"Over the year we saw the benefits of the long-term strategic calls we have made which were designed to deliver a robust and scalable platform."

**Trevor Carvey**
CEO

## Introduction

In last year's report, I said that the industry developments we had seen since 2020 presented a 2023 landscape that was well beyond the original expectations we had when Conduit was formed. I also said that our team, pulling together from one location, was ideally positioned to respond to the favourable market conditions, and so it has proved. We were quietly confident that we were experiencing a broad reinsurance market correction in our favour, and what we witnessed in 2023 was a fundamental shift in risk versus return metrics, which presented opportunities for us to accelerate our growth plans.

A significant aspect of our strategy is proactive cycle management which we believe will drive superior returns over time. Over the last three years the industry has experienced a number of major events and challenges, such as the COVID pandemic, the rapid rise and ongoing impact of inflation, a run of above average losses from natural catastrophes and then the ongoing conflicts in Ukraine and the Middle East. Not exactly an unprecedented series of consecutive events, but nonetheless a considerable change in the landscape for insurers and reinsurers alike to contend with.

In our view, being able to adapt readily to such a changing landscape is what a successful reinsurance business should do, and I am proud that the Company was swiftly able to align our risk appetite through this period to protect and improve our position. This was achieved through a series of both pre-emptive actions, and, at other times, defensive actions, in a relatively short space of time. As we moved through 2023, we took comfort also from the underlying performance and underwriting contribution from the 2021 and 2022 underwriting years. 2023 was indeed a good year at Conduit and the continued optimisation of the portfolio, along with the strength of our diversified platform, was very evident as we produced a very profitable result.

## 2023 performance

In 2023, our gross premiums written grew by 49.6% to $931.4 million and on an estimated ultimate premiums written basis by 49.9% to $966.6 million. Our overall result was comprehensive income of $190.8 million or $1.19 per share. We achieved a combined ratio of 72.1% and reinsurance service result of $183.6 million. This was an excellent performance by the team in only our third year of underwriting, particularly in another year of above average industry losses, where natural peril losses were estimated to be more than $100 billion. This marks the sixth year since 2017 where this annual threshold has been exceeded.

Our performance in 2023 stems from our commitment to being wholly focused on smart, disciplined underwriting and is evidence that we are delivering a growing business respected for its risk selection, partnerships and underwriting integrity.

The growth in premiums in 2023 was spread right across our three divisions of property, casualty and specialty and was broadly in line with our previously communicated commitment earlier in the year to skew our resources and capacity towards growing more in the property and specialty sectors where higher returns are more readily present. Our casualty division also had a solid year by building on the renewals and core contract base we have had in place since 2021 and we saw opportunities to continue to grow and build that book with our existing clients plus some new opportunities.

We were able to capitalise on favourable conditions in the ILS space and successfully sponsored the Stabilitas Re catastrophe bond structure. The resulting attractively priced three-year collateralised reinsurance cover complements Conduit Re's existing outwards reinsurance protection.

We ended 2023 by delivering an RoE of 22.0% for the year, compared with (4.4)% in 2022. The Company's net tangible asset value per share increased from $5.41 to $6.25 in 2023.

## Investments

Beyond underwriting, in contrast to 2022, our 2023 results were favourably impacted by the performance of our investment portfolio, with an investment return of 5.8% mostly driven by a higher yielding portfolio as we took advantage of some of the higher rates available on reinvestment. The 2022 results were affected by the impact of the increased interest rates on our invested assets, with an investment return of (5.0)% mostly driven by a mark-to-market effect over the 12 months of $(67.8) million. By comparison, the mark-to-market effect over the 12 months of 2023 was $30.6 million. Our invested assets at the end of 2023 were $1.2 billion versus $1.0 billion at the end of 2022. In 2023, within our normal portfolio monitoring and duration positioning activities, we accumulated cash and reinvested when opportunities presented themselves, and we avoided realising losses unnecessarily.

We have always said that our strategy is to assume risk in our underwriting and to seek to protect our asset base to maximise our solvency capital. Consequently, we will continue to deploy our investments conservatively, maintaining a lower-risk profile with high average credit ratings (AA at the end of both 2023 and 2022) and duration (2.4 years at the end of 2023 and 2.2 years at the end of 2022) positioned within a reasonable range of our liabilities.

