



CONDUIT RE

Financial Condition Report 2020
Conduit Reinsurance Limited

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Foreword

This financial condition report relates to the financial condition of Conduit Reinsurance Limited for the period ended 31 December 2020.

Conduit Reinsurance Limited was incorporated on 6 October 2020 and did not write any reinsurance business in 2020. The only material transaction during 2020 was the capitalisation of the Company by Conduit Holdings Limited (the Company's ultimate parent) following Conduit Holdings Limited's initial public offering and the associated issuance of shares that was completed on 7 December 2020. Other transactions related to formation costs and initial expenditure on professional advisors, people and systems.

Given this context, the description of risk appetites and governance arrangements in this report reflects the situation as it evolved from the Board's initial meetings held in the fourth quarter of 2020 into the risk appetites and governance arrangements that were ratified and approved by the Board in February 2021, which are refined and developed versions of those stated in the initial public offering prospectus issued by Conduit Holdings Limited.

Business and Performance

Name of the insurer

Conduit Reinsurance Limited (the "Company" or "CRL") is a reinsurance company trading under the Conduit Re brand. It was incorporated in Bermuda on 6 October 2020 and was registered as a Class 4 Insurer by the Bermuda Monetary Authority ("BMA"), with registration number 55937, effective 19 November 2020.

CRL's registered office is Clarendon House, 2 Church Street, Hamilton HM11 and its physical head office is Ideation House, 2nd floor, 94 Pitts Bay Road, Pembroke HM08.

Name and contact details of the insurance supervisor and group supervisor

Bermuda Monetary Authority, BMA House, 43 Victoria Street, Hamilton, HM 12.

CRL is not subject to group supervision.

Name and contact details of the approved auditor

KPMG Audit Limited, Crown House, 4 Par-la-Ville Rd., Hamilton, HM 08.

Ownership details

CRL's ultimate parent is Conduit Holdings Limited ("CHL") which is a publicly traded company on the London Stock Exchange, trading under the ticker LSE:CRE. CRL's immediate parent is Conduit MIP Limited ("CML"), an intermediate holding company.

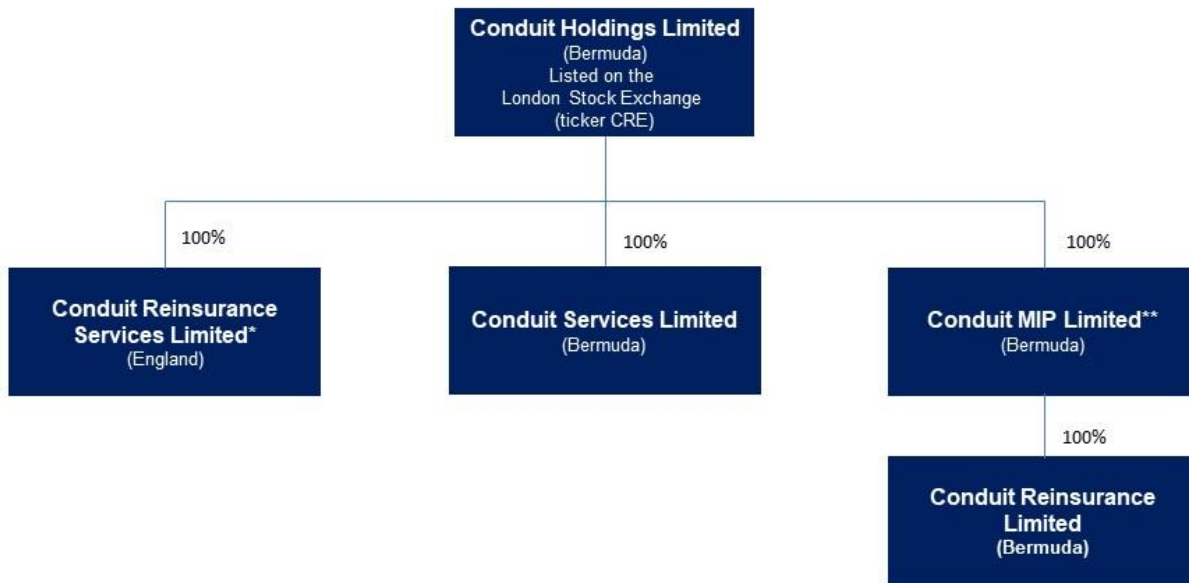
As at 31 December 2020, the Company was aware of the following interests of 5% or more in CHL's issued share capital:

Shareholder	Number of Shares	Percentage of issued share capital
Aviva Investors	25,061,645	15.17%
Fidelity International	15,253,640	9.29%
CI Investments	9,119,583	5.52%
Kames Capital	8,614,729	5.21%

Group Structure

The Group's structure is summarised in the chart below, including country of incorporation.

Conduit Group Corporate Structure



*Name changed from Conduit Marketing Limited on 18 March 2021

**Conduit Holdings Limited ownership indicates voting shares only.



Insurance business written during the reporting period

No insurance business was written in 2020.

Performance of investments and material income and expense items

Investment income for the period was \$51 thousand.

Material expenses incurred during the period related to costs incurred in establishing the Company and operations.

Other material information

During the period, CHL completed a successful initial public offering with net proceeds of \$1,057 thousand (£790,000 thousand) and CRL was capitalised with \$1,048 thousand. CRL commenced underwriting on 1 January 2021.

