QED Actuaries & Consultants

Financial Condition Report as at 31 December 2022

PREPARED FOR:
KBL Insurance Company Limited

21 April 2023
QED Actuaries & Consultants (Pty) Ltd
Confidential

Contents

Executive Summary

Overview of the Report

1. As the Appointed Actuaries to KBL Insurance Limited ("the Company") we take pleasure in presenting our Financial Condition Report ("FCR") on the Company as at 31 December 2022 (the valuation date).

2. The FCR and calculations have been carried out by QED Actuaries & Consultants (Pty) Ltd ("QED") taking account of the relevant legislation and guidelines, the Actuarial Society of South Africa's Standards of Actuarial Practice and Advisory Practice Notes and Accounting Standards (where applicable).

3. The calculations, including the actuarial valuation of the Company as at 31 December 2022, required for this FCR have been carried out by QED.

4. This is the seventh FCR undertaken by the Company and where some of the required information was not readily available this has been stated in the report where applicable.

5. For the purpose of this FCR, the Company utilised a business planning period of one financial year after the current year-end (i.e., 2023).

Key Observations

6. The parent company provided a capital injection of N 1.5bn in 2020 to increase the Company's share capital. However, due to legal and regulatory delays this injection has not yet been converted to shareholders' capital and is recognised as a "Deposits for Shares" liability until the documentation is approved. We have placed reliance on the auditor's decision and report the solvency based on the auditor's calculation.

7. Based on the above calculation of solvency, the solvency cover ratio is set at 1.10 and, based on this ratio, the Company has sufficient solvency to cover it capital requirements.

8. The Company expects high growth in premium over the next financial year. The Company's five-year strategy document established in 2021 provides some background on the initiatives that are being implemented to support the high growth rates expected. The Company should note however, that it will probably need to sustain a higher claims ratio and address the current high expense ratios to attract new policyholders and achieve expected growth in profits.

9. Through the monitoring of expenses, combined with continued premium growth, the Company can expect to achieve economies of scale to lower expense ratios in the long run. If the reduction of expense ratios is sufficient, this could lead to a combined ratio below 100% which will lead to underwriting profits and reducing the reliance on investment income to generate profits.

10. The reliance on favourable investment returns to ensure operating profitability exposes the Company to market risk as a continued downturn in economic conditions has resulted in lower investment returns and reduced operational profits. Since the Company makes underwriting losses, it is not providing additional compensation for taking on insurance risk.

11. The Company has budgeted strong growth in its net earned premiums and proportional reduction in expenses. However, the earned premium was lower than budgeted, but the reduction in expenses were not proportionate to the reduction in net earned premium which led to higher-than-expected expense ratios. While it is understandable that the budget needs to be ambitious, it is recommended that Company strengthens its budgeting methodology used to estimate the closing balance of the Unearned Premium Reserve ("UPR"), reinsurance arrangements and expenses.

12. This FCR considers the Company's Risk Management Framework at a high level but does not consider its implementation and does not replace the need to perform periodic independent reviews of the framework as required by NAICOM. QED recommends that frequency and scope of the reviews be determined and that an independent review be before the next FCR.

Financial Performance

13. The results of the FCR are based on the information provided by Management, contained in the financial statements and management accounts for the current financial period as well as for previous periods.

14. The Company's financial performance over the term 31 December 2019 to 31 December 2022 is summarised in the following table:

Income Statement	**2019**	**2020**	**2021**	**2022**
Gross Written Premium	1 931 011	2 435 130	2 949 763	3 766 789
Net Earned Premium	**1 293 745**	**1 610 316**	**1 811 941**	**2 184 594**
Underwriting Profit	**(181 826)**	**(74 304)**	**(119 846)**	**(79 809)**
Investment and other expenses/income	265 633	187 888	241 671	237 245
Profit before Tax	**83 807**	**113 584**	**121 824**	**157 436**
Tax	(26 362)	(17 737)	(28 094)	(47 231)
Profit after Tax	**57 445**	**95 847**	**93 730**	**110 205**

15. The financial performance for the financial period 1 January 2022 to 31 December 2022 is considered in further detail in Section 4 of this report with the relevant performance ratios in the table below. The corresponding statistics for the previous financial years are included for comparative purposes.

