CONDUIT RE

Financial Condition Report

for the year ended
31 December 2021

29 April 2022

Contents

Foreword

Conduit Reinsurance Limited is a Bermuda-based reinsurance company and is licensed by the Bermuda Monetary Authority and is subject to the requirements of The Insurance Act 1978 and associated rules and regulations including the Insurance (Public Disclosure) Rules 2015. As such, Conduit Reinsurance Limited is required to publish annually a Financial Condition Report ("FCR") in accordance with applicable guidelines.

The FCR contains qualitative and quantitative information of the business and performance, governance structure, risk profile, solvency valuation, and capital management. The FCR is not subject to audit requirements. The audited financial statements for Conduit Reinsurance Limited are published in accordance with the Insurance (Public Disclosure) Roles 2015 on the Bermuda Monetary Authority's website at https://www.bma.bm/public-filings/full-filings-class-4.

A. 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", the "Authority"), 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

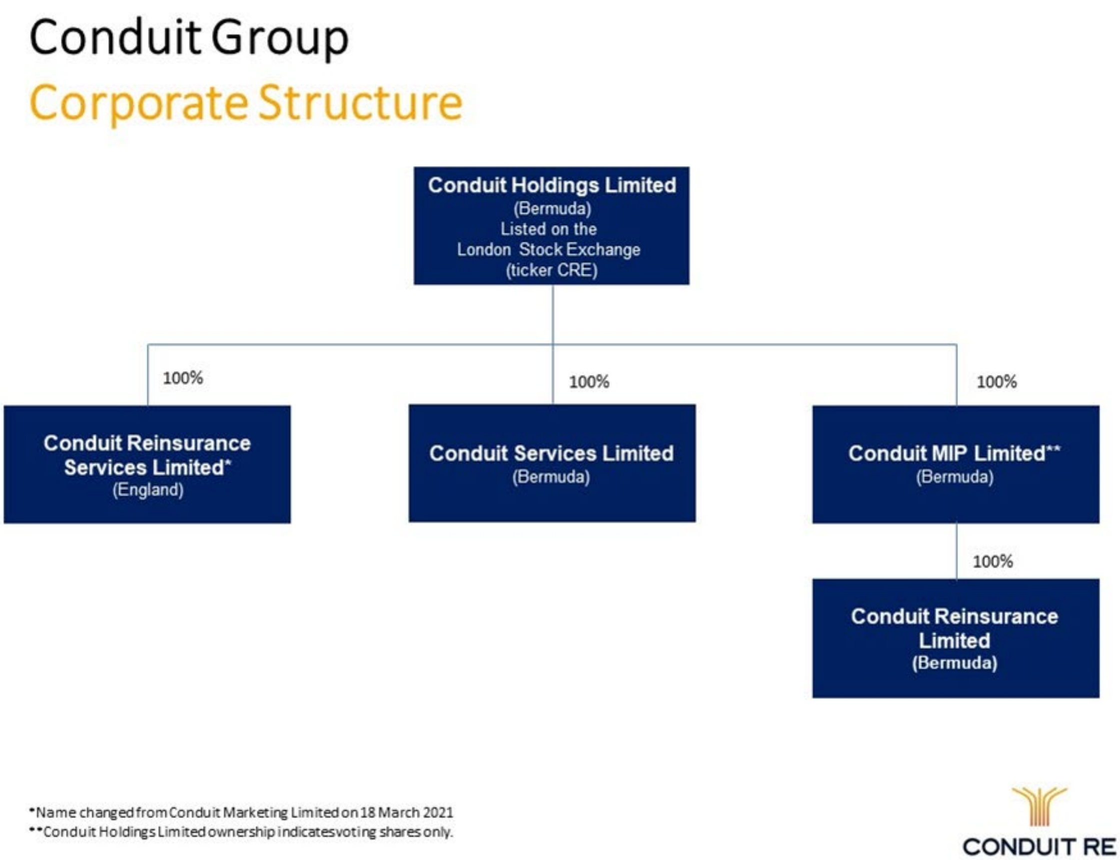
CRL's ultimate parent is Conduit Holdings Limited ("CHL") which is a publicly traded company on the London Stock Exchange, trading under the ticker LSE:CRE. CRL's immediate parent is Conduit MIP Limited ("CML"), an intermediate holding company.

As at 31 December 2021, CHL was aware of the following interests of 5% or more of voting rights in its ordinary shares:

Shareholder	Proportion
Aviva plc and affiliates	15%
Signature Global Asset Management	7%
JO Hambro Capital Management Limited (London)	6%

Group structure

The group structure, comprising CHL and direct and indirect subsidiaries (the "Group"), is summarised in the chart below, including country of incorporation.



Insurance business written during the reporting period

CRL is a pure play treaty reinsurer and writes business under three principal divisions: property, casualty and specialty. Details of each operating segment and gross premiums written by geographic region and operating segment during 2021 are as follows:

	Property $m	Casualty $m	Specialty $m	Total $m	Total %
United States	105.4	118.7	3.9	228.0	60.2
Worldwide (excluding US)	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**

Performance of investments and material income and expense items

Net investment income, excluding realised gains and unrealised losses was $5.5 million for the year ended 31 December 2021. Total investment return, including net investment income, net realised gains and losses, and net change in unrealised gains and losses, was a loss of $3.1 million.

As at 31 December 2021	Net investment income $m	Net realised losses $m	Net unrealised 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 $0.7 million of investment management and custody fees for the year ended 31 December 2021.

CRL's material expenses are driven by claims, acquisition and operational expenses.

