	236.7	101.2	637.5	100.0

Year ended 31 December 2021	Property \$m	Casualty \$m	Specialty \$m	Total \$m	Total %
US	105.4	118.7	3.9	228.0	60.2
Worldwide	62.3	7.1	62.3	131.7	34.8
Europe	6.0	2.8	-	8.8	2.3
Other	9.7	0.4	0.2	10.3	2.7
Gross premiums written	183.4	129.0	66.4	378.8	100.0

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Property reinsurance

Conduit is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming risks associated with property treaties. Exposure to natural catastrophe events is controlled and measured by managing to predefined limits within stochastic modelling and deterministic accumulations across classes per geographic zone and peril. The accuracy of these analyses is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss.

Natural catastrophe risk is written across both the US and internationally on an excess of loss and capped quota share basis. Reinsurance structures are offered strategically, most notably in respect of peril, geography and probability of activation or exhaustion.

Property per risk treaties are offered with the strategy to minimise natural catastrophe exposure, focusing on fire risk. This is considered by both natural catastrophe specific metrics, treaty conditions and excess of loss structure.

Ceded reinsurance may be purchased to mitigate exposures to large natural catastrophe losses. Ceded reinsurance is typically purchased on an excess of loss basis, however industry loss warranties, catastrophe bonds, or proportional treaty arrangements may also be entered into.

Casualty reinsurance

Conduit underwrites a balanced portfolio of casualty classes of business, comprised of both excess of loss and proportional contracts, on a worldwide basis.

Casualty claims tend to take longer to be reported and ultimately settled than physical damage risks. Conduit typically maintains net reserves for losses and loss adjustment expenses for casualty classes of business over a longer period of time than for the property and specialty classes of business where the costs of claims are generally known and settled within a shorter time frame.

Conduit will purchase ceded reinsurance to protect against any 'clash' between losses arising in its casualty portfolio.

The sub-classes of casualty business include directors and officer's liability, financial institutions liability, general liability for multiple sub-classes and, on an excess and umbrella basis, medical malpractice, professional liability and transactional liability. Conduit has limited appetite for, and generally avoids, workers compensation, standalone auto and cyber treaties.

Directors and officers liability

Directors and officers liability policies offer protection for company managers and directors and officers against claims that may arise in the normal course of operations. Coverage includes legal expenses and liability to shareholders, bondholders, creditors or others owing to actions or omissions by a director or officer of a private or public corporation, or not-for-profit organisation.

Financial institutions liability

Financial institutions coverage may cover risks such as computer and commercial crime, professional indemnity and civil liability.

General liability

General liability commonly provides cover for losses arising from the legal liability of an original insured and statutory liability in the case of employers' liability which result in bodily injury or disease to third parties or physical damage to third-party property. The Group offers a wide range of general liability reinsurance products including contractors general liability, excess general liability, umbrella, energy and environmental.

Medical malpractice

Medical malpractice reinsurance generally covers professional liability and errors and omissions specifically in the healthcare industry, protecting physicians and other healthcare professionals against claims of negligent acts or injury of patients under their care. Medical malpractice reinsurance does not cover intentional or criminal acts.

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Professional liability

Professional liability generally provides coverage for third-party losses resulting from legal liability or civil liability or negligence, errors or omissions or wrongful acts arising from the provision of, or failure to provide, professional services by an original insured. Sub-classes of this business would include lawyers, accountants, architects and engineers, errors and omissions, plus miscellaneous professional liability.

Transactional liability

Transactional liability reinsurance is used by parties to various business transactions, such as mergers, acquisitions and divestitures, to transfer certain transaction-related risks to the reinsurance market. There can be a broad range of risks covered, including warranty, litigation, pension and tax uncertainties and employment matters.

Specialty reinsurance

Conduit's specialty classes of business are written on both an excess of loss and proportional basis and can provide reinsurance coverage against physical damage (short-tail) or against legal liability (long-tail) losses. Although specialty classes of business are exposed to natural catastrophe risk, it is generally to a lesser extent than property classes of business. They are more likely to be affected by specific large loss events such as accidents, collisions, fires and similar man-made catastrophe events. Specialty classes of business are highly diverse in nature and require specific market expertise and experience. The specialty classes of business include aviation, energy, marine, renewables, political violence and terrorism and are offered on both a specific and a whole account basis.

Conduit purchases ceded reinsurance protection to reduce exposure to both large risk losses and an accumulation of smaller losses. Ceded reinsurance is typically purchased on an excess of loss basis, but, from time to time, proportional arrangements may be entered into.

Aviation

The aviation class of business provides cover to the insurers of the world's major airlines and aircraft manufacturers and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

Energy

The energy class of business provides reinsurance cover for a global spread of accounts that can include primary risks such as downstream energy, upstream energy, energy liability, construction energy and Gulf of Mexico offshore energy programmes. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure, often with loss limits set at a level commensurate with a modelled estimated maximum loss scenario.

Marine

Marine cargo is an international account and covers the reinsurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes. In addition, the cargo account can include for example, fine art, vault risks, artwork on exhibition and marine war and terrorism business relating to cargo in the ordinary course of transit.

Marine liability is mostly the reinsurance of the International Group of Protection and Indemnity Clubs. Marine builders' risk covers the building of ocean-going vessels in specialised yards worldwide and their testing and commissioning.

The marine hull class generally consists of worldwide coverage spanning physical damage, hull and machinery breakdown, loss of hire and mortgagees' interests for a range of maritime vessels from cargo and passenger ships to private pleasure craft. Products typically cover both risk and catastrophe exposures.

Political violence and terrorism

Political violence and terrorism coverage is provided for US and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories.

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Whole account

Coverage is generally provided on a worldwide basis and covers a broad spectrum of the cedants risks under a single policy. The classes of business covered under a whole account reinsurance policy can include traditional property and casualty classes of business including commercial and personal automobile, general liability, workers' compensation, employers' liability, excess casualty and umbrella, as well as selected professional liability coverage.

Ceded reinsurance

Ceded reinsurance is purchased in the normal course of business to increase capital capacity, limit the impact of individual risk losses and loss events impacting multiple cedants (such as natural catastrophes), or both. Ceded reinsurance may also be purchased from time to time to optimise the risk-adjusted return of Conduit's aggregate underwriting portfolio. Conduit may purchase ceded reinsurance on both an excess of loss and proportional basis, and may in future supplement this with the use of catastrophe bonds or other capital market products. The mix of ceded reinsurance coverage is dependent on specific loss mitigation requirements, market conditions and available capacity. In certain market conditions, Conduit may deem it more economic to hold capital than purchase ceded reinsurance. Ceded reinsurance does not relieve Conduit of its obligations to policyholders. Conduit is exposed to reinsurance risk where ceded reinsurance contracts put in place to reduce gross reinsurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the limits purchased. Failure of a ceded reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section below. Ceded reinsurance coverage is not intended to be available to meet all potential loss circumstances. Conduit will retain certain losses, as the cover purchased is unlikely to transfer the totality of Conduit's exposure. Any loss amount which exceeds the ceded reinsurance coverage purchased would be retained by Conduit. Some ceded reinsurance policies have limited reinstatements, therefore the number of claims which may be recovered on second, and subsequent loss circumstances is limited.

Under Conduit's ceded reinsurance security policy, ceded reinsurers are assessed and approved based on their financial strength ratings, amongst other factors. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process. The management Counterparty Security Committee examines and approves all Conduit's ceded reinsurers to ensure that they possess suitable security.

Net losses and loss adjustment expenses

A significant and critical judgement and estimate made by management is the estimation of net losses and loss adjustment expenses. Management estimates net losses and loss adjustment expenses, and the associated reserves to cover its estimated liability for both reported and unreported claims on events that have occurred up to the latest valuation date. Management uses methodologies that calculate a point estimate for the ultimate losses, representing management's best estimate of ultimate net losses and loss adjustment expenses. Conduit establishes its reserve for losses and loss adjustment expenses by taking outstanding losses, adding an estimate for IBNR and, if deemed necessary, ACRs which represent Conduit's estimate for losses related to specific contracts that the management believes may not be adequately estimated by the client as of that date.

Loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses that have occurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of Conduit's reserves are currently reported on an undiscounted basis.

The reserving process is dependent on management's judgement and is subject to meaningful uncertainty due to both qualitative and quantitative factors, including, but not limited to: the nature of the business written, whether it is short-tail or long-tail, whether it is excess of loss or proportional, the magnitude and timing of loss events, the geographic areas impacted by loss events, time lags in the reporting process from the original claimant, limited claims data, policy coverage interpretations, case law, regulatory directives, demand surge and inflation, potential uncertainties related to reinsurance and ceding company reserving practices, and other factors inherent in the estimation process for net losses and loss adjustment expenses.

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The judgements and estimates used in establishing loss reserve calculations may be revised as additional experience or other data becomes available. Loss reserves are also reviewed as new or improved methodologies are developed and as laws or regulations change. Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

Conduit's internal actuaries review the reserving assumptions and methodologies on a quarterly basis and develop an actuarial best estimate of Conduit's net losses and loss adjustment expenses using the processes outlined above. The management Reserving Committee reviews the estimate for net losses and loss adjustment expenses on a quarterly basis. The reserves are subject to a semi-annual independent review by Conduit's external actuaries. The results of the internal and independent reserve reviews are presented to the Audit Committee.

