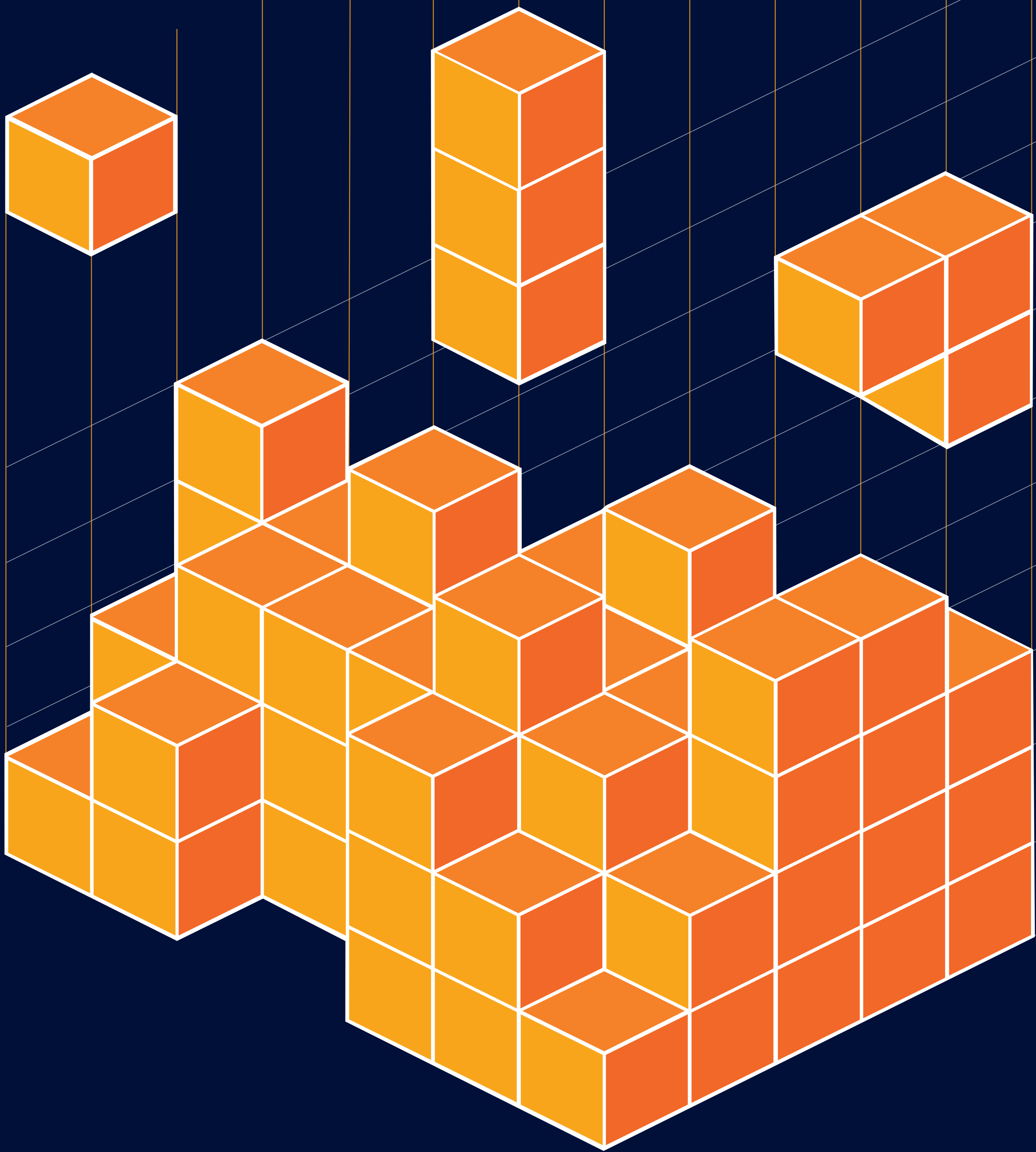
CONDUIT RE



# Building resilience in a changing world

Conduit Holdings Limited

## Business review



## Financial statements



## Appendix

Conduit Re is a pure play global reinsurance business.

We have proven experience across our business empowered to make dynamic decisions throughout the market cycle.

We have a disciplined and collaborative culture underwriting in a single location on a legacy-free balance sheet.

We use differentiated technology to provide insight and bespoke solutions to support our clients.

Social responsibility and inclusiveness is at the core of how we operate.

# Financial performance

For the year ended 31 December 2021

Neil Eckert, Group Executive Chairman, commented:

"Market conditions are attractive and we are anticipating further rate hardening during 2022. Our CEO Trevor Carvey and his team have achieved a huge amount in our first year of operations and built a well-balanced underwriting portfolio. As we enter our second year, our January 2022 premiums were ahead of management expectations. I am confident that Conduit Re will deliver on its long term objectives."

## Key Highlights:

- From a standing start, approximately $460 million of estimated ultimate premiums written, in line with our first year plan
- Strategic focus on quota share business to access best pricing and terms and conditions resulted in optimal diversification, lower volatility within the portfolio and an embedded pipeline into 2022
- 2021 indicative renewal rate increase of +13.7%
- Combined ratio of 119.4% (of which 27.7% resulted from natural catastrophes)
- Final dividend of $0.18 (approximately 13 pence) per common share (in respect of H2 2021). This takes the full 2021 dividend to $0.36 (approximately 26 pence) per common share in line with our stated dividend policy
- Strong momentum in 1 January 2022 renewals:
    - 1 January 2022 renewals estimated ultimate premiums written of $268.2 million; up 74% on 2021
    - a high-quality submission flow and highly selective underwriting approach, leading to a c.20% selection rate
    - +5% net rate change, adjusted for claims inflation, changes in exposure and other relevant terms and conditions

| Financial highlights ($m) | 12 months ended 31 December 2021 |
|---|---|
| Estimated ultimate premiums written | 458.5 |
| Gross premiums written | 378.8 |
| Net premiums written | 346.2 |
| Net premiums earned | 194.2 |
| Underwriting loss | (7.0) |
| Comprehensive loss | (42.0) |

| Financial ratios (%) | 12 months ended 31 December 2021 |
|---|---|
| Return on equity | (4.0) |
| Net loss ratio | 73.2 |
| Net acquisition cost ratio | 30.4 |
| Other operating expense ratio | 15.8 |
| Combined ratio | 119.4 |
| Total investment return | (0.3) |

Trevor Carvey, Group Chief Executive Officer, commented:

"To have accomplished the goals we set ourselves for our first year has been an outstanding achievement for Conduit Re. For me, the highlight has been the development of our non-cat account which represents 69% of our premium income. Our selective and technical approach to underwriting the business, together with ongoing favourable market conditions, have allowed us to construct a high-quality and diversified core portfolio in what has been a year of significant losses for the industry. We have been able to minimise our exposure to the volatility of the year's external events and our hard work and discipline should reap rewards in the coming years."

# Financial performance

For the year ended 31 December 2021

## Overview

After a successful IPO on 7 December 2020, Conduit Re began its first year of underwriting on 1 January 2021. Consequently, financial comparatives are only provided where available and applicable.

Generally, pricing and terms and conditions have continued to improve across all our core classes of business, with the greatest impact being felt in the underlying primary markets. We consider quota share business to have provided the optimum balance between price and risk as we build our underwriting portfolio and we expect to continue to have an increased weighting towards quota share contracts versus excess of loss business in the near term. While quota share contracts typically have higher acquisition costs associated with them, there tends to be less volatility in the underlying loss ratio.

Our current book has been priced to estimated ultimate loss ratios that are broadly in line with management expectations. As a start-up we reserve our portfolio based on prudent loss estimates, reflecting the early stage of our portfolio's development.

Our combined ratio is further impacted by the full recognition of our ceded reinsurance and other operating expenses, while our gross earned premium is only 49.3% of ultimate premiums written. We expect these factors to normalise over time as the business matures.

The breakdown of our overall ultimate premiums written during 2021 was as follows:

| Ultimate premiums written ($m) | Property | Casualty | Specialty | Total |
|---|---|---|---|---|
| Quota share | 104.8 | 174.1 | 57.9 | 336.8 |
| Quota share of XL | 68.6 | - | 4.3 | 72.9 |
| XL | 31.6 | 8.3 | 8.9 | 48.8 |
| **Total** | **205.0** | **182.4** | **71.1** | **458.5** |

### Property

Estimated ultimate premiums bound were $205.0 million with gross written premiums in the 2021 financial year of $183.4 million. Quota share policies accounted for $85.4 million (46.6%), while excess of loss and quota share excess of loss accounted for $31.6 million (17.2%) and $66.4 million (36.2%) respectively.

The indicative renewal price index for Property in 2021 was 12.2%.

### Casualty

Estimated ultimate premiums bound were $182.4 million with gross written premiums in the 2021 financial year of $129.0 million. Quota share policies accounted for $120.7 million (93.6%) with excess of loss at $8.3 million (6.4%).

The indicative renewal price index for Casualty in 2021 was 16.0%.

### Specialty

Estimated ultimate premiums bound were $71.1 million with gross written premiums in the 2021 financial year of $66.4 million. Quota share policies accounted for $53.1 million (80.0%), while excess of loss and quota share excess of loss accounted for $8.9 million (13.4%) and $4.4 million (6.6%) respectively.

The indicative renewal price index for Specialty in 2021 was 12.0%.

### Ceded

Ceded reinsurance premiums written were $32.6 million for 2021. The majority of the cost represents our cover purchased on an excess of loss basis, with the remaining cost relating to reinstatement premiums stemming from the catastrophe loss events which occurred during the year.

# Financial performance

For the year ended 31 December 2021

## Losses

2021 was characterised by another year of higher than average natural catastrophe losses for the industry. The Group's net loss ratio for 2021 was 73.2%.

In what has been widely reported as the fourth costliest catastrophe loss year on record, our net natural catastrophe related losses in 2021 were $53.8 million, which contributed 27.7% of our reported loss ratio and combined ratio.

The largest impact on our net loss ratio from 2021 events were from Hurricane Ida and the European floods, which both occurred in the third quarter of the year. Our ultimate loss estimate, net of reinsurance and reinstatement premiums, for these two events is $27.1 million, of which $15.0 million is in respect of Hurricane Ida and $12.1 million is in respect of the European floods.

While reserves have been recorded for these events, our reserve estimates have been derived from a combination of market data and assumptions, modelled loss projections and reports from brokers and cedants. We will continue to keep these estimates under review as more detailed information becomes available.

As this is the first year of underwriting, there are no prior year developments to report on. The ratio of net reserves incurred but not reported to total net loss reserves was 78.8% as at 31 December 2021 and with only $44.4 million of claims paid and reported to date across all of Property, Casualty and Specialty, uncertainty exists in relation to the ultimate losses.

## Investments

In line with our stated strategy, we continue to maintain our conservative approach to managing our invested assets with a strong emphasis on preserving capital and liquidity. Our strategy remains maintaining a short duration, highly creditworthy portfolio, with due consideration of the duration of our liabilities.

The Group recorded a loss of 0.3% on the investment portfolio for 2021 due primarily to rising treasury yields in the fourth quarter following the announcement by the Federal Reserve that they intend to bring forward the timing of their projected interest rate increases in 2022. With the prospect of rising rates ahead we will maintain our short duration positioning.

Net investment income, excluding realised gains and unrealised losses, was $5.5 million for the year ended 31 December 2021. Total investment return, including net investment income, net realised gains and losses, and net change in unrealised gains and losses, was a loss of $3.1 million.

The managed portfolio consists of 95.3% fixed maturity securities and 4.7% cash and cash equivalents with a portfolio duration of 2.4 years and a credit quality of AA-. The book yield of the portfolio for 2021 was 0.9% while market yield was 1.2%.

ESG considerations are incorporated into our individual portfolio investment guidelines. We believe that, all other things being equal, it is less risky to own securities with strong ESG ratings.

## Other operating expenses and equity-based incentives

Other operating expenses were $30.6 million for the year ended 31 December 2021, while our equity-based incentives expense was $0.3 million.

Other operating expenses contributed 15.8% to the Group's combined ratio as they are incurred in advance of the underlying premium recognition. However, other operating expenses represented 6.7% of the Group's estimated ultimate premiums written. In future years, as we grow our portfolio, these should represent a much lower proportion of net premiums earned.

The development of the Group's technology platforms and recruitment of the wider teams are progressing well and remain in line with our plan and expectations.

# Financial performance

For the year ended 31 December 2021

## Capital and dividends

The Group remains well capitalised to achieve the business plan presented in the IPO Prospectus. Total capital and tangible capital available to the Group was $0.98 billion at 31 December 2021 (31 December 2020: $1.05 billion).

Tangible net assets per share at 31 December 2021 were $5.93 (31 December 2020: $6.37).

In December 2021, the Group commenced on-market purchases of CHL's shares under a share purchase programme announced on 29 December 2021, where shares may be repurchased pursuant to authority obtained at CHL's most recent annual general meeting. Shares repurchased during the year amounted to $0.2 million and will be held in treasury to meet future obligations under CHL's variable incentive schemes.