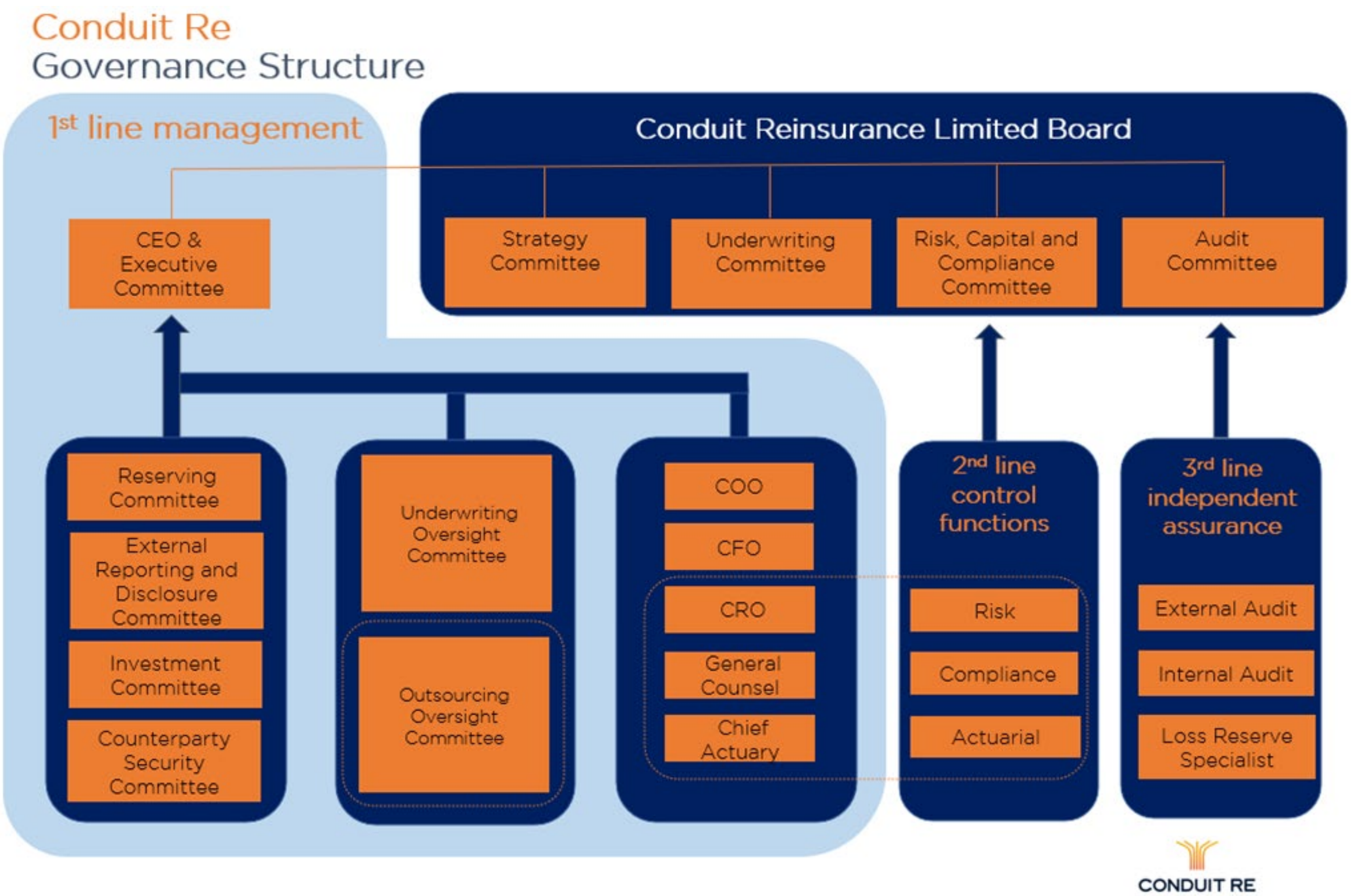
	2021 $m
Net losses and loss adjustment expenses	142.1
Net acquisition expenses	59.1
Other operating expenses	4.8
Other expenses	18.8
Total	**224.8**

The 'other expenses' related to related party transactions are detailed in Section B.

B. Governance and Structure

Board and senior executive

CRL has established and maintained a sound corporate governance framework that includes principles on corporate discipline, accountability, responsibility, compliance and oversight.



The Board comprises four 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.

Each committee has a charter which identifies the scope, authority and responsibilities of the committee. The Audit, Risk Capital & Compliance and Underwriting committees held quarterly meetings throughout 2021. The Strategy Committee met in September 2021.

The Board has also established the Executive Committee comprised of the chief and senior executives. CRL operates a strict, “three lines of defence” model with all second-line functions (for example risk and compliance) reporting to the Risk, Capital and Compliance Committee; and the third line (internal and external audit, independent loss reserve specialist) reporting to the Audit Committee.

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

The Executive Committee initially delegated certain specialist, decision making, tasks to committees comprising members of executive management and other senior staff. These were the reserving committee, counterparty security committee and the external reporting and disclosure committee. Subsequently an investment committee was also established.

Four committees with an oversight and review mandate were initially established: underwriting; finance and investments; operations; and outsourcing. During 2021 the operations committee was absorbed back into the Executive Committee along with the finance aspects of the finance and investments committee, with the investment aspect moving to include a decision-making aspect to its role.

Committee Structures and Attendee

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	
Michelle Seymour Smith	INED	Member			Member (since Q4 2021 meeting)	Member
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
Andrew Couper	Chief Actuary	Attends	Attends	Attends	Reports	Attends
EY	Internal Audit					Reports
KPMG	External Audit					Reports
Matthew Ball (WTW)	LRS					Reports

The table above shows the position as at 31 December 2021. Michelle Seymour Smith was appointed to the Board and Audit Committee on 15 September 2021 and has subsequently on 22 February 2022 been appointed to the Risk, Capital and Compliance Committee. Andrew Couper was appointed as Chief Actuary on 1 November 2021 replacing Keith Griffin who left the company in June. In the interim, Peter Ryan, Senior Reserving Actuary, attended the Audit Committee and/or Risk, Capital and Compliance Committee representing the actuarial function.