Short-tail versus long-tail

Claims relating to short-tail risks are generally reported more promptly than those relating to long-tail risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and whether the losses are from policies in force with primary insurers or reinsurers.

Excess of loss versus proportional

For excess of loss contracts, management is aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

b. Market risk

Conduit is at risk of loss due to movements in market factors. The main market risks Conduit was exposed to include:

- Reinsurance risk;
- Investment risk;
- Currency risk.

Reinsurance risk

Conduit is exposed to reinsurance market risk from several sources, including the following:

- The advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain classes, or across all classes.
- The actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs.
- Market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies.
- Failure to maintain broker and cedant relationships, leading to a limited or substandard choice of risks inconsistent with Conduit's risk appetite.
- Changes in regulation including capital, governance or licensing requirements, and laws.
- Changes in the geopolitical environment.

The most important method to mitigate reinsurance market risk is to maintain strict underwriting standards. Conduit manages reinsurance market risk in numerous ways, including the following:

- Reviews and amends underwriting plans and outlook as necessary.
- Reduces exposure to, or withdraws from, market sectors where conditions have reached unattractive levels.
- Purchases appropriate, cost-effective reinsurance cover to mitigate exposures.
- Closely monitors changes in rates, terms and conditions, and inflation.

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- Ensures through rigorous underwriting criteria that surplus capital does not drive short-term risk appetite.
- Typically holds a daily underwriting briefing meeting for CRL to discuss deal flow, pricing and opportunities.
- Holds a quarterly management Underwriting Oversight Committee meeting that considers matters that include underwriting performance for CRL.
- Holds an annual strategy review meeting.
- Holds a quarterly management Underwriting Committee meeting that considers matters including underwriting performance for CRL.
- Holds a quarterly management Risk, Capital and Compliance Committee meeting to review relevant risk and capital considerations for CRL.
- Holds regular meetings with regulators and rating agencies.

Reinsurance contract liabilities are currently not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

Investment risk

Movements in investments resulting from changes in interest and inflation rates, credit spreads, and currency exchange rates, among other factors, may lead to an adverse impact on the value of Conduit's investment portfolio. Conduit seeks to invest in issuers with stronger ESG practices on balance, as it believes that this will also help reduce risk in the portfolio.

The Investment Committee of CRL is responsible for all investment-related decisions and investment guidelines. The investment guidelines set the parameters within which Conduit's external managers must operate. Important parameters of these guidelines include permissible asset classes, duration¹ ranges, credit quality, permitted currency, maturity, industry sectors, geographical, sovereign and issuer exposures. Guideline compliance is monitored on a monthly basis. The portfolio of fixed maturity securities is currently managed by three external managers. Their performance is monitored on an ongoing basis. Conduit projects the level of funds required to meet near-term obligations and cash flow needs following extreme events in order to ensure adequate liquidity is maintained. Conduit also prioritises liquid asset classes with higher credit quality and shorter duration so that Conduit can meet reinsurance and other near-term obligations. Conduit has split the portfolio into a short-tail mandate, to better match the property and specialty classes of business, and a long-tail mandate, to better match the casualty classes of business and some aspects of the specialty classes of business. The short-tail mandate will be slightly shorter duration than the long-tail mandate.

Conduit reviews the composition, duration and asset allocation of its investment portfolio on a regular basis to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

Conduit models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur – albeit not in the exact form of the scenarios, which are based on historic periods of volatility. Conduit also monitors the portfolio impact of more severe scenarios consisting of extreme shocks.

Conduit focuses on the most significant risks in its investment portfolio which are interest rate risk, credit risk and liquidity risk, and has built, or is building, stress testing and risk analytics around these risks to ensure they are within tolerances and preferences.

1. Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of convexity, or sensitivity, of the portfolio's response to changes in interest rates is also factored in to the calculation.

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Strategic asset allocation reviews will be undertaken periodically to assess Conduit's overall investment strategy and to consider alternative asset allocations to achieve the best risk-adjusted return within Conduit's risk appetite. Any resulting recommendations would be approved by the appropriate management committee(s) and reported to the Board. The Investment Committee met quarterly to ensure that the strategic and tactical investment actions were consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The investment risk tolerances have been incorporated into the ERM framework.

The investment mix by mandate and sector of Conduit's portfolio of fixed maturity securities is as follows:

	Estimated fair value short-tail \$m	Estimated fair value long-tail \$m	Estimated fair value total \$m
As at 31 December 2022			
Short-term investments	33.2	4.7	37.9
US treasuries	103.6	106.6	210.2
US agency debt	-	1.8	1.8
US municipals	10.0	5.2	15.2
Non-US government and agency	2.0	-	2.0
Asset-backed	102.6	61.2	163.8
US government agency mortgage-backed	52.7	47.9	100.6
Non-agency mortgage-backed	9.8	3.0	12.8
Agency commercial mortgage-backed	3.2	-	3.2
Non-agency commercial mortgage-backed	21.9	30.8	52.7
Corporate	263.6	157.9	421.5
Total	602.6	419.1	1,021.7
	Estimated fair value short-tail \$m	Estimated fair value long-tail \$m	Estimated fair value total \$m
As at 31 December 2021			
Short-term investments	8.9	-	8.9
US treasuries	52.4	119.4	171.8
US agency debt	-	2.0	2.0
US municipals	11.0	2.2	13.2
Non-US government and agency	2.2	-	2.2
Asset-backed	97.3	72.4	169.7
US government agency mortgage-backed	53.2	41.4	94.6
Non-agency mortgage-backed	13.6	5.6	19.2
Agency commercial mortgage-backed	3.2	-	3.2
Non-agency commercial mortgage-backed	24.3	34.1	58.4
Corporate	302.6	162.6	465.2
Total	568.7	439.7	1,008.4

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Corporate and non-US government and agency bonds by country are as follows:

As at 31 December 2022	Financials \$m	Other industries \$m	Non-US government and agency \$m	Total \$m
US	140.6	187.7	-	328.3
UK	21.7	5.5	-	27.2
Canada	23.2	0.5	-	23.7
Other countries	35.4	6.9	2.0	44.3
Total	220.9	200.6	2.0	423.5

As at 31 December 2021	Financials \$m	Other industries \$m	Non-US government and agency \$m	Total \$m
US	153.5	214.8	-	368.3
UK	22.1	7.4	-	29.5
Canada	23.3	0.6	-	23.9
Other countries	37.6	5.9	2.2	45.7
Total	236.5	228.7	2.2	467.4

The sector allocation of corporate bonds is as follows:

As at 31 December	2022		2021	
	\$m	%	\$m	%
Financials	220.9	52.4	236.5	50.9
Industrials	180.3	42.8	209.5	45.0
Utilities	20.3	4.8	19.2	4.1
Total	421.5	100.0	465.2	100.0

Conduit's investment portfolio is comprised of fixed maturity securities and cash and cash equivalents. Fair values can be impacted by movements in interest rates, credit ratings, exchange rates, the current economic environment and outlook. The estimated fair value of the portfolio of fixed maturity securities is generally inversely correlated to movements in market interest rates. If market interest rates fall, the estimated fair value of Conduit's portfolio of fixed maturity securities would tend to rise and vice versa. The sensitivity of the price of fixed maturity securities to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of Conduit's portfolio of fixed maturity securities to interest rate movements is detailed below, assuming linear movements in interest rates.

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As at 31 December	2022		2021	
	\$m	%	\$m	%
Immediate shift in yield (basis points)				
100	(23.0)	(2.2)	(27.7)	(2.7)
75	(17.2)	(1.7)	(20.8)	(2.1)
50	(11.5)	(1.1)	(13.9)	(1.4)
25	(5.7)	(0.6)	(6.9)	(0.7)
0	-	-	-	-
-25	6.6	0.6	5.7	0.6
-50	13.2	1.3	11.5	1.1
-75	19.7	1.9	17.2	1.7
-100	26.3	2.6	22.9	2.3

Conduit mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The duration of the portfolio is matched to the modelled expected duration of the reinsurance reserves, within a permitted range. The permitted duration range for the portfolio is between 1.5 and 5 years. The overall duration for the fixed maturity securities, managed cash and cash equivalents is 2.2 years as at 31 December 2022 (31 December 2021: 2.4 years).

In addition to duration management, Conduit monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics. The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed below, 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the Investment Committee periodically.

Conduit's annual VaR calculation is as follows:

As at 31 December	2022		2021	
	\$m	% of shareholders' equity	\$m	% of shareholders' equity
99th percentile confidence level	62.0	7.6	30.2	3.1

Currency risk

Conduit is susceptible to fluctuations in rates of foreign exchange, principally between the US dollar and pound sterling and the US dollar and the euro. Even though risks are assumed on a worldwide basis, they are predominantly denominated in US dollars. Conduit is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. Conduit is also exposed to translation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Foreign currency gains and losses are recorded in the period they occur in the consolidated statement of comprehensive loss.

Conduit hedges monetary non-US dollar liabilities primarily with non-US dollar assets but may also use derivatives, such as currency forwards, to mitigate foreign currency exposures. The main foreign currency exposure relates to its reinsurance obligations, cash holdings, premiums receivable and dividend payable, if applicable.