On 23 February 2022 the Group's Board of Directors declared a final dividend of $0.18 (approximately 13 pence) per common share, resulting in an aggregate payment of $29.7 million. The dividend will be paid in pounds sterling on 22 April 2022 to shareholders of record on 25 March 2022 (the "Record Date") using the pound sterling / US dollar spot exchange rate at 12 noon BST on the Record Date.

CHL previously declared and paid an interim dividend during 2021 of $0.18 (approximately 13 pence) per common share.

## Outlook

In our Trading Update on 19 January, we reported a strong start to 2022 with $268.2 million of estimated ultimate premiums written, an increase of 74% from 2021. Net rate increases (including the impact of claims inflation, changes in exposure and other relevant terms and conditions) in the 1 January portfolio were +5%. Pricing and terms and conditions continue to improve across our core classes which we expect this to continue throughout 2022.

Management believes that Conduit Re remains on track to deliver on its five-year business plan.

# Consolidated statement of comprehensive loss

For the year ended 31 December 2021
Unaudited

| | Notes | 2021 $m | 2020 $m |
|---|---|---|---|
| Gross premiums written | 4 | 378.8 | – |
| Ceded reinsurance premiums | 4 | (32.6) | – |
| **Net premiums written** | | **346.2** | **–** |
| Change in unearned premiums | 4 | (152.8) | – |
| Change in unearned premiums on premiums ceded | 4 | 0.8 | – |
| **Net premiums earned** | | **194.2** | **–** |
| Net investment income | 5 | 5.5 | 0.1 |
| Net realised losses on investments | 5 | (1.0) | – |
| Net unrealised losses on investments | 5, 12 | (7.6) | – |
| Net foreign exchange (losses) gains | | (0.5) | 0.1 |
| **Total net revenue** | | **190.6** | **0.2** |
| Insurance losses and loss adjustment expenses | 4, 14 | 191.0 | – |
| Insurance losses and loss adjustment expenses recoverable | 4, 14 | (48.9) | – |
| **Net insurance losses** | | **142.1** | **–** |
| Insurance acquisition expenses | 4, 6 | 59.1 | – |
| Equity-based incentives | 7 | 0.3 | 0.3 |
| Other operating expenses | 4, 7, 8, 22 | 30.6 | 4.5 |
| **Total expenses** | | **232.1** | **4.8** |
| Results of operating activities | | (41.5) | (4.6) |
| Financing costs | 9, 15 | (0.5) | – |
| **Total comprehensive loss for the period** | | **(42.0)** | **(4.6)** |
| **Loss per share** | | | |
| Basic and diluted | 21 | $(0.25) | $ (0.03) |

# Consolidated balance sheet

As at 31 December 2021
Unaudited

| | Notes | 2021 $m | 2020 $m |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 11, 17 | 67.5 | 1,054.0 |
| Accrued interest receivable | | 3.7 | – |
| Investments | 12, 13, 17 | 1,008.4 | – |
| Inwards premiums receivable | | 155.0 | – |
| Reinsurance assets | | | |
| – Unearned premiums on premiums ceded | | 0.8 | – |
| – Reinsurance recoverable | 14 | 48.9 | – |
| – Other reinsurance receivables | | 0.3 | – |
| Other assets | | 1.6 | 1.1 |
| Right-of-use assets | 15 | 2.9 | – |
| Deferred acquisition expenses | | 44.6 | – |
| Intangible assets | 16 | 1.1 | 0.2 |
| **Total assets** | | **1,334.8** | **1,055.3** |
| **Liabilities** | | | |
| Reinsurance contracts | | | |
| – Losses and loss adjustment expenses | 14 | 171.6 | – |
| – Unearned premiums | | 152.8 | – |
| Amounts payable to reinsurers | | 7.3 | – |
| Other payables | | 19.0 | 2.5 |
| Lease liabilities | 15 | 2.9 | – |
| **Total liabilities** | | **353.6** | **2.5** |
| **Shareholders' equity** | | | |
| Share capital | 18 | 1.7 | 1.7 |
| Own shares | 18 | (0.2) | – |
| Other reserves | 19 | 1,056.0 | 1,055.7 |
| Dividends | 18 | (29.7) | – |
| Retained loss | | (46.6) | (4.6) |
| **Total shareholders' equity** | | **981.2** | **1,052.8** |
| **Total liabilities and shareholders' equity** | | **1,334.8** | **1,055.3** |

The consolidated financial statements were approved by the Board of Directors on 23 February 2022 and signed on its behalf by:

**Trevor Carvey**
Chief Executive Officer

**Elaine Whelan**
Chief Financial Officer

# Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2021
Unaudited

| | Notes | Share capital $m | Own shares $m | Other reserves $m | Retained loss $m | Total shareholders' equity $m |
|---|---|---|---|---|---|---|
| Total comprehensive loss for the period | | – | – | – | (4.6) | (4.6) |
| Issue of share capital | 18 | 1.7 | – | 1,100.9 | – | 1,102.6 |
| Issuance costs | 19 | – | – | (45.5) | – | (45.5) |
| Equity-based incentives | 7, 19 | – | – | 0.3 | – | 0.3 |
| **Balance as at 31 December 2020** | | **1.7** | **–** | **1,055.7** | **(4.6)** | **1,052.8** |
| Total comprehensive loss for the year | | – | – | – | (42.0) | (42.0) |
| Purchase of own shares | 18 | – | (0.2) | – | – | (0.2) |
| Dividends on common shares | 18 | – | – | – | (29.7) | (29.7) |
| Equity-based incentives | 7, 19 | – | – | 0.3 | – | 0.3 |
| **Balance as at 31 December 2021** | | **1.7** | **(0.2)** | **1,056.0** | **(76.3)** | **981.2** |

# Statement of consolidated cash flows

For the year ended 31 December 2021
Unaudited

| | Notes | **2021 $m** | 2020 $m |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| Comprehensive loss | | (42.0) | (4.6) |
| Depreciation | 15 | 0.1 | – |
| Interest expense on lease liabilities | 9, 15 | 0.1 | – |
| Net investment income | 5 | (6.2) | (0.1) |
| Net realised losses on investments | 5 | 1.0 | – |
| Net unrealised losses on investments | 5 | 7.6 | – |
| Net foreign exchange losses (gains) | | 0.3 | (0.2) |
| Equity-based incentives | 7 | 0.3 | 0.3 |
| Change in operational assets and liabilities | | | |
| – Reinsurance assets and liabilities | | 82.0 | – |
| – Other assets and liabilities | | 5.5 | 1.5 |
| **Net cash flows from (used in) operating activities** | | **48.7** | **(3.1)** |
| **Cash flows used in investing activities** | | | |
| Purchase of investments | | (1,570.4) | – |
| Proceeds on sale and maturity of investments | | 558.9 | – |
| Interest received | | 7.5 | 0.1 |
| Purchase of intangible assets | 16 | (0.9) | (0.2) |
| Purchase of property, plant and equipment | | (0.5) | – |
| **Net cash flows used in investing activities** | | **(1 005.4)** | **(0.1)** |
| **Cash flows (used in) from financing activities** | | | |
| Proceeds from issue of share capital | 18, 19 | – | 1,057.1 |
| Lease liabilities paid | 15 | (0.1) | – |
| Dividends paid | 18 | (29.7) | – |
| Purchase of own shares | 18 | (0.2) | – |
| **Net cash flows (used in) from financing activities** | | **(30.0)** | **1,057.1** |
| **Net (decrease) increase in cash and cash equivalents** | | **(986.7)** | **1,053.9** |
| Cash and cash equivalents at the beginning of the year | | 1,054.0 | – |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 0.2 | 0.1 |
| **Cash and cash equivalents at end of year** | | **67.5** | **1,054.0** |

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 1. General information

Conduit Holdings Limited was incorporated under the laws of Bermuda on 6 October 2020 and, on 7 December 2020, all of its common shares of par value US$0.01 per share were admitted to the standard listing segment of the Official List of the UK Financial Conduct Authority and admitted to trading on the LSE's main market for listed securities. CHL's registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company's consolidated financial statements as at and for the year ended 31 December 2021 include the Company's subsidiaries (together referred to as the "Group"). The principal activity of the Group is to provide reinsurance products and services to its clients worldwide.

A full listing of the Group's related parties can be found in note 22.

## 2. Summary of significant accounting policies

The basis of preparation, use of judgements and estimates, consolidation principles and significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Excluding percentages, share and per share data or where otherwise stated, all amounts in tables and narrative disclosures are in millions of US dollars.

### Basis of preparation

These consolidated financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, prepared on a historical cost basis, except for items measured at fair value as disclosed in the relevant accounting policies. In accordance with the requirements of IAS 1 the financial statements' assets and liabilities have been presented in order of liquidity which provides information that is more reliable and relevant for a financial institution.

Where IFRS is silent, as it is in respect of certain aspects relating to the measurement of reinsurance contracts, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Group's management determines appropriate measurement bases, to provide the most useful information to users of these consolidated financial statements, using their judgement and considering US GAAP. In the course of preparing these consolidated financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations as noted in the 'Use of judgements and estimates' section, that have had a significant effect on amounts recognised in these consolidated financial statements.

Underwriting and investment related operations for the Group commenced during the year ended 31 December 2021. The consolidated financial statements for the period from 6 October 2020 to 31 December 2020 contain formation costs and other costs in connection with the set-up of the business, and these consolidated financial statements should be read in this context.

### Going concern

The consolidated financial statements of the Group have been prepared on a going concern basis. In assessing the Group's going concern position as at 31 December 2021, the directors have considered a number of factors, including the current statement of financial position, the Group's strategic and financial plan, taking account of possible changes in trading performance and funding retention, stress testing and scenario analysis, and the COVID-19 pandemic. The Group only commenced underwriting activities during the twelve months ended 31 December 2021 and, with COVID-19 exclusions included in policy wordings, the Group does not believe it has any exposure to reinsurance losses from COVID-19. The assessment therefore concluded that the Group has sufficient capital and liquidity for the next 12 months. The Group's capital ratios and its capital resources are comfortably in excess of regulatory solvency requirements, and internal stress testing indicates the Group can withstand severe economic and competitive stresses.

As a result of the assessment, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 2. Summary of significant accounting policies

### Changes in accounting standards

While a number of amended IFRS standards have become effective during the year ended 31 December 2021, none of these standards have had a material impact on the Group.

### Future accounting changes

Of the upcoming accounting standard changes, we anticipate that IFRS 17 and IFRS 9 will have the most material impact on the financial statements' presentation and disclosures. A brief overview of each of these standards is provided below:

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts. The new standard is effective for accounting periods beginning on or after 1 January 2023 and will significantly change the accounting for insurance contracts. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Group is assessing the impact that IFRS 17 will have on its results of operations and disclosure requirements, and monitoring market practices while it develops the Group's accounting policies under IFRS 17. The Group currently anticipates that it will be eligible to apply the simplified model, the premium allocation approach, to its portfolios and groups of contracts. From our ongoing assessments we do not expect a material impact on profitability. Presentation and disclosure will change significantly.

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Group qualifies for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The activities of the Group are predominantly connected with insurance. The carrying value of the Group's liabilities connected with insurance activities comprised over 90% of the total liabilities. The Group therefore satisfies the criteria set out in IFRS 4 for the temporary exemption from IFRS 9. The exemption lasts until the implementation date of IFRS 17 and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Group currently anticipates that all investments held by the Group will be classified as at FVTPL, because they are managed on a fair value basis. As a result, the adoption of IFRS 9 is not expected to result in any changes to the measurement of the Group's investments, which will continue to be at FVTPL. The Group is assessing the impact that IFRS 9 will have on its results of operations and disclosure requirements. From our ongoing assessments we do not expect a material impact on profitability or presentation and disclosure.

### Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the Group to make judgements and estimates that affect the reported and disclosed amounts at the balance sheet date, revenues and expenses during the reporting period and the associated financial statement disclosures. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their prediction of future events. Actual results may differ significantly from the estimates made.

The most significant estimates made by management are in relation to losses and loss adjustment expenses, both gross and net of ceded reinsurance, as discussed within the "Risk disclosures" section and in note 14.

Less significant estimates are made in determining the estimated fair value of certain financial instruments, as discussed in note 12.

In addition, some management judgement is exercised in determining the ultimate premiums expected from which to establish the recognition of gross premium written.

While not significant, estimates are also used in the estimated fair value of the MIP as discussed in note 7 and the valuation of intangible assets as discussed in note 16.

## 2. Summary of significant accounting policies

### Consolidation principles

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2021. Subsidiaries are those entities that are controlled by the Group and are fully consolidated from the date on which the Group obtains control and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Intragroup balances and transactions are eliminated in preparing the consolidated financial statements. Subsidiaries' accounting policies are generally consistent with the Group's accounting policies. Where they differ, adjustments are made on consolidation to bring accounting policies in line.

### Foreign currency

The functional currency, which is the currency of the primary economic environment in which the entity operates, for all Group entities is US dollars. Items included in the financial statements of each of the Group's entities are measured using the functional currency. These consolidated financial statements are presented in US dollars.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting foreign exchange differences on revaluation are recorded in the consolidated statement of comprehensive loss within net foreign exchange gains (losses). Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the fair value was determined.