Remuneration

The group's remuneration policy is set by the remuneration committee of CHL and is 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. Employee remuneration consists of salary, benefits and annual bonus scheme. The annual bonus scheme is based on a mix of individual and group performance.

The CHL remuneration committee determines the actual bonus awards for the CHL CEO and CFO, who serve in the same roles for CRL, and review and approve the bonus awards for senior executives of CRL.

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

As part of the Company's start-up, executive management, and certain other members of staff, 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.

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. 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

During the year ended 31 December 2021 the Company returned capital of $29.7 million to its parent to provide funding for the Group's interim dividend payment.

The Company entered into service agreements with other Group subsidiaries during 2021. The established service agreements allow various operating expenses incurred by the Group's service companies, CSL and CRSL, to be recharged on normal commercial terms to the Company in relation to the services provided. The services provided cover a wide array of functions, and include items such as, provision of personnel, finance and administration, risk management, compliance and regulatory reporting, IT services and maintenance, procurement of goods and services, real estate and facility management, legal and company secretarial services, and human resource functions such as payroll processing, training and compensation administration. Payments of the incurred fees for these services, or adjustment to the service fee agreements, are agreed by both parties.

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 to 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. For many staff, a component of annual bonus is also awarded, subject to deferrals, in shares.

Other than CHL and its directors, officers and subsidiaries, CRL has not transacted with shareholder controllers other than non-material transactions in the normal course of business on an arm's-length basis.

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 conducts periodic reviews of fitness and propriety and requires disclosure of any changes in circumstances that may affect an individual's fitness and propriety and thus their ability to perform their role.

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, member of the Underwriting 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 £80 million 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, member of the Risk, Capital and Compliance Committee

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.

Michelle Seymour Smith – Independent Non-Executive Director

Appointed to the Board: 15 September 2021

- Former Chief Transformation Officer of Bermuda reinsurance group
- Bermuda resident
- Member of the Audit Committee, member of the Risk, Capital and Compliance Committee (since February 2022)

Michelle Seymour Smith has over 20 years of experience in the insurance and reinsurance industry. During her career, Michelle built a reputation of making strategic initiatives a reality and building effective teams and operations to support sustained growth in global organisations.

Michelle began her career with Arthur Andersen in 1995. She went on to hold positions at Zurich Insurance Global Energy and XL Capital Ltd. In 2004, she joined Arch Reinsurance Ltd as Vice President, Controller. She performed several roles at Arch Re including Chief Financial Officer and Chief Operating Officer, building and overseeing the financial operations of the insurance, reinsurance and mortgage divisions and their international subsidiary reinsurance division. She served as the Chief Transformation Officer of Arch Capital Group Ltd until 2019, leading a global programme to grow business and improve operational efficiency.

Michelle has been named as one of 100 Influential Women in Insurance and Reinsurance by Intelligent Insurer. She is a member of The Chartered Professional Accountants of Bermuda and the Institute of Directors.

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

Appointed to the Board: 18 November 2020

- Bermuda resident
- Strategy Committee chair
- Member of the Underwriting Committee, member of the Risk, Capital and Compliance Committee

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 CUO 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. Subsequent to the date of this report, on 1 March 2022, Greg Roberts succeeded Trevor as Chief Underwriting Officer. Trevor remains an Executive Director and Chief Executive Officer.

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

Appointed to the Board: 18 November 2020

- Bermuda resident
- Member of the Strategy Committee and Underwriting Committee

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 £250 million 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 CUO 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

- Bermuda resident
- Member of the Strategy Committee and Risk, Capital and Compliance Committee

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. She joined the Company in January 2021 replacing Mark Heintzman.

Greg Lunn – Executive Director, General Counsel and Company Secretary

Appointed to the Board: 18 November 2020

- Bermuda resident
- Member of the Strategy Committee

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 25-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, from Bermuda, and is responsible for all risk management activity in Conduit, including establishing and maintaining the risk framework and providing appropriate second line of defence challenge to all of Conduit's operations.

Andrew Couper - Chief Actuary

Andrew is a qualified actuary and a Fellow of the UK's Institute and Faculty of Actuaries. He has had a highly successful professional career in the insurance industry spanning over 30 years both in the London Market and Bermuda.

Prior to joining Conduit, Andrew was the Head of Pricing for QBE's European operations and prior to that he spent 13 years in a variety of senior actuarial and risk management roles for Aspen Insurance Holdings Limited, both in London and Bermuda, including Chief Risk Officer, Group Head of Risk and Group Chief Actuary.

Andrew's career has allowed him to develop a vast experience in the industry covering all actuarial disciplines and classes of insurance and reinsurance business. He has previous start-up experience and experience of developing new teams and businesses from the ground up as well as in managing more mature businesses.

As Chief Actuary, Andrew is responsible for leading the actuarial function from Bermuda. He joined the Company in November replacing Keith Griffin.

Greg Roberts - Chief Underwriting Officer (from 1 March 2022)

Greg is a highly experienced and accomplished Property Treaty underwriter with 20 years' experience with a successful track record with industry-wide respected underwriting organisations.

His previous experience includes a 17-year career at MS Amlin where he became Head of Property Treaty. In 2018, he joined Amtrust to establish and build a new reinsurance division, as Hear of AmTrust Re at Syndicate 1861 in Lloyds of London.