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The following table summarises the carrying value of total assets and total liabilities categorised by Conduit's main currencies:

As at 31 December 2022	USD \$m	GBP \$m	EUR \$m	Other \$m	Total \$m
Total assets	1,515.9	26.1	24.2	2.2	1,568.4
Total liabilities	(691.3)	(9.1)	(44.9)	(8.7)	(754.0)
Net assets (liabilities)	824.6	17.0	(20.7)	(6.5)	814.4

As at 31 December 2021	USD \$m	GBP \$m	EUR \$m	Other \$m	Total \$m
Total assets	1,318.0	6.4	9.3	1.1	1,334.8
Total liabilities	(331.8)	(2.8)	(17.1)	(1.9)	(353.6)
Net assets (liabilities)	986.2	3.6	(7.8)	(0.8)	981.2

The impact on profit from a proportional foreign exchange movement of 10.0% against the US dollar at year end spot rates would be a decrease or increase of \$0.3 million (31 December 2021: \$0.2 million).

c. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring unreasonable costs. Conduit's main exposure to liquidity risk is with respect to its reinsurance and investment activities. Conduit is exposed if proceeds from the sale of financial assets are not sufficient to fund obligations arising from reinsurance contracts and/or other liabilities. Conduit can be exposed to fund daily calls on its available investment assets, principally to settle reinsurance claims and/or to fund trust accounts following a large catastrophe loss, or other collateral requirements.

Liquidity risk exposures related to reinsurance activities are as follows:

- Large catastrophic events, or multiple medium-sized events in quick succession, requiring the payment of high value claims within a short time frame or to fund trust accounts established to collateralise claims payment liabilities.
- Failure of cedants to meet their contractual obligations with respect to the timely payment of premiums.
- Failure of Conduit's ceded reinsurers to meet their contractual obligations to pay claims within a timely manner.

Liquidity risk exposures related to investment activities are as follows:

- Adverse market movements and/or a duration mismatch to obligations, resulting in investments needing to be disposed of at a significant realised loss.
- An inability to liquidate investments due to market conditions.

Conduit's investment strategy is to hold high quality, liquid securities sufficient to meet reinsurance liabilities and other near-term liquidity requirements. Portfolios are specifically designed to ensure funds are readily available in an extreme event.

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The maturity dates of Conduit's portfolio of fixed maturity securities are as follows:

As at 31 December 2022	Short-tail \$m	Long-tail \$m	Total \$m
Fixed maturity securities at FVTPL			
Less than one year	167.9	46.0	213.9
Between one and two years	149.5	37.0	186.5
Between two and three years	54.2	12.5	66.7
Between three and four years	15.8	48.8	64.6
Between four and five years	4.9	21.0	25.9
Over five years	20.1	110.9	131.0
Asset-backed and mortgage-backed	190.2	142.9	333.1
Total	602.6	419.1	1,021.7

As at 31 December 2021	Short-tail \$m	Long-tail \$m	Total \$m
Fixed maturity securities at FVTPL			
Less than one year	43.8	1.5	45.3
Between one and two years	145.7	70.6	216.3
Between two and three years	144.5	39.1	183.6
Between three and four years	21.3	9.5	30.8
Between four and five years	11.0	57.2	68.2
Over five years	10.8	108.3	119.1
Asset-backed and mortgage-backed	191.6	153.5	345.1
Total	568.7	439.7	1,008.4

The estimated maturity profile of the reinsurance contracts and financial liabilities of Conduit is as follows:

	Years until liability becomes due - undiscounted					Total \$m
	Carrying value \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
As at 31 December 2022						
Losses and loss adjustment expenses	459.3	161.5	156.6	72.5	68.7	459.3
Other reinsurance payables	15.0	15.0	-	-	-	15.0
Amounts payable to reinsurers	16.2	16.2	-	-	-	16.2
Other payables	8.7	8.7	-	-	-	8.7
Lease liabilities	2.4	0.6	1.3	0.7	-	2.6
Total	501.6	202.0	157.9	73.2	68.7	501.8

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	Years until liability becomes due – undiscounted					Total \$m
	Carrying value \$m	Less than one \$m	One to three \$m	Three to five \$m	Over five \$m	
As at 31 December 2021						
Losses and loss adjustment expenses	171.6	65.0	62.7	23.1	20.8	171.6
Amounts payable to reinsurers	7.3	7.3	-	-	-	7.3
Other payables	19.0	19.0	-	-	-	19.0
Lease liabilities	2.9	0.6	1.3	1.3	-	3.2
Total	200.8	91.9	64.0	24.4	20.8	201.1

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The estimation of the ultimate liability for net losses and loss adjustment expenses is complex and incorporates a significant amount of judgement. The timing of payment of net losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

As at 31 December 2022, cash and cash equivalents were \$112.9 million (31 December 2021: \$67.5 million). Conduit manages its liquidity risks via its investment strategy to hold high quality, liquid securities, sufficient to meet its reinsurance liabilities and other near-term liquidity requirements. In addition, Conduit has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. Conduit monitors market changes and outlook and reallocates assets as it deems necessary.

As at 31 December 2022, Conduit considers it has more than adequate liquidity to pay its obligations as they fall due even if difficult investment market conditions were to prevail for a period of time.

d. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. Conduit is exposed to credit risk on its fixed maturity investment portfolio, its premiums receivable from cedants, and on any amounts recoverable from reinsurers. While Conduit has not experienced any such collection issues, the COVID-19 pandemic increased the risk of defaults across many industries. The global recovery from the COVID-19 pandemic continues and the risk that counterparties fail to meet their financial obligations as they fall due has decreased.

Credit risk on Conduit's portfolio of fixed maturity securities is mitigated through the investment policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB+ may comprise no more than 10.0% of the portfolio. Conduit also limits exposure to individual issuers, with declining limits for less highly rated issuers. Conduit therefore does not expect any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the US government and its agencies.

Conduit is potentially exposed to counterparty credit risk in relation to the premiums receivable from reinsurance brokers and cedants and on any amounts recoverable from Conduit's ceded reinsurers. Given the dislocation in the market, the COVID-19 pandemic may adversely impact the ability to collect amounts due to Conduit. Credit risk on inwards premiums receivable from cedants is managed by conducting business with reputable broking organisations, with whom Conduit has established relationships, and by rigorous cash collection procedures. Conduit also has a broker approval process in place. Credit risk from ceded reinsurance recoverables is primarily managed by the review and approval of reinsurer security, with ongoing monitoring in place.

The table below presents an analyses of Conduit's major exposures to counterparty credit risk, based on their rating. Premiums receivable are not rated, however there is limited default risk associated with these amounts.

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	Cash and cash equivalents and fixed maturity securities \$m	Inward premiums receivables \$m	Reinsurance recoverable and other reinsurance receivables \$m
As at 31 December 2022			
AAA	651.4	-	-
AA+, AA, AA-	74.5	-	-
A+, A, A-	279.7	-	59.5
BBB+, BBB, BBB-	129.0	-	-
Other	-	260.5	29.9
Total	1,134.6	260.5	89.4

	Cash and cash equivalents and fixed maturity securities \$m	Inward premiums receivables \$m	Reinsurance recoverable and other reinsurance receivables \$m
As at 31 December 2021			
AAA	542.4	-	-
AA+, AA, AA-	75.6	-	-
A+, A, A-	306.2	-	30.8
BBB+, BBB, BBB-	151.7	-	-
Other	-	155.0	18.4
Total	1,075.9	155.0	49.2

The reinsurance recoverable classified as other is fully collateralised.

As at 31 December 2022 the average credit quality of Conduit's cash and cash equivalents and portfolio of fixed maturity securities was AA (31 December 2021: AA-). The COVID-19 pandemic has increased the risk of defaults across many industries and Conduit continually monitors credit risk, especially during this time of volatility. Given the investment portfolio positioning, this is not expected to have a meaningful impact from a credit perspective, although credit spreads are likely to remain volatile in the near-term. Potential interest rate rises are similarly not expected to impact inwards premiums receivable.

The following table shows premiums receivable that are not yet due and those that are past due but not impaired:

As at 31 December	2022 \$m	2021 \$m
Not yet due	227.3	123.0
Less than 90 days past due	29.8	22.2
Other	3.4	9.8
Total	260.5	155.0

For the year ended 31 December 2022 and 2021 no provisions have been made for impaired or irrecoverable balances and no amount was charged to the consolidated statement of comprehensive loss in respect of bad debts.

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e. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems or external events. During the reporting period, which primarily involved the ongoing establishment of operations, various operational risks were identified, and steps were taken to manage or mitigate these risks.

The risk framework addresses the identification, assessment and management of operational risks. This process involves the use of risk registers to identify inherent risk and residual risk after the application of controls. The management of individual risks is the responsibility of management, with independent challenge and oversight provided by the risk function. The results of compliance reviews and independent internal audits provide an additional level of review and verification. The Audit Committee has selected a reputable provider to serve as outsourced internal auditors.

f. Strategic risk

Conduit has identified several strategic risks, including:

- The risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to reflect adequately the trading environment, resulting in an inability to optimise performance, including reputational risk.
- The risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital and unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required.
- The risks of succession planning, staff retention and key personnel risks.