## Reinsurance market conditions

In 2023, while the industry remained largely unscathed from a large US land-falling hurricane, it was the secondary perils events that dominated the year's catastrophe loss reporting. In the US, the severe convective storm total losses passed the $50 billion insured level, significantly above historical levels. Not only have these events apparently become more frequent, but they are also becoming more severe, with higher exposure values and inflation all contributing to the losses. The latest commentary from cedants and the broader industry press suggests that the primary insurers have felt, and are continuing to feel, squeezed by events probably more than the reinsurers. With attachment points on catastrophe excess of loss programmes moving higher through the year, coupled with changes to terms and conditions and generally more limited reinsurance capacity, primary insurance writers are absorbing more of the losses this time around.

When I am asked to summarise our perspective on the general market fundamentals in 2023, I turn back to the comments we made in our quarterly updates on the way in which we view the relative attractiveness of the different business classes. When prioritising the opportunity value, we used the phraseology of property being the most attractive, then specialty followed by casualty. Although somewhat simplistic, this is a good way to think about how the market overall has presented itself to Conduit in 2023, and indeed we think will probably continue to do so for some time to come.

In the alternative asset space, macro influences drove some major shifts in allocations with investors rebalancing after falls in the valuation of bond and equity portfolios. One consequence, relevant to the property catastrophe market, was inflows to catastrophe bond funds, where price increases were evident following Hurricane Ian, which made land-fall in September 2022, with some subsequent catastrophe bond price softening evolving though the second quarter of 2023.

Our approach has been, and continues to be, to back those insurers with track records of sensible risk selection and exposure management, and we firmly continue to hold the view that the margins available, especially in the specialty non-catastrophe area, remain attractive to a diversified strategy portfolio. Similar to the approach we have taken on our property business, we seek to not over-extend the portfolio to a specialty risk loss event. Therefore, our growth in the specialty lines has been measured and we have maintained consistency in the overall portfolio balance through 2023.

We see continuing access to and growth of this accretive/non-catastrophe specialty book as important to our success over time.

Turning to casualty, economic and social inflation have been been doing their job, reminding the industry of the need to price adequately and reserve for ongoing inflationary loss trends. This feature significantly underpinned the casualty market's discipline through 2023. Still dealing with inadequate reserving for 2019 and prior years, the casualty market saw well-funded litigation and significant settlements in 2023, all of which is pointing to another rebound in pricing and potentially a return to casualty rate increases in 2024.

## Capital management

In 2023 we continued to deploy our capital to support growth. Our portfolio mix is less capital intensive than we initially planned for, supporting accelerated growth. Absent unexpected events we expect Conduit Re to reach its normal operating target BSCR solvency ratio range of 200% to 300% within a three to five year planning horizon.

Further growth is supported within that target range. Any retained earnings, after dividends, would serve to add further support, with sufficient buffers maintained to withstand modelled catastrophe losses or mark-to-market investment volatility. As at 31 December 2023 Conduit Re's estimated BSCR coverage ratio is 381% compared with 404% at the end of 2022. Total capital and tangible capital available to Conduit was $0.99 billion at 31 December 2023 versus $0.87 billion at the end of 2022.

## ESG

Conduit Re remains committed to being a responsible business and we engage proactively with key stakeholders to understand what is important to them from an ESG perspective. As well as consulting with our investors, consulting with our employees and with local community organisations forms part of our engagement process. Our 2022 ESG materiality assessment and details of our engagement activities were set out in our first standalone ESG report published on our website in 2023. Details of our 2023 ESG engagement process is included in this Annual Report and Accounts and in the standalone 2023 ESG report which is available on our website. Our reporting on ESG seeks to be transparent in setting out our considered approach as to what we do and why we do it.