Greg has previous start-up experience and was involved in the establishment of Amlin Re in Bermuda in 2006 and creating a new reinsurance business from the ground up for Amtrust in 2018.

Greg has particular expertise in Property Catastrophe modelling and exposure management and has been responsible for designing and implementing these aspects of the business in previous roles.

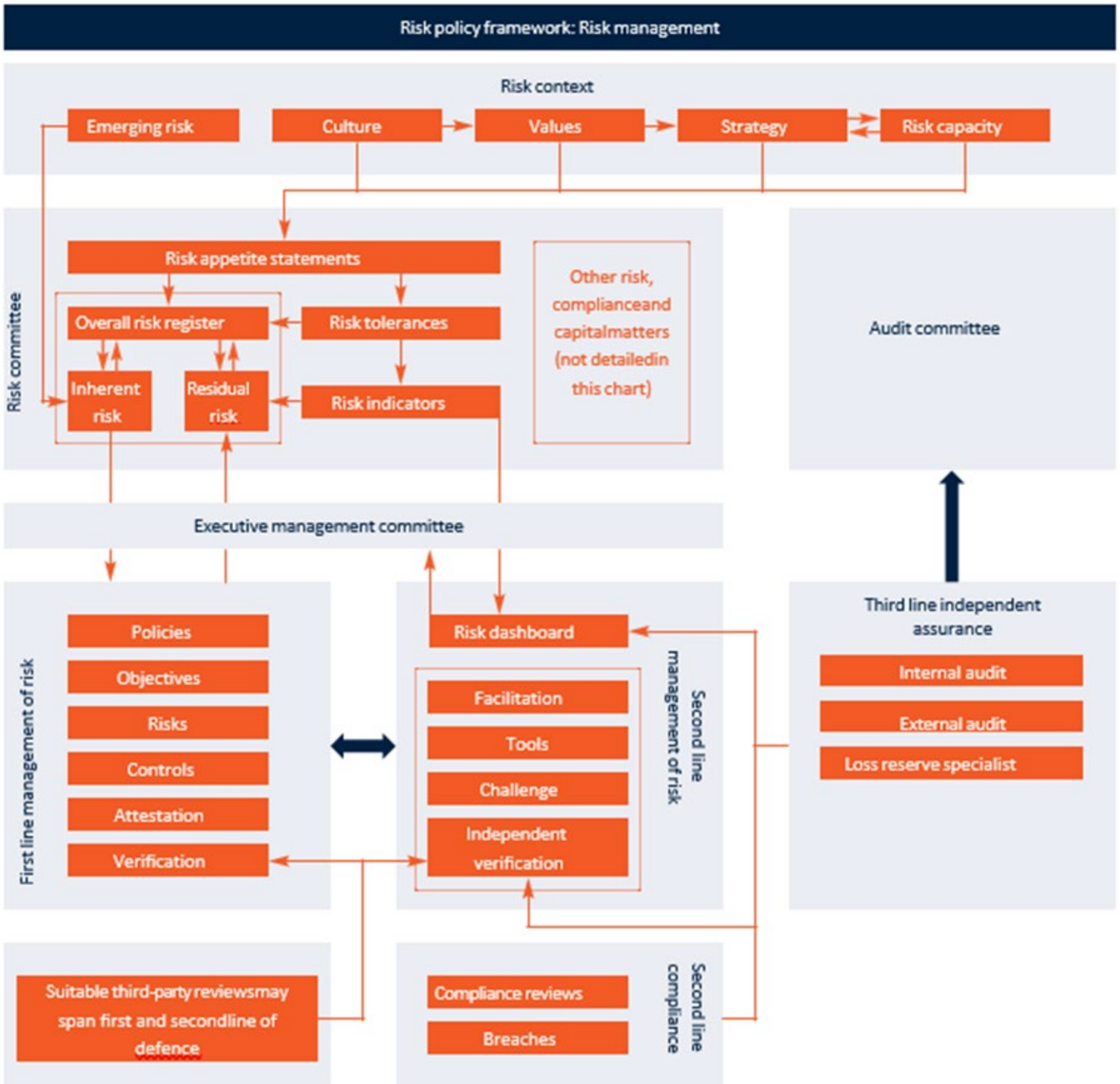
Greg has been an important part of the Conduit team from before launch and on 1 March 2022, was appointed as Chief Underwriting Officer and became a member of the Executive Committee.

Risk Management and Solvency Self-Assessment

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

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

The framework has been designed to strictly follow a three lines of defence model and ensure that good risk practices are the responsibility of first line management with the risk function providing facilitation, tools, challenge and independent validation. The risk function is also responsible for risk reporting to the Risk, Capital and Compliance Committee and the Executive Committee; and for the facilitation of risk activities at committee level.



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.

2021 was the first year in which the Company wrote business and involved significant work in implementing systems, processes and controls. During 2021 initial work was undertaken to establish the framework and to develop a technology tool to support the efficient application of aspects of it. Further work will be done in 2022 to complete the roll-out of the framework, including in relation to build out of an attestation process, ensuring consistency and further developing and formalising risk indicators, independent validation and dashboards.

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

In line with regulatory requirements, the CRL Board require that the solvency self-assessment is part of the risk management framework processes, with the quarterly risk appetite dashboard and the annual Commercial Insurer's Solvency Self-Assessment ("CISSA") reporting being a trigger for management actions in response to changes in the risk profile.