Business plan risk

Conduit's business plan forms the basis of operations and provides strategic direction to management. Actual versus planned results are monitored regularly.

Capital management risk

The total tangible capital is as follows:

As at 31 December	2022 \$m	2021 \$m
Shareholders' equity	814.4	981.2
Intangible assets	1.4	1.1
Total tangible capital	813.0	980.1

Risks associated with the effectiveness of Conduit's capital management are mitigated as follows:

- Regular monitoring of current and prospective regulatory and rating agency capital requirements.
- Oversight of capital requirements by the Board.
- Ability to purchase sufficient, cost-effective reinsurance.
- Maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments.
- Participation in industry groups such as the Association of Bermuda Insurers and Reinsurers, Reinsurance Association of America and the International Underwriting Association.

Conduit reviews the level and composition of capital on an ongoing basis with a view of:

- Maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- Maximising the risk-adjusted return to shareholders within the context of the defined risk appetite;
- Maintaining an adequate financial strength rating; and
- Meeting all relevant capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to Conduit may also be utilised. All capital actions require approval by the Board.

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The primary source of capital used by Conduit is equity shareholders' funds. As a holding company, CHL relies on dividends from its operating entity to provide the cash flow required for dividends to shareholders. The ability of the operating entity to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdiction in which it operates.

CRL is regulated by the BMA and is required to monitor the ECR under the BMA's regulatory framework, which has been assessed as equivalent to the EU's Solvency II regime. CRL's regulatory capital requirement is calculated using the BSCR standard formula. CRL had sufficient capital at all times throughout the year to meet the BMA's requirements.

Retention risk

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- The identification of key personnel with appropriate succession plans at CHL;
- The identification of key team profit generators at CRL and function heads with targeted retention packages;
- Documented recruitment procedures, position descriptions and employment contracts;
- Resource monitoring and the provision of appropriate compensation, including equity-based incentives which vests over a defined time horizon, subject to achieving certain performance criteria; and
- Training schemes.

4. Segmental reporting

Management and the Board review Conduit's business and evaluates its performance primarily by three segments: Property, Casualty and Specialty. These are considered to be the reportable segments for the purposes of segmental reporting. Further classes of business are underwritten within each reportable segment. The nature of these individual classes is discussed further in the "Risk disclosures" section.

Reportable segments	Operations and classes of business
Property	US and international property risk on an excess of loss and proportional contract basis.
Casualty	US and international casualty risk principally including directors and officers, financial institutions, general, medical malpractice, professional and transactional.
Specialty	Diverse portfolio of business, principally including aviation, energy, marine, political violence and terrorism and whole account.

Reportable segment performance is measured by the net underwriting profit or loss and the combined ratio. The chief operating decision maker does not manage Conduit's assets by reportable segment, and, accordingly, investment income and other non-underwriting related items are not allocated to each reportable segment. Refer to the risk disclosures for more information.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions.

Notes to the consolidated financial statements (unaudited)

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As at 31 December 2022	Property \$m	Casualty \$m	Specialty \$m	Total \$m
Gross premiums written by geographic region				
US	174.7	171.9	8.7	355.3
Worldwide	93.5	29.0	81.2	203.7
Europe	16.3	33.3	10.2	59.8
Other	15.1	2.5	1.1	18.7
Total	299.6	236.7	101.2	637.5
Ceded reinsurance premiums	(46.3)	(1.3)	(9.0)	(56.6)
Net premiums written	253.3	235.4	92.2	580.9
Change in unearned premiums	(43.6)	(40.1)	(15.9)	(99.6)
Change in unearned premiums on premiums ceded	0.9	0.1	-	1.0
Net premiums earned	210.6	195.4	76.3	482.3
Net insurance losses and loss adjustment expenses	(140.0)	(129.0)	(76.9)	(345.9)
Net insurance acquisition expenses	(55.5)	(63.0)	(17.6)	(136.1)
Net underwriting profit (loss)	15.1	3.4	(18.2)	0.3
Other operating expenses				(34.3)
Net unallocated revenue / expenses				(55.7)
Total comprehensive loss				(89.7)
Net loss ratio	66.5%	66.0%	100.8%	71.7%
Net acquisition expense ratio	26.4%	32.2%	23.1%	28.2%
Other operating expense ratio				7.1%
Combined ratio	92.9%	98.2%	123.9%	107.0%

Notes to the consolidated financial statements (unaudited)

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As at 31 December 2021	Property \$m	Casualty \$m	Specialty \$m	Total \$m
Gross premiums written by geographic region				
US	105.4	118.7	3.9	228.0
Worldwide	62.3	7.1	62.3	131.7
Europe	6.0	2.8	-	8.8
Other	9.7	0.4	0.2	10.3
Total	183.4	129.0	66.4	378.8
Ceded reinsurance premiums	(26.4)	(1.2)	(5.0)	(32.6)
Net premiums written	157.0	127.8	61.4	346.2
Change in unearned premiums	(60.0)	(67.9)	(24.9)	(152.8)
Change in unearned premiums on premiums ceded	-	0.8	-	0.8
Net premiums earned	97.0	60.7	36.5	194.2
Net insurance losses and loss adjustment expenses	(70.9)	(41.1)	(30.1)	(142.1)
Net insurance acquisition expenses	(30.5)	(19.7)	(8.9)	(59.1)
Net underwriting loss	(4.4)	(0.1)	(2.5)	(7.0)
Other operating expenses				(30.6)
Net unallocated revenue / expenses				(4.4)
Total comprehensive loss				(42.0)
Net loss ratio	73.1%	67.7%	82.5%	73.2%
Net acquisition expense ratio	31.4%	32.5%	24.4%	30.4%
Other operating expense ratio				15.8%
Combined ratio	104.5%	100.2%	106.9%	119.4%

Included within the other geographic region, are premiums written with external parties in Bermuda for \$0.6 million (31 December 2021: \$0.4 million).

5. Investment return

As at 31 December 2022	Net investment income \$m	Net realised gains / (losses) \$m	Net unrealised gains / (losses) \$m	Total investment return \$m
Fixed maturity securities	16.5	(2.8)	(67.8)	(54.1)
Cash and cash equivalents	1.3	-	-	1.3
Total	17.8	(2.8)	(67.8)	(52.8)

As at 31 December 2021	Net investment income \$m	Net realised gains / (losses) \$m	Net unrealised gains / (losses) \$m	Total investment return \$m
Fixed maturity securities	5.3	(1.0)	(7.6)	(3.3)
Cash and cash equivalents	0.2	-	-	0.2
Total	5.5	(1.0)	(7.6)	(3.1)

Included in net investment income is \$1.1 million of investment management and custody fees for the year ended 31 December 2022 (31 December 2021: \$0.7 million).

Notes to the consolidated financial statements (unaudited)

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6. Net insurance acquisition expenses

Year ended 31 December	2022 \$m	2021 \$m
Insurance acquisition expenses	161.1	103.7
Change in deferred acquisition expenses	(24.8)	(44.6)
Insurance acquisition expenses ceded	(0.2)	-
Total	136.1	59.1

7. Employee benefits and other incentives

Aggregate remuneration and other incentives of Conduit's employees is as follows:

Year ended 31 December	2022 \$m	2021 \$m
Wages and salaries	11.4	7.5
Pension benefit	1.1	0.8
Bonus and other benefits	7.7	10.4
Total cash compensation	20.2	18.7
Equity-based incentives	2.1	0.3
Total employee benefits and other incentives	22.3	19.0

Equity-based incentives – MIP

Prior to the IPO, a MIP was created. The purpose of the MIP was to provide an incentive scheme for the founders and initial employees for their services in building the foundations of Conduit. The incentive is based around shares in CML, which will be automatically exchanged for ordinary shares of CHL for an aggregate value equivalent to up to 15% of the excess of the market value of CHL over and above the Invested Equity, subject to the satisfaction of the vesting conditions. All outstanding and future grants have an exercise period of four to seven years from the grant date. The fair value is estimated using a stochastic Monte Carlo model.

CML issued 100,000 A1 shares and 100,000 A2 shares during the period ended 31 December 2020 at a subscription price of £1.72 and \$2.26, respectively. Refer to note 18 for additional details.

The following table lists the assumptions used in the stochastic model for the MIP awards:

Assumptions	Year ended 31 December 2022	Year ended 31 December 2021
Dividend yield	0%	0%
Expected volatility ¹	range from 17.2% – 19.0%	range from 17.2% – 19.0%
Risk-free interest rate ²	range from 0.3% – 0.6%	range from 0.3% – 0.6%
Expected life of instruments	range from 4 to 7 years	range from 4 to 7 years

1. The expected volatility was calculated based on a comparator group of companies.

2. The risk-free interest rate is based on the yield on a US government bond on the date of grant.

The shares were granted prior to the IPO and therefore discounts for business viability and lack of marketability were also applied. There are significant risks associated with an IPO and the instruments are also illiquid until the tranche vesting dates. Management therefore selected their best estimates at the time for these discounts. These assumptions were highly judgemental and input from advisors was sought. Management also considered alternative assumptions and concluded there was not a material impact on the estimated valuation selected. The calculation of the equity-based incentive expense assumes no forfeitures

Notes to the consolidated financial statements (unaudited)

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due to employee turnover, with subsequent adjustments to reflect actual experience. The assumptions and estimated valuation selected resulted in 20% being expensed upfront for certain employees as this portion was not tied to service conditions and was fully expensed in the period ended 31 December 2020.