### Reinsurance contracts

#### Classification

Contracts that transfer significant reinsurance risk at the inception of the contract are accounted for as reinsurance contracts. Contracts that do not transfer significant reinsurance risk are accounted for as investment contracts. Reinsurance risk is transferred when a reinsurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

#### Premiums

The Group writes both excess of loss and proportional (also known as quota share or *pro-rata*) reinsurance contracts.

#### Excess of loss contracts

For the majority of excess of loss contracts, premiums written are recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For excess of loss contracts where no deposit is specified in the contract, premiums written are recognised based on estimates of ultimate premiums provided by the ceding company. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound, if later. Subsequent adjustments, based on reports of actual premium by ceding companies, or revisions in estimates, are recorded in the period in which they are determined. For multi-year policies that are payable in annual instalments generally only the initial annual instalment is included as premiums written at policy inception due to the ability of the reinsured to commute or cancel the policy. The remaining annual instalments are included as premiums written at each successive anniversary date within the multi-year term.

Premiums written are generally earned evenly over the term of the underlying risk period of the reinsurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums. Where contract terms require the reinstatement of coverage after a ceding company's loss, the estimated

## 2. Summary of significant accounting policies

mandatory reinstatement premiums are recorded as premiums written and earned when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR that do not relate to a specific loss event.

### Proportional contracts

Premiums written for proportional contracts are recognised based on estimates of ultimate premiums provided by the ceding company, supplemented by management's estimates of premiums based on its experience with the ceding company, familiarity with each market, the timing of the reported information and its understanding of the characteristics of each class of business. Initial estimates of premiums written are recognised in the period in which the contract incepts, or the period in which the contract is bound, if later. Contracts written on a 'risks attaching' basis cover claims which attach to the underlying reinsurance policy written during the term of the respective policy. Premiums earned on such policies generally extend beyond the original term of the contract. Subsequent adjustments, based on reports of actual premium by the ceding company, or revisions in estimates, are recorded in the period in which they are determined.

### Premiums receivable

Reinsurance premiums receivable from cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. A significant portion of amounts included as premiums receivable are not currently due based on the terms of the underlying contracts. These balances are regularly reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined. Based on currently available information, management believes that the premium estimates included in premiums receivable will be collectible and therefore no provision for doubtful accounts has been recorded.

### Acquisition expenses

Acquisition expenses represent commissions, brokerage, profit commissions and other variable costs that relate directly to the successful securing of new contracts and renewing existing contracts. Generally, acquisition expenses are deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition expenses are recognised as an expense when incurred.

### Ceded reinsurance premiums

Ceded reinsurance is purchased in the normal course of business to increase capital capacity, limit the impact of individual risk losses and loss events impacting multiple cedants (such as natural catastrophes), or both. The Group may purchase ceded reinsurance on both an excess of loss and proportional basis, and may in future supplement this with the purchase of catastrophe bonds or other capital market products. Ceded reinsurance premiums, being the cost of reinsurance contracts entered into, are accounted for in the period in which the contract incepts or is bound if that date is later. Ceded reinsurance premiums are generally earned in the same manner as the inwards contracts, depending on the terms of the contract. The provision for the reinsurers' share of unearned premiums represents the part of ceded reinsurance premiums which are estimated to be earned in future periods. Deferred ceded acquisition expenses are recognised as a liability using the same principles.

### Net losses and loss adjustment expenses

Net losses and loss adjustment expenses in the consolidated statement of comprehensive loss include changes in the provision for outstanding losses and ACRs, changes in the provision for IBNR, plus related expenses and losses paid in the period. Amounts are net of any changes in the provision for reinsurance recoverable and related expenses for the period. Net losses and loss adjustment expenses are recognised in profit or loss as they are incurred.

Losses and loss adjustment expenses in the consolidated balance sheet represent the estimated ultimate cost of settling all reinsurance claims arising from events which have occurred up to the end of the reporting period, including a provision for IBNR. The Group does not discount its liabilities for unpaid losses. Outstanding losses are initially set on the basis of reported losses received from cedants. ACRs are determined where management's best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by cedants, as well as a provision for losses which have occurred but have not yet been reported by cedants. IBNR reserves are estimated initially using expected loss

## 2. Summary of significant accounting policies

and loss adjustment expense ratios which are selected based on information derived by the Group's underwriters and actuaries during the initial pricing of the business. These estimates are reviewed regularly and, as experience develops and new information is received, the reserves are adjusted as necessary. As actual loss information is reported, and the Group develops its own loss experience, management will use various actuarial methods as well as a combination of management's judgement and experience, historical reinsurance industry loss experience and estimates of pricing adequacy trends to estimate IBNR reserves. Any adjustments to initial expectations are reflected in the consolidated statement of comprehensive loss in the period in which they are determined.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties in the reserving process, delays in cedants reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated net losses and loss adjustment expenses.

Any amounts recoverable from reinsurers are estimated using the same methodology as for the underlying losses. Management monitors the creditworthiness of its reinsurers on an ongoing basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

#### Liability adequacy tests

At each balance sheet date, the Group performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums for the period of unexpired risk by using current best estimates of future cash outflows generated by its reinsurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Group's reinsurance liabilities is found to be inadequate, the deficiency is charged to the consolidated statement of comprehensive loss for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

### Financial instruments

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, money market funds, and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

#### Investments

The Group's fixed maturity securities portfolio is classified as FVTPL and carried at estimated fair value in the consolidated balance sheet. The classification of the Group's financial assets is determined at the time of initial purchase. A financial asset is classified at FVTPL if it is managed and evaluated on a fair value basis or if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Presentation of these securities in the FVTPL category is consistent with how management monitors and evaluates the performance of these securities.

Regular way purchases and sales of investments are recognised at estimated fair value on the trade date, and are subsequently carried at estimated fair value. Investment transactions are recorded on the trade date with balances pending settlement reflected in the consolidated balance sheet in other assets or other payables. The estimated fair value of the Group's fixed maturity securities portfolio is determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Changes in estimated fair value of investments classified at FVTPL are recognised in the consolidated statement of comprehensive loss within net unrealised gains and losses on investments.

Investments are derecognised when the Group has transferred substantially all the risks and rewards of ownership. On derecognition of an investment held at FVTPL, previously recorded unrealised gains and losses are recycled from net unrealised gains and losses on investments to net realised gains and losses on investments.

Interest income on fixed maturity securities is recognised in net investment income calculated using the effective interest rate method. Amortisation and accretion of premiums and discounts on fixed maturity securities are calculated using the effective interest rate method and recognised in net investment income. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

## 2. Summary of significant accounting policies

### Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. An intangible asset with a finite useful life is amortised on a straight-line basis over the useful life. Computer software is a technological asset and subject to obsolescence, therefore management expects to utilise the asset over its useful life of 12 years. The useful life is reviewed annually to determine if any changes are required to the amortisation period.

### Leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of either the end date of the lease term or the useful life of the underlying asset.

The lease liability is initially measured at the present value of the future lease payments at the lease commencement date. Lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest due on the lease liability using the effective interest rate method and reducing the carrying amount to reflect the lease payments made. The Group re-measures the lease liability and the related right-of-use asset whenever there is a change in future lease payments arising from a change in index or rate, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

The Group presents right-of-use assets and lease liabilities as a separate financial statement line item in the consolidated balance sheet.

### Employee benefits

#### Equity-based incentives

The Group currently operates a MIP under which shares are subscribed for or nil cost options are granted. The fair value of the instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense *pro-rata* over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each balance sheet date, the Group revises its estimate of the number of instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as equity-based incentive expense in the consolidated statement of comprehensive loss, and a corresponding adjustment is made to other reserves in shareholders' equity over the remaining vesting period.

On exercise, the differences between the expense charged to the consolidated statement of comprehensive loss and the actual cost to the Group, if any, is transferred to other reserves in shareholders' equity.

#### Pensions

The Group's pension plans are based on defined contributions or equivalent cash *in lieu*, subject to applicable law and local market standards. On payment of contributions to the plans or cash *in lieu* there is no further obligation to the Group. Contributions or payments of cash *in lieu* are recognised as employee benefits in the consolidated statement of comprehensive loss in the period when the services are rendered.

## 2. Summary of significant accounting policies

### Tax

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the year-end reporting date and any adjustments to tax payable in respect of prior periods.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets are recognised in the statement of financial position to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### Own shares

Own shares include shares repurchased under share repurchase authorisations and held in treasury, plus shares repurchased and held in trust, for the purposes of employee equity-based incentive schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation or issue of own shares and any consideration paid or received is recognised directly in equity.

### Share capital and issuance costs

Shares are classified as shareholders' equity if there is no obligation to transfer cash or other financial assets. Transaction costs that are attributable to the issuance of new shares are treated as a deduction from equity.

## 3. Risk disclosures

### Introduction

The Group commenced underwriting operations during the year ended 31 December 2021. There were no active underwriting operations for the period ended 31 December 2020, therefore the Group did not have any underwriting or investment risk in 2020. Comparable information has only been provided where applicable.

The Group is exposed to risks from several sources, classified into six primary risk categories. The primary risk categories are: (a) reinsurance risk; (b) market risk; (c) liquidity risk; (d) credit risk; (e) operational risk; and (f) strategic risk. These are discussed in detail on the following pages. The primary risk to the Group is reinsurance risk.

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and should maintain sound risk management and internal control systems. To this end, the Board has established various committees to support the execution of its responsibilities and has reviewed the committee structures at CRL. The Board, and committees thereof, define the risk preferences and appetites within which management is authorised to operate.

As part of the immediate execution risk that existed at the start of the reporting period, various non-underwriting activities were subject to initial outsourced support. With the staff contingent growing from 12 to 41 during the year, much of the initial outsourcing has reduced with any remaining outsourcing, which is limited, being for narrowly defined services that the Group expects to remain in the medium to long term.

The risk function is responsible for supporting the Board, and the CRL board, with the day-to-day oversight of the risks that the Group seeks or is exposed to in pursuit of its strategic objectives, and the satisfaction of certain regulatory risk management expectations relevant to CRL. The framework under which risks are managed contemplates risk appetite and tolerance constraints, prescribed by the Board and which are reviewed at least annually, with consideration of the financial and operational capacity of the Group. The use of financial capacity in this context relates to calculated or modelled capital requirements, based on residual unmitigated risk exposures. Current capital requirements are determined by reference to rating agency and regulatory capital requirements, with an internal capital model to be developed in due course.

## 3. Risk disclosures

Day-to-day management of risk is the responsibility of management, operating within the defined appetite and tolerances of the Board, or the CRL board, approved delegations of authority. The risk framework prescribes a standardised approach to the management of risk, oversight and challenge by the risk function and independent assurance provided by the internal audit function. The risk framework also addresses the reporting of risks, emerging risks, risk events and compliance with risk appetite and tolerance statements to executive management and the Board, and relevant board committees, of CRL and CHL. To ensure transparency and accountability of the business across all independent non-executive directors, four independent non-executive directors from the Board have been appointed to the board of CRL. Furthermore, the Board is invited to attend operating entity board level meetings and see all minutes and records of such operating entity board and committee meetings.

### COVID-19

The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the reinsurance industry will be. The Group only commenced underwriting operations during the twelve months ended 31 December 2021 and, for any reinsurance business underwritten during that period, the Group had COVID-19 related exclusions in its reinsurance contracts and policy wordings. As a result, the Group does not believe it has any exposure to reinsurance losses associated with the COVID-19 pandemic during the period. The impacts of the COVID-19 pandemic on the Group are discussed throughout these consolidated financial statements.

### Climate change

The Group is exposed to risks associated with climate change and potential opportunities arising from that risk. Risks from climate change can include physical risk and those associated with a changing economy. Physical risks are those relating to the physical impacts of climate change, which can be from increased frequency and/or severity of climate-related events, or structural, due to longer-term shifts in climate patterns. Economic risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputational risk. The potential financial impact from these risks is mitigated by the Group's strategic and risk management policies.

### a. Reinsurance risk

The Group underwrites both short-tail and long-tail reinsurance contracts on a worldwide basis. These reinsurance contracts transfer insurance risk, including risks exposed to both natural and man-made catastrophes and risk and liability losses. The risk in connection with underwriting reinsurance contracts is, in the event of a covered loss, whether the premiums will be sufficient to meet the associated loss payments and expenses. The Group's underwriters evaluate and estimate the level of premiums sufficient to cover expected losses, expenses and profitability through a combination of sophisticated risk modelling tools, past experience and knowledge of loss events, current industry trends and broader economic indicators. In order to ensure appropriate reinsurance risk selection and limits on the concentration and diversification of the aggregate portfolio, the Group has established risk management and internal control systems to evaluate and assess the expected losses of each individual contract, class of business, geographic region and the aggregate portfolio. These controls, include, but are not limited to:

- The Group has a five-year strategic plan that defines the over-riding business goals that management and the Board aim to achieve;
- A detailed business plan is produced annually and considers current market conditions and the risk-adjusted profitability of the underwriting portfolio;
- Our internal capital requirements consider the probability and magnitude of reinsurance losses varying adversely from the expected losses considered during the underwriting and subsequent reserving processes;
- Forecasts are produced periodically to assess the Group's progress toward the business plan and the strategic plan;
- Each underwriter has a clearly defined limit of underwriting authority;
- Each contract underwritten is subject to a pre-bind peer review;

## 3. Risk disclosures

- An underwriting roundtable meeting, typically held daily, where deal flow, pricing and opportunities are discussed;
- Pricing models are used in all areas of the underwriting process;
- Risk appetite and tolerance statements have been established and the CRO reports quarterly on adherence;
- A number of modelling tools are used to model catastrophes and expected losses;
- Outwards reinsurance is purchased to mitigate both frequency and severity of losses, and to protect the Group's capital base.