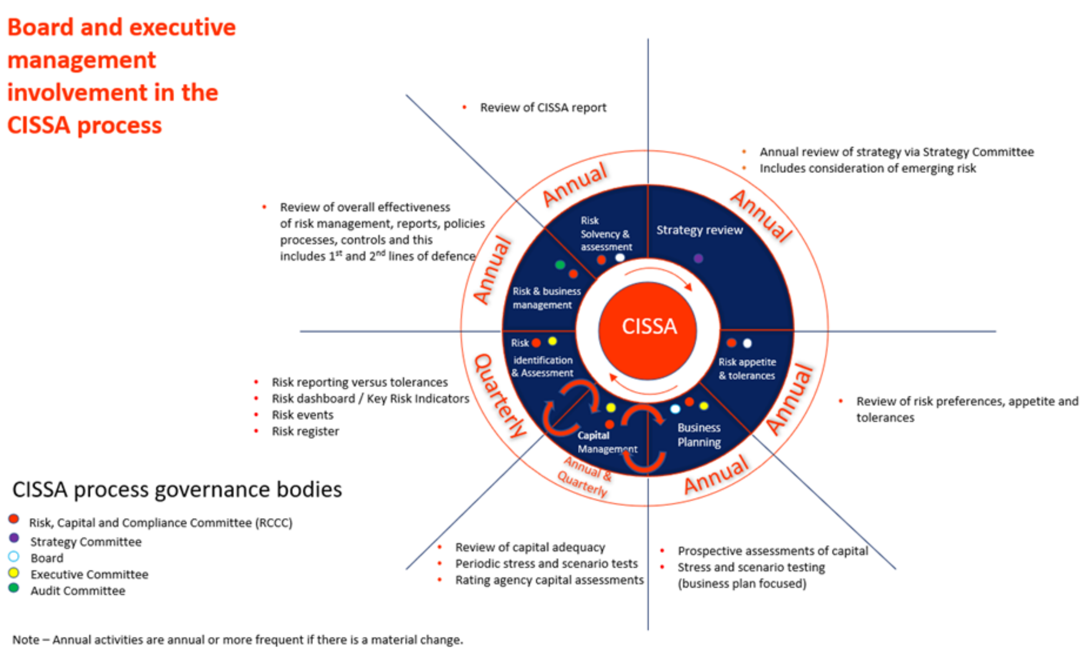
Overall responsibility for the CISSA process, output and policy lies with the CRL Board. This policy is reviewed annually by the risk function and any changes approved by the CRL Board.

The CISSA process runs throughout the year and includes annual activities and more frequent risk reporting processes. Critical components of the CISSA process include:

- Strategy review
- Risk appetite and tolerance refresh
- Business planning
- Capital management
- Risk identification and assessment
- Evaluation of risk and business management
- Risk and solvency assessment report

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

The diagram below sets out the solvency-self assessment process. The relevant parts of the CISSA process are run quarterly or initiated earlier in the event of a material change occurring.



Currently, the amount of capital required to cover our material risks is assessed through regulatory capital requirements, rating agency models, internally developed stress tests and underwriting realistic disaster scenarios.

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 involvement of various board and senior executive involvement in the solvency self-assessment process and associated approvals.

Internal Controls

Internal control is an essential part of all business processes and a key method of mitigating risks that are inherent in them.

The Board is responsible for monitoring the establishment and maintenance of the system of controls used to assess and manage exposure to all areas of risk. The objectives of these controls are to ensure that CRL's risk strategy is maintained and risk remains within the appetite and tolerances approved by the Board.

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.

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 Audit Committee approves the internal audit charter and plan at least annually and have approved amendments to the plan throughout the year. The internal audit plan was based on an initial risk assessment. Internal Audit provided quarterly written and oral reports to the Audit Committee. The findings of each internal audit are reported at the Committee's quarterly meetings. The Committee reviews actions recommended to management for the improvement of internal controls.

Actuarial function

The actuarial function is led by Andrew Couper 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.

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.

Outsourcing

The Executive Committee has established an outsourcing oversight committee. 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 the following service providers were deemed to be material outsourced relationships:

- Outsourced providers of regulatory significant roles – loss reserve specialist and internal audit provider.
- Investment managers, custodians and accountants
- Software as a service (SaaS) relationships for core processing systems

All outsourced activities, except for some SaaS relationships, are such that the providers could, if necessary, be replaced relatively easily. Outsourcing controls have been subject to internal audit review during the period and all findings were addressed prior to year-end.

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. As at 31 December 2021 CRSL had four employees comprising the Group roles of Executive Chairman, Head of Investor Relations, Head of IT and Executive Assistant to the Executive Chairman.

C. Risk Profile

CRL commenced underwriting operations during the year ended 31 December 2021. There were no active underwriting operations for the period ended 31 December 2020, therefore CRL did not have any underwriting or investment risk prior to 2021.

CRL 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.

As part of the immediate execution risk that existed at the start of the reporting period, various non-underwriting activities were subject to initial outsourced support. With the staff contingent growing from 12 to 41 during the year, much of the initial outsourcing has reduced with any remaining outsourcing, which is limited, being for narrowly defined services that the Company expects to remain in the medium to long term.

The risk function is responsible for supporting the CRL board, with the day-to-day oversight of the risks that the Company 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 the Company. 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. 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.

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. The Company only commenced underwriting operations during the 12 months ended 31 December 2021 and, for any reinsurance business underwritten during that period, the Company had COVID-19 related exclusions in its reinsurance contracts and policy wordings. As a result, CRL 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 CRL are discussed throughout the Group's consolidated financial statements.

Climate change

CRL is exposed to risks associated with climate change and 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 the Group's strategic and risk management policies.

To support the governance around such risks, the Group has established an independent ESG Committee, chaired by a highly reputable independent chairman, Sir Nicholas Soames, who is not a director or officer of any Conduit entities, and comprising director and non-director staff of Conduit. This committee provides a diverse and independent perspective providing insightful challenge. CRL has also established a climate working group comprising representation from each functional area of the business to support the day-to-day considerations relevant to climate change.

