CFO's report

"Our performance, given the extent of this year's market-loss events, was a pleasing affirmation of our strategy"

We have come a long way in the past two years and the decisions that we made in the pursuit of high-quality earnings and lower investment risk are starting to bear fruit. As a relatively young business, it naturally takes some time to build the book and for earnings to mature, particularly given our deliberate bias towards quota share over excess of loss contracts.

That bias towards quota share, driven by market dynamics, has stood us in good stead over the last two years. With those years both bringing higher-than-average industry natural-catastrophe losses, plus an extreme outlier event in the Russian invasion of Ukraine, we believe our strategy, approach and risk selection has allowed us to contain the financial impact of those events on Conduit Re. Despite Hurricane Ian looking like it could be the second largest catastrophe event ever, behind only Hurricane Katrina in 2005, Conduit Re produced a small underwriting profit for the year. In only our second year, and a year where current industry loss estimates for natural-catastrophes are as much as $120 billion, this is a significant achievement.

We have continued to grow the business, largely in line with the IPO plan for ultimate premium, and over our first two years of operation we have bound $1,118.4 million of ultimate premiums versus the IPO plan of $1,098 million. While there is a higher acquisition cost in doing quota share business, this is partially offset in a lower loss ratio, albeit not on a 1:1 basis, but also in lower volatility around that loss ratio. This has been borne out in our performance in the losses of the last two years. Going forward, in potentially the best market conditions for decades, we are exceptionally well placed to build from here with both our broad existing relationships and new business opportunities. Our lack of prior year legacy means that, with no need to consider material inflationary increases on back year reserves, the capital raised in our five-year plan is more than adequate to deploy to meet our underwriting goals.

There have been two major events that have impacted the business this year. On Hurricane Ian, we incurred $40.9 million of net losses, after reinsurance recoveries and reinstatement premiums. That equates to 4.2% of our opening shareholders' equity. While there is potential variability in any loss estimate, we believe the range around our Hurricane Ian loss is relatively small given how our reinsurance programme operates.

On the Ukraine crisis, we have recorded $24.6 million of net losses, after reinsurance recoveries and reinstatement premiums. That equates to 2.5%

CFO's report
continued

of our opening shareholders' equity. With the war ongoing, humanitarian aspects aside, there is clearly considerable uncertainty around the impact of this event. That is especially true for the industry and even more so for the aviation sector. For us, with a relatively small number of contracts exposed – and with caps on exposure in place – we have been able to come up with what we believe is a robust assessment of our ultimate potential loss.

On the other side of the balance sheet, Conduit has clearly been impacted by rising rates and rising rate expectations, as other companies in our sector have been. Our investment return for the year was (5.0)%, driven largely by unrealised losses of $67.8 million. With a short duration, highly liquid, high-quality portfolio and with no risk-assets - meaning no equities, high yield or alternative investments – we have no concerns around defaults and impairments. For the most part, we will allow our existing portfolio to mature – albeit with some rebalancing – and reinvest proceeds and new cash flows cautiously. We will therefore see some benefit from rising rates but, as ever, our primary aim is capital preservation and liquidity to support our underwriting. Markets remain volatile and uncertain, so we will ensure that we have more than adequate liquidity available in these challenging times.

We have continued to investigate funds or other investments that meet our risk appetite, while also having a positive impact from an ESG perspective, but we have not yet found opportunities that have the right fit. We have, however, taken further steps to avoid exposure to investments that contribute to identified types of environmental or social damage, as detailed in our ESG Report, published on our website. We will continue our research in this area.

2023, finally, brings IFRS 17 implementation. With that, other than presentational differences, we expect the biggest impact to Conduit to be from discounting our liabilities. That brings greater matching with the asset side of our balance sheet. While we have not fully deployed our capital, and our asset duration of 2.2 years is shorter than our gross reserve duration of 2.9 years in the current environment, a degree of mismatch remains. We do expect that to lessen over time as we continue to deploy our capital. Our IFRS 17 implementation project is relatively advanced, with our system development substantially complete and entering the testing and parallel running phases of the project. We expect to be able to provide more detail on the financial impacts ahead of our interim reporting at the half year.

Elaine Whelan
CFO
3 March 2023