"In 2024 we have moved into our target capitalisation range, reflecting our increasing maturity."

The challenge and opportunity of an increasingly volatile environment

Last year, I highlighted geopolitical risks and the increasing prominence of artificial intelligence as key factors in the risk landscape, and I see that very much continuing in the period ahead.

Devastating natural catastrophes have also been front of mind, with the delta between the tragic human cost of events and the associated industry-insured loss demonstrating the protection gap only too vividly. More positively, events have also demonstrated that improved building standards and legal reforms are having a positive impact.

We live in a more volatile world, both natural and economic, than recent generations providing both a challenge and opportunity for the risk-sharing industry.

At Conduit, we seek to increase our own relevance within the reinsurance markets through continued growth in areas where our cedants provide transparent data that helps us assess the risks as if we were primary insurers, while remaining focused on further increasing our level of diversification through careful management of aggregations and accumulations.

Careful management of accumulations

Our approach remains one of seeking to limit aggregations within and across each line of business. While we do not consider ourselves a heavily natural catastrophe focused reinsurer, our largest accumulations, at the published return periods, remain those associated with such events, notably Florida windstorms and California earthquakes.

Our net tolerances for 2025 are increasing to $110 million from $95 million on a 1 in 100 basis and to $160 million from $133 million on a 1 in 250 basis. As in previous years, these tolerances are calibrated to a 1 July viewpoint, for a first occurrence, and may change.

Having increased our net modelled natural catastrophe exposure year on year since launch, as we grew into our balance sheet, our general expectation is that further increases will be aligned to balance sheet growth. That said, changes in market opportunity may vary this position.

Important role of outwards reinsurance

Outwards reinsurance is the mechanism by which we protect the balance sheet from outsized insurance loss events, notably earthquakes and named storms. It also helps us be increasingly significant business partners to our cedants, leveraging reinsurance to link risk and capital in ways that allow us to support our cedants on a broader basis than we otherwise would.

In 2023 we sponsored our first catastrophe bond, Stabilitas Re, with the resulting retrocession cover providing protection over a three-year period, and we continue to explore opportunities for complementary transactions to match risk to capital, whether with traditional reinsurers or through third-party capital vehicles.

Regardless of the form or purpose of reinsurance, we seek to limit our credit risk through careful consideration of the counterparty, with all reinsurance counterparties approved by the Counterparty Security Committee.

Our core reinsurance protection is intended to protect our balance sheet from large catastrophe events. Beyond these perils, we also buy reinsurance to protect against casualty clash and specialty accumulations.

Capital

While modelled catastrophe exposure, and the associated reinsurance, is a factor in our capital requirements[1], it has a relatively low impact in comparison to premium risk and reserve risk. Our estimated BSCR coverage ratio at 31 December 2024 is 269%, down from 381% at 31 December 2023 as we have continued to deploy our balance sheet toward our stated target range of a BSCR

1. All references to capital requirements, both regulatory and rating agency, refer to Conduit Reinsurance Limited (CRL) only as Conduit Holdings Limited (CHL) is a pure holding company.

coverage ratio of between 200% and 300%, which we are now within.

The decrease in coverage ratio is mainly driven by increased premium and reserve risks which are offset in part by retained earnings.

There are multiple measures of capital requirements with many variables and alternate views. The BSCR is the public metric we comment on, while rating agency and internal views are also considered in our internal assessment.

The current business plan anticipates that retained earnings will start to outpace increasing BSCR capital requirements within our three- to five-year business planning horizon. During that horizon we also expect the BSCR to replace the minimum solvency margin (MSM) as our regulatory capital requirement. Currently our MSM coverage ratio is 211% down from 269% at 31 December 2023. The MSM is less of a focus for us as it is a simple measure which can immediately be controlled by reducing the amount of business written or by buying more reinsurance, whereas the BSCR is a more complex risk-based model with many variables and therefore more aligned with our view of risk.

To give an indication of capital strength, the current excess of available capital over BSCR capital remains more than twice our modelled target 1 in 250 net probable maximum loss (PML) across the planning horizon. Our BSCR coverage ratio, as intended, positions us very much in the pack in comparison with other Class 4 Bermuda (re)insurers.

Risk profile

Conduit's risk profile, despite the volatility in the outside world, remains relatively stable with the increasing scale of the business counterbalancing some of the volatility.

Underwriting risk remains the risk that we seek and is our primary risk. Our toolset in this regard remains strong, with selective recruitment to strengthen further our team and capitalise on the market opportunity. Freedom from legacy constraints and Conduit Re's relative organisational simplicity remain key differentiators.

Our investment risk philosophy remains unchanged and delivers lower volatility than we see reported by some peers, against the backdrop of inflationary factors that reduced during 2024.

Operationally, we continue to invest and benefit from a technology strategy that allows us to make quick and decisive action when needed. In preparation for the January 2024 renewals we replaced our policy administration system having discovered that an alternate system better fits our ambitions to leverage technology more effectively.