Governance and Structure

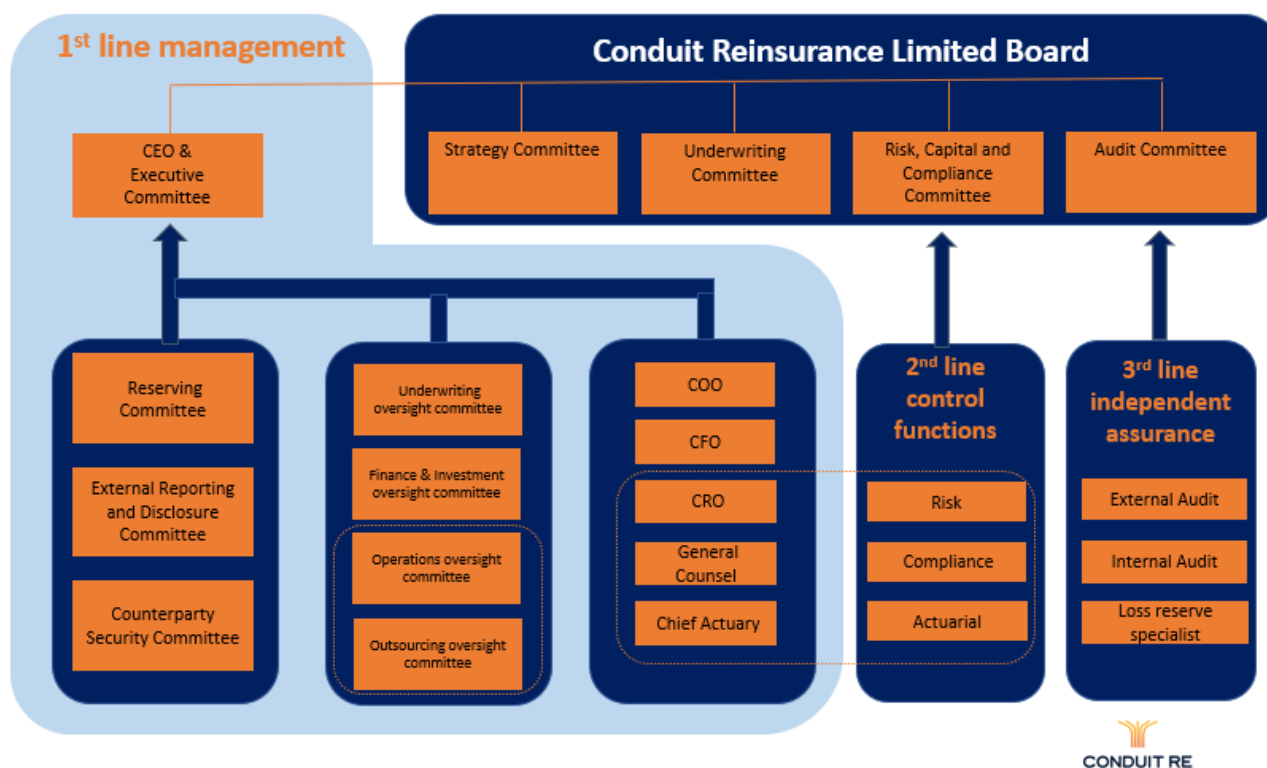
Board and senior executive

During the reporting period, activities were focused on formation activities, approval of the business plan that was submitted to the BMA as part of the Company's application for a Class 4 license, the recruitment of staff, appointment of officers, and the delegation of underwriting and expenditure authority to management. These activities were undertaken by the Board directly, which at that time comprised members of executive management only.

In December, the members-elect of the audit committee, both independent non-executives, held various meetings to select the outsourced internal audit provider. The audit committee was formally established 15 February 2021 and at that time the selection was formally ratified.

The description of the structure of the Board and senior executive that follows reflects the position at the fourth quarter 2020 board and committee meetings held in February 2021. Details of the timings of appointments made after 31 December 2020 are also provided.

Conduit Reinsurance Governance Structure



The Board comprises three independent non-executive directors and four executive directors. The Board has established four sub-committees as shown in the diagram above, each of which is chaired by an independent non-executive director. The Audit, Risk Capital & Compliance and Underwriting committees held their inaugural meetings in February 2021. The strategy committee will be scheduled to meet later in 2021, noting that CRL had a strategy, set out in the CHL initial public offering prospectus, that was adopted in the business plan that was submitted to the BMA as part of CRL's application for authorisation as a Class 4 reinsurer.

The Board has also established the executive committee comprising the chief and senior executives. The second-line

control functions and third-line independent assurance functions report directly to sub-committees of the board.

The Board delegates authority to its sub-committees, the chief executive and to the executive management committee. Certain matters are reserved for the board, including the approval of risk appetite statements.

The executive committee has delegated certain specialist, decision making, tasks to committees comprising members of executive management and other senior staff. These are the reserving committee, counterparty security committee and the external reporting and disclosure committee.

Four committees with an oversight and review mandate have been established: underwriting; finance and investments; operations; and outsourcing.

Committee Structures and Attendees

Name	Role	Board	Strategy Committee	Underwriting Committee	Risk, Capital & Compliance	Audit Committee
Ken Randall	INED	Chair	Member	Chair		Member
Elizabeth Murphy	INED	Member	Member			Chair
Malcolm Furbert	INED	Member	Member		Chair	
Trevor Carvey	CEO	Member	Chair	Member	Member	
Stuart Quinlan	Deputy CEO/COO	Member	Member	Member		
Elaine Whelan	CFO	Member	Member	Attends	Member	Attends
Greg Lunn	General Counsel	Member	Member		Reports	Attends
Andrew Smith	CRO	Attends	Attends	Attends	Reports	Attends
Keith Griffin	Chief Actuary		Attends	Attends	Reports	
EY	Internal Audit					Reports
KPMG	External Audit					Reports
<i>Matthew Ball (TW)</i>	LRS					Reports

Remuneration

The group's remuneration policy is set by the remuneration committee of CHL and is expected to be applied to all group entities. The remuneration committee comprises four independent directors of CHL, two of whom are also independent directors of CRL.