### Catastrophe management

Certain of the Group's classes of business provide coverage for natural catastrophes (e.g., earthquakes, floods, hurricanes and wildfires) and are subject to seasonal variation and the impacts of climate change. The Group's business has exposure to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also has exposure to other natural catastrophes, such as earthquakes, tsunamis, droughts, floods, hail and tornadoes, which can occur throughout the year. In addition, the Group is exposed to risk losses throughout the year from perils such as fire, explosion, war, terrorism, political risk and other events, including loss arising from legal liabilities rather than physical damage.

The Group has defined its appetite and tolerances for risk accumulations and uses models to determine the expected frequency and severity of aggregating exposures. As with all such models, there is a risk that modelled expectations may not reflect actual outcomes and the scope of the models are such that not all exposures are captured.

The Group has set tolerances around various scenarios. Of these, at the commonly reported 100 year and 250 year return periods, the Group's most significant exposures to any single peril and region combination are to Florida windstorm and California earthquake perils, respectively. The table below shows the Group's estimated net exposures to these peak zone perils on a first occurrence basis as at 31 December 2021. Net positions are calculated by applying relevant reinstatement premiums and outwards reinsurance to the respective modelled gross exposures.

| Return period | Peril | Net<br>$m | % of tangible capital<br>% |
|---|---|---|---|
| 100 year | Florida windstorm | 9.6 | 1.0 |
| 250 year | California earthquake | 61.8 | 6.3 |

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. The models also contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

## 3. Risk disclosures

### Operating segments

The Group's underwriting business is comprised of three principal divisions: property, casualty and specialty. These divisions are also considered to be the Group's operating segments. Details of each operating segment and gross premiums written by geographic region and operating segment are as follows:

| | Property $m | Casualty $m | Specialty $m | Total $m | Total % |
|---|---|---|---|---|---|
| United States | 105.4 | 118.7 | 3.9 | 228.0 | 60.2 |
| Worldwide (excluding US) | 62.3 | 7.1 | 62.3 | 131.7 | 34.8 |
| Europe | 6.0 | 2.8 | - | 8.8 | 2.3 |
| Other | 9.7 | 0.4 | 0.2 | 10.3 | 2.7 |
| **Gross premiums written** | **183.4** | **129.0** | **66.4** | **378.8** | **100.0** |

### Property reinsurance

The Group is exposed to large natural catastrophe losses, such as windstorm and earthquake losses, primarily from assuming risks associated with property treaties. Exposure to natural catastrophe events is controlled and measured by managing to predefined limits within stochastic modelling and deterministic accumulations across classes per geographic zone and peril. The accuracy of these analyses is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss.

Natural catastrophe risk is written across both the US and internationally on an excess of loss and capped quota share basis. Reinsurance structures are offered strategically, most notably in respect of peril, geography and probability of activation or exhaustion.

Property per risk treaties are offered with the strategy to minimise natural catastrophe exposure, focusing on fire risk. This is considered by both natural catastrophe specific metrics, treaty conditions and excess of loss structure.

Ceded reinsurance may be purchased to mitigate exposures to large natural catastrophe losses. Ceded reinsurance is typically purchased on an excess of loss basis, however industry loss warranties, catastrophe bonds, or proportional treaty arrangements may also be entered into.

### Casualty reinsurance

The Group underwrites a balanced portfolio of casualty classes of business, comprised of both excess of loss and proportional contracts, on a worldwide basis.

Casualty claims tend to take longer to be reported and ultimately settled than physical damage risks. The Group typically maintains net reserves for losses and loss adjustment expenses for casualty classes of business over a longer period of time than for the property and specialty classes of business where the costs of claims are generally known and settled within a shorter time frame.

The Group will purchase ceded reinsurance to protect against any 'clash' between losses arising in its casualty portfolio.

The Group's sub-classes of casualty business include directors and officer's liability, financial institutions liability, general liability for multiple sub-classes and, on an excess and umbrella basis, medical malpractice, professional liability and transactional liability. The Group has limited appetite for, and generally avoids, workers compensation, standalone auto and cyber treaties.

## 3. Risk disclosures

### Directors and officers liability

Directors and officers liability policies offer protection for company managers and directors and officers against claims that may arise in the normal course of operations. Coverage includes legal expenses and liability to shareholders, bondholders, creditors or others owing to actions or omissions by a director or officer of a private or public corporation, or not for profit organisation.

### Financial institutions liability

Financial institutions coverage may cover risks such as computer and commercial crime, professional indemnity and civil liability.

### General liability

General liability commonly provides cover for losses arising from the legal liability of an original insured and statutory liability in the case of employers' liability which result in bodily injury or disease to third parties or physical damage to third party property. The Group offers a wide range of general liability reinsurance products including contractors general liability, excess general liability, umbrella, energy and environmental.

### Medical malpractice

Medical malpractice reinsurance generally covers professional liability and errors and omissions specifically in the healthcare industry, protecting physicians and other health care professionals against claims of negligent acts or injury of patients under their care. Medical malpractice reinsurance does not cover intentional or criminal acts.

### Professional liability

Professional liability generally provides coverage for third party losses resulting from legal liability or civil liability or negligence, errors or omissions or wrongful acts arising from the provision of, or failure to provide, professional services by an original insured. Sub-classes of this business would include lawyers, accountants, architects and engineers, errors and omissions, plus miscellaneous professional liability.

### Transactional liability

Transactional liability reinsurance is used by parties to various business transactions, such as mergers, acquisitions and divestitures, to transfer certain transaction-related risks to the reinsurance market. There can be a broad range of risks covered, including warranty, litigation, pension and tax uncertainties and employment matters.

### Specialty reinsurance

The Group's specialty classes of business are written on both an excess of loss and proportional basis and can provide reinsurance coverage against physical damage (short-tail) or against legal liability (long-tail) losses. Although specialty classes of business are exposed to natural catastrophe risk, it is generally to a lesser extent than property classes of business. They are more likely to be affected by specific large loss events such as accidents, collisions, fires and similar man-made catastrophe events. Specialty classes of business are highly diverse in nature and require specific market expertise and experience. The Group's main specialty classes of business include aviation, energy, marine, renewables, political violence and terrorism offered on both a specific and a whole account basis.

The Group purchases ceded reinsurance protection to reduce the Group's exposure to both large risk losses and an accumulation of smaller losses. Ceded reinsurance is typically purchased on an excess of loss basis, but, from time to time, proportional arrangements may be entered into.

### Aviation

The Group's aviation class of business provides cover to the insurers of the world's major airlines and aircraft manufacturers and includes cover for the aircraft themselves as well as losses arising from passenger and third-party liability claims against airlines and/or manufacturers.

## 3. Risk disclosures

### Energy

The Group's energy class of business provides reinsurance cover for a global spread of accounts that can include primary risks such as downstream energy, upstream energy, energy liability, construction energy and Gulf of Mexico offshore energy programmes. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure, often with loss limits set at a level commensurate with a modelled estimated maximum loss scenario.

### Marine

Marine cargo is an international account and covers the reinsurance of commodities or goods in transit. Typically, transit cover is provided on an all-risks basis for marine perils for the full value of the goods concerned. Static cover is also provided for losses to cargo, from both elemental and non-elemental causes. In addition, the cargo account can include for example, fine art, vault risks, artwork on exhibition and marine war and terrorism business relating to cargo in the ordinary course of transit.

Marine liability is mostly the reinsurance of the International Group of Protection and Indemnity Clubs. Marine builders' risk covers the building of ocean-going vessels in specialised yards worldwide and their testing and commissioning.

The marine hull class generally consists of worldwide coverage spanning physical damage, hull and machinery breakdown, loss of hire and mortgagees' interests for a range of maritime vessels from cargo and passenger ships to private pleasure craft. Products typically cover both risk and catastrophe exposures.

### Political violence and terrorism

Political violence and terrorism coverage is provided for US and worldwide property risks, but typically excluding nuclear, chemical, biological and cyber coverage in most territories.

### Whole account

Coverage is generally provided on a worldwide basis and covers a broad spectrum of the cedants risks under a single policy. The classes of business covered under a whole account reinsurance policy can include traditional property and casualty classes of business including commercial and personal automobile, general liability, workers' compensation, employers' liability, excess casualty and umbrella, as well as selected professional liability coverage.

### Ceded reinsurance

Ceded reinsurance is purchased in the normal course of business to increase capital capacity, limit the impact of individual risk losses and loss events impacting multiple cedants (such as natural catastrophes), or both. Ceded reinsurance may also be purchased from time to time to optimise the risk-adjusted return of the Group's aggregate underwriting portfolio. The Group may purchase ceded reinsurance on both an excess of loss and proportional basis, and may in future supplement this with the purchase of catastrophe bonds or other capital market products. The mix of ceded reinsurance coverage is dependent on specific loss mitigation requirements, market conditions and available capacity. In certain market conditions, the Group may deem it more economic to hold capital than purchase ceded reinsurance. Ceded reinsurance does not relieve the Group of its obligations to policyholders. The Group is exposed to reinsurance risk where ceded reinsurance contracts put in place to reduce gross reinsurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the limits purchased. Failure of a ceded reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section below. Ceded reinsurance coverage is not intended to be available to meet all potential loss circumstances. The Group will retain certain losses, as the cover purchased is unlikely to transfer the totality of the Group's exposure. Any loss amount which exceeds the ceded reinsurance coverage purchased would be retained by the Group. Some ceded reinsurance policies have limited reinstatements, therefore the number of claims which may be recovered on second, and subsequent loss circumstances is limited.

Under the Group's ceded reinsurance security policy, the Group's ceded reinsurers are assessed and approved based on their financial strength ratings, amongst other factors. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process. The management Counterparty Security Committee examines and approves all the Group's ceded reinsurers to ensure that they possess suitable security.

## 3. Risk disclosures

### Net losses and loss adjustment expenses

A significant and critical judgement and estimate made by management is the estimation of net losses and loss adjustment expenses. Management estimates net losses and loss adjustment expenses, and the associated reserves to cover its estimated liability for both reported and unreported claims on events that have occurred up to the latest valuation date. Management uses methodologies that calculate a point estimate for the ultimate losses, representing management's best estimate of ultimate net losses and loss adjustment expenses. The Group establishes its reserve for losses and loss adjustment expenses by taking outstanding losses, adding an estimate for IBNR and, if deemed necessary, ACRs which represent the Group's estimate for losses related to specific contracts that the Group believes may not be adequately estimated by the client as of that date.

Loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses that have occurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Group's reserves are currently reported on an undiscounted basis.

The reserving process is dependent on management's judgement and is subject to meaningful uncertainty due to both qualitative and quantitative factors, including, but not limited to: the nature of the business written, whether it is short-tail or long-tail, whether it is excess of loss or proportional, the magnitude and timing of loss events, the geographic areas impacted by loss events, time lags in the reporting process from the original claimant, limited claims data, policy coverage interpretations, case law, regulatory directives, demand surge and inflation, potential uncertainties related to reinsurance and ceding company reserving practices, and other factors inherent in the estimation process for net losses and loss adjustment expenses.

The judgements and estimates used in establishing loss reserve calculations may be revised as additional experience or other data becomes available. Loss reserves are also reviewed as new or improved methodologies are developed and as laws or regulations change. Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

The Group's internal actuaries review the reserving assumptions and methodologies on a quarterly basis and develop an actuarial best estimate of the Group's net losses and loss adjustment expenses using the processes outlined above. The management Reserving Committee reviews the estimate for net losses and loss adjustment expenses on a quarterly basis. The reserves are subject to a semi-annual independent review by the Group's external actuaries. The results of the internal and independent reserve reviews are presented to the Group's Audit Committee.

*Short-tail versus long-tail*

Claims relating to short-tail risks are generally reported more promptly than those relating to long-tail risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss and whether the losses are from policies in force with primary insurers or reinsurers.

*Excess of loss versus proportional*

For excess of loss contracts management is aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

## 3. Risk disclosures

### b. Market risk

The Group is at risk of loss due to movements in market factors. The main market risks the Group was exposed to include:

- Reinsurance risk;
- Investment risk;
- Currency risk.