Conditions of the MIP include:

- The incentives are to be equity-settled and have therefore been accounted for in accordance with IFRS 2.
- The value of the services received in exchange for the share-based incentives is measured by reference to the estimated fair value of the incentives at their grant date, with the estimated fair value recognised in the consolidated statement of comprehensive loss, together with a corresponding increase in other reserves within shareholders' equity, on a straight-line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest.
- Vesting conditions, other than market conditions linked to the share price of CHL, are not taken into account when estimating the fair value.
- At the end of each reporting period Conduit revises its estimates of the number of shares that are expected to vest due to non-market conditions and recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive loss, with a corresponding adjustment to shareholders' equity.

Equity-based incentives – DSBP

A percentage of each employee's bonus is automatically deferred into shares as nil cost options. The nil cost options vest annually in separate equal tranches over a three year period from the date of grant and do not have associated performance criteria attached to the awards. These awards accrue dividend equivalents for all dividends declared where the record date falls between the grant date and date of exercise, and are paid at the time of exercise.

	Number of awards
Outstanding as at 31 December 2021	-
Granted	764,575
Forfeited	(11,559)
Outstanding as at 31 December 2022	753,016

8. Other operating expenses

Year ended 31 December	2022 \$m	2021 \$m
Results of operating activities are stated after charging the following amounts:		
Audit fees	0.9	0.8
Other auditor services	0.1	0.1
Total	1.0	0.9

During the year ended 31 December 2022, KPMG Audit Limited provided non-audit services in relation to Conduit's 2022 interim review. Fees for non-audit services in the year ended 31 December 2022 totalled \$0.1 million (31 December 2021: \$0.1 million).

9. Financing costs

Year ended 31 December	2022 \$m	2021 \$m
LOC and trust fees	0.7	0.4
Interest expense on lease liabilities	0.1	0.1
Total	0.8	0.5

Refer to note 17 for details of Conduit's financing arrangements.

Notes to the consolidated financial statements (unaudited)

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10. Tax

Bermuda

CHL, CSL, CML and CRL have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

United Kingdom

CRSL is subject to normal UK corporation tax on all of its taxable profits. For the year ended 31 December 2022 and 2021 an immaterial tax profit arose.

11. Cash and cash equivalents

	2022 \$m	2021 \$m
As at 31 December		
Cash at bank and in hand	21.5	24.4
Cash equivalents	91.4	43.1
Total	112.9	67.5

Cash equivalents include money market funds and other short-term highly liquid investments with three months or less remaining until maturity at the time of purchase. The carrying amount of these assets approximates their fair value. Refer to note 17 for cash and cash equivalents provided as collateral under Conduit's financing arrangements.

12. Investments

	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Estimated fair value \$m
As at 31 December 2022				
Fixed maturity securities, at FVTPL				
Short-term investments	37.9	-	-	37.9
US treasuries	221.6	0.2	(11.6)	210.2
US agency debt	2.0	-	(0.2)	1.8
US municipals	16.4	-	(1.2)	15.2
Non-US government and agency	2.1	-	(0.1)	2.0
Asset-backed	171.6	-	(7.8)	163.8
US government agency mortgage-backed	116.3	0.1	(15.8)	100.6
Non-agency mortgage-backed	15.1	-	(2.3)	12.8
Agency commercial mortgage-backed	3.7	-	(0.5)	3.2
Non-agency commercial mortgage-backed	59.7	-	(7.0)	52.7
Corporate	450.7	0.1	(29.3)	421.5
Total	1,097.1	0.4	(75.8)	1,021.7

Notes to the consolidated financial statements (unaudited)

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As at 31 December 2021	Cost or amortised cost \$m	Unrealised gains \$m	Unrealised losses \$m	Estimated fair value \$m
Fixed maturity securities, at FVTPL				
Short-term investments	8.9	-	-	8.9
US treasuries	172.9	-	(1.1)	171.8
US agency debt	2.0	-	-	2.0
US municipals	13.4	-	(0.2)	13.2
Non-US government and agency	2.2	-	-	2.2
Asset-backed	170.3	0.1	(0.7)	169.7
US government agency mortgage-backed	95.5	-	(0.9)	94.6
Non-agency mortgage-backed	19.4	-	(0.2)	19.2
Agency commercial mortgage-backed	3.2	-	-	3.2
Non-agency commercial mortgage-backed	59.0	-	(0.6)	58.4
Corporate	469.2	0.2	(4.2)	465.2
Total	1,016.0	0.3	(7.9)	1,008.4

As at 31 December 2022 other assets and other payables included \$1.2 million and \$1.2 million for investments sold and purchased, respectively (31 December 2021: nil and \$10.6 million, respectively).

Conduit determines the estimated fair value of each individual security utilising the highest-level inputs available. Prices for the investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

Conduit has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for the year ended 31 December 2022 and 2021. The fair value of securities in the investment portfolio is estimated using the following techniques:

LEVEL (I) – Level (I) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL (II) – Level (II) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (II) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, credit spreads, interest rates, prepayment speeds and default rates.

LEVEL (III) – Level (III) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement.

Conduit determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers from Level (I) to (II) securities amounted to \$76.2 million and transfers from Level (II) to (I) securities amounted to \$37.8 million during the year ended 31 December 2022 using end of current period positions and estimated fair values. There were

Notes to the consolidated financial statements (unaudited)

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no investments included in Level (III). There were no transfers between Level (I) and (II), and no investments were included in Level (III) during the year ended 31 December 2021.

The fair value hierarchy of Conduit's investment portfolio is as follows:

As at 31 December 2022	Level I \$m	Level II \$m	Total \$m
Fixed maturity securities, at FVTPL			
Short-term investments	37.9	-	37.9
US treasuries	210.2	-	210.2
US agency debt	-	1.8	1.8
US municipals	-	15.2	15.2
Non-US government and agency	-	2.0	2.0
Asset-backed	-	163.8	163.8
US government agency mortgage-backed	-	100.6	100.6
Non-agency mortgage-backed	-	12.8	12.8
Agency commercial mortgage-backed	-	3.2	3.2
Non-agency commercial mortgage-backed	-	52.7	52.7
Corporate	51.3	370.2	421.5
Total	299.4	722.3	1,021.7

As at 31 December 2021	Level I \$m	Level II \$m	Total \$m
Fixed maturity securities, at FVTPL			
Short-term investments	3.1	5.8	8.9
US treasuries	171.8	-	171.8
US agency debt	-	2.0	2.0
US municipals	-	13.2	13.2
Non-US government and agency	-	2.2	2.2
Asset-backed	-	169.7	169.7
US government agency mortgage-backed	-	94.6	94.6
Non-agency mortgage-backed	-	19.2	19.2
Agency commercial mortgage-backed	-	3.2	3.2
Non-agency commercial mortgage-backed	-	58.4	58.4
Corporate	117.1	348.1	465.2
Total	292.0	716.4	1,008.4

Refer to note 17 for investments provided as collateral under Conduit's financing arrangements.

Notes to the consolidated financial statements (unaudited)

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13. Interests in structured entities

Unconsolidated structured entities in which Conduit has an interest

As part of Conduit's investment activities, it invests in unconsolidated structured entities. Conduit does not sponsor any of the unconsolidated structured entities. The business relations of Conduit with the structured entities set out below do not give rise to consolidation because the criteria for control pursuant to IFRS 10, as contained in our consolidation principles, are not met.

A summary of interests in unconsolidated structured entities is as follows:

As at 31 December	2022 \$m	2021 \$m
Fixed maturity securities, at FVTPL		
Asset-backed	163.8	169.7
US government agency mortgage-backed	100.6	94.6
Non-agency mortgage-backed	12.8	19.2
Agency commercial mortgage-backed	3.2	3.2
Non-agency commercial mortgage-backed	52.7	58.4
Total	333.1	345.1

The fixed maturity structured entities are used to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets, providing liquidity and diversification. While individual securities may differ in structure, the principles of the instruments are similar and it is appropriate to aggregate the investments into the categories detailed above.

The risk that Conduit faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the consolidated balance sheet. Fair value is determined by market supply and demand, which is driven by investor evaluation of the credit risk of the structure and changes in the term structure of interest rates which can change the expectation of cash flows associated with the instrument and, therefore, its value in the market.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that Conduit holds. Generally, default rates would have to increase substantially before Conduit would suffer a loss. This assessment is made prior to investing and regularly through the holding period for the security.

Refer to note 17 for investments provided as collateral under Conduit's financing arrangements.