Financial Ratios	**2019**	**2020**	**2021**	**2022**
Net claims ratio	18%	23%	22%	16%
Expense ratio	96%	82%	85%	88%
Net combined ratio	114%	105%	107%	104%
Average investment return	6%	3%	3%	3%
Return on equity	1%	2%	2%	3%

16. It can be observed from the tables that the net claims ratio has slightly reduced when comparing 2022 to 2021. Expenses have remained stable. It is noted that the company is growing with respect to its written premium, but its expense ratios are not reducing due to more scale. Investments mainly relate to cash at banks, property and bonds. These investments do not generate strong returns, especially in a market with decreasing interest rates. Therefore, returns on investments remain low and show a decreasing trend over the period. It can be noted that other companies in the Nigerian market tend to generate higher returns on investments. The Company does not generate a very high return on equity due to the large capital base required to meet the regulatory capital requirement of N 3 bn. This is discussed in more detail in Section 4.

17. The Statutory CAR Cover ratios for the business is shown in the table below:

Statutory CAR Cover	**2019**	**2020**	**2021**	**2022**
	N'000	***N'000***	***N'000***	***N'001***
Total Admissable Assets	4 506 530	5 521 910	6 771 398	7 360 247
Total Liabilities	1 249 368	1 956 627	3 538 309	4 063 427
Solvency Margin	3 257 162	3 565 283	3 233 089	3 296 820
Minimum Regulatory Capital	3 000 000	3 000 000	3 000 000	3 000 000
15% of Net Premium	194 062	241 547	292 339	376 344
Regulatory Capital	**3 000 000**	**3 000 000**	**3 000 000**	**3 000 000**
Statutory CAR Cover	**1,09**	**1,19**	**1,08**	**1,10**

18. It is recommended that the results of this report be discussed with the Senior Management of the Company.

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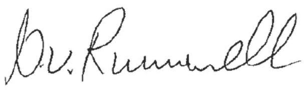

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19 June 2023

1. Introduction

1.1 QED has been appointed by the Management of the Company to produce an FCR on the Company's Non-life insurance business as at 31 December 2022. The FCR reports on the financial condition of an insurance company taking both the financial status (as reflected in the financial statements) and governance structures into account.

1.2 The FCR should be read in conjunction with the Valuation Report prepared by QED as at 31 December 2022.

1.3 This is the Company's seventh FCR and is being compiled on its behalf by QED, as its provider of actuarial services. It is therefore expected to improve in the future based on the recommendations and conclusions as outlined in the following sections of the report. The FCR will also be further developed based on more detailed guidance from NAICOM.

1.4 The FCR and any calculations performed by us have been carried out taking account of the relevant legislation and guidelines.

1.5 This report assumes knowledge of the Company's business and of non-life actuarial and insurance concepts and principles. Certain information in this report is confidential and commercially sensitive. The report is addressed to the directors, senior management ("Management") and auditors of the Company. The approval of QED must be obtained before any part of this report is disclosed to any other party (apart from the Regulator, or other duly authorised party). The report should be read as a whole, as sections taken on their own could be misleading.

2. Developments since the Previous Financial Year-End

Legislation and Regulation

2.1 NAICOM is in the process of implementing a risk-based supervisory regulatory regime for the Nigerian Insurance Industry. Many of the components of the risk-based supervisory regime have already been implemented by the Regulator with only minor changes expected to be included in the regulatory standards after they have been implemented.

2.2 The purpose of implementing the risk-based supervisory regime is to promote a risk-based environment for the Nigerian insurance environment whereby insurers continually refine their business practices, and as a result, create a financially secure environment for its policyholders.

2.3 As part of this process, NAICOM requires all insurers within the Nigerian insurance sector to complete an FCR of their companies as at 31 December 2022 in order to provide a holistic view of the insurer's processes, and how this relates to the overall risk profile of the insurer.

2.4 There was a recapitalisation requirement imposed by the regulator, which has been halted due to legal action following a court order issued on 21 December 2020. It can be noted, the company does not meet the proposed capital requirement and would require a capital injection to achieve the proposed capital level.