A. Reinsurance Risk

CRL 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. CRL's 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, CRL 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:

- 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;
- Our 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 Company's 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 the capital base.

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Catastrophe management

Certain of the CRL's classes of business provide coverage for natural catastrophes (e.g., earthquakes, floods, hurricanes and wildfires) with some subject to seasonal variation and the impacts of climate change. CRL's business has exposure to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact CRL's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. CRL also has exposure to other natural catastrophes, such as earthquakes, tsunamis, droughts, floods, hail and tornadoes, which can occur throughout the year. In addition, CRL 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.

CRL 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.

CRL has set tolerances around various scenarios. Of these, at the commonly reported 100 year and 250 year return periods, the Company'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 as at 31 December 2021. Net positions are calculated by applying relevant reinstatement premiums and outwards reinsurance to the respective modelled gross exposures.

Return period	Peril	Net $m	% of Tangible Capital
100 year	Florida windstorm	9.6	1.0
250 year	California earthquake	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 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.

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. CRL establishes its reserve for losses and loss adjustment expenses by taking outstanding losses, adding an estimate for Incurred But Not Reported ("IBNR") and, if deemed necessary, additional case reserves ("ACRs") which represent the Company's estimate for losses related to specific contracts that CRL 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, other than an additional unexpired risk reserve (not currently applicable). Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of CRL'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.

The Company's internal actuaries review the reserving assumptions and methodologies on a quarterly basis and develop an actuarial best estimate of CRL'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 and determines the management best estimate. The reserves are subject to a semi-annual independent review by the Company's external actuaries and the annual provision of an opinion by the Loss Reserve Specialist. Any variation between actuarial best estimate, management best estimate and any independent projections are provided 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, and subject to any reinstatement provisions, 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

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

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

Reinsurance risk

CRL 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 the Group'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.

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

Reinsurance contract liabilities are 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 the Company's investment portfolio. CRL seeks to invest in issuers with stronger Environmental, Social and Governance ("**ESG**") practices on balance, as it believes that this will also help reduce risk in the portfolio.

During the year, investment guidelines and adjustments to the guidelines were reviewed by the Finance and Investment Oversight Committee with input from the CFO. They were then approved by the Executive Committee and reported to the Board. After the initial establishment of the investment guidelines, the Finance and Investment Oversight Committee transitioned to the Investment Committee, who are now responsible for all investment related decisions going forward. The investment guidelines set the parameters within which the Company's external managers must operate. Important parameters of these guidelines include permissible asset classes, duration ranges, credit quality, permitted currency, maturity, industry sectors, geographical, sovereign and issuer exposures. Guideline compliance is monitored on a monthly basis. The Company's portfolio of fixed maturity securities is currently managed by three external managers. Their performance is monitored on an ongoing basis. The Company 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. CRL also prioritises liquid asset classes with higher credit quality and shorter duration so that the Company can meet reinsurance and other near-term obligations. CRL 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.

CRL 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.

CRL 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. CRL also monitors the portfolio impact of more severe scenarios consisting of extreme shocks.

CRL 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 CRL's tolerances and preferences.

It is planned that, having deployed the investment strategy during the period, a strategic asset allocation will be undertaken on a bi-annual basis to assess the Company's overall investment strategy and to consider alternative asset allocations to achieve the best risk-adjusted return within CRL's risk appetite. Any resulting recommendations would be approved by the appropriate management committee(s) and reported to the Board. The Finance and Investment Oversight Committee ("FIOC") 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 FIOC also helped develop the risk tolerances to be incorporated into the ERM framework. As noted in Section B, governance over investments was revised during the fourth quarter of 2021.

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

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 agencies	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	58.1
Corporate	302.6	162.6	456.2
Total	**568.7**	**439.7**	**1,008.4**

There are no comparisons for the period ended 31 December 2020 as all IPO funds were held as cash and cash equivalents.

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

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

The sector allocation of corporate bonds is as follows:

As at 31 December 2021	$m	%
Financials	236.5	50.9
Industrials	209.5	5.0
Utilities	19.2	4.1
Total	**465.2**	**100.0**

CRL'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 CRL's 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 CRL'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 the CRL's portfolio of fixed maturity securities to interest rate movements is detailed below, assuming linear movements in interest rates.

As at 31 December 2021	$m	%
Immediate shift in yield (basis points)		
100	(27.7)	(2.7)
75	(20.8)	(2.1)
50	(13.9)	(1.4)
25	(6.9)	(0.7)
0	-	-
-25	5.7	0.6
-50	11.5	1.1
-75	17.2	1.7
-100	22.9	2.3

CRL 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 2.4 years as at 31 December 2021.

In addition to duration management, CRL 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.

CRL's annual VaR calculation is as follows:

As at 31 December 2021	$m	%
99th percentile confidence level	30.2	3.1

Currency risk

CRL 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. CRL is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. CRL 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.

CRL 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. CRL's main foreign currency exposure relates to its reinsurance obligations, cash holdings, premiums receivable and dividend payable, if applicable.

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

As at 31 December 2021	USD	GBP	EUR	Other	Total
Total assets	1,317.6	1.1	9.2	1.1	1,329.0
Total liabilities	(326.3)	(2.5)	(17.0)	(1.9)	(347.7)
Net assets	**991.3**	**(1.4)**	**(7.8)**	**(0.8)**	**981.3**

The impact on profit from a proportional foreign exchange movement of a 10.0% appreciation and a 10.0% depreciation against the US dollar at year end spot rates would be an increase or decrease of $0.6 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. CRL's main exposure to liquidity risk is with respect to its reinsurance and investment activities. CRL is exposed if proceeds from the sale of financial assets are not sufficient to fund obligations arising from reinsurance contacts and/or other liabilities. CRL 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 the CRL'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.