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14. Losses and loss adjustment expenses

Losses and loss adjustment expenses

	Gross losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
As at 31 December 2020	-	-	-
Incurring losses:			
Current year	191.0	(48.9)	142.1
Exchange adjustments	(0.3)	-	(0.3)
Incurring losses and loss adjustment expenses	190.7	(48.9)	141.8
Paid losses:			
Current year	19.1	-	19.1
Paid losses and loss adjustment expenses	19.1	-	19.1
As at 31 December 2021	171.6	(48.9)	122.7
Incurring losses:			
Current year	390.9	(39.1)	351.8
Prior year	(4.8)	(1.1)	(5.9)
Exchange adjustments	(0.9)	-	(0.9)
Incurring losses and loss adjustment expenses	385.2	(40.2)	345.0
Paid losses:			
Current year	42.4	-	42.4
Prior year	55.1	(12.5)	42.6
Paid losses and loss adjustment expenses	97.5	(12.5)	85.0
As at 31 December 2022	459.3	(76.6)	382.7

Conduit did not book any additional case reserves for the year ended 31 December 2022 and 2021. Net losses and loss adjustment expenses as at 31 December 2022 had an estimated duration of 3.1 years (31 December 2021: 2.7 years).

Further information on the calculation of loss reserves and associated risks are provided in the risk disclosures section. The risks associated with reinsurance contracts are complex and the impact of an unreported event could lead to a significant increase in Conduit's loss reserves. Conduit believes that the loss reserves established are adequate, however a 20% increase in estimated losses would have a \$91.9 million adverse impact on profit (31 December 2021: \$34.3 million).

The 2022 losses were driven by another year of higher-than-average catastrophe losses combined with a number of large losses impacting the industry. Conduit's most significant loss events for the current year stemmed from Hurricane Ian's landfall in Florida as a category 4 hurricane, and the ongoing war in Ukraine impacting both property and specialty segments via classes such as aviation, war on land, and marine war. Conduit recorded \$45.4 million and \$25.0 million respectively for these events, net of outwards reinsurance.

The prior year benefited from reserve releases in the property segment, as reserves established for prior year catastrophe events were refined due to updated information and also a lack of reported claims. General IBNR releases in the specialty segment also contributed to the favourable development of the prior year.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to Conduit, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

Notes to the consolidated financial statements (unaudited)

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The breakdown of net losses and loss adjustment expenses is shown below:

	Gross losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
As at 31 December 2022			
Outstanding losses	98.1	(22.8)	75.3
Losses incurred but not reported	361.2	(53.8)	307.4
Total	459.3	(76.6)	382.7
	Gross losses and loss adjustment expenses \$m	Reinsurance recoveries \$m	Net losses and loss adjustment expenses \$m
As at 31 December 2021			
Outstanding losses	26.0	-	26.0
Losses incurred but not reported	145.6	(48.9)	96.7
Total	171.6	(48.9)	122.7

15. Right-of-use lease assets

Right-of-use lease assets primarily relate to leased properties for Conduit's offices in Bermuda and office equipment. Conduit has not received any rent concessions as a result of COVID-19.

Right-of-use assets		\$m
Balance and net book value as at 1 January 2021		-
Additions		3.0
Depreciation		(0.1)
Balance and net book value as at 31 December 2021		2.9
Depreciation		(0.7)
Balance and net book value as at 31 December 2022		2.2
Lease liabilities		
As at 31 December	2022 \$m	2021 \$m
Less than one year	0.6	0.6
Between one and five years	2.0	2.6
Total undiscounted lease liabilities	2.6	3.2

The discounted lease liability as at 31 December 2022 was \$2.4 million (31 December 2021: \$2.9 million). Conduit does not face significant liquidity risk with respect to its lease liabilities.

Notes to the consolidated financial statements (unaudited)

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Amounts recognised in the consolidated financial statements

Year ended 31 December	2022 \$m	2021 \$m
Consolidated statement of comprehensive loss		
Interest expense on lease liabilities	0.1	0.1
Depreciation of right-of-use assets	0.7	0.1
Total	0.8	0.2
Consolidated statement of cash flows		
Lease payments	0.6	0.1

16. Intangible assets

Intangible assets are comprised of computer software capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Computer software is a technological asset and subject to obsolescence, therefore management expects to utilise the asset over its remaining useful life of 11 years.

Cost	\$m
Net book value as at 31 December 2020	0.2
Additions	0.9
Net book value as at 31 December 2021	1.1
Additions	0.3
Net book value as at 31 December 2022	1.4

17. Financing arrangements

Letters of credit and trust accounts

CRL is a non-admitted reinsurer in the US and Canada. Terms and conditions of certain reinsurance contracts with US and Canadian cedants require CRL to provide collateral for outstanding insurance contract liabilities, including unearned premiums and losses and loss adjustment expenses. The collateral can be provided by LOCs or by assets in trust accounts. Refer to note 9 for details of interest expense associated with these LOCs included in financing costs. Additional information about Conduit's exposure to interest rate and liquidity risk is included in the "Risk disclosures" section.

Standby letter of credit facility

During July 2021, CRL, as the borrower, entered into a \$125.0 million standby letter of credit facility led by Lloyds Bank Corporate Markets PLC. CHL will guarantee the obligations of CRL with respect to the standby letter of credit facility. Terms of the standby letter of credit facility contain standard qualitative representations and require certain standard financial covenants be adhered to, including: a maximum consolidated debt to capital ratio of CHL of 35.0%; a minimum consolidated tangible net worth of CHL; and a minimum A.M. Best rating of "B++" for CRL. CRL had the option to increase the aggregate amount of the commitment under the facility up to \$150.0 million. This was exercised on 22 December 2022, with a new option put in place to increase the facility up to \$175.0 million. As at 31 December 2022, \$92.0 million (31 December 2021: \$18.9 million) was outstanding under the standby letter of credit facility and is secured by cash and cash equivalents and investments of \$110.7 million (31 December 2021: \$27.8 million).

Uncommitted letter of credit facility

During September 2021, CRL entered into a \$75.0 million uncommitted letter of credit facility with Citibank Europe PLC. Terms of the uncommitted letter of credit facility include standard qualitative representations. As at 31 December 2022, \$37.0 million (31 December 2021: \$3.9 million) was outstanding under the uncommitted letter of credit facility and is secured by cash and cash equivalents and investments of \$49.7 million (31 December 2021: \$6.6 million).

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Trust accounts

Several trust account arrangements have been established in favour of policyholders and ceding companies to provide collateral or comply with the security requirements of certain contracts. As at 31 December 2022, \$127.4 million (31 December 2021: \$29.9 million) of cash and cash equivalents and investments were restricted in favour of third parties.

Additional letter of credit and trust funding requirements

For the year ended 31 December 2022, \$87.8 million (31 December 2021: \$58.8 million) of collateral requests and collateral amendments in respect of that financial year were received subsequent to the year end date. These collateral requests will be completed in the normal course of business and will be funded during the subsequent year using cash and cash equivalents and/or investments.

18. Share capital

Authorised share capital	Number	\$m
Authorised common shares of \$0.01 each	10,000,000,000	100.0
Authorised A1 shares of £0.01 each	100,000	-
Authorised A2 shares of \$0.01 each	100,000	-
As at 31 December 2022 and 2021	10,000,200,000	100.0

	Common shares number	A1 shares number	A2 shares number	Total number	Total \$m
Allotted, called-up and fully paid					
Issued	165,239,997	100,000	100,000	165,439,997	1.7
As at 31 December 2022 and 2021	165,239,997	100,000	100,000	165,439,997	1.7

The number of common shares in issue with voting rights (allocated capital less own shares held) as at 31 December 2022 was 160,141,174 (31 December 2021: 165,207,174).

CHL holds 18,000 A1 and A2 shares at 31 December 2022 and 2021. The A1 and A2 shares have no voting rights attached. Subject to vesting conditions, discussed in note 7, the A1 and A2 shares will be automatically exchanged for ordinary shares of CHL.

Own shares

Own shares	Number held in treasury	\$m	Number held in trust	\$m	Total number of own shares	Total \$m
As at 31 December 2020	-	-	-	-	-	-
Repurchased	(32,823)	(0.2)	-	-	(32,823)	(0.2)
As at 31 December 2021	(32,823)	(0.2)	-	-	(32,823)	(0.2)
Repurchased	(725,000)	(3.4)	-	-	(725,000)	(3.4)
Purchased by EBT	-	-	(4,341,000)	(16.5)	(4,341,000)	(16.5)
As at 31 December 2022	(757,823)	(3.6)	(4,341,000)	(16.5)	(5,098,823)	(20.1)

Shares repurchased by CHL and the EBT will be held as own shares to meet future obligations under CHL's variable incentive schemes. See note 22 for information on shares held by the EBT.

Dividends

	Record date	Payment date	Per share \$	\$m
Interim 2021	20 August 2021	10 September 2021	0.18	29.7
Final 2021	25 March 2022	22 April 2022	0.18	29.7
Interim 2022	19 August 2022	9 September 2022	0.18	29.6

See note 23 for information with respect to dividends declared subsequent to 31 December 2022.

Notes to the consolidated financial statements (unaudited)

continued

19. Other reserves

Other reserves consist of the following:

	Other reserves \$m	Share premium \$m	Total other reserves \$m
As at 31 December 2020	0.3	1,055.4	1,055.7
Equity-based incentives	0.3	-	0.3
As at 31 December 2021	0.6	1,055.4	1,056.0
Equity-based incentives	2.1	-	2.1
Transfer from share premium to contributed surplus	1,055.4	(1,055.4)	-
As at 31 December 2022	1,058.1	-	1,058.1

Other reserves include Conduit's equity-based incentive expense.