3. Business Overview

Company Overview

3.1 The Company is a general insurance company that is engaged in various lines of business. The Company is registered and domiciled in Nigeria.

3.2 The Company started business in 1994 as Shieldhold Insurance Company Limited, a licensed Underwriter of both life and non-life insurance businesses. In 1998, the name of the Company was changed to Guardian Trust Insurance Company Limited following the acquisition of majority shareholding by a group of investors.

3.3 In 2007, Guardian Trust Insurance was acquired by Bank PHB during the industry consolidation/recapitalisation exercise. With the acquisition, the Company was able to meet the minimum capital required to transact only non-life insurance business while its life portfolio was sold. The name of the Company was changed from Guardian Trust Insurance in 2008 to Insurance PHB and KBL Insurance in 2013.

3.4 The Company's ownership structure as at 31 December 2022 is as follows:

Name of Shareholder	Number of Shares	Percentage Shares
Keystone Bank Ltd	3 436 000 000	95,8%
Staff of KBL Insurance Ltd	150 000 000	4,2%
Total	**3 586 000 000**	**100,0%**

3.5 The Company is owned by Keystone Bank which is a commercial bank that operates in Nigeria. A small proportion of shares are also owned by the employees of the Company.

3.6 The Company's distribution channels include brokers, aggregator platforms, Bancassurance, social media and strategic partnerships with companies.

3.7 The Company has emphasised that the main factors that give it a competitive advantage include good claims settlement, good operating software as well as sound insurance technical capacity.

3.8 The Company's current vision is:

"To become the Company best known for providing insurance protection for every home and business in Nigeria."

3.9 The Company's main objectives are summarised below (for further details please refer to the strategy document.

- Writing a gross premium of N18.5 billion by 2025,
- Strengthen investment management practices for enhanced profitability,
- Leverage ecosystems to drive mass distribution of need-based and embedded insurance products,
- Build a prolific technology-driven sales workforce,
- Drive enhanced operational efficiency and customer satisfaction.

3.10 Other key strategies outlined for implementation by 2025:

- Develop a high-quality underwriting portfolio in the largest segments;
- Expand current business volumes through brokers;
- Build a stable technology infrastructure and a cost-effective digital marketing program to drive direct retail sales;
- Build a diversified risk adjusted investment portfolio
- Identify strategic asset managers in the alternative investments space to enhance investments;
- Develop a cost-effective operating model that is technology driven that enables "pay-as-you-go" products, among others;
- Develop a vetted pool of strategic lifestyle partners to meet customers' needs;
- Secure sales partnerships with online aggregators, platforms and marketplaces;
- Create a retail loyalty scheme;
- Expand pool of sales agents on a geographical level;
- Enable sales agents with cost effective digital tools;
- Deploy a technology solution to support effective Enterprise Risk Management;
- Deploy internal and external customer satisfaction surveys.