The policy is designed to ensure that remuneration is aligned to and supportive of the Company's strategy, including the avoidance of pressures for short-term risk taking. In addition to salary, benefits and annual bonus scheme, executive management, and certain other members of staff, may participate in a share-based management incentive programme which has the potential to be realised over a four-to-seven-year time horizon, subject to malus and claw back provisions. The annual bonus scheme is based on a mix of individual and group performance.

The CHL remuneration committee will determine the actual bonus awards for the CHL CEO and CFO, who serve in the

same roles for CRL, and will review and approve the bonus awards for senior executives of CRL and underwriting line of business heads.

Bonuses will be subject to a maximum percentage of base salary and deferral of a portion into CHL shares. Malus and claw back provisions will also apply to bonus awards.

Non-executive directors of CRL currently receive a flat fee for their service. They may receive an additional fee for specific board responsibilities, including chairmanship or membership of board committees, although no such additional fees have been approved at the date of this report. Additional fees may be paid to non-executive directors on a per diem basis to reflect increased time commitment in certain limited circumstances.

Pensions

Most employees, including executive management, are provided with a non-contributory pension of 10% of their pensionable earnings, which may be taken as cash in lieu of pension subject to compliance with applicable laws.

Non-executive directors are not eligible for any company pension scheme and no employee early retirement schemes are in place.

Material transactions with related parties

CRL issued shares to CML in consideration of capital provided following the successful initial public offering of CHL in December 2020.

Other than in direct connection with employment or director responsibilities, no payments have been made directly or indirectly to directors, officers or employees that are material either to the company or the individual. This applies CHL and all its subsidiaries including CRL.

Employees and directors are encouraged to invest in CHL via public markets, subject to normal public trading safeguards and disclosure requirements.

Other than CHL and its directors, officers and subsidiaries, CRL has not transacted with shareholder controllers.

Fitness and Propriety

Description of fit and proper process in assessing board and senior executives

The company sought board members and senior executives based on the requisite skills and experience for their roles. In some instances, candidates were identified via pre-existing relationships with the founding team, with search and selection firms also being used.

Background checks have been completed for all board members, senior executives and outsourced providers conducting independent assurance roles.

The fitness and propriety of individuals is an ongoing requirement, and the company will conduct periodic reviews of fitness and propriety and requires disclosure of certain relevant events.

Description of the professional qualifications, skills and expertise of the board and senior executives.

Ken Randall – Independent Non-Executive Director

Appointed to the Board: 15 February 2021

- Former CEO of run-off specialist, AIM-listed, reinsurance group
- Bermuda resident
- Board chair, member of the audit committee

Ken Randall is a Certified Accountant and has worked in the Insurance industry for more than 46 years. During the early 1980s, Ken was Head of Regulation at Lloyd's which was then a self-regulated institution. From 1985 until 1991 Ken served as Chief Executive of the Merrett Group, which managed a number of prominent Syndicates at Lloyd's.

In 1991, Ken left Merrett to set up his own business in partnership with Alan Quilter. Over the next 8 years they developed the Randall & Quilter Group's principal subsidiary, the Eastgate Group, into the UK's largest third-party provider of insurance services with 1,300 employees and a turnover of over £80m per annum.

Eastgate was sold to Capita plc in November 2000. Following the sale of Eastgate, Ken and Alan refocused Randall & Quilter onto the acquisition of non-life legacy run-off portfolios and again developed an insurance servicing business in London and the US; initially, the Randall & Quilter Group's service offering focused on legacy portfolios.

In recent years Randall & Quilter has also developed a fast-growing programme management business in Europe and the US, with contracted premium income in excess of \$1 billion per annum. Ken retired from full time employment on 31 March 2021 and on the same date ceased as a director of Randall & Quilter Holdings Limited and all its subsidiary companies.

Elizabeth Murphy – Independent Non-Executive Director

Appointed to the Board: 15 February 2021

- Former CFO of class 4 Bermuda reinsurer, experienced independent director
- Bermuda resident
- Audit committee chair

Elizabeth Murphy has worked in the insurance and reinsurance industry for more than 30 years. Elizabeth qualified as a Chartered Accountant with Coopers & Lybrand in London and moved to work for them in Bermuda. She continued her career with ACE Tempest Reinsurance Ltd as Chief Financial Officer from 1993 to 2000 and as Treasurer of ACE Limited for the next two years.

From 2002 to 2006, Elizabeth worked for Scottish Re Group Limited, as Chief Financial Officer and Executive Vice President. From 2006 to 2008 she was a non-executive director of Kiln Limited, Chair of the Compensation Committee and Member of the Audit committee and she also served on the Board of SCPIE Holdings Inc. where she was a member of the Audit Committee and Stock Option Committee. From 2009 to 2015 Elizabeth was an Executive Director and Chief Financial Officer of Amlin Bermuda Ltd. / Amlin AG and a member of the Risk Committee.

