Financial statements

Independent Auditor's report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Conduit Holdings Limited

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Conduit Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2022, the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. We summarize below the key audit matters (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report
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The risk	Our response

Loss and loss adjustment expense reserves (gross and net)

(2022: $459.3 million gross, $382.7 million net of outwards reinsurance, of which incurred but not reported reserves represented $361.2 million gross, $307.4 million net of outwards reinsurance; 2021: $171.6 million gross, $122.7 million net of outwards reinsurance, of which incurred but not reported reserves represented $145.6 million gross, $96.7 million net of outwards reinsurance)

Refer to the Audit committee report on pages 53 to 57 and the following in the notes to the consolidated financial statements: note 2 'Significant accounting policies', note 3 'Risk disclosures' and note 14 disclosures on loss and loss adjustment expense reserves.

A significant and critical judgement and estimate made by management is the estimation of loss and loss adjustment expense reserves (gross and net). The Group establishes its reserves for losses and loss adjustment expense reserves by taking outstanding losses, adding an estimate for incurred but not reported losses (IBNR) and, if deemed necessary, additional case reserves (ACR) which represent the Group's estimate for losses related to specific contracts that the Group believes may not be adequately estimated by the cedant as of that date.

Subjective valuation

The valuation of the ACR and IBNR liabilities is a complex process which incorporates a significant amount of judgement with high estimation uncertainty such as initial expected loss ratios and estimates of ultimate premium.

Amounts recoverable from reinsurers are estimated using the same methodology and judgements as for the underlying liabilities.

Estimated IBNR reserves may also consist of 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 the Company's underwriters and actuaries during the initial pricing of the business. The judgements and estimates used in establishing loss reserve calculations may be revised as additional experience or other data becomes available. In addition, an allowance is made for specific risks. The determination of this allowance is a subjective judgement based on the perceived uncertainty and potential for volatility in the underlying claims.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of gross and net loss and loss adjustment expense reserves has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole, and possibly many times that amount.

Our procedures included:

Control design and implementation:

- We evaluated the design and implementation of the Group's key controls regarding review and approval of the loss and loss adjustment expense reserve. We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Assessing valuer's credentials:

- We evaluated the competence, capabilities and objectivity of the Group's internal and independent experts;

- We (together with our own valuation specialists) performed enquiries of these experts to understand their processes and models.

Our valuation expertise:

- We used our own valuation specialists in assessing and challenging the reasonableness of the methods and assumptions utilised by the Group's experts (on a gross and net of outwards reinsurance basis) – including the assessment of selected loss ratios, adjustments to arrive at management's best estimate and reserves held for specific large loss and catastrophe (CAT) events. We also compared the Group's reserving methodology with industry practice.

Assessing observable inputs:

- We agreed the underlying data utilised in the actuarial analyses to accounting records. We agreed a sample of cedant CAT loss estimates to supporting documentation where these formed the basis of reserving for CAT events.

Assessing transparency:

- We evaluated the adequacy of the Group's disclosures on loss and loss adjustment expense reserves in accordance with the requirements of relevant accounting standards.

Independent Auditor's report
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The risk	Our response
Accuracy of premium estimates on proportional business (2022: $637.5 million 2021: $378.8 million) included within Gross premiums written. Refer to the Audit committee report on pages 53 to 57 and the following in the notes to the consolidated financial statements: note 2 'Significant accounting policies'.	
Subjective valuation Proportional business constitutes a significant portion of business written during the year; pricing for which is based on estimates of ultimate premiums provided by ceding companies supplemented by management estimates. Management exercises judgement in determining the ultimate estimates in order to establish the appropriate premium value. These judgements are based on experience with the ceding company, familiarity with each market, timing of the reported information and its understanding of the characteristics of each class of business. As part of our risk assessment, we determined that the accuracy of inward premium estimates on proportional business has a higher degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the consolidated financial statements as a whole.	**Our procedures included:** Control design and implementation: - We evaluated the design and implementation of the Group's key controls regarding review of the premium estimates recorded. We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Assessing assumptions and methodology: - For a statistical sample of policies, we agreed the estimated ultimate premium to third party supporting documentation and challenged assumptions applied by the Company including judgements made by management's underwriters. In assessing the appropriateness of assumptions applied by management, we have evaluated the comparison of estimated and actual premiums for prior year policies. Assessing transparency: - We evaluated the adequacy of the Group's disclosures on premium estimates in accordance with the requirements of relevant accounting standards.

