"Our deliberate and proactive management of risk and exposure positions us to exceed our prior growth expectations."

Andrew Smith
CRO

Prudent risk management in a world of elevated risk

Long-standing emerging risk themes have remained largely consistent, but the imminence and expected magnitude make matters more immediate. The World's progress on limiting climate change lags the Paris Agreement; the risks and opportunities of artificial intelligence are better understood; while geopolitical risks are perhaps the highest in a generation.

Against that backdrop, the importance of the protection and risk-sharing our industry provides has never been greater. As a treaty reinsurer, Conduit Re is one step removed from some of the insurance product innovation we see. Where we innovate and differentiate ourselves is on the management of our underwriting portfolio and exposure aggregations.

Aggregations very much in proportion

While exposure and aggregation management is relevant to all our business lines, the one that supports comparative analysis versus peers is in relation to natural catastrophe exposures. In this regard, we have outperformed the plan set out at the time of the IPO in that we have written more business but with a lower level of modelled risk.

As we look ahead to 2024, based on our approach of setting tolerances (in this instance how much modelled catastrophe exposure management can write without needing to revert to the Board) as a percentage of tangible capital, our tolerances increase to $251 million gross ($95 million net) on a 1 in 100 basis and $391 million gross ($133 million net) on a 1 in 250 basis. I note that this is calibrated to a 1 July 2024 viewpoint, for a first occurrence, and may change.

However, our business plan anticipates writing less exposure than this, with the mean plan anticipating net exposure on a 1 in 100 and 1 in 250 basis of $83.1 million and $93.3 million respectively. In comparison to the 2023 plan this represents an increase of $18.1 million on the 1 in 100 and a decrease of $5.4 million on a 1 in 250 basis. These measures are also slightly lower than the revised 2023 targets communicated to the financial markets in July during the 2023 interim results presentation and represent 8.4% and 9.4% of opening tangible capital at the 1 in 100 and 1 in 250 return periods respectively.

Overall, our portfolio management techniques are intended to manage volatility, while our outwards reinsurance purchases are intended to reduce the risk of balance sheet shocks. Our decreased exposure at the more remote return periods reflects the benefit of the catastrophe bond which we sponsored during 2023 and provides committed capacity for a three-year period. This supplements our traditional reinsurance protections, which address natural perils, casualty clash and specialty accumulations. Outwards counterparties remain high quality and are individually approved by our Counterparty Security Committee.

Capital

While modelled catastrophe exposure 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 2023 is 381%, down from 404% at 31 December 2022 as we continue to deploy our capital. The decrease is mainly driven by increased premium and reserve risk which are offset in part by retained earnings.

Capital requirements are a complex topic with many variables and alternate views. The current business plan anticipates that retained earnings will start to outpace increasing capital requirements within a three-to-five-year planning horizon, settling to a BSCR coverage ratio of between 200% and 300%, which is our target operating range.

At this level, our available capital would exceed required BSCR capital by more than twice our modelled target 1 in 250 net PML across the planning horizon. Our BSCR coverage ratio would, as intended, position us very much in the pack in comparison to other Class 4 Bermuda (re)insurers. It is important to note that the BSCR coverage ratio is one of many views of capital adequacy, with other

1. All references to capital requirements, both regulatory and rating agency, refer to CRL only as CHL is a pure holding company.

regulatory ratios, rating agency models and our developing internal capital model also being relevant.

Risk profile

Despite the wider turmoil in the World, our analysis of our own material risks generally shows improvement as reflected in the table on the next page, which articulates our appetite and our current view on the associated risks.

As ever, underwriting risk remains the risk that we seek and is our primary risk. Our toolset in this regard remains strong, with our freedom from legacy constraints and Conduit Re's relative organisational simplicity being our key differentiators.

Operationally, we are stronger. Staffing increased from 54 to 59 during 2023, and we see this in a further reduction in the number of risk events (of which none had a significant impact) featured in my quarterly reports to the Board. We have also taken the opportunity to upgrade our underwriting policy administration system, which has gone smoothly as did our IFRS 17 implementation, the other major project of the year.

Our investment risk philosophy remains unchanged and delivers lower volatility than we see reported by some peers.

Regulatory, rating agency and tax considerations, while generally a topic of interest for our industry have a largely muted potential impact on Conduit.

Risk governance

The Board is required under The UK Code to establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Company 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.

CRL 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 between the second-line functions and Internal Audit commenced during 2022. 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.

Looking ahead, I am anticipating an increased overlap between my role as CRO and that of Chief Sustainability Officer as we work to expand our consideration of climate risk to also focus on nature and biodiversity explicitly, and as regulatory expectations in relation to disclosures on these specific aspects of risk increase.

Conclusion

Overall, I remain confident that the management of risk is progressing in line with the initial vision set out with first-line ownership of risks: a small, focused risk team working closely with actuarial, modelling and data resources.

Our risk culture remains strong and based on open dialogue and transparency and aligned to our corporate values. The benefits of a single underwriting location should not be underestimated and supports us bringing together groups to brainstorm on diverse topics and ensuring that risk management is very much part of everyday thinking.

Andrew Smith
CRO
28 February 2024

Increasing | Decreasing | No change

Risk category	Relative appetite/preference		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 BMA.	No change	AM Best affirmed our A– financial strength rating and we continue to have substantial capital to deploy. In addition to regulatory and rating agency perspectives, we have now built an internal capital model. While it continues to undergo validation activities it has already been used to provide an additional perspective.
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	After consecutive market-loss heavy years, we are expecting favourable underwriting conditions to prevail into 2024. This, together with an expanded underwriting team and increased familiarity with cedants, reduces the 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	As our portfolio has grown in scale, we have benefited from greater diversification and lower than initially anticipated exposure to natural perils per dollar of total premium. More broadly, increased scale includes an element of assuming greater accumulations and a period of continued macroeconomic uncertainty increases certain risks and potential for aggregation.
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, while continued uncertain macroeconomic factors offset this.
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 limited 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.	↔	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.	↘	We have expanded our team, reducing key person dependencies, and continue to invest in our processes and technology.
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 executed on strategy to date and favourable market conditions further reduce strategic risk.
Reputational	Low A focus on maintaining and enhancing brand and franchise value with support from the ESG Committee, established by the Holding Company Board.	↔	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.	↗	While legal, regulatory and litigation risks are generally low, we include tax risk in this grouping and, the rate of change on the global tax agenda presents increased uncertainty and risk - albeit recognising that Conduit underwrites on a single balance sheet from a single location.

Overall enterprise risk management framework and risk governance