Malcolm Furbert – Independent Non-Executive Director

Appointed to the Board: 15 February 2021

- Former General Counsel of class 4 Bermuda reinsurer, experienced independent director
- Bermuda resident
- Risk, capital and compliance committee chair

Malcolm Furbert is a corporate and regulatory lawyer with over 30 years' experience including as a corporate lawyer with one of Bermuda's leading law firms and over 15 years' diverse in-house legal counsel and management experience with Bermuda based insurance and reinsurance companies (including American International Company Limited, Catlin Insurance Company Limited and XL Catlin), most recently as General Counsel and Head of Compliance & Regulatory Affairs for the Bermuda operations of XL Catlin a Bermuda based global re/insurance company (following the acquisition of the Catlin Group by XL Capital).

In these roles he provided general and transactional legal and regulatory advice and support to all business areas, and had oversight over the Bermuda compliance function. He also acted as company secretary to both regulated and non-regulated group companies. He holds a B.A. in Economics from Dalhousie University, an LLB (Hons) from Bristol University and is a member of the Bar of England and Wales and the Bermuda Bar.

Trevor Carvey – Executive Director, Chief Executive Officer and Chief Underwriting Officer

Appointed to the Board: 18 November 2020

Trevor Carvey is a highly regarded reinsurance manager and underwriter with a track record of profitable build-outs in the reinsurance industry. Having led the consolidation and subsequent profitable turnaround of the GE Frankona Marine & Energy Global portfolio in the 1990s, he then became a founding underwriter and leader at Arch Re Bermuda in 2002.

In 2007 Trevor joined Harbor Point Re in the UK to lead the build-out of its reinsurance operations. He became CUE Europe of the Alterra Re business after Harbor Point's merger with Max Re in 2012. Trevor was then responsible for the successful integration of Alterra Re's Global Re unit into Markel. In 2015 Trevor joined Hamilton to assist in building out a new treaty reinsurance strategy in the UK and subsequently served as active underwriter for the three years from 2016 to 2018.

Trevor leads all aspects of Conduit Re's business, in particular the build out of its underwriting activities.

Stuart Quinlan, Executive Director, Deputy Chief Executive and Chief Operations Officer

Appointed to the Board: 18 November 2020

An experienced insurance and reinsurance leader, Stuart has a track record for developing and building successful, enduring and profitable businesses. Stuart has particular expertise in delivering effective IT strategies, recruitment and retention of top talent and monitoring and controlling the business. He has experience of dealing with regulators, rating agencies and investment stakeholders.

Stuart started his 30-year career underwriting casualty lines specialising in financial lines. At Royal & Sun Alliance he was responsible for their £250m GWP UK financial lines book when he left in 2004 to join Novae as Underwriting Director.

From 2007 to 2012 at Zurich Insurance, he was head of Financial Lines and then CUE Professional Lines across Europe. He was then Head of Specialty and Deputy Active Underwriter at Barbican Insurance (Syndicate 1955). He joined Hamilton Insurance in 2015 to establish a new Lloyd's business with Trevor Carvey.

Elaine Whelan – Executive Director and Chief Financial Officer

Appointed to the Board: 14 January 2021

Elaine Whelan is a highly accomplished and experienced public company CFO who has worked in the re/insurance industry for over 20 years. She is a member of The Institute of Chartered Accountants of Scotland, a member of The Chartered Professional Accountants of Bermuda and a member of The Institute of Directors. Elaine joined PwC in Bermuda in 1997. From 2001 to 2006 she held a number of positions at Zurich Insurance Company, Bermuda Branch, ultimately as Chief Accounting Officer.

In 2006 she joined the Lancashire Group as Financial Controller. She subsequently performed various financial and management roles for the Lancashire Group, including as CEO, Lancashire Insurance Company Limited. From January 2011 to February 2020 Elaine was Group CFO, Lancashire Holdings Limited, and she was also a main board director from January 2013 to February 2020. Elaine is responsible for all aspects of Conduit Re's financial management and reporting and sits as an executive director on the boards of CHL and CRL.

Elaine replaced Mark Heintzman, Executive Director, Chief Financial Officer – who resigned on 13 January 2021

Greg Lunn – Executive Director, General Counsel and Company Secretary

Appointed to the Board: 18 November 2020

Greg Lunn is a highly experienced lawyer who has held a number of senior in-house legal positions in the global (re)insurance industry over the last 25 years.

His most recent role in the industry was as Group Legal Counsel for Lancashire Holdings Limited, where he was also initially responsible for establishing Lancashire's internal audit function. Prior to this role, he spent 10 years in senior management roles in the legal team at ACE Group.

Greg is responsible for all legal aspects of the Group's business including governance structure and regulation and compliance.

Executive management (members of the executive committee)

In addition to the four executive directors:

Andrew Smith, Chief Risk Officer

Andrew is a qualified accountant and an experienced risk management professional with a 20-year career in the insurance and reinsurance industry specialising in risk management and corporate governance.

His most recent position, prior to joining Conduit Re was as the Chief Risk Officer for Qatar Re based in Bermuda where he was responsible for establishing and managing the group's risk management function.

Previously in his career, he held leadership roles as a consultant with PwC in London and Bermuda and EY in Bermuda, where he was focused on the risk, capital and governance agenda, leading and managing teams of consultants, actuaries and accountants.

As CRO, Andrew leads the risk function and is responsible for all risk management activity in Conduit, including establishing and maintaining the ERM framework and providing appropriate second line of defence challenge to all of Conduit's operations.

Keith Griffin, Chief Actuary

Keith is a Fellow of the Institute of Actuaries and has over 20 years' experience working as an actuary in the Property & Casualty industry, particularly in the reinsurance sector. As Chief Actuary, Keith is responsible for leading the actuarial function.