Share premium includes any premiums received on issue of share capital. The transaction costs that are attributable to the issuance of new shares incurred in forming Conduit are treated as a deduction from share premium. The share premium was transferred to contributed surplus during May 2022 after approval by Conduit's shareholders at the AGM.

20. Contingencies and commitments

Legal proceedings and regulations

Conduit operates in the reinsurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

21. Loss per share

The following reflects the loss and share data used in the basic and diluted loss per share computations:

Year ended 31 December	2022 \$m	2021 \$m
Loss for the period	(89.7)	(42.0)

	Number	Number
Basic weighted average number of shares	163,441,264	165,239,907
Dilutive effect of equity-based incentives	167,093	-
Diluted weighted average number of shares	163,608,357	165,239,907

	Per share \$	Per share \$
Basic and diluted loss per share	(0.55)	(0.25)

Equity-based incentive awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares.

Notes to the consolidated financial statements (unaudited)

continued

22. Related party disclosures

These consolidated financial statements include CHL and the entities listed below:

Subsidiary undertakings	Domicile	Principal Business
CHL	Bermuda	Holding company, Ultimate parent
CRL	Bermuda	General insurance business
CRSL	England and Wales	Support services
CML ¹	Bermuda	Support services
CSL	Bermuda	Support services
EBT	Jersey	Employee benefit trust

1. CML is part-owned by members of management. Management's share ownership in CML exists solely for the purposes of the Group's management share incentive scheme for attracting and retaining talent. Management's shares in CML have no voting power or control in respect of CHL's ownership of CRL via CML's ownership of CRL.

Unless otherwise stated, Conduit owns 100% of the share capital and voting rights in the subsidiaries listed.

Employee benefit trust

The EBT was established with the sole purpose of administering Conduit's equity-based incentive schemes. The trustee operates the trust for the benefit of Conduit's employees, all in accordance with an established trust deed. While Conduit does not have legal ownership of the EBT, the trust is consolidated in Conduit's accounts due to the ability that Conduit has to influence the actions of the trust.

Funding for the trust is provided by CHL through a non-interest bearing loan facility. The facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2022, advances of \$16.5 million (31 December 2021: nil) were made to the trust.

CHL common shares purchased by the EBT will be held for the benefit of employees under CHL's variable incentive schemes. During the year ended 31 December 2022 the trust purchased common shares of 4,341,000 (31 December 2021: nil).

Key management compensation

Remuneration for key management, Conduit's Executive and Non-Executive Directors, was as follows:

Year ended 31 December	2022 \$m	2021 \$m
Cash compensation	4.7	6.3
Equity-based incentives	1.4	0.3
Directors fees and expenses	0.8	0.6
Total	6.9	7.2

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of Conduit's incentive, performance, or pension plans.

IncubEx, Inc.

Effective 9 April 2021, CHL executed a stock purchase agreement with IncubEx, a product and business development firm with a focus on designing and developing new financial products in global environmental, reinsurance and related commodity markets. CHL purchased 624 shares of IncubEx's Series A-3 preferred stock, with a par value of \$0.0001 per share, for an aggregate purchase price of \$50,000, or \$80.08 per share.

The current Executive Chairman of CHL is also a founder and current Chairman of IncubEx. The terms and conditions of the stock purchase agreement are equivalent to those that would prevail in an arm's length transaction. The investment in IncubEx is included in other assets in the consolidated balance sheet and is recorded at cost, which approximates fair value.

Notes to the consolidated financial statements (unaudited)

continued

23. Subsequent events

Dividends

On 22 February 2023, Conduit's Board of Directors declared a final dividend for 2022 of \$0.18 (approximately £0.15) per common share, which will result in an aggregate payment of \$28.8 million. The dividend will be paid in pounds sterling on 21 April 2023 to shareholders of record on 24 March 2023 (the "Record Date") using the pound sterling / US dollar spot exchange rate at 12 noon on the Record Date.

Uncommitted letter of credit facility

During January 2023, Conduit Re increased its \$75.0 million uncommitted letter of credit facility with Citibank Europe PLC to \$100.0 million.

Additional performance measures (the “APMs”)

Conduit presents certain APMs to evaluate, monitor and manage the business and to aid readers' understanding of Conduit's financial statements and methodologies used. These are common measures used across the (re) insurance industry and allow the reader of Conduit's financial reports to compare those with other companies in the (re)insurance industry. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with IFRS. Conduit's Audit Committee has evaluated the use of these APMs and reviewed their overall presentation to ensure that they were not given undue prominence. This information has not been audited.

Management believes the APMs included in the consolidated financial statements are important for understanding Conduit's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the (re)insurance industry. However, these measures may not be comparable to similarly labelled measures used by companies inside or outside the (re)insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by Conduit for its consolidated financial statements or in accordance with IFRS.

Below are explanations, and associated calculations, of the APMs presented by Conduit:

APM	Explanation	Calculation
Net loss ratio	Ratio of net losses and loss adjustment expenses expressed as a percentage of net premiums earned in a period.	Net losses and loss adjustment expenses / Net premiums earned
Net acquisition expense ratio	Ratio of net acquisition expenses charged by insurance brokers and other insurance intermediaries to Conduit expressed as a percentage of net premiums earned in a period.	Net acquisition expenses / Net premiums earned
Other operating expense ratio	Ratio of other operating expenses expressed as a percentage of net premiums earned in a period.	Other operating expenses / Net premiums earned
Combined ratio (KPI)	The sum of the net loss ratio, net acquisition expense ratio and other operating expense ratio. A combined ratio below 100% generally indicates profitable underwriting, whereas a combined ratio over 100% generally indicates unprofitable underwriting, each prior to the consideration of total net investment return.	Net loss ratio + Net acquisition expense ratio + Other operating expense ratio
Accident year loss ratio	Ratio of the net accident year ultimate liability revalued at the current balance sheet date expressed as a percentage of net premiums earned in a period.	Accident year net losses and loss adjustment expenses / Net premiums earned
Underwriting year loss ratio	Ratio of net losses and loss adjustment expenses of an underwriting year (or calendar year) expressed as a percentage of net premiums earned in a period.	Underwriting year net losses and loss adjustment expenses / Net premiums earned
Underwriting profit (loss)	Profit or loss directly related to the underwriting activities of Conduit.	Net premiums earned – net losses and loss adjustment expenses – net acquisition costs

Additional performance measures (the “APMs”) continued

APM	Explanation	Calculation
Total net investment return (KPI)	Conduit’s principal investment objective is to preserve capital and provide adequate liquidity to support the payment of losses and other liabilities. In light of this, Conduit looks to generate an appropriate total net investment return. Conduit bases its total net investment return on the sum of non-operating cash and cash equivalents and fixed maturity securities. Total net investment return is calculated daily and expressed as a percentage.	Net investment income + Net unrealised gains (losses) on investments + Net realised gains (losses) on investments / Non-operating cash and cash equivalents + Fixed maturity securities, at beginning of period
Return on equity (KPI)	ROE enables Conduit to compare itself against other peer companies in the immediate industry. It is also a key measure internally and is integral in the performance-related pay determinations. ROE is calculated as the profit for the period divided by the opening total shareholders’ equity.	Profit (loss) after tax for the period / Total shareholders’ equity, at beginning of period
Total shareholder return (KPI)	TSR allows Conduit to compare itself against other public peer companies. TSR is calculated as the percentage change in common share price over a period, after adjustment for common share dividends.	Closing common share price - Opening common share price + Common share dividends during the period / Opening common share price
Dividend yield	Calculated by dividing the annual dividends per common share by the common share price on the last day of the given year and expressed as a percentage.	Annual dividends per common share / Closing common share price

Glossary

The following definitions apply throughout the Annual Report unless the context otherwise requires. All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof. Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

100 year return period A 1% probability of a catastrophe loss event of a certain size (or greater) occurring in any given year.

250 year return period A 0.4% probability of a catastrophe loss event of a certain size (or greater) occurring in any given year.

ABIR The Association of Bermuda Insurers and Reinsurers (ABIR) represents the public policy interests of its members.

Additional case reserves (ACRs) ACRs represent Conduit's estimate for losses related to specific contracts which Conduit believes may not be adequately reported, or adequately covered in the application of IBNR.

Admission The admission of all of CHL's common shares (1) to the standard listing segment of the Official List of the UK Financial Conduct Authority, and (2) to trading on the London Stock Exchange's main market for listed securities which occurred on 7 December 2020.

Aggregate excess of loss (XoL) reinsurance A form of excess of loss reinsurance in which the excess and the limit of liability are expressed as annual aggregate amounts.

AGM Annual General Meeting of CHL shareholders

AM Best AM Best is a full-service credit rating organisation dedicated to serving the financial services industries, focusing on the insurance sector.

AM Best rating A forward-looking, independent, and objective opinion issued by AM Best regarding an insurer's, issuer's, or financial obligation's relative creditworthiness.

BCAR The AM Best measure of capital adequacy.

Best Capital Adequacy Rating (BCAR) Depicts the quantitative relationship between a rating unit's

balance sheet strength and key financial risks that could impact such strength.

BMA Bermuda Monetary Authority.

Board of Directors Board unless otherwise stated refers to the CHL Board of Directors.

Book value per share Calculated by dividing the value of the total shareholders' equity by the sum of all common voting shares outstanding.