Other information

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Except as described in the Report on Other Legal and Regulatory Requirements section of our report, our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's report
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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Directors' remuneration report

The Group voluntarily prepares an annual report on remuneration in accordance with the provisions of the United Kingdom (UK) Companies Act 2006. The Directors have engaged us to audit the part of the annual report on remuneration specified by the UK Companies Act 2006 to be audited as if the Company were a UK registered company.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the UK Companies Act 2006, as if those requirements applied to the Company.

Corporate governance statement

We have been engaged to review the part of the corporate governance statement on pages 47 to 50 relating to the Group's compliance with the provisions of the UK Corporate Governance Code that would be specified by the Listing Rules of the UK's Financial Conduct Authority for our review if the Group had a premium listing on the London Stock Exchange. We have nothing to report in this respect.

In addition, the Directors have engaged us to review their statements on going concern and the longer-term viability on page 82 as if the Company was a United Kingdom registered company with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements.

Based on the knowledge we acquired during our audit of the consolidated financial statements, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Longer term viability statement on page 82 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' explanation in the Longer term viability statement page 82 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.
- the related going concern statement made in conformity with the Listing Rules set out on page 82.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's shareholders and Board of Directors, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders and Board of Directors those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders and Board of Directors, as a body, for our audit work, for this report, or for the opinion we have formed.

The Engagement Partner on the audit resulting in this independent auditor's report is James Berry.

Chartered Professional Accountants

Hamilton, Bermuda

3 March 2023

Consolidated statement of comprehensive loss
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
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 3 March 2023 and signed on its behalf by:

Trevor Carvey
CEO

Elaine Whelan
CFO

Consolidated statement of changes in shareholders' equity
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
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
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.

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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
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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
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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.

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 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 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.

Notes to the consolidated financial statements
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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 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

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.

		As at 31 December 2022		As at 31 December 2021	
Return period	Peril	**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.

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.

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, duration[1] 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:

As at 31 December 2022	**Estimated fair value short-tail $m**	**Estimated fair value long-tail $m**	**Estimated fair value total $m**
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**

As at 31 December 2021	Estimated fair value short-tail $m	Estimated fair value long-tail $m	Estimated fair value total $m
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:

	2022		2021	
As at 31 December	**$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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	2022		2021	
As at 31 December	**$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:

	2022		2021	
As at 31 December	**$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 contacts 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				
As at 31 December 2022	**Carrying value $m**	**Less than one $m**	**One to three $m**	**Three to five $m**	**Over five $m**	**Total $m**
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				
As at 31 December 2021	Carrying value $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
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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As at 31 December 2022	Cash and cash equivalents and fixed maturity securities $m	Inward premiums receivables $m	Reinsurance recoverable and other reinsurance receivables $m
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**

As at 31 December 2021	Cash and cash equivalents and fixed maturity securities $m	Inward premiums receivables $m	Reinsurance recoverable and other reinsurance receivables $m
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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continued

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 and minimum margin of solvency requirements. 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
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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
continued

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
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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
continued

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.

DSBP	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
continued

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

As at 31 December	2022 $m	2021 $m
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

As at 31 December 2022	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value $m
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
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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.

Notes to the consolidated financial statements
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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 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
continued

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.

Notes to the consolidated financial statements
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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	**-**	**-**	**-**
Incurred losses:			
Current year	191.0	(48.9)	142.1
Exchange adjustments	(0.3)	-	(0.3)
Incurred 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**
Incurred losses:			
Current year	390.9	(39.1)	351.8
Prior year	(4.8)	(1.1)	(5.9)
Exchange adjustments	(0.9)	-	(0.9)
Incurred 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
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The breakdown of net losses and loss adjustment expenses is shown below:

As at 31 December 2022	**Gross losses and loss adjustment expenses $m**	**Reinsurance recoveries $m**	**Net losses and loss adjustment expenses $m**
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**

As at 31 December 2021	Gross losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
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
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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**

Allotted, called-up and fully paid	Common shares number	A1 shares number	A2 shares number	Total number	Total $m
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
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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
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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
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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.