### i. Reinsurance risk

The Group is exposed to reinsurance market risk from several sources, including the following:

- The advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain classes, or across all classes;
- The actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- Market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- Failure to maintain broker and cedant relationships, leading to a limited or substandard choice of risks inconsistent with the Group's risk appetite;
- Changes in regulation including capital, governance or licensing requirements, and laws;
- Changes in the geopolitical environment.

The most important method to mitigate reinsurance market risk is to maintain strict underwriting standards. The Group manages reinsurance market risk in numerous ways, including the following:

- Reviews and amends underwriting plans and outlook as necessary;
- Reduces exposure to, or withdraws from, market sectors where conditions have reached unattractive levels;
- Purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- Closely monitors changes in rates, terms and conditions, and inflation;
- Ensures through rigorous underwriting criteria that surplus capital does not drive the Groups' short-term risk appetite;
- Typically holds a daily underwriting briefing meeting for CRL to discuss deal flow, pricing and opportunities;
- Holds a quarterly management Underwriting Oversight Committee that considers matters that include underwriting performance for CRL;
- Holds an annual strategy review meeting;
- Holds a quarterly management Underwriting Committee meeting that considers matters including underwriting performance for CRL;
- Holds a quarterly management Risk, Capital and Compliance Committee meeting to review relevant risk and capital considerations for CRL;
- Holds regular meetings with regulators and rating agencies.

Reinsurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

### ii. Investment risk

Movements in investments resulting from changes in interest and inflation rates, credit spreads, and currency exchange rates, among other factors, may lead to an adverse impact on the value of the Group's investment portfolio. The Group seeks to invest in issuers with stronger ESG practices on balance, as it believes that this will also help reduce risk in the portfolio.

## 3. Risk disclosures

During the year, investment guidelines and adjustments to the guidelines were reviewed by the FIOC with input from the CFO. They were then approved by the Executive Committee and reported to the Board. After the initial establishment of the investment guidelines, the FIOC transitioned to the Investment Committee of CRL, who are now responsible for all investment related decisions going forward. The investment guidelines set the parameters within which the Group's external managers must operate. Important parameters of these guidelines include permissible asset classes, duration ranges, credit quality, permitted currency, maturity, industry sectors, geographical, sovereign and issuer exposures. Guideline compliance is monitored on a monthly basis. The Group's portfolio of fixed maturity securities is currently managed by three external managers. Their performance is monitored on an ongoing basis. The Group projects the level of funds required to meet near term obligations and cash flow needs following extreme events in order to ensure adequate liquidity is maintained. The Group also prioritises liquid asset classes with higher credit quality and shorter duration so that the Group can meet reinsurance and other near-term obligations. The Group has split the portfolio into a short-tail mandate, to better match the property and specialty classes of business, and a long-tail mandate, to better match the casualty classes of business and some aspects of the specialty classes of business. The short-tail mandate will be slightly shorter duration than the long-tail mandate.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur – albeit not in the exact form of the scenarios, which are based on historic periods of volatility. The Group also monitors the portfolio impact of more severe scenarios consisting of extreme shocks.

The Group focuses on the most significant risks in its investment portfolio which are interest rate risk, credit risk and liquidity risk, and has built, or is building, stress testing and risk analytics around these risks to ensure they are within the Group's tolerances and preferences.

It is planned that, having deployed the investment strategy during the period, a strategic asset allocation will be undertaken on a bi-annual basis to assess the Group's overall investment strategy and to consider alternative asset allocations to achieve the best risk-adjusted return within the Group's risk appetite. Any resulting recommendations would be approved by the appropriate management committee(s) and reported to the Board. The FIOC met quarterly to ensure that the Group's strategic and tactical investment actions were consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The FIOC also helped develop the risk tolerances to be incorporated into the ERM framework.

## 3. Risk disclosures

The investment mix by mandate and sector of the Group's portfolio of fixed maturity securities is as follows:

| As at 31 December 2021 | Estimated fair value short-tail $m | Estimated fair value long-tail $m | Estimated fair value total $m |
|---|---|---|---|
| Short-term investments | 8.9 | – | 8.9 |
| US treasuries | 52.4 | 119.4 | 171.8 |
| US agency debt | – | 2.0 | 2.0 |
| US municipals | 11.0 | 2.2 | 13.2 |
| Non-US government and agencies | 2.2 | – | 2.2 |
| Asset-backed | 97.3 | 72.4 | 169.7 |
| US government agency mortgage-backed | 53.2 | 41.4 | 94.6 |
| Non-agency mortgage-backed | 13.6 | 5.6 | 19.2 |
| Agency commercial mortgage-backed | 3.2 | – | 3.2 |
| Non-agency commercial mortgage-backed | 24.3 | 34.1 | 58.4 |
| Corporate | 302.6 | 162.6 | 465.2 |
| **Total** | **568.7** | **439.7** | **1,008.4** |

There are no comparisons for the period ended 31 December 2020 as all IPO funds were held as cash and cash equivalents.

Corporate and non-US government and agencies bonds by country are as follows:

| As at 31 December 2021 | Financials $m | Other industries $m | Non-US government and agencies $m | Total $m |
|---|---|---|---|---|
| United States | 153.5 | 214.8 | – | 368.3 |
| United Kingdom | 22.1 | 7.4 | – | 29.5 |
| Canada | 23.3 | 0.6 | – | 23.9 |
| Other countries | 37.6 | 5.9 | 2.2 | 45.7 |
| **Total** | **236.5** | **228.7** | **2.2** | **467.4** |

The sector allocation of corporate bonds is as follows:

| As at 31 December 2021 | $m | % |
|---|---|---|
| Financials | 236.5 | 50.9 |
| Industrials | 209.5 | 45.0 |
| Utilities | 19.2 | 4.1 |
| **Total** | **465.2** | **100.0** |

The Group's investment portfolio is comprised of fixed maturity securities and cash and cash equivalents. Fair values can be impacted by movements in interest rates, credit ratings, exchange rates, the current economic environment and outlook. The estimated fair value of the Group's portfolio of fixed maturity securities is generally inversely correlated to movements in market interest rates. If market interest rates fall, the estimated fair value of the Group's portfolio of fixed maturity securities would tend to rise and vice versa. The sensitivity of the price of fixed maturity securities to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's portfolio of fixed maturity securities to interest rate movements is detailed below, assuming linear movements in interest rates.

## 3. Risk disclosures

| As at 31 December 2021 | $m | % |
|---|---|---|
| Immediate shift in yield (basis points) | | |
| 100 | (27.7) | (2.7) |
| 75 | (20.8) | (2.1) |
| 50 | (13.9) | (1.4) |
| 25 | (6.9) | (0.7) |
| 0 | – | – |
| -25 | 5.7 | 0.6 |
| -50 | 11.5 | 1.1 |
| -75 | 17.2 | 1.7 |
| -100 | 22.9 | 2.3 |

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The duration of the portfolio is matched to the modelled expected duration of the reinsurance reserves, within a permitted range. The permitted duration range for the portfolio is between 1.5 and 5 years. The overall duration for the fixed maturity securities, managed cash and cash equivalents is 2.4 years as at 31 December 2021.

In addition to duration management, the Group monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics. The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed below, 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the FIOC periodically.

The Group's annual VaR calculation is as follows:

| As at 31 December 2021 | $m | % of shareholders' equity |
|---|---|---|
| $99^{th}$ percentile confidence level | 30.2 | 3.1 |

### iii. Currency risk

The Group is susceptible to fluctuations in rates of foreign exchange, principally between the US dollar and pound sterling and the US dollar and the euro. Even though risks are assumed on a worldwide basis, they are predominantly denominated in US dollars. The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Group is also exposed to translation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Foreign currency gains and losses are recorded in the period they occur in the consolidated statement of comprehensive loss.

The Group hedges monetary non-US dollar liabilities primarily with non-US dollar assets but may also use derivatives, such as currency forwards, to mitigate foreign currency exposures. The Groups' main foreign currency exposure relates to its reinsurance obligations, cash holdings, premiums receivable and dividend payable, if applicable.

## 3. Risk disclosures

The following table summarises the carrying value of total assets and total liabilities categorised by the Group's main currencies:

| As at 31 December 2021 | USD $m | GBP $m | EUR $m | Other $m | Total $m |
|---|---|---|---|---|---|
| Total assets | 1,318.0 | 6.4 | 9.3 | 1.1 | 1,334.8 |
| Total liabilities | (331.8) | (2.8) | (17.1) | (1.9) | (353.6) |
| **Net assets** | **986.2** | **3.6** | **(7.8)** | **(0.8)** | **981.2** |

The impact on profit from a proportional foreign exchange movement of a 10.0% appreciation and a 10.0% depreciation against the US dollar at year end spot rates would be an increase or decrease of $0.2 million. There was no material currency risk for the year ended 31 December 2020 as all cash and cash equivalents from the IPO offering were held in US dollars.

### c. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring unreasonable costs. The Group's main exposure to liquidity risk is with respect to its reinsurance and investment activities. The Group is exposed if proceeds from the sale of financial assets are not sufficient to fund obligations arising from reinsurance contacts and/or other liabilities. The Group can be exposed to fund daily calls on its available investment assets, principally to settle reinsurance claims and/or to fund trust accounts following a large catastrophe loss, or other collateral requirements.

Liquidity risk exposures related to reinsurance activities are as follows:

- Large catastrophic events, or multiple medium-sized events in quick succession, requiring the payment of high value claims within a short time frame or to fund trust accounts established to collateralise claims payment liabilities;
- Failure of cedants to meet their contractual obligations with respect to the timely payment of premiums;
- Failure of the Group's ceded reinsurers to meet their contractual obligations to pay claims within a timely manner.

Liquidity risk exposures related to investment activities are as follows:

- Adverse market movements and/or a duration mismatch to obligations, resulting in investments needing to be disposed of at a significant realised loss;
- An inability to liquidate investments due to market conditions.

The Group's investment strategy is to hold high quality, liquid securities sufficient to meet reinsurance liabilities and other near-term liquidity requirements. Portfolios are specifically designed to ensure funds are readily available in an extreme event.

The maturity dates of the Group's portfolio of fixed maturity securities are as follows:

| As at 31 December 2021 | Short-tail $m | Long-tail $m | Total $m |
|---|---|---|---|
| **Fixed maturity securities at FVTPL** | | | |
| Less than one year | 43.8 | 1.5 | 45.3 |
| Between one and two years | 145.7 | 70.6 | 216.3 |
| Between two and three years | 144.5 | 39.1 | 183.6 |
| Between three and four years | 21.3 | 9.5 | 30.8 |
| Between four and five years | 11.0 | 57.2 | 68.2 |
| Over five years | 10.8 | 108.3 | 119.1 |
| Asset-backed and mortgage-backed | 191.6 | 153.5 | 345.1 |
| **Total** | **568.7** | **439.7** | **1,008.4** |

## 3. Risk disclosures

The estimated maturity profile of the reinsurance contracts and financial liabilities of the Group is as follows:

| | | Years until liability becomes due | | | | |
|---|---|---|---|---|---|---|
| | Carrying value | Less than one | One to three | Three to five | Over five | Total |
| **As at 31 December 2021** | **$m** | **$m** | **$m** | **$m** | **$m** | **$m** |
| Losses and loss adjustment expenses | 171.6 | 65.0 | 62.7 | 23.1 | 20.8 | 171.6 |
| Amounts payable to reinsurers | 7.3 | 7.3 | – | – | – | 7.3 |
| Other payables | 19.0 | 19.0 | – | – | – | 19.0 |
| Lease liabilities | 2.9 | 0.6 | 1.3 | 1.3 | – | 3.2 |
| **Total** | **200.8** | **91.9** | **64.0** | **24.4** | **20.8** | **201.1** |

Actual maturities of the above may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The estimation of the ultimate liability for net losses and loss adjustment expenses is complex and incorporates a significant amount of judgement. The timing of payment of net losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

As at 31 December 2021, cash and cash equivalents were $67.5 million (31 December 2020 - $1,054.0 million). The Group manages its liquidity risks via its investment strategy to hold high quality, liquid securities, sufficient to meet its reinsurance liabilities and other near-term liquidity requirements. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlook and reallocates assets as it deems necessary.

As at 31 December 2021, the Group considers it has more than adequate liquidity to pay its obligations as they fall due even if difficult investment market conditions were to prevail for a period of time.

### d. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Group is exposed to credit risk on its fixed maturity investment portfolio, its premiums receivable from cedants, and on any amounts recoverable from reinsurers. While the Group has not experienced any such collection issues, the COVID-19 pandemic increased the risk of defaults across many industries. The global recovery from the COVID-19 pandemic continues and the risk that counterparties fail to meet their financial obligations as they fall due has decreased.

Credit risk on the Group's portfolio of fixed maturity securities is mitigated through the Group's investment policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB+ may comprise no more than 10.0% of the portfolio. The Group also limits exposure to individual issuers, with declining limits for less highly rated issuers. The Group therefore does expect any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the US government.