His career has allowed him to develop his expertise and experience in all actuarial disciplines including pricing, reserving, risk management and portfolio modelling.

Prior to joining Conduit Re, Keith was most recently the Chief Actuary at Peak Capital where he was part of the senior management team.

Keith has worked in a wide variety of roles and successful organisations in his career including Bermuda, Lloyds, and in international reinsurance.

Risk Management and Solvency Self-Assessment

Description of the management process to identify, measure, manage and report risk

At the planning stage for the launch of the Company, the initial team, supported by advisors prospectively assessed the risks of the business from both a capital raise perspective and looking ahead to the commencement of operations as a reinsurance company. The risk assessment was an integral part of the completion of the business plan, which formed part of the Company's application for authorisation by the Bermuda Monetary Authority.

The Chief Risk Officer joined the Company on 7 December 2020 and undertook an immediate assessment of current operational risks. At that time the executive team were meeting weekly and actively discussing all significant activities and risks. Given the small team in place at that time, made up of senior, experienced individuals, the focus was on ensuring that multiple people were involved in every decision.

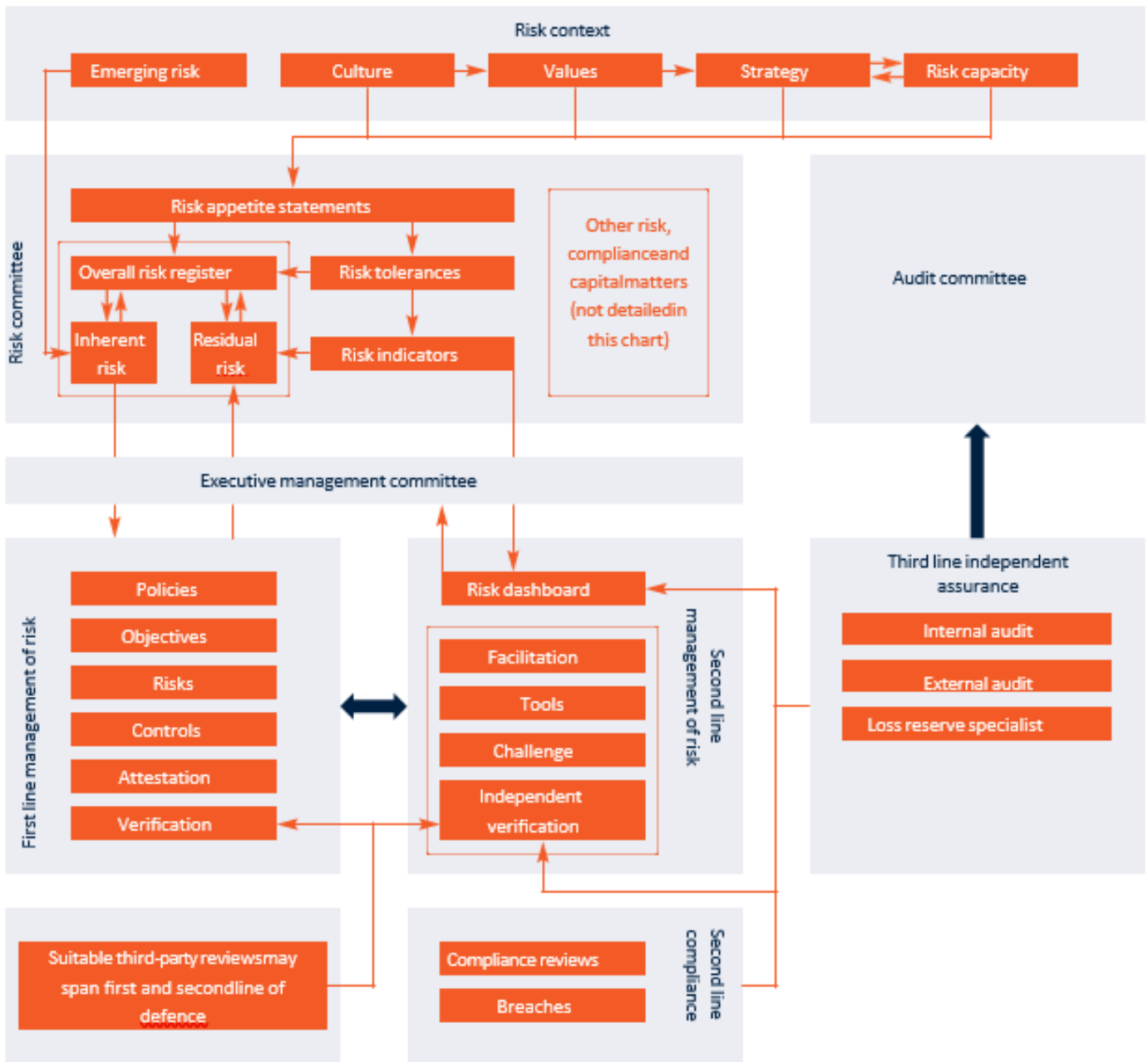
Withing 90 days of appointment, the Chief Risk Officer undertook an initial risk assessment that considered the inherent and residual risks during the initial build-out phase. This risk assessment was conducted on a top-down basis and, per the risk policy, is intended to be supplemented by bottom-up assessments for each functional area, conducted on a prioritised basis, during 2021.

