RNS Number : 6409C
Conduit Holdings Limited
24 February 2022

Conduit Holdings Limited 2021 Preliminary Results Announcement

Conduit Holdings Limited ("CHL" or the "Group") (Ticker:CRE)
Pembroke, Bermuda - 24 February 2022

CHL is today announcing its preliminary results for the year ended 31 December 2021.

Neil Eckert, Group Executive Chairman, said:

"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 US$0.18 (approximately 13 pence) per common share (in respect of H2 2021). This takes the full 2021 dividend to US$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."

Business review

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 premium earned 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**	*73.5*
Quota share of excess of loss	68.6		-		4.3		**72.9**	*15.9*
Excess of loss	31.6		8.3		8.9		**48.8**	*10.6*
Total	**205.0**	*44.7*	**182.4**	*39.8*	**71.1**	*15.5*	**458.5**	*100*

<u>Property</u>

Estimated ultimate premiums written were $205.0 million with gross premiums written 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%.

<u>Casualty</u>

Estimated ultimate premiums written were $182.4 million with gross premiums written 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 written were $71.1 million with gross premiums written 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 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.

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.

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 US$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 US$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[4] 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.

Conference Call & Presentation

The Group will host a live analyst and investor videoconference, including a question and answer session, on Thursday 24 February 2022 at 12pm (midday) UK time / 8am Bermuda time.

The video conference will be available at:

https://conduitreinsurance.zoom.us/j/89860432363?pwd=MDF1YytTQXRYTXEvMXRmdUNYam01UT09

Meeting ID: 898 6043 2363

Passcode: 705418

One tap mobile

8335480282,,89860432363#,,,,*705418# US Toll-free

8778535257,,89860432363#,,,,*705418# US Toll-free

Dial by your location

833 548 0282 US Toll-free

877 853 5257 US Toll-free

888 475 4499 US Toll-free

833 548 0276 US Toll-free

0 800 260 5801 United Kingdom Toll-free

0 800 358 2817 United Kingdom Toll-free

0 800 456 1369 United Kingdom Toll-free

0 800 031 5717 United Kingdom Toll-free

866 237 6875 Bermuda Toll-free

Meeting ID: 898 6043 2363

Passcode: 705418

Find your local number: https://conduitreinsurance.zoom.us/u/kV1wY1fRG

An archive of the conference call will be available together with the presentation slides through the Investors section of CHL's website at www.conduitreinsurance.com from approximately 4:00 p.m. BST on 24 February 2022.

-END-

Media contacts

Haggie Partners - David Haggie, Caroline Klein

+44 (0) 207 562 4444

conduitre@haggie.co.uk

Investor relations and other enquiries:

info@conduitreinsurance.com

About Conduit Re

Conduit Re is a pure play global reinsurance business based in Bermuda. Conduit Reinsurance Limited is licensed by the Bermuda Monetary Authority as a Class 4 insurer. A.M. Best has assigned a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of a- (Excellent) to Conduit Reinsurance Limited. The outlook assigned to these ratings is stable.

Conduit Holdings Limited is the ultimate parent of Conduit Re and is listed on the London Stock Exchange (ticker : CRE).

Learn more about Conduit Re:

Website: https://conduitreinsurance.com/

LinkedIn: https://www.linkedin.com/company/conduit-re

Twitter: https://twitter.com/Conduit_Re

Additional Performance Measures (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	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

Total net investment return	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	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	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
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

Important Information

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "goals", "objective", "rewards", "expectations", "projects", "anticipates", "expects", "achieve", "intends", "tends", "on track", "well placed", "estimated", "projected", "may", "will", "aims", "could" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, pricing rate changes, terms and conditions, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, claims development, losses and future prospects; and (ii) business and management strategies and the expansion and growth of CHL's operations.