CRL'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.

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

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 CRL is as follows:

As at 31 December 2021	Carrying value $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total
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	16.0	16.0	-	-	-	16.0
Net assets	**194.9**	**88.3**	**62.7**	**23.1**	**20.8**	**194.9**

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 2021, cash and cash equivalents were $65.5 million (31 December 2020: $1,041.2 million, reflecting that the asset portfolio had not yet been invested). CRL 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, CRL 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. CRL monitors market changes and outlook and reallocates assets as it deems necessary.

As at 31 December 2021, CRL 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. CRL is exposed to credit risk on its fixed maturity investment portfolio, its premiums receivable from cedants, and on any amounts recoverable from reinsurers. While CRL 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 CRL's portfolio of fixed maturity securities is mitigated through the Company's 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. CRL also limits exposure to individual issuers, with declining limits for less highly rated issuers. CRL therefore does expect any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the US government.

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

The table below presents an analysis of CRL'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.

As at 31 December 2021	Cash and cash equivalents and fixed maturity securities	Inwards premiums receivables	Reinsurance recoverable
AAA	542.4	-	-
AA+, AA, AA-	75.6	-	-
A+, A, A-	304.2	-	30.5
BBB+, BBB, BBB-	151.7	-	-
Other	-	155.0	18.4
Total	**1,073.9**	**155.0**	**48.9**

Reinsurance recoverable classified as other is fully collateralised.

As at 31 December 2021 the average credit quality of CRL's cash and cash equivalents and portfolio of fixed maturity securities was AA-. The COVID-19 pandemic has increased the risk of defaults across many industries and CRL continually monitors credit risk, especially during this time of volatility. While current interest rates are at an all-time low, they are expected to rise over the next few years. Given the Company's 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 2021	$m
Not yet due	123.0
Less than 90 days past due	22.2
Over 90 days	9.8
Total	**155.0**

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

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 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

CRL 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

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

Capital management risk

Risks associated with the effectiveness of CRL'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.

CRL 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;
- Meeting all relevant capital requirements.

Capital management takes place in consultation with CHL, with CRL being where the Group's capital is deployed but also where proceeds for CHL to pay dividends or other distributions originates from. Capital raising would likely take place in Group context and 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 the Group may also be utilised. All capital actions require approval by the Board.

CRL is regulated by the BMA and is required to monitor the Enhanced Capital Requirement ("**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 Bermuda Solvency Capital Requirement ("**BSCR**") standard formula. CRL had sufficient capital at all times throughout the year to meet the BMA's requirements.

Retention risk

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

- The identification of key personnel with appropriate succession plans at CRL;
- 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;
- Training schemes.

Summary level risk register

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 2021 meetings in February 2022. 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 below inclusive of the Company's view of the trending change in profile since the 2021 report.

Risk category	Relative appetite / preference	Trend	Commentary
Overall – capital adequacy	**Low** 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 prescribed by the BMA.	⇔	AM Best have affirmed our A- rating and we have substantial capital to deploy.
Underwriting – premium	**High** 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.	⇔	We have achieved good traction in the market during our first year of operation and have underwritten a balanced portfolio as set out elsewhere in this report.
Underwriting – exposure and aggregations	**Medium** We underwrite catastrophe exposed reinsurance through our property and specialty classes, and business exposed to other aggregations notably across casualty lines. We seek to understand and manage our exposures generally to a lower level than our Bermuda peer group.	⇔	As our portfolio has grown, we have managed our catastrophe exposure through selective underwriting and retrocessional cover. Overall, our portfolio was slightly less exposed to catastrophe losses than we initially planned for a catastrophe exposed year such as 2021, due to retrocessional protections and a portfolio bias toward quota share business subject to event limits.
Underwriting – reserve	**Medium** 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.	⇗	Our current reserves have been impacted by elevated catastrophe losses during our first year of operation however the losses were within expectation for an above average catastrophe year.
Investment, market and liquidity	**Low** 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.	⇔	During 2021, investment managers were selected and our investment strategy deployed in line with our investment and ESG criteria.

Risk category	Relative appetite / preference	Trend	Commentary
Credit	**Low** We use reinsurance to provide protection and therefore select reinsurers who provide limited credit risk.	⇔	All retrocessionaires continue to be A-, A or fully collateralised, with a counterparty security committee is in place to review and approve counterparties.
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.	⇘	The initial period of elevated risk has reduced as the team has been built and our internal capability has grown. We have built and implemented our internal systems including pricing tools, underwriting and accounting systems. Further system development is underway as we migrate to strategic solutions for areas such as claims in 2022 and start to develop our internal capital model and enhanced management reporting.
Strategic	**Low** We seek to manage risk by keeping a clear and focused strategy as a single balance sheet reinsurer based in one location.	⇘	We have established ourselves with a broad selection of brokers and achieved good traction across the industry being approved by cedent security committees in our first year of operation.
Reputational	**Low** A focus on maintaining and enhancing brand and franchise value. Support from the ESG committee, established by the holding company board.	⇔	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.	⇘	The initial period of elevated risk while governance structures were being confirmed and the team built out has now passed. Future risks remain surrounding global tax reform, though Conduit Re's single underwriting location reduces the potential risks.

Investment in accordance with prudent person principle

The BMA's Insurance Code of Conduct requires companies to invest assets in accordance with the 'prudent person principle'. In all cases, CRL invest assets in accordance with the prudent person principle. That is, the Board must discharge its duties with the care, skill, prudence and diligence that a prudent person acting in a similar capacity would use in the conduct of an enterprise of similar character and objectives.