Regulatory change, having been quite limited in recent years, has increased to a more moderate pace as Bermuda seeks to remain in line with global standards. The direct impact on Conduit Re is limited. Similarly, Bermuda has implemented legislation to bring in a Corporate Income Tax from January 2025. However Conduit does not meet the criteria to be in scope for this tax and does not expect to be in scope over our current planning horizon.

Beyond my role as Chief Risk Officer (CRO), I also have responsibility for sustainability and very much see the roles as interconnected. Acting responsibly is core to how Conduit Re operates and helps us manage our risk. The sustainability choices we make are part of our view of risk and support our business objectives. This was validated through questions included in our 2024 staff survey regarding culture and risk.

Risk governance

The Board is required under The UK Corporate Governance Code ('The UK Code') to establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks that Conduit is willing to accept in the context of achieving its long-term strategic objectives. To this end, the Board is supported by the CHL Audit Committee and the CRL Board and committees, most notably the CRL Risk, Capital and Compliance Committee.

The Board prescribes risk preferences that guide the CRL Board and committees as they establish risk appetite and tolerance statements. The Board also monitors the effectiveness of the overall enterprise risk management framework, leveraging the work undertaken by the CRL Board and committees.

CHL Directors are invited to attend CRL Board and committee meetings and are provided with the associated materials and minutes. In addition, four CHL Independent Non-Executive Directors also serve as Directors on the CRL Board.

Conduit operates under a 'three lines of defence' risk management model, with the CRO reporting directly to the CRL Board's Risk, Capital and Compliance Committee. This reporting includes regular reporting of compliance with risk appetite and tolerance statements, emerging risks, risk event reports, key risk indicators and the solvency self-assessment. Membership of this committee includes Directors who also serve on the boards of both CHL and CRL.

The risk function provides independent challenge and oversight of the identification, measurement, management and monitoring of risk by the first line of defence, supporting the CRL Risk, Capital and Compliance Committee and the CHL Board.

Day-to-day oversight of the management of risk by the first line of defence and the independent challenge provided by the second line is supported by the CEO and the Executive Committee.

Outputs from other second line of defence functions (compliance and actuarial) and from the third line (internal audit, external audit and the independent Loss Reserve Specialist) are fed back into the overall risk assessment. Regular meetings take place between the second-line functions and Internal Audit. Outputs from all such functions may be used, where appropriate, to support independent validation, alongside the risk function's own reports and those of other independent third parties.

Conclusion

From a risk perspective, our increasing market significance continues to build our level of diversification, while a strong renewing book provides the operational capacity to evaluate new opportunities to build corporate value.

Andrew Smith
Chief Risk Officer
26 February 2025

Increasing Decreasing No change

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 by the Bermuda Monetary Authority (BMA).	No change	After a period of initial capital deployment, we are now operating within our target capital range, all be it at the upper end of the range. This increases the importance of capital management to support continued growth. Our target level of capital is intended to support our rating ambitions with AM Best and our increasing maturity has been acknowledged by our rating, moving to a positive outlook.
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.	No change	Our well-established portfolio means that execution risk continues to decrease in Property and Casualty, but with rate momentum supported particularly in our chosen areas of Property. Our Specialty business presents strong growth opportunities notably on more complex transactions that have a higher execution risk.
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.	Increasing	In Property our portfolio approach means we continue to have capacity to increase our peak zone accumulations as market conditions support, while in Casualty and Specialty our increasing scale continues to provide diversification.
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.	No change	Portfolio growth reduces reserve risk and an expected normalisation of inflationary factors supports this, albeit with some remaining macroeconomic uncertainty.
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.	Decreasing	Our relatively low risk portfolio continues to remain highly liquid while current investment yields provide lower downside asset risk.

Increasing Decreasing No change

Risk category	Relative appetite/preference	Trend	Commentary
Credit	**Low** We use reinsurance to provide protection and therefore select reinsurers who provide limited credit risk.	No change	All retrocessionaires continue to be high quality and approved by the Counterparty Security Committee. Our collateralised reinsurers continue to be required to provide high-quality collateral, held in trust.
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.	No change	We benefit from a single operating location which reduces operational complexity. Our focus on leveraging leading technology solutions can require enhanced levels of investment of time and optimisation of activity allocation as working practices evolve.
Strategic	**Low** We seek to manage risk by keeping a clear and focused strategy as a single balance sheet reinsurer based in one location.	Decreasing	We have executed on strategy to date and favourable market conditions further reduce strategic risk. The implementation of Bermuda Corporate Income Tax, previously identified as a risk, does not apply to Conduit Re.
Reputational	**Low** A focus on maintaining and enhancing brand and franchise value with support from the ESG Committee, established by the CHL Board.	No change	Public coverage is favourable to date and the quality and maturity of our external disclosures continue to improve. Conversely, as recognition of Conduit increases, this provides greater visibility.
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.	Increasing	The level of regulatory change in Bermuda is increasing from low to moderate, though the topics addressed to date are not material to Conduit Re. Political changes in the US are generally expected to be more pro-business but could increase uncertainty.