The Group is potentially exposed to counterparty credit risk in relation to the premiums receivable from reinsurance brokers and cedants and on any amounts recoverable from the Group's ceded reinsurers. Given the dislocation in the market, the COVID-19 pandemic may adversely impact the Group's ability to collect amounts due to the Group. Credit risk on inwards premiums receivable from cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Credit risk from the Group's ceded reinsurance recoverable is primarily managed by the review and approval of reinsurer security, with ongoing monitoring in place.

## 3. Risk disclosures

The table below presents an analyses of the Group's major exposures to counterparty credit risk, based on their rating. Premiums receivable are not rated, however there is limited default risk associated with these amounts.

| As at 31 December 2021 | Cash and cash equivalents and fixed maturity securities $m | Inwards premiums receivables $m | Reinsurance recoverable $m |
|---|---|---|---|
| AAA | 542.4 | – | – |
| AA+, AA, AA- | 75.6 | – | – |
| A+, A, A- | 306.2 | – | 30.5 |
| BBB+, BBB, BBB- | 151.7 | – | – |
| Other | – | 155.0 | 18.4 |
| **Total** | **1,075.9** | **155.0** | **48.9** |

Reinsurance recoverable classified as other is fully collateralised.

As at 31 December 2021 the average credit quality of the Groups' cash and cash equivalents and portfolio of fixed maturity securities was AA-. The COVID-19 pandemic has increased the risk of defaults across many industries and the Group continually monitors credit risk, especially during this time of volatility. While current interest rates are at an all-time low, they are expected to rise over the next few years. Given the Group's investment portfolio positioning, this is not expected to have a meaningful impact from a credit perspective, although credit spreads are likely to remain volatile in the near-term. Potential interest rate rises are similarly not expected to impact inwards premiums receivable.

The following table shows premiums receivable that are not yet due and those that are past due but not impaired:

| As at 31 December 2021 | $m |
|---|---|
| Not yet due | 123.0 |
| Less than 90 days past due | 22.2 |
| Over 90 days | 9.8 |
| **Total** | **155.0** |

For the year ended 31 December 2021 no provisions have been made for impaired or irrecoverable balances and no amount was charged to the consolidated statement of comprehensive loss in respect of bad debts.

### e. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems or external events. During the reporting period, which primarily involved the establishment of operations, various operational risks were identified, and steps were taken to manage or mitigate these risks.

The risk framework addresses the identification, assessment and management of operational risks. This process involves the use of risk registers to identify inherent risk and residual risk after the application of controls. The management of individual risks is the responsibility of management, with independent challenge and oversight provided by the risk function. The results of compliance reviews and independent internal audits provide an additional level of review and verification. The Audit Committee has selected a reputable provider to serve as outsourced internal auditors.

## 3. Risk disclosures

### f. Strategic risk

The Group has identified several strategic risks, including:

- The risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to reflect adequately the trading environment, resulting in an inability to optimise performance, including reputational risk;
- The risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital and unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required;
- The risks of succession planning, staff retention and key personnel risks.

#### Business plan risk

The Group's business plan forms the basis of operations and provides strategic direction to management. Actual *versus* planned results are monitored regularly.

#### Capital management risk

The total tangible capital of the Group is as follows:

| | As at 31 December 2021 $m | As at 31 December 2020 $m |
|---|---|---|
| Shareholders' equity | 981.2 | 1,052.8 |
| Intangible assets | (1.1) | (0.2) |
| **Total tangible capital** | **980.1** | **1,052.6** |

Risks associated with the effectiveness of the Group's capital management are mitigated as follows:

- Regular monitoring of current and prospective regulatory and rating agency capital requirements;
- Oversight of capital requirements by the Board;
- Ability to purchase sufficient, cost-effective reinsurance;
- Maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments;
- Participation in industry groups such as the Association of Bermuda Insurers and Reinsurers, Reinsurance Association of America and the International Underwriting Association.

The Group reviews the level and composition of capital on an ongoing basis with a view of:

- Maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- Maximising the risk-adjusted return to shareholders within the context of the defined risk appetite;
- Maintaining an adequate financial strength rating;
- Meeting all relevant capital requirements.

Capital is increased or returned as appropriate. The retention of earnings generated leads to an increase in capital. Capital raising can include debt or equity and returns of capital may be made through dividends, share repurchases, a redemption of debt or any combination thereof. Other capital management tools and products available to the Group may also be utilised. All capital actions require approval by the Board.

## 3. Risk disclosures

The primary source of capital used by the Group is equity shareholders' funds. As a holding company, CHL relies on dividends from its operating entity to provide the cash flow required for dividends to shareholders. The ability of the operating entity to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdiction in which it operates.

CRL is regulated by the BMA and is required to monitor the ECR under the BMA's regulatory framework, which has been assessed as equivalent to the EU's Solvency II regime. CRL's regulatory capital requirement is calculated using the BSCR standard formula. CRL had sufficient capital at all times throughout the year to meet the BMA's requirements.

### Retention risk

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- The identification of key personnel with appropriate succession plans at CHL;
- The identification of key team profit generators at CRL and function heads with targeted retention packages;
- Documented recruitment procedures, position descriptions and employment contracts;
- Resource monitoring and the provision of appropriate compensation, including equity-based incentives which vests over a defined time horizon, subject to achieving certain performance criteria;
- Training schemes.

## 4. Segmental reporting

The Group commenced underwriting operations during the year ended 31 December 2021. There were no active underwriting operations for the period ended 31 December 2020, therefore the Group did not have any reportable operating segments during that period and no comparative segmental reporting information has been provided.

Management and the Board review the Group's business and evaluates its performance primarily by three segments: Property, Casualty and Specialty. These are considered to be the Group's reportable segments for the purposes of segmental reporting. Further classes of business are underwritten within each reportable segment. The nature of these individual classes is discussed further in the "Risk disclosures" section.

| **Reportable segments** | **Operations and classes of business** |
|---|---|
| Property | US and international property risk on an excess of loss and proportional contract basis. |
| Casualty | US and international casualty risk principally including directors and officers, financial institutions, general, medical malpractice, professional and transactional. |
| Specialty | Diverse portfolio of business, principally including aviation, energy, marine, political violence and terrorism and whole account. |

Reportable segment performance is measured by the net underwriting profit or loss and the combined ratio. The chief operating decision maker does not manage the Group's assets by reportable segment, and, accordingly, investment income and other non-underwriting related items are not allocated to each reportable segment. Refer to the risk disclosures for more information.

All amounts reported are transactions with external parties and associates. There are no significant inter-segmental transactions.

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 4. Segmental reporting

| As at 31 December 2021 | Property $m | Casualty $m | Specialty $m | Total $m |
|---|---|---|---|---|
| **Gross premiums written by geographic region** | | | | |
| US | 105.4 | 118.7 | 3.9 | 228.0 |
| Worldwide (excluding US) | 62.3 | 7.1 | 62.3 | 131.7 |
| Europe | 6.0 | 2.8 | – | 8.8 |
| Other | 9.7 | 0.4 | 0.2 | 10.3 |
| **Total** | **183.4** | **129.0** | **66.4** | **378.8** |
| Ceded reinsurance premium | (26.4) | (1.2) | (5.0) | (32.6) |
| **Net premiums written** | **157.0** | **127.8** | **61.4** | **346.2** |
| Change in unearned premiums | (60.0) | (67.9) | (24.9) | (152.8) |
| Change in unearned premiums on premiums ceded | – | 0.8 | – | 0.8 |
| **Net premiums earned** | **97.0** | **60.7** | **36.5** | **194.2** |
| Net losses and loss adjustment expenses | (70.9) | (41.1) | (30.1) | (142.1) |
| Net acquisition expenses | (30.5) | (19.7) | (8.9) | (59.1) |
| **Net underwriting loss** | **(4.4)** | **(0.1)** | **(2.5)** | **(7.0)** |
| Other operating expenses | | | | (30.6) |
| Net unallocated expenses | | | | (4.4) |
| **Total comprehensive loss** | | | | **(42.0)** |
| | | | | |
| Net loss ratio | 73.1% | 67.7% | 82.5% | 73.2% |
| Net acquisition expense ratio | 31.4% | 32.5% | 24.4% | 30.4% |
| Other operating expense ratio | | | | 15.8% |
| **Combined ratio** | **104.5%** | **100.2%** | **106.9%** | **119.4%** |

Included within the Casualty segment, Other geographic region, are premiums written with external parties in Bermuda for $0.4 million (31 December 2020 – nil).

## 5. Investment return

| As at 31 December 2021 | Net investment income $m | Net realised losses $m | Net unrealised losses $m | Total investment return $m |
|---|---|---|---|---|
| Fixed maturity securities | 5.3 | (1.0) | (7.6) | (3.3) |
| Cash and cash equivalents | 0.2 | – | – | 0.2 |
| **Total** | **5.5** | **(1.0)** | **(7.6)** | **(3.1)** |

Included in net investment income is $0.7 million of investment management and custody fees for the year ended 31 December 2021 (31 December 2020 - nil).

With the formation of the Group towards the end of the 2020 financial year, the Group maintained cash on hand at 31 December 2020, generating net investment income of $0.1 million.

## 6. Insurance acquisition expenses

| | **Year ended 31 December 2021 $m** | Period ended 31 December 2020 $m |
|---|---|---|
| Insurance acquisition expenses | 103.7 | – |
| Change in deferred acquisition expenses | (44.6) | – |
| **Total** | **59.1** | **–** |

## 7. Employee benefits and other incentives

Aggregate remuneration and other incentives of the Group's employees is as follows:

| | **Year ended 31 December 2021 $m** | Period ended 31 December 2020 $m |
|---|---|---|
| Wages and salaries | 7.5 | 2.4 |
| Pension benefit | 0.8 | – |
| Bonus and other benefits | 10.4 | – |
| **Total cash compensation** | **18.7** | **2.4** |
| | | |
| Equity-based incentives | 0.3 | 0.3 |
| **Total employee benefits and other incentives** | **19.0** | **2.7** |

The bonus and other benefits amount includes sign-on bonuses paid to certain employees joining the Group.

### Equity-based incentives

Prior to the IPO, a MIP was created. The purpose of the MIP was to provide an incentive scheme for the founders and initial employees for their services in building the foundations of the Group. The incentive is based around shares in CML, which will be automatically exchanged for ordinary shares of CHL for an aggregate value equivalent to up to 15% of the excess of the market value of CHL over and above the Invested Equity, subject to the satisfaction of the vesting conditions. All outstanding and future grants have an exercise period of four to seven years from the grant date. The fair value is estimated using a stochastic Monte Carlo model.

CML issued 100,000 A1 shares and 100,000 A2 shares during the period ended 31 December 2020 at a subscription price of £1.72 and $2.26, respectively. Refer to note 18 for additional details.

## 7. Employee benefits and other incentives

The following table lists the assumptions used in the stochastic model for the MIP awards:

| Assumptions | **Year ended 31 December 2021** | Period ended 31 December 2020 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility [1] | range from 17.2% – 19.0% | range from 17.6% – 18.1% |
| Risk-free interest rate [2] | range from 0.3% – 0.6% | range from 0.3% – 0.6% |
| Expected life of instruments | range from 4 to 7 years | range from 4 to 7 years |

[1] *The expected volatility was calculated based on a comparator group of companies.*
[2] *The risk-free interest rate is based on the yield on a US government bond on the date of grant.*

The shares were granted prior to the IPO and therefore discounts for business viability and lack of marketability were also applied. There are significant risks associated with an IPO and the instruments are also illiquid until the tranche vesting dates. Management therefore selected their best estimates at the time for these discounts. These assumptions were highly judgemental and input from advisors was sought. Management also considered alternative assumptions and concluded there was not a material impact on the estimated valuation selected. The calculation of the equity-based incentive expense assumes no forfeitures due to employee turnover, with subsequent adjustments to reflect actual experience. The assumptions and estimated valuation selected resulted in 20% being expensed upfront for certain employees as this portion was not tied to service conditions and was fully expensed in the period ended 31 December 2020.

Conditions of the MIP include:

- The incentives are to be equity-settled and have therefore been accounted for in accordance with IFRS 2;
- The value of the services received in exchange for the share-based incentives is measured by reference to the estimated fair value of the incentives at their grant date, with the estimated fair value recognised in the consolidated statement of comprehensive loss, together with a corresponding increase in other reserves within shareholders’ equity, on a straight-line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest;
- Vesting conditions, other than market conditions linked to the share price of the Group, are not taken into account when estimating the fair value;
- At the end of each reporting period the Group revises its estimates of the number of shares that are expected to vest due to non-market conditions and recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive loss, with a corresponding adjustment to shareholders’ equity.

During the year ended 31 December 2021 a charge of $0.3 million has been recognised in the consolidated statement of comprehensive loss in relation to the share-based incentives (period ended 31 December 2020 - $0.3 million).

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 8. Other operating expenses

| | **Year ended 31 December 2021 $m** | Period ended 31 December 2020 $m |
|---|---|---|
| Results of operating activities are stated after charging the following amounts: | | |
| Audit fees | 0.8 | 0.1 |
| Other auditor services | 0.1 | – |
| **Total** | **0.9** | **0.1** |

During the year ended 31 December 2021, KPMG Audit Limited provided non-audit services in relation to the Group's 2021 interim review. Fees for non-audit services in the year ended 31 December 2021 totalled $0.1 million.