CRL invests in assets and instruments that can be properly identified, measured, monitored, managed, controlled and reported on. CRL's investment guidelines set the parameters within which CRL's external managers must operate. Important parameters of these guidelines include permissible asset classes, duration ranges, credit quality, permitted currency, maturity, industry sectors, geographical, sovereign and issuer exposures. Guideline compliance is monitored on a monthly basis. CRL's portfolio of fixed maturity securities is currently managed by three external managers. Their performance is monitored on an ongoing basis.

Stress and scenario testing on capital

Stress and scenario testing is a key part of the overall risk framework and helps to provide a better understanding of the risks the Company is exposed to in both normal and stressed circumstances. CRL conducts sensitivity, stress and scenario testing on both a scheduled and ad-hoc basis as part of a number of the underlying components in the risk and CISSA framework.

The results of the 2021 stress tests highlighted that the capital resources in place well exceed the immediate capital requirements, including under realistic stressed scenarios.

D. Solvency Valuation

Assets

CRL has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair-value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date)

Reclassification adjustments

Premium receivable balances that are not yet due are included in the cashflows used to calculate technical provisions and those which are due but not yet received are included in the Economic Balance Sheet ("EBS").

Valuation of intangible assets, deferred acquisition costs and prepaid expenses

Intangible assets, deferred acquisition costs and prepaid expenses are valued at nil for EBS valuation purposes.

Liabilities

Insurance and reinsurance balances payable

Insurance and reinsurance balances payable that are not yet due are included in the cashflows used to calculate technical provisions and those which are due but not yet paid are included in the EBS. These include receivables which will be paid to Conduit Re and payments which Conduit Re will make to third parties.

Other liabilities and payables

Other liabilities and payables are valued for EBS purposes on the same basis as for IFRS accounting purposes since the carrying value approximates economic value due to their short-term nature.

Technical Provisions

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate liquidity adjustment. In addition, there is a risk margin to reflect the uncertainty inherent in the underlying cash flows, which is calculated using the cost of capital approach and a risk-free discount term structure. The discount rate term structures are prescribed by the BMA for each reporting period. The results are mapped to the BMA defined Classes of Business.

The best estimate for the loss and loss expense provision is calculated by using gross and net of outwards reinsurance claims reserves (on a generally accepted accounting ("GAAP") basis) as the starting point and then performing a series of adjustments, including:

- Removal of uplift factors/margins for uncertainty;
- Incorporation of events not in data ("ENID");
- Allowance for reinsurance counterparty default;
- Allowance for investment expenses;
- Projecting and discounting of cash flows

Similar to the loss and loss expense provision, the best estimate for the premium provision is calculated by using the GAAP reserves as a starting point, in this case the unearned premium reserve ("UPR"), and then carrying out the following adjustments:

- Application of best estimate loss ratios to the UPR;
- Amendments for ENID, reinsurance counterparty default and investment expenses as per the loss and loss expense provision;
- Allowance for claims handling and administrative expenses;
- Allowance for bound but not incepted ("BBNI") policies;
- Projecting and discounting of cash flows (similar to the loss and loss expense provision).

As at 31 December 2021, the total Net Technical Provisions amounts to $70.1 million comprising of the following (on an EBS basis):

	2021 $000s
Net premium provisions	(62,289)
Net loss and loss expense provisions	111,845
Risk margin	20,531
Total net technical provisions	**70,087**

E. Capital Management

Eligible Capital

The capital base has been established as part of a five-year business plan, with underwriting having commenced in 2021. The capital base comprises common shares plus contributed surplus. The total eligible capital as at 31 December 2021 was $1,017.6 million. The $35.4 million difference between shareholder equity in the financial statements and regulatory eligible capital relates to intangible assets, deferred acquisition costs ("**DAC**") and prepayments.

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 BSCR.

As at 31 December 2021 and 31 December 2020 respectively, the regulatory capital requirements for CRL were assessed as follows (USD in thousands):

	31 December 2021	31 December 2020
Bermuda Solvency Capital Requirement	176,989	66,625
Minimum Margin of Solvency	173,075	100,000
Enhanced Capital Requirement	176,989	100,000
Eligible Capital	1,016,661	1,045,280
Coverage Ratio	574%	1045%

Approved Internal Capital Model used to derive the ECR

The Company has not sought approval to use an internal capital model to determine its regulatory capital requirements.

F. Subsequent Events

Board and committee changes

Michelle Seymour-Smith, an existing Board member, joined the Risk, Capital and Compliance Committee in the fourth quarter 2021 meeting held in February 2022.

Senior management changes

On 1 March 2022, Greg Roberts was appointed as Group Chief Underwriting Officer and became a member of the Executive Committee. Trevor Carvey remains Chief Executive Officer.

Dividend

Subsequent to 31 December 2021, a dividend payment was made by CRL of $35m in support of CHL's dividend payment to shareholders.

Ukraine

On 24 February a military conflict arose in Ukraine. The Company does not have any direct exposure to Russian or Ukrainian assets in its investment portfolio. Investments in Russia, and Belarus, are specifically excluded from our investment portfolio. The Company does not underwrite direct insurance business and does not currently reinsure trade credit or political risk and has minimal cyber exposure. The Company has potential exposure across its property and specialty reinsurance books via classes such as war on land, marine war and aviation. There may be further exposure in other areas of the portfolio, although this is expected to be minimal. There is still significant uncertainty estimating losses emanating from the conflict, not least as it is an ongoing event and further losses could occur depending on the duration of the conflict. The Company continues to monitor developments.

Conclusion

The above subsequent events have been reported for transparency. It is not believed that any of these events have a material bearing on the information provided in the rest of this report.

Confirmation

To the best of our knowledge and belief, 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 2022

Trevor Carvey

Chief Executive Officer

29 April 2022