The initial risk assessment was reviewed by the risk, capital and compliance committee of the Board at the fourth quarter 2020 meetings held in February 2021 supported by the risk report that was presented to the Board. A summary of that assessment is provided in this report.

At the fourth quarter 2020 board and committee meetings, the risk policy and refined risk appetite and tolerance statements were approved. The diagram on the next page summarises the approved risk framework.

The risk framework addresses the identification, assessment and management of risk within the context of defined risk appetite and tolerance statements. The 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.

Risk policy framework: Risk management



Description of how the risk management and solvency self- assessment systems are implemented and integrated into the insurer's operations; including strategic planning and organisational and decision-making process

During the reporting period, the risk management and solvency self-assessment were a significant component of the business planning process. Obtaining an A- rating from AM Best was strategically vital, as was obtaining Class 4 authorisation from the Bermuda Monetary Authority. Both processes involved providing projections of capital requirements as part of business planning.

CRL, although registered as a Class 4 reinsurer on 19 November 2020, was only fully capitalised on 7 December 2020. Consequently, operational activities as a reinsurance company during the reporting period were limited to preparation for underwriting to commence on 1 January 2021. There was no underwriting of risks in the reporting period (the first risk underwritten incepted on 1 January 2021) and capital was retained in cash or invested in short-term money market funds. Consequently, risk mitigation techniques related primarily to hands-on involvement of the senior management team.

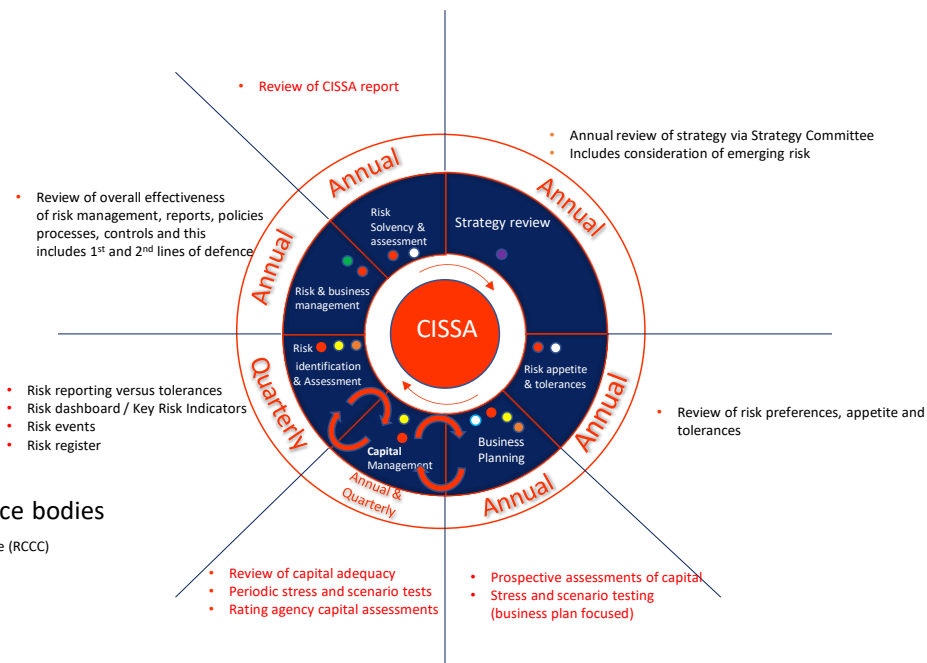
Description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The diagram below sets out the go-forward solvency-self assessment process, approved by the Board at the fourth quarter 2020 meetings in February 2021. For the 2020 period, the focus was only on business planning and the associated assessment of solvency requirements, shown in red, along with the review of this report.

As noted previously, the board and committee structures were put in place in February ahead of the fourth quarter 2020 main board and committee meetings.

The relevant parts of the CISSA process will be run quarterly going forward or initiated earlier in the event of a material change occurring.

Board and executive management involvement in the CISSA process



Note – Annual activities are annual or more frequent if there is a material change.

Description of the solvency self-assessment approval process including the level of oversight and independent verification by the board and senior executives.

The diagram above shows the future involvement of various board and senior executive involvement in the solvency self-assessment process and associated approvals.

In relation to the 2020 assessment, independence is drawn from both the Chief Risk Officer having been recruited after the submission of regulatory business plans and after the rating agency presentations and providing subsequent review and challenge of key statements and assumptions.

As part of the 2020 year-end Commercial Insurers Solvency Self-Assessment (“CISSA”) report production process the various capital calculations were reviewed including the key assumptions such as expected loss ratios and the stress and scenario tests undertaken. Details of the work undertaken are included in the CISSA report which is presented to the risk, capital and compliance committee who review the report and recommend its approval by the Board.

Internal Controls

Internal control systems

During the reporting period no business had been written, and management adopted a close hands-on approach to oversight, and build-out of the controls, processes and recruitment of experienced staff.

Compliance function

The compliance function is led by the General Counsel. The function is responsible for compliance activities associated with both legal and regulatory compliance and for the monitoring of compliance with material internal policies and procedures. The compliance function reports directly to the risk, capital and compliance committee of the Board and has been structured to maintain a strict second line of defence position.

During 2020, as the Company had not yet underwritten any business nor deployed the investment portfolio, the focus of activity was on ensuring that the immediately required policies were developed, and that the function provided real-time support to other members of the executive management team.

It is expected that, during 2021, the compliance team will be expanded, with recruitment having commenced prior to the issue of this report.