Being responsible and engaged with our people and our wider community is important as we seek to attract and retain the very best talent and to be an employer of choice. Beyond Conduit's support of social and environmental causes through our Foundation, I was proud and delighted of the support our team gave Stuart Quinlan, my deputy CEO and our Chief Operations Officer, as he delivered on his ambition to bring a Gala of Giving to Bermuda. Under his leadership, and supported by Conduit and many other Bermuda businesses, a very successful charitable event was organised, raising much needed additional funds for many of the Bermuda charities that our own Foundation has also supported.

## People & operations

I admire the strides we have made across the operational and people aspects of our business in 2023 and there are many successes that contribute in that regard, for example: the successful implementation of additional systems; the building of new models for pricing or capital management; and supporting new cedants or growing an existing business relationship.

Our finance team successfully implemented the accounting changes arising from IFRS 17 and, to a lesser extent, IFRS 9. While the implementation of these new standards has impacted the look of our financial statements and disclosures, it did not, and will not, impact Conduit's underwriting strategy or underlying economics.

One key foundation of these successes has been our drive to ensure that we employ and embed within our respective teams individuals with integrity and who bring high-quality technical knowledge. In 2023 we welcomed Peter Kiernan to head our property team, Mario Binetti to head our casualty team and Paige Gell as Assistant General Counsel to name a few, and there were a number of promotions, such as Alex Bateman to Chief Accounting Officer. We continued to add further talent to increase the resources and expertise across all functional areas of our business. At the end of 2023 we had 59 employees, up from 54 at the end of 2022.

Additionally, our commitment to diversity and inclusion aligns with our core values and is reflected in our Diversity and Inclusion Policy. Diversity and inclusion are not limited to any one of our practices and policies singularly but are reflected in all that we do within our business. We strive to create an environment which embraces differences and fosters collaboration and inclusion, where everyone's voice is heard. We encourage our people to be inquisitive in the execution of their roles and always seek to improve and challenge the status quo. We believe this will support us to achieve our vision to create value for our cedants, colleagues, business partners and shareholders. The results of our annual employee engagement survey in 2023 were positive, and I am pleased with the quality of feedback from our employees. We continue to listen to feedback from our staff and take action where needed on policies, technology, training or staffing to ensure we continue to create and maintain a great business.

## Outlook

Our ability to react quickly, to offer proactive, disciplined solutions and to adapt to the rapidly changing environment is how we engage in the reinsurance marketplace. It is also key to us actively managing our exposure footprint and in that regard we are seeing greater transparency in the sharing of data from insurer to reinsurer as we move forward. Systems are now able to 'talk' more readily to each other and this improved data exchange certainly gives us encouragement as we move forward enabling clearer longer-term research and analysis around the risk transfer transaction.

On the topic of new capital, we see elements re-entering at the more remote, pure catastrophe-modelled end of the property reinsurance chain and while we do not play as heavily in this space, it will likely dampen high-end catastrophe rate increases slightly. Despite this, the current broader property landscape remains a very good place to be operating in as a reinsurer in our view.

Geopolitical factors always need to be considered when underwriting and a prudent approach is to remain watchful of current conflict events and also remain alert to other potential conflicts across the globe. We in turn track such events and it informs our decisions on deploying capacity in certain regions as we move forward.

In August 2023, the Bermuda Government announced a consultation on the implementation of a corporate income tax in Bermuda, aligned with the OECD's global minimum tax initiative model rules. This initiative has moved on rapidly and enabling legislation was passed in December 2023. The new tax is scheduled to apply to qualifying entities from 1 January 2025. Given Conduit's limited international presence, we have initially concluded that Conduit will likely be exempt from any associated taxation for at least five years after it would otherwise apply.

To our employees, I wish to thank you for delivering on our goals and for your drive to always seek to improve on what we do and how we deliver products to our customers. We have an efficient structure operating decisively from our Bermuda location with a very motivated and highly-engaged workforce.

To our clients and brokers with whom we engage daily, thank you for your support and the team look forward to developing these relationships further for our mutual benefit as we head in to 2024.

Finally to our shareholders, we thank you for the continued investment and support as we build the business and for providing your valuable feedback along the way. The business is in a great shape as we enter 2024 and I have every confidence that we are in a strong position to deliver the value expected of us by our stakeholders.

**Trevor Carvey**
CEO
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