Broker An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

Brokerage The commission that is payable to a broker for placing an insurance or reinsurance contract with an insurer or a reinsurer.

BSCR Bermuda Solvency Capital Requirement.

BI Business interruption Insurance coverage that replaces income lost in the event that business is halted due to direct physical loss or damage.

Cedant A ceding insurer or a reinsurer that writes and issues a policy to an (re)insured and contractually transfers (cedes) a portion of the risk to a reinsurer or retrocessionaire.

CEO Chief Executive Officer

CFO Chief Financial Officer

CHL Conduit Holdings Limited.

Claim AA request by an insured or reinsured for indemnification by an insurance or reinsurance company for loss incurred from an insured peril or event.

CML Conduit MIP Limited.

Combined ratio The sum of the net loss ratio, net acquisition expense ratio and other operating expense ratio. A combined ratio below 100% generally indicates profitable underwriting, whereas a combined ratio over 100% generally indicates unprofitable underwriting, each prior to the consideration of total net investment return.

Company Conduit Holdings Limited.

Consortium underwriting Underwriting on the part of a group of either companies or insurers, where risks, premiums and costs are split proportionately between the participants. If

Glossary

continued

a consortium member fails, losses do not fall back on the other capital providers.

Coverholder A coverholder is a company or partnership authorised by a managing agent to enter into a contract or contracts of insurance to be underwritten by the members of a syndicate managed by it in accordance with the terms of a binding authority.

Conduit The brand for Conduit Holdings Limited and all associated group companies.

Conduit Re The brand for all the group's reinsurance business.

CRL Conduit Reinsurance Limited.

CRSL Conduit Reinsurance Services Limited (previously named Conduit Marketing Limited).

CSL Conduit Services Limited.

CRO Chief Risk Officer.

CUO Chief Underwriting Officer.

Cyber Cyber insurance (or cyber risk or cyber liability insurance) is a form of cover designed to protect businesses from digital threats, such as data breaches or malicious cyber hacks.

Deductible or excess or retention The amount of the loss which is retained net by the insured (i.e., prior to the inception of a reinsurance programme). Also known as an "excess" or "retention". The amount that is deducted from some or all claims arising under an insurance or reinsurance contract. The practical effect is the same as an excess: the insured or reassured must bear a proportion of the relevant loss. If that loss is less than the amount of deductible/excess then the insured or reassured must bear all of the loss (unless there is other insurance in place to cover the deductible). An increase in deductible should result in a reduction in premium.

Deferred acquisition expenses Costs incurred for the acquisition or the renewal of insurance policies which are deferred and amortised over the term of the insurance contracts.

Diluted earnings (loss) per share Calculated by dividing comprehensive profit (loss) for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares, plus the weighted average number of common shares that

would be issued on the conversion of all potentially dilutive equity-based compensation awards.

DSBP The deferred share bonus plan is an equity-based incentive plan where a certain percentage of employee bonuses is deferred into nil cost options.

Directors' & Officers' (D&O) A specialised form of professional liability coverage for legal expenses and liability to shareholders, bondholders, creditors or others owing to actions or omissions by a director or officer of a corporation or non-profit organisation.

Dividend yield Calculated by dividing the annual dividends per common share by the common share price on the last day of the given year and expressed as a percentage.

Earnings (loss) per share (EPS) Calculated by dividing comprehensive profit (loss) for the year attributable to shareholders by the weighted average number of common shares outstanding during the year, excluding treasury shares.

EBT The Conduit Group EBT is a trust established for the sole purpose of administering Conduit's equity-based incentive schemes.

ECR Enhanced capital requirement Under the BSCR Model, the reinsurer's minimum required statutory capital and surplus is referred to as the enhanced capital requirement ("ECR"). The ECR is the greater of the calculated BSCR and the minimum solvency margin ("MSM").

ERM Enterprise risk management is the process of assessing the risk of an organisation's activities in order to minimise the effects of those risks.

Estimated Ultimate Premiums Written Premium reported by ceding companies, supplemented by management's judgement on the estimate provided.

Excess of loss (XOL, XL) or non-proportional Reinsurance that indemnifies against all or a specified portion of loss and loss expenses in excess of a specified monetary amount or other threshold, known as the cedant's retention or reinsurers attachment point, generally subject to a negotiated reinsurance contract limit.

Facultative Reinsurance The cedant cedes, and the reinsurer assumes, all or part of the risk under a single insurance contract.

FVTPL Fair value through profit or loss.

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continued

Gross Premiums Earned Equal to gross premiums written less the change in unearned premiums. It is the portion of the gross premium applicable to the expired portion of the policies reinsured.

Gross Premiums Unearned The gross premiums that are related to the unexpired portion of the risk period after the balance sheet date that are deferred and amortised to future accounting.

Gross Premiums Written (GPW) Amounts payable by the cedant before any deductions, which may include taxes, brokerage and commission.

IAS International Accounting Standard(s) are created by the IASB for the preparation and presentation of financial statements.

IASB International Accounting Standards Board.

IFRS International Financial Reporting Standard(s).

Incurred But Not Reported (IBNR) Reserve for anticipated or likely losses that may result from insured events which have taken place, but which have not yet been reported and/or possible adverse

IPO Initial public offering.

IRR Internal rate of return.

Invested equity Means the aggregate of initial equity invested in CHL on Admission and equity invested pursuant to any future equity raises by the Company, with the US dollar value of Invested Equity for the USD MIP Shares being calculated at the spot rate at the time the relevant proceeds of the equity raise were received by the Company.

LOC Letter of credit

Long-tail A type of liability that carries a long settlement period.

Losses And Loss Adjustment Expenses Liabilities established by insurers and reinsurers to reflect the estimated cost of claims payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance contracts it has written.

Losses occurring business Business where the wording stipulates that claims against liability policies can be notified to the company at any time following the issue of the policy.

Loss reserve development The difference between the amount of reserves for losses and loss

adjustment expenses initially estimated by an insurer or reinsurer and the amount re-estimated in an evaluation at a later date.

LSE London Stock Exchange.

Market value Refers to (1) the market capitalisation of CHL calculated by reference to the six month average closing share price prior to the date of the relevant exchange of MIP Shares for common shares of CHL (adjusted to take into account any capital events or distributions during that period); or, (2) in the case of a takeover of CHL, the value of the consideration for the takeover, or (3) in the case of a sale of CHL, the net sale consideration, or (4) in the case of the liquidation of CHL, the amount available for distribution in the liquidation, in each case taking into account any prior dividends, returns of capital or other distributions. The Market Value for the USD MIP Shares will be calculated in US dollars based on the prevailing spot rate on the date of the relevant share price and in the case of a takeover of CHL, or sale or liquidation of CHL the latest reasonably practicable spot rate prior to the date of the exchange of MIP Shares for common shares of CHL as determined by the Remuneration Committee of CHL.

Net Acquisition Expense Net expenses charged by insurance brokers and other insurance intermediaries.

Net acquisition expense ratio Ratio of net acquisition expenses charged by insurance brokers and other insurance intermediaries to Conduit expressed as a percentage of net premiums earned in a period.

Net loss ratio Ratio, in percent, of net losses and loss adjustment expenses to net premiums earned.

OEP Occurrence exceedance probability is the probability that the largest loss in a year exceeds a certain amount (of loss).

Other operating expense ratio Ratio of other operating expenses expressed as a percentage of net premiums earned in a period.

Overriding commission A commission that is paid by a reinsurer to the reassured to cover the latter's overheads in administering the reinsurance.

Performance condition Is the compound annual growth rate achieved by CHL's shareholders on the date of the relevant exchange of MIP Shares for common shares of CHL is equal to or greater than ten per cent. per annum. The Performance

Glossary

continued

Condition is measured by reference to (1) any growth in CHL's market capitalisation, (2) any dividends paid to common shareholders, and (3) any other returns of value to common shareholders. The Performance Condition is calculated from admission of its common shares to trading on the London Stock Exchange on 7 December 2020 on the initial capital raised then (and from the date of any future equity investment in the Company on that equity) to the date of the relevant exchange. It also takes into account the timing of any prior returns to common shareholders. The Performance Condition will be calculated separately in US dollars for the USD MIP Shares and sterling for the GBP MIP Shares.

Quota share reinsurance A form of proportional reinsurance in which the reinsurer assumes an agreed percentage of each insurance contract being reinsured.

Return On Equity (ROE) ROE is calculated as the profit for the period divided by the opening total shareholders' equity.

Renewal price index (RPI) Internal methodology that management uses to track trends in premium rates of a portfolio of reinsurance contracts.

Risk transfer The transfer of all or a part of a risk to another party.

Risk-adjusted return A concept that defines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number.

The UK Code The UK Corporate Governance Code, monitored by the UK Financial Reporting Council.

Total shareholder return The percentage of the increase/(decrease) in share price over a period, stated in percentages, after adjustment for dividends.

Treaty reinsurance A form of reinsurance in which the ceding company makes an agreement to cede certain business and the reinsurer, in turn, agrees to accept all business qualifying under the agreement, known as the "treaty."

Ultimate loss ratio The ratio of total incurred losses to total premiums earned.

Unearned premium The portion of premium income that is deferred and amortised to future accounting periods

US GAAP Accounting principles generally accepted in the United States.

VaR Value at Risk.

Advisors and contact information

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