Internal audit

The internal audit function has been outsourced to a ‘Big 4’ accounting firm. The appointment followed a competitive tender process involving two ‘Big 4’ firms, both of whom have experience of providing this service to other class 4 Bermuda (re)insurers.

The selection was made by the proposed members of the audit committee (subsequently confirmed) in December 2020. The internal audit charter was approved at the fourth quarter 2020 audit committee meeting held in February 2021. The function is carrying out its independent risk assessment and one review ahead of the first quarter 2021 meeting of the audit committee. It is anticipated that following the risk assessment, a rolling plan of internal audit reviews will be agreed.

Actuarial function

The actuarial function is led by Keith Griffin FIA. The function is responsible for providing actuarial pricing support (including catastrophe modelling), capital modelling and reserving. The function reports directly to the risk, capital and compliance committee of the board.

The function's governance is supported by the appointment of an independent external loss reserve specialist, Matthew Ball of Willis Towers Watson who reports directly to the audit committee.

It is expected that, during 2021, the actuarial team will be expanded, with recruitment having commenced prior to the issue of this report.

Outsourcing

The executive committee has established an outsourcing oversight committee, which first met in January 2021. It is chaired by the chief operations officer and includes representation from the risk function and compliance function. The committee's scope includes all material outsourced relationships. The definition of material outsourced relationships has also been defined based on financial metrics and/or regulatory prescribed roles. The committee has discussed and agreed the principles applicable to outsourced service agreements. As at 31 December 2021 only those service providers that were contemplated during the Company's regulatory authorisation were deemed to be material. These are:

- Licensed insurance managers - Marsh Management Services (Bermuda) Ltd., ("Marsh") was appointed as licenced insurance manager and are providing a range of operational, financial reporting and regulatory support.
- Outsourced providers of regulatory significant roles – loss reserve specialist and internal audit provider.

Reputable investment and banking experts have been, and will continue to be, appointed to manage and administer the company's investment portfolios once they are established. Certain non-material activities such as payroll processing and (limited) IT infrastructure support have also been outsourced. All outsourced activities are such that the providers could, if necessary, be replaced relatively easily."

Conduit Services Limited ("CSL"), a Bermuda company, employs the Group's Bermuda based staff and consumes a range of services from third parties, including many of those mentioned as outsourcing above.

Conduit Reinsurance Services Limited ("CRSL"), a UK company, employs the Group's UK based staff and provides services to the Company and CHL. CRSL has three employees who perform the Group roles of Executive Chairman, Head of Investor Relations, and Head of IT.

Risk Profile

For the period ended 31 December 2020, the Group was not engaged in any active business and was therefore exposed to limited risks, being strategic risk, operational risk and market risk. The strategic risks were most significant and were binary in nature, either the risks were adequately resolved, or the business would not have been viable. As such, further quantification was not needed.

From 1 January 2021, the Group was exposed to risks from several sources, classified into six primary risk categories. These were insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Group is insurance risk. These risks will be discussed, along with the appropriate disclosure, within the Group's unaudited condensed interim consolidated financial statements when issued later in 2021, and in the 2021 year-end CRL Financial Condition Report.

The immediate management of risks since operations commenced has been through hands-on involvement of the executive management team in all areas, working in a transparent and collaborative way. Many of the risks mentioned in the initial public offering prospectus of relevance to CRL have now passed, with the focus turning to the underwriting and operational risks as CRL's operations are established and brought to initial operating scale.

Given the risks being managed during the reporting period, there was no direct link between the management of current risks and the solvency assessment, which was based more on the subsequent period where underwriting and investment risks would be assumed.

During the period to 31 December 2020 the only notable risk event was a Bermuda, island-wide, power outage. This caused limited disruption but reminded us of the importance of resilience and continuity arrangements.

A review of the summary level risk register which sets out our general exposure to risks and our approach to managing them was carried out by the Board at the fourth quarter 2020 meetings in February 2021. By formally reviewing it, the boards are demonstrating their awareness of the risks of our business, consistent with corporate governance expectations. A summary is provided on the next two pages.

Risk category	Relative appetite / preference	Status
Overall – capital adequacy	<p>Low</p> <p>We maintain capital to support a minimum rating of A– by AM Best and to provide a surplus over the regulatory enhanced capital requirement of twice that prescribed as an early warning buffer by the BMA.</p>	<p>On track</p> <p>We have secured an A– rating by AM Best and have substantial capital to deploy.</p>
Underwriting – premium	<p>High</p> <p>This is the risk we seek in order to generate return. The risk is managed by seeking a target portfolio based on our view of rate adequacy and target diversification, supported by event and /or aggregate retrocessional protections.</p>	<p>On track</p> <p>On 1 January we underwrote a balanced portfolio of business consistent with our planning expectations. Initial bias towards quota-share with further excess of loss business expected through the year as our business flow continues and team develops.</p>
Underwriting – exposure and aggregations	<p>Medium</p> <p>We underwrite catastrophe exposed reinsurance through our property and specialty lines, and business exposed to other aggregations notably across casualty and specialty lines. We seek to understand and manage our exposures generally to a lower level than our Bermuda peer group.</p>	<p>On track</p> <p>On 1 January we took on a modest amount of catastrophe risk and put in place initial retrocessional support at a lower attachment point than originally planned. Non-property catastrophe aggregations are also limited at this stage and also subject to our retrocessional protections.</p>
Underwriting – reserve	<p>Medium</p> <p>We underwrite a mix of classes including those where reserves take time to develop. We seek to minimise reserve risk through rigorous data analytics using market data and benefit from an external loss reserve specialist review (from 2021 year-end).</p>	<p>On track</p> <p>No loss reserves required as at 2020 year-end. Chief Actuary now in place, as is independent loss reserve specialist.</p>
Investment, market and liquidity	<p>Low</p> <p>Our primary aim is to protect capital and consequently, we have a low appetite to expose our capital base to investment losses and a low appetite for volatility.</p>	<p>On track</p> <p>As at year-end the funds raised from the IPO were held in highly liquid money market funds. The selection process for investment managers has been undertaken in Q1 2021. Investment managers selected will deploy an investment strategy consistent with our investment and ESG criteria.</p>