## 9. Financing costs

| | **Year ended 31 December 2021 $m** | Period ended 31 December 2020 $m |
|---|---|---|
| LOC and trust fees | 0.4 | – |
| Interest expense on lease liabilities | 0.1 | – |
| **Total** | **0.5** | **–** |

Refer to note 17 for details of the Group’s financing arrangements.

## 10. Tax

### Bermuda

CHL, CSL, CML and CRL have received an undertaking from the Bermuda government exempting them from all Bermuda local income, withholding and capital gains taxes until 31 March 2035. At the present time no such taxes are levied in Bermuda.

### United Kingdom

CRSL is subject to normal UK corporation tax on all of its taxable profits. For the year ended 31 December 2021 an immaterial tax profit arose compared with an immaterial tax loss for the period ended 31 December 2020.

## 11. Cash and cash equivalents

| | **Year ended 31 December 2021 $m** | Period ended 31 December 2020 $m |
|---|---|---|
| Cash at bank and in hand | 24.4 | 54.0 |
| Cash equivalents | 43.1 | 1,000.0 |
| **Total** | **67.5** | **1,054.0** |

Cash equivalents include money market funds and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. The carrying amount of these assets approximates their fair value. Refer to note 17 for cash and cash equivalents provided as collateral under the Group’s f inancing arrangements.

## 12. Investments

The Group funded its investment portfolio during the year ended 31 December 2021 using cash and cash equivalents on hand raised from its IPO on 7 December 2020. As a result, certain investment related disclosures and comparative information have not been provided for the period ended and as at 31 December 2020.Refer to note 17 for investments provided as collateral under the Group's financing arrangements.

| As at 31 December 2021 | Cost or amortised cost $m | Unrealised gains $m | Unrealised losses $m | Estimated fair value $m |
|---|---|---|---|---|
| **Fixed maturity securities, at FVTPL** | | | | |
| Short-term investments | 8.9 | – | – | 8.9 |
| US treasuries | 172.9 | – | (1.1) | 171.8 |
| US agency debt | 2.0 | | – | 2.0 |
| US municipals | 13.4 | – | (0.2) | 13.2 |
| Non-US government and agencies | 2.2 | – | – | 2.2 |
| Asset-backed | 170.3 | 0.1 | (0.7) | 169.7 |
| US government agency mortgage-backed | 95.5 | – | (0.9) | 94.6 |
| Non-agency mortgage-backed | 19.4 | – | (0.2) | 19.2 |
| Agency commercial mortgage-backed | 3.2 | – | – | 3.2 |
| Non-agency commercial mortgage-backed | 59.0 | – | (0.6) | 58.4 |
| Corporate | 469.2 | 0.2 | (4.2) | 465.2 |
| **Total** | **1,016.0** | **0.3** | **(7.9)** | **1,008.4** |

As at 31 December 2021 other assets and other payables included nil and $10.6 million for investments sold and purchased, respectively (31 December 2020 - nil and nil, respectively).

The Group determines the estimated fair value of each individual security utilising the highest-level inputs available. Prices for the Group's investment portfolio are provided via a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. Various recognised reputable pricing sources are used including pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for the year ended 31 December 2021. The fair value of securities in the Group's investment portfolio is estimated using the following techniques:

LEVEL (I) - Level (I) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL (II) - Level (II) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (II) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically industry accepted standards and include broker-dealer quotes and pricing models including present values and future cash flows with inputs such as yield curves, credit spreads, interest rates, prepayment speeds and default rates.

LEVEL (III) - Level (III) investments are securities for which valuation techniques are not based on observable market data and require significant management judgement.

## 12. Investments

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. The Group funded its investment portfolio using cash and cash equivalents on hand during the year ended 31 December 2021. As a result, there were no transfers between Level (I) and (II), and no investments were included in Level (III) during the year ended 31 December 2021.

The fair value hierarchy of the Group's investment portfolio is as follows:

| As at 31 December 2021 | Level I $m | Level II $m | Total $m |
|---|---|---|---|
| **Fixed maturity securities, at FVTPL** | | | |
| Short-term investments | 3.1 | 5.8 | 8.9 |
| US treasuries | 171.8 | – | 171.8 |
| US agency debt | – | 2.0 | 2.0 |
| US municipals | – | 13.2 | 13.2 |
| Non-US government and agencies | – | 2.2 | 2.2 |
| Asset-backed | – | 169.7 | 169.7 |
| US government agency mortgage-backed | – | 94.6 | 94.6 |
| Non-agency mortgage-backed | – | 19.2 | 19.2 |
| Agency commercial mortgage-backed | – | 3.2 | 3.2 |
| Non-agency commercial mortgage-backed | – | 58.4 | 58.4 |
| Corporate | 117.1 | 348.1 | 465.2 |
| **Total** | **292.0** | **716.4** | **1,008.4** |

## 13. Interests in structured entities

### Unconsolidated structured entities in which the Group has an interest

As part of the Group's investment activities, it invests in unconsolidated structured entities. The Group does not sponsor any of the unconsolidated structured entities. The business relations of the Group with the structured entities set out below do not give rise to consolidation because the criteria for control pursuant to IFRS 10, as contained in our consolidation principles, are not met. The Group did not have any interests in unconsolidated structured entities as at 31 December 2020.

A summary of the Group's interests in unconsolidated structured entities is as follows:

| As at 31 December 2021 | $m |
|---|---|
| **Fixed maturity securities, at FVTPL** | |
| Asset-backed | 169.7 |
| US government agency mortgage-backed | 94.6 |
| Non-agency mortgage-backed | 19.2 |
| Agency commercial mortgage-backed | 3.2 |
| Non-agency commercial mortgage-backed | 58.4 |
| **Total** | **345.1** |

The fixed maturity structured entities are used to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets, providing liquidity and diversification. While individual securities may differ in structure, the principles of the instruments are similar and it is appropriate to aggregate the investments into the categories detailed above.

## 13. Interests in structured entities

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the consolidated balance sheet. Fair value is determined by market supply and demand, which is driven by investor evaluation of the credit risk of the structure and changes in the term structure of interest rates which can change the expectation of cash flows associated with the instrument and, therefore, its value in the market.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group holds. Generally, default rates would have to increase substantially before the Group would suffer a loss. This assessment is made prior to investing and regularly through the holding period for the security.

## 14. Losses and loss adjustment expenses

The Group commenced underwriting operations during the year ended 31 December 2021. There were no active underwriting operations for the period ended 31 December 2020. Consequently, the Group has not provided comparative information for net losses and loss adjustment expenses or associated claims development disclosures. Further information related to net losses and loss adjustment expenses is provided in the "Risk disclosures" section.

### Losses and loss adjustment expenses

| | Gross losses and loss adjustment expenses $m | Reinsurance recoveries $m | Net losses and loss adjustment expenses $m |
|---|---|---|---|
| **As at 31 December 2020** | – | – | – |
| Incurred losses: | | | |
| Current year | 191.0 | (48.9) | 142.1 |
| Exchange adjustments | (0.3) | – | (0.3) |
| **Incurred losses and loss adjustment expenses** | **190.7** | **(48.9)** | **141.8** |
| Paid losses: | | | |
| Current year | 19.1 | – | 19.1 |
| **Paid losses and loss adjustment expenses** | **19.1** | **–** | **19.1** |
| **As at 31 December 2021** | **171.6** | **(48.9)** | **122.7** |

### Reserve for losses and loss adjustment expenses

| | 2021 $m | 2021 % |
|---|---|---|
| Outstanding losses | 26.0 | 15.2 |
| Losses incurred but not reported | 145.6 | 84.8 |
| **Total** | **171.6** | **100.0** |

The Group did not book any additional case reserves for the year ended 31 December 2021. Net losses and loss adjustment expenses as at 31 December 2021 had an estimated duration of 2.7 years.

Further information on the calculation of loss reserves and associated risks are provided in the risk disclosures section. The risks associated with reinsurance contracts are complex and the impact of an unreported event could lead to a significant increase in the Group's loss reserves. The Group believes that the loss reserves established are adequate, however a 20% increase in estimated losses would have a $34.3 million adverse impact on profit.

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 14. Losses and loss adjustment expenses

As this was the first year in which the Group engaged in active underwriting operations, a reserving methodology was put in place which will be refined as the Group matures.

2021 delivered an active loss environment with higher-than-average catastrophe losses impacting the industry as a whole. The Group saw losses arise across all of its operating segments, the most significant being from Hurricane Ida and the European floods. The Group recorded $15.0 million and $12.1 million respectively for these events, net of outwards reinsurance and reinstatement premiums.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

## 15. Right-of-use lease assets

Right-of-use lease assets primarily relate to leased properties for the Group's offices in Bermuda and office equipment. The Company has not received any rent concessions as a result of COVID-19.

| Right-of-use assets | $m |
|---|---|
| Balance and net book value as at 1 January 2021 | – |
| Additions | 3.0 |
| Depreciation | (0.1) |
| **Balance and net book value as at 31 December 2021** | **2.9** |

| Lease liabilities | $m |
|---|---|
| Less than one year | 0.6 |
| Between one and five years | 2.6 |
| **Total undiscounted lease liabilities** | **3.2** |

The discounted lease liability at 31 December 2021 was $2.9 million. The Group does not face significant liquidity risk with respect to its lease liabilities.

### Amounts recognised in the consolidated financial statements

| Year ended 31 December 2021 | $m |
|---|---|
| **Consolidated statement of comprehensive loss** | |
| Interest expense on lease liabilities | 0.1 |
| Depreciation of right-to-use assets | 0.1 |
| **Total** | **0.2** |
| | |
| **Consolidated statement of cash flows** | |
| Lease payments | 0.1 |

There is no comparative information to disclose for the period ended 31 December 2020.

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 16. Intangible assets

Intangible assets are comprised of computer software capitalised on the basis of the costs incurred to acquire and bring into use the specific software. There was no amortisation or impairment recognised for the year ended 31 December 2021 or the period ended 31 December 2020 on the basis that the asset was not yet ready for use.

| Cost | $m |
|---|---|
| **Net book value as at 31 December 2020** | **0.2** |
| | |
| **Additions** | 0.9 |
| **Net book value as at 31 December 2021** | **1.1** |

## 17. Financing arrangements

### Letters of credit and trust accounts

CRL is a non-admitted reinsurer in the US and Canada. Terms and conditions of certain reinsurance contracts with US and Canadian cedants require CRL to provide collateral for outstanding insurance contract liabilities, including unearned premiums and losses and loss adjustment expenses. The collateral can be provided by LOCs or by assets in trust accounts. Refer to note 9 for details of interest expense associated with these LOCs included in financing costs. Additional information about the Group's exposure to interest rate and liquidity risk is included in the "Risk disclosures" section.

*Standby letter of credit facility*

During July 2021, CRL, as the borrower, entered into a $125.0 million standby letter of credit facility led by Lloyds Bank Corporate Markets PLC. CHL will guarantee the obligations of CRL with respect to the standby letter of credit facility. Terms of the standby letter of credit facility contain standard qualitative representations and require certain standard financial covenants be adhered to, including: a maximum consolidated debt to capital ratio of CHL of 35.0%; a minimum consolidated tangible net worth of CHL; and a minimum A.M. Best rating of "B++" for CRL. CRL has the option to request an increase in the aggregate amount of the commitment under the facility up to $150.0 million. As at 31 December 2021, $22.0 million was outstanding under the standby letter of credit facility and is secured by cash and cash equivalents and investments of $27.8 million.

*Uncommitted letter of credit facility*

During September 2021, CRL entered into a $75.0 million uncommitted letter of credit facility with Citibank Europe PLC. Terms of the uncommitted letter of credit facility include standard qualitative representations. As at 31 December 2021, $3.9 million was outstanding under the uncommitted letter of credit facility and is secured by cash and cash equivalents and investments of $6.6 million.

*Trust accounts*

Several trust account arrangements were established during 2021 in favour of policyholders and ceding companies to provide collateral or comply with the security requirements of certain contracts. As at 31 December 2021, $29.9 million of cash and cash equivalents and investments were restricted in favour of third parties.

*Additional letter of credit and trust funding requirements*

For the year ended 31 December 2021, $28.8 million of collateral requests and collateral amendments in respect of the 2021 year were received in 2022. These collateral requests will be completed in the normal course of business and will be funded during 2022 using cash and cash equivalents and/or investments.

## 18. Share capital

| Authorised share capital | Number | $m |
|---|---|---|
| Authorised common shares of $0.01 each | 10,000,000,000 | 100.0 |
| Authorised A1 shares of £0.01 each | 100,000 | – |
| Authorised A2 shares of $0.01 each | 100,000 | – |
| **As at 31 December 2021 and 2020** | **10,000,200,000** | **100.0** |

| Allotted, called-up and fully paid | Common shares number | A1 shares number | A2 shares number | Total number | Total $m |
|---|---|---|---|---|---|
| Issued | 165,239,997 | 100,000 | 100,000 | 165,439,997 | 1.7 |
| **As at 31 December 2021 and 2020** | **165,239,997** | **100,000** | **100,000** | **165,439,997** | **1.7** |

The number of common shares in issue with voting rights (allocated capital less shares held in treasury) as at 31 December 2021 was 165,207,174 (31 December 2020 - 165,239,997).

