"Our third year of underwriting saw us accelerate against our original 2020 IPO plan."

Elaine Whelan
CFO

Our third year of underwriting saw us accelerate against our original 2020 IPO plan. With estimated ultimate premiums written for 2023 of $966.6 million, bringing us to $2,063.5 million from inception, we are now $208.5 million ahead of that original plan. While market conditions have been more favourable than we had anticipated, our third year is when we expected to reach a level of scale and maturity in our earnings and that has very much proved to be the case.

Our earnings base now has much more ability to absorb losses and cover our expenses. 2023 has been described in the industry press as (yet) another above-average industry loss year. However, 2023 was a year of accumulation of smaller loss events, which made it distinct from the last few years. There was a lack of any individually significant loss events and an increase in impact from secondary peril events, such as tornadoes in the US. While Conduit as a writer of quota share agreements has picked up some losses from those events, we did not have any losses that were material to Conduit either individually or in the aggregate and we are protected from more significant losses by the inclusion of event caps and limitations in our terms. Our loss ratio for 2023, on an undiscounted basis, was 68.0% and our combined ratio, also on an undiscounted basis, was 81.9%. Our pure underwriting profit was $183.6 million. That compares to the prior year undiscounted loss and combined ratios of 94.7% and 109.3% respectively, which reflected the stage of development of Conduit plus the impact of Hurricane Ian and the conflict in Ukraine. Hurricane Ian was the second-largest industry catastrophe loss event ever. It is worth noting that Conduit's undiscounted net losses, after reinsurance and reinstatement premiums, for these two events of $40.9 million and $24.6 million respectively, as at 31 December 2022 remained broadly stable.

While 2022 saw unrealised losses on our fixed maturity investment portfolio due to the rising interest rate environment, in 2023 we saw the benefits of a higher-yielding investment portfolio and a strong rate rally in the fourth quarter of the year. Our net investment return was 5.8% versus negative 5.0% in 2022. Although there has been some minor re-balancing of our portfolio, we have largely allowed securities to mature and so some of the unrealised loss generated in 2022 has unwound over the course of the year. We have maintained a short-duration, highly liquid, high-quality portfolio with no risk assets, such as equities, high-yield or alternative investments. While our primary investment aim is capital preservation and liquidity to support our underwriting activities, we are well placed to take advantage of the higher interest rates currently available.

While we have continued to investigate funds or other investments that meet our risk appetite and which also generate a positive impact from an ESG perspective, we have not yet found opportunities that have the right fit. We have, however, appointed one additional investment manager with additional ESG criteria in their mandate.

IFRS 17 implementation finally happened in 2023. Conduit is a straightforward business, without any legacy, so implementation of IFRS 17 for us was not overly complex relative to others. Other than presentational differences, the biggest impact to Conduit was from discounting reinsurance liabilities. That discounting also brought greater matching with the asset side of the business although, while we have not fully deployed our capital and our asset duration is shorter than our liability duration in the current environment, a degree of mismatch remains. We noted in our 2023 interim results that the opening equity impact of IFRS 17 implementation was $7.0 million. Discounting amounted to $22.0 million in 2023, versus $42.7 million in 2022, made up of $54.8 million on incurred losses and loss related amounts offset in part by $(6.8) million of re-measurement to current rates plus the unwind of prior discount of $(26.0) million. For 2022 the amounts were $21.9 million, $26.9 million and $(6.1) million respectively.

Lastly, as we continue to grow our book with balance in mind, we have more than enough capital to execute our plans. We continue to see an excellent market ahead of us and we are exceptionally well placed to build on our existing relationships plus market-driven new business opportunities.

Elaine Whelan
CFO
28 February 2024