Forward-looking statements may and often do differ materially from actual results. Forward-looking statements reflect CHL's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to CHL's business, results of operations, financial position, liquidity, prospects, growth and strategies. These risks, uncertainties and assumptions include, but are not limited to: the possibility of greater frequency or severity of claims and loss activity than CHL's underwriting, reserving or investment practices have anticipated; the reliability of catastrophe pricing, accumulation and estimated loss models; the actual development of losses and expenses impacting estimates for claims which arose as a result of recent loss activity such as Hurricane Ida, and the European storms and floods in 2021; the impact of complex causation and coverage issues associated with attribution of losses to wind or flood damage; unusual loss frequency or losses that are not modelled; the effectiveness of CHL's risk management and loss limitation methods, including to manage volatility; the development of CHL's technology platforms; a decline in Conduit Re's ratings with A.M. Best or other rating agencies; the impact that CHL's future operating results, capital position and ratings may have on the execution of CHL's business plan, capital management initiatives or dividends; CHL's ability to implement successfully its business plan and strategy during 'soft' as well as 'hard' markets; the premium rates which are available at the time of renewals within Conduit Re's targeted business lines; increased competition on the basis of pricing, capacity or coverage terms and the related demand and supply dynamics as contracts come up for renewal; the successful recruitment, retention and motivation of CHL's key management and the potential loss of key personnel; the credit environment for issuers of fixed maturity investments in CHL's portfolio; the impact of swings in market interest rates, currency exchange rates and securities prices; changes by central banks regarding the level of interest rates and the timing and extent of any such changes; the impact of inflation or deflation in relevant economies in which CHL operates; CHL becoming subject to income taxes in the United States or in the United Kingdom; and changes in insurance or tax laws or regulations in jurisdictions where CHL conducts business

Forward-looking statements speak only as of the date they are made. No representation or warranty is made that any forward-looking statement will come to pass. These forward-looking statements speak only as at the date of this announcement. CHL disclaims any obligation or undertaking to update or revise any forward-looking statements contained herein to reflect actual results or any change in the assumptions, conditions or circumstances on which any such statements are based unless required to do so by law or regulation.

The Conduit Re indicative renewal price index measure is an internal methodology that management intends to use to track trends in premium rates of a portfolio of reinsurance contracts. The change measure reflects management's assessment of relative changes in price, terms, conditions and limits. The calculation involves a degree of judgement in relation to comparability of contracts and the assessment noted above, particularly in Conduit Re's initial years of underwriting. To enhance the methodology, management may revise the methodology and assumptions underlying the change measure, so the trends in premium rates reflected in the change measure may not be comparable over time. Consideration is only given to renewals of a comparable nature so it does not reflect every contract in the portfolio of Conduit Re's contracts. The future profitability of the portfolio of contracts within the change measure is dependent upon many factors besides the trends in premium rates, including policy terms, conditions and wording.

Consolidated statement of comprehensive loss (unaudited)

For the year ended 31 December 2021

	2021	2020

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

Consolidated balance sheet (unaudited)
As at 31 December 2021

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

Statement of consolidated cash flows (unaudited)

For the year ended 31 December 2021

	2021 $m	2020 $m
Cash flows from (used in) operating activities		
Comprehensive loss	(42.0)	(4.6)
Depreciation	0.1	-
Interest expense on lease liabilities	0.1	-
Net investment income	(6.2)	(0.1)
Net realised losses on investments	1.0	-
Net unrealised losses on investments	7.6	-
Net foreign exchange losses (gains)	0.3	(0.2)
Equity-based compensation expense	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	(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	-	1,057.1
Lease liabilities paid	(0.1)	-
Dividends paid	(29.7)	-
Purchase of own shares	(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**

[1] The indicative renewal price index percentage presented here is our assessment of the underlying pricing rate change experienced by our cedant clients. As Conduit Re is now in a position to compare the pricing and terms and conditions of its renewal business to previous years, in future we will provide rate change information on a "net" basis, reflecting management's assessment of rate changes net of the impact of claims inflation, exposure changes and changes in any other terms and conditions.

[2] Ibid

[3] Ibid

[4] Updated from the initial estimate of $262.8 million set out in our Trading Update of 19 January 2022

END

FR EAEALASFAEEA