CML issued the A1 and A2 shares during the period ended 31 December 2020, with 15,000 shares subscribed and issued to CHL. For the year ended 31 December 2021 a total of 3,000 shares were repurchased by CML and in turn issued to CHL at par value. CHL holds 18,000 A1 and A2 shares at 31 December 2021. The A1 and A2 shares have no voting rights attached. Subject to vesting conditions, discussed in note 7, the A1 and A2 shares will be automatically exchanged for ordinary shares of CHL.

| Own shares | Total number | Total $m |
|---|---|---|
| **As at 31 December 2020** | **–** | **–** |
| Repurchased | (32,823) | (0.2) |
| **As at 31 December 2021** | **(32,823)** | **(0.2)** |

During 2021 the Group commenced share repurchases under the existing buy-back programme, where shares may be repurchased up to and including the conclusion of the 2022 AGM scheduled for 12 May 2022. Shares repurchased during the year amounted to $0.2 million and will be held in treasury to meet future obligations under CHL's variable incentive schemes.

### Dividends

On 27 July 2021 the Group's Board declared an interim dividend of $0.18 (approximately £0.13) per common share, resulting in an aggregate payment of $29.7 million. The dividend was paid in pounds sterling on 10 September 2021 to shareholders of record on 20 August 2021 using the pound sterling / US dollar spot exchange rate at 12 noon BST on 20 August 2021.

See note 23 for information with respect to dividends declared subsequent to 31 December 2021.

# Notes to the consolidated financial statements

For the year ended 31 December 2021

Unaudited

## 19. Other reserves

Other reserves consist of the following:

| | Other reserves $m | Share premium $m | Total other reserves $m |
|---|---|---|---|
| Issue of shares | – | 1,100.9 | 1,100.9 |
| Issuance costs | – | (45.5) | (45.5) |
| Equity-based incentives | 0.3 | – | 0.3 |
| **As at 31 December 2020** | **0.3** | **1,055.4** | **1,055.7** |
| Equity-based incentives | 0.3 | – | 0.3 |
| **As at 31 December 2021** | **0.6** | **1,055.4** | **1,056.0** |

Other reserves include the Group's equity-based incentive expense.

Share premium includes any premiums received on issue of share capital. The transaction costs that are attributable to the issuance of new shares incurred in forming the Group are treated as a deduction from share premium.

## 20. Contingencies and commitments

### Legal proceedings and regulations

The Group operates in the reinsurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

## 21. Loss per share

The following reflects the loss and share data used in the basic and diluted loss per share computations:

| | Year ended 31 December 2021 $m | Period ended 31 December 2020 $m |
|---|---|---|
| Loss for the period | (42.0) | (4.6) |
| | **number** | **number** |
| Basic and diluted weighted average number of shares | 165,239,907 | 165,239,997 |
| | **per share $** | **per share $** |
| Basic and diluted loss per share | (0.25) | (0.03) |

Equity-based incentive awards are only treated as dilutive when their conversion to common shares would decrease earnings per share or increase loss per share from continuing operations. Incremental shares from ordinary restricted share options where relevant performance criteria have not been met are not included in the calculation of dilutive shares.

## 22. Related party disclosures

These consolidated financial statements include CHL and the entities listed below:

| Subsidiary undertakings | Domicile | Principal Business |
|---|---|---|
| CHL | Bermuda | Holding company, Ultimate parent |
| CRL | Bermuda | General insurance business |
| CRSL | England and Wales | Support services |
| CML [1] | Bermuda | Support services |
| CSL | Bermuda | Support services |

*[1] CML is part-owned by members of management. Management's share ownership in CML exists solely for the purposes of the Group's management share incentive scheme for attracting and retaining talent. Management's shares in CML have no voting power or control in respect of CHL's ownership of CRL via CML's ownership of CRL.*

Unless otherwise stated, the Group owns 100% of the share capital and voting rights in the subsidiaries listed.

### Key management compensation

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

| | Year ended 31 December 2021 $m | Period ended 31 December 2020 $m |
|---|---|---|
| Cash compensation | 6.3 | 1.1 |
| Equity-based incentives | 0.3 | – |
| Directors fees and expenses | 0.6 | 0.2 |
| **Total** | **7.2** | **1.3** |

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses and do not participate in any of the Group's incentive, performance, or pension plans.

### IncubEx, Inc.

Effective 9 April 2021, CHL executed a stock purchase agreement with IncubEx, a product and business development firm with a focus on designing and developing new financial products in global environmental, reinsurance and related commodity markets. CHL purchased 624 shares of IncubEx's Series A-3 preferred stock, with a par value of $0.0001 per share, for an aggregate purchase price of $50,000, or $80.08 per share.

The current Executive Chairman of CHL is also a founder and current Chairman of IncubEx. The terms and conditions of the stock purchase agreement are equivalent to those that would prevail in an arm's length transaction.

The investment in IncubEx is included in other assets in the consolidated balance sheet and is recorded at cost, which approximates fair value.

## 23. Subsequent events

### Dividends

On 22 February 2022, the Group's Board of Directors declared a final dividend for 2021 of $0.18 (approximately £0.13) per common share, which will result in an aggregate payment of $29.7 million. The dividend will be paid in pounds sterling on 22 April 2022 to shareholders of record on 25 March 2022 (the "Record Date") using the pound sterling / US dollar spot exchange rate at 12 noon on the Record Date.

### Share repurchases

During February 2022 the Group continued with share repurchases under its existing buy-back programme with purchases amounting to $0.4m.

# Additional performance measures (the "APMs")

The Group presents certain APMs to evaluate, monitor and manage the business and to aid readers' understanding of the Group financials and methodologies used. These are common measures used across the (re)insurance industry and allow the reader of the Group's financial reports to compare those with other companies in the (re) insurance industry. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with IFRS. The Group's Audit Committee has evaluated the use of these APMs and reviewed their overall presentation to ensure that they were not given undue prominence. This information has not been audited.

Management believes the APMs included in the consolidated financial statements are important for understanding the Group's overall results of operations and may be helpful to investors and other interested parties who may benefit from having a consistent basis for comparison with other companies within the (re)insurance industry. However, these measures may not be comparable to similarly labelled measures used by companies inside or outside the (re)insurance industry. In addition, the information contained herein should not be viewed as superior to, or a substitute for, the measures determined in accordance with the accounting principles used by the Group for its audited consolidated financial statements or in accordance with IFRS.

Below are explanations, and associated calculations, of the APMs presented by the Group:

| APM | Explanation | Calculation |
|---|---|---|
| Net loss ratio | Ratio of net losses and loss adjustment expenses expressed as a percentage of net premiums earned in a period. | Net losses and loss adjustment expenses/Net premiums earned |
| Net acquisition expense ratio | Ratio of net acquisition expenses charged by insurance brokers and other insurance intermediaries to the Group expressed as a percentage of net premiums earned in a period. | Net acquisition expenses/Net premiums earned |
| Other operating expense ratio | Ratio of other operating expenses expressed as a percentage of net premiums earned in a period. | Other operating expenses/Net premiums earned |
| Combined ratio (KPI) | The sum of the net loss ratio, net acquisition expense ratio and other operating expense ratio. A combined ratio below 100% generally indicates profitable underwriting, whereas a combined ratio over 100% generally indicates unprofitable underwriting, each prior to the consideration of total net investment return. | Net loss ratio + Net acquisition expense ratio + Other operating expense ratio |
| Accident year loss ratio | Ratio of the net accident year ultimate liability revalued at the current balance sheet date expressed as a percentage of net premiums earned in a period. | Accident year net losses and loss adjustment expenses/Net premiums earned |
| Underwriting year loss ratio | Ratio of net losses and loss adjustment expenses of an underwriting year (or calendar year) expressed as a percentage of net premiums earned in a period. | Underwriting year net losses and loss adjustment expenses / Net premiums earned |
| Underwriting profit (loss) | Profit or loss directly related to the underwriting activities of the Group. | Net premiums earned – net losses and loss adjustment expenses – net acquisition costs |

# Additional performance measures (the “APMs”)

| APM | Explanation | Calculation |
|---|---|---|
| Total net investment return (KPI) | The Group's principal investment objective is to preserve capital and provide adequate liquidity to support the payment of losses and other liabilities. In light of this, the Group looks to generate an appropriate total net investment return. The Group bases its total net investment return on the sum of non-operating cash and cash equivalents and fixed maturity securities. Total net investment return is calculated daily and expressed as a percentage. | Net investment income + Net unrealised gains (losses) on investments + Net realised gains (losses) on investments/Non-operating cash and cash equivalents + Fixed maturity securities, at beginning of period |
| Return on equity (KPI) | ROE enables the Group to compare itself against other peer companies in the immediate industry. It is also a key measure internally and is integral in the performance-related pay determinations. ROE is calculated as the profit for the period divided by the adjusted opening total shareholders' equity. | Profit (loss) after tax for the period/Total shareholders' equity, at beginning of period |
| Total shareholder return (KPI) | TSR allows the Group to compare itself against other public peer companies. TSR is calculated as the percentage change in common share price over a period, after adjustment for common share dividends. | Closing common share price - Opening common share price + Common share dividends during the period/Opening common share price |
| Dividend yield | Calculated by dividing the annual dividends per common share by the common share price on the last day of the given year and expressed as a percentage. | Annual dividends per common share/Closing common share price |

# Glossary

**Exclusion** A provision in a policy that excludes the insurer's liability in certain circumstances or for specified types of loss. A term in an insurance or reinsurance contract that excludes the insurer or reinsurer from liability for specified types of loss. An exclusion may apply throughout a policy, or it may be limited to specific sections of it. In certain circumstances an exclusion may be limited or removed altogether following the payment of an additional premium.

**Facultative** A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty. In *pro rata* reinsurance, the reinsurance of part or all of the insurance provided by a single policy, with separate negotiation for each policy cession of insurance – for sharing liability, premium and loss. In excess of loss reinsurance, the reinsurance of each policy, with separate negotiation for each – for indemnity of loss in excess of the reinsured's loss retention. The word "facultative" connotes that both the primary insurer and the reinsurer usually have the faculty or option of accepting or rejecting the individual submission (as distinguished from the obligation to cede and accept, to which the parties agree in most treaty reinsurance).

**FIOC** The management Finance Investment and Oversight Committee

**Financial strength rating** The opinion of rating agencies regarding the financial ability of an insurance or reinsurance company to meet its financial obligations under its policies.

**Florida windstorm** A Florida hurricane catastrophe event.

**FVTPL** Fair value through profit or loss.

**GPW or gross premiums written** Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries.

**Gross claims** Claims under contracts of insurance underwritten by a carrier plus internal and external claims settlement expenses less salvage or other recoveries, but before the deduction of reinsurance recoveries.

**Hard market** A period of rising premiums and decreased capacity.

**IFRS** International Financial Reporting Standard(s).

**ILS Insurance Linked Securities** Investment assets linked to insurance-related, non financial risks**.**

**Incurred losses** Claims under contracts of insurance underwritten a carrier plus internal and external claims settlement expenses less salvage or other recoveries, but before the deduction of reinsurance recoveries.

**Incurred but not reported (IBNR)** Anticipated or likely losses that may result from insured events which have taken place, but for which no losses have yet been reported. IBNR also includes a reserve for possible adverse development of previously reported losses.

**International Accounting Standard(s) (IAS)** Standards created by the IASB for the preparation and presentation of financial statements.

**International Accounting Standards Board (IASB)** An international panel of accounting experts responsible for developing IAS and IFRS.

**Incurred loss ratio** Paid claims and known outstanding claims as a percentage of the premiums underwritten by the company. These can be on a gross or net basis, i.e., before or after reinsurance recoveries and costs.

**IPO** Initial public offering.

**IRR** Internal rate of return.

**Invested equity** Means the aggregate of initial equity invested in CHL on Admission and equity invested pursuant to any future equity raises by the Company, with the US dollar value of Invested Equity for the USD MIP Shares being calculated at the spot rate at the time the relevant proceeds of the equity raise were received by the Company.

**LOC** Letter of credit

**Long-tail business** A type of liability that carries a long settlement period. Long-tail liabilities are likely to result in high incurred but not reported (IBNR) claims, because it may take a long period of time for the claims to be settled.

**Losses** Demand by an insured for indemnity under an insurance

**Loss adjustment expenses** The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs. Also known as claim adjustment expenses.

**Losses occurring business** Business where the wording stipulates that claims against liability policies can be notified to the company at any time following the issue of the policy.

**Loss reserve development** The difference between the amount of reserves for losses and loss adjustment expenses initially estimated by an insurer or reinsurer and the amount re-estimated in an evaluation at a later date.

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