Risk category	Relative appetite / preference	Status
Credit	Low We use reinsurance to provide protection and therefore select reinsurers who provide limited credit risk.	On track All retrocessionaires currently A-, A or fully collateralised. A counterparty security committee is now in place.
Operational and systems	Low We seek to minimise our operational risk within the context of operating as a reinsurer. We seek to attract and retain high quality staff and gain competitive advantage by use of high quality and integrated systems.	On track for current maturity – elevated During the start-up phase operational risks are elevated as people are recruited and systems and processes are implemented. We are using a licenced insurance manager to reduce operational risk in the start-up phase. Operations is a core focus for the management team, risk and internal audit. Staffing is being increased and a build-out of processes and controls is underway. The outsourcing committee is overseeing outsource and software as a service supplier, and includes senior operations, risk and legal/compliance representation.
Strategic	Low We seek to manage risk by keeping a clear and focused strategy as a single balance sheet reinsurer based in one location.	On track Initial period of elevated risk, noted in the prospectus, for group much of which applies to the company has passed with acceptance by regulators, rating agency and target brokers and markets. Market conditions remain favourable.
Reputational	Low A focus on maintaining and enhancing brand and franchise value. Support from the ESG committee, established by the holding company board.	On track Public coverage favourable to date.
Legal, regulatory and litigation	Very low We seek to minimise our legal, litigation and regulatory risk by investing in our systems and people. We have no appetite for censure by regulators and tax authorities.	On track for current maturity – elevated Initial period of elevated risk while governance structures were being confirmed and the team built out. Reducing risk by using support from a licenced insurance manager.

Investment in accordance with prudent person principle

During the period, the asset strategy had not yet been deployed and all assets were held as cash and cash equivalents. A number of reputable investment managers are being appointed in 2021 to operate within defined guidelines and parameters.

Stress and scenario testing on capital

CRL has conducted stress and scenario testing and assessed the impacts that plausibly could have severe impacts on the business. The stress tests were performed on the 2021 business plan prior to the Conduit Holdings Limited initial public offering, these were both insurance and non-insurance tests and formed part of both the regulatory authorisation application and the AM Best rating process. The results of the stress tests highlighted that the capital resources in place significantly exceed the immediate capital requirements, including under realistic stressed scenarios.

Solvency Valuation

Normally, this report would address valuation bases, methods and assumptions on the inputs used to determine solvency. As the Company did not write any business in 2020 and had not yet deployed the investment strategy, this section is not relevant.

Capital Management

Eligible Capital

The capital base has been established as part of a five-year business plan, with underwriting commencing in 2021. The capital base comprises common shares plus contributed surplus. The total eligible capital as at 31 December 2020 was \$1,045,280 thousand. The \$760 thousand difference between shareholder equity in the financial statements and regulatory eligible capital relates to intangible assets and prepayments.

No assets are encumbered and there are no auxiliary capital instruments.

Regulatory Capital Requirements

There was no non-compliance with regulatory capital requirements during the year.

The Enhanced Capital Requirement ("ECR") is based on the greater of the minimum margin of solvency ("MSM") and the Bermuda Solvency Capital Requirement ("BSCR").

As at 31 December 2020, the BSCR is \$66,625 thousand (full basis), or \$76,562 (transitional basis) and the MSM is \$100,000 thousand. As such, the ECR is \$100,000 thousand and the coverage ratio is 1045%.

Approved Internal Capital Model used to derive the ECR

The Company has not sought approval to use an internal capital model to derive the ECR.

Subsequent Events

As noted in the foreword, this report reflects the situation as it evolved from the board's initial meetings held in the fourth quarter of 2020 into the risk appetites and governance arrangements that were ratified and approved by the Board in February 2021, which are refined and developed versions of those stated during the initial public offering prospectus as relevant to CRL.

In terms of significant matters that happened after 31 December 2020:

- The independent directors were formally appointed to the board on 15 February 2021, though they were already serving as board members of CHL during 2020.
- The committees of the board were established on 15 February 2021, though the audit committee members elect had met during 2020 to consider the appointment of internal audit, which was confirmed in the committee meeting on 17 February 2021 and ratified by the Board on 18 February 2021.
- Mark Heintzman resigned as Chief Financial Officer and as a director on 13 January 2021. Elaine Whelan was appointed as Chief Financial Officer and to the Board on 14 January 2021.
- The formal establishment of the various management committees took place during the first quarter of 2021, though some, such as the executive committee, outsourcing committee and counterparty security committee met prior to formal establishment.
- The appointment of Matthew Ball of Willis Towers Watson as independent Loss Reserve Specialist was included in the BMA licensing application, but was formally ratified by the Board on 18 February 2021.

Confirmation

This Financial Condition Report fairly represents the financial condition of the Company in all material aspects during the reporting period.

Signed and dated:

Andrew Smith
Chief Risk Officer
29 April 2021

Trevor Carvey
Chief Executive Officer
29 April 2021

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