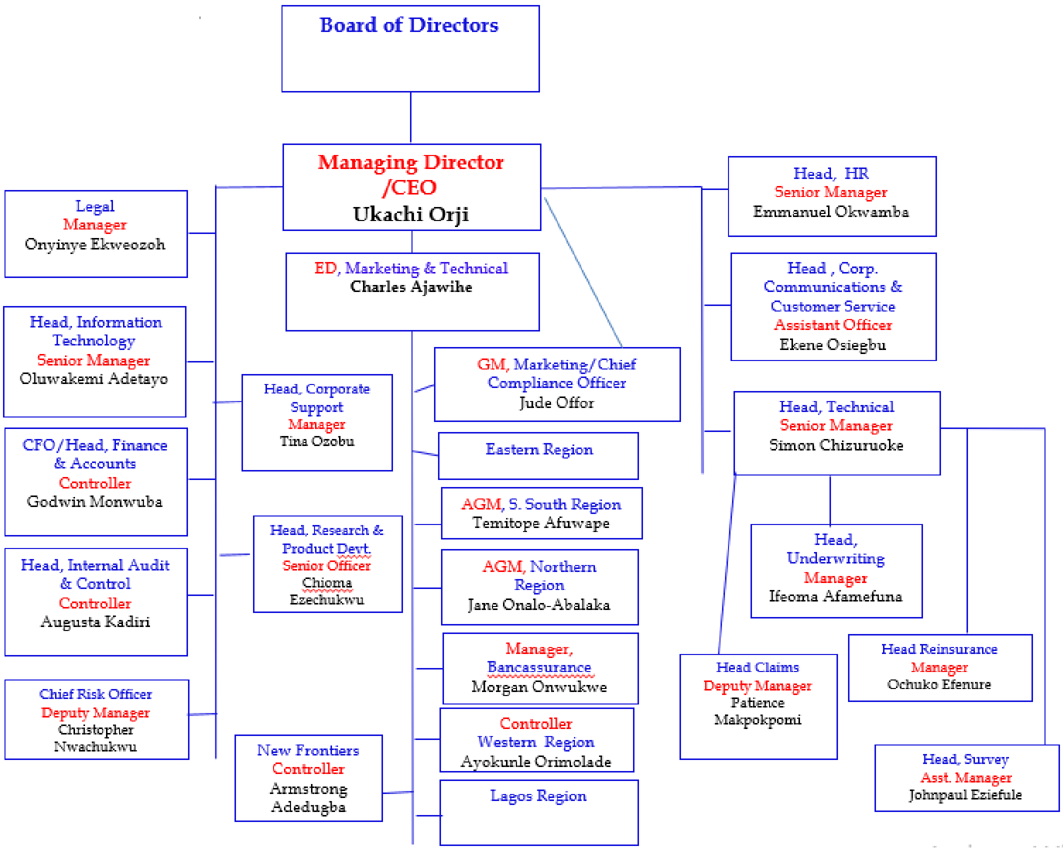
3.11 The Board of Directors of the Company, for the financial year 2022, comprised of the following members:

- Mr. Simpson Eimiakhena: Acting Chairman *(Appointed 30 May 2016);*
- Mrs. Ukachi Orji: MD/CEO *(Appointed 18 June 2012);*
- Mr. Ibrahim Aliyu: Independent Director *(Appointed 30 May 2016);*
- Mr. Charles Ajawihe: Executive Director, Marketing *(Appointed 18 June 2012);*
- Mr. Simpson Eimiakhena: Non-Executive Director *(Appointed 30 May 2016);*
- Mrs. Laide Abel: Non-Executive Director *(Appointed 19 March 2019);*
- Mr. Lawal Mijinyawa: * Non-Executive Director *(Appointed 10 Feb 2022);* and,
- Mr Keji Olajide: * Non-Executive Director *(Appointed 10 Feb 2022).*

3.12 The Board carries out its oversight functions through its various Board Committees. The following Board Committees have been established in the Company:

- The Establishment, Human Resources and Governance Committee;
- The Audit and Compliance Committee;
- The Enterprise Risk Management Committee; and,
- The Finance and Investment Committee.

3.13 As at 31 December 2022, the Company's internal organisational structure can be illustrated as follows:



Products

3.14 The Company currently writes the following broad classes of business:

- Accident;
- Bond;
- Engineering;
- Fire;
- Marine;
- Motor; and

3.15 Oil and GasThe following table gives the breakdown of gross written premium for 2021 and 2022 between the various business classes:

Gross Written Premium

Class of Business	2021		2022		
	N'000	%	*N'000*	%	% Change
Accident	395 882	13%	514 449	14%	30%
Bond	15 030	1%	13 724	0%	-9%
Engineering	210 998	7%	339 298	9%	61%
Fire	770 108	26%	959 511	25%	25%
Marine	600 450	20%	768 181	20%	28%
Motor	927 826	31%	1 036 043	28%	12%
Oil & Gas	29 469	1%	135 583	4%	360%
Total	**2 949 763**	**100%**	**3 766 789**	**100%**	**28%**

3.16 The Company has seen an overall 28% increase in Gross Written premium over the period compared to 2021. This was largely influenced by increases in the Accident, Engineering and Oil & Gas lines of business, among others. The composition of Gross Written premium is similar compared to the previous year, however there was a significant increase in the proportion of Oil & Gas business written which was offset by a proportional reduction Motor.

3.17 It is important to note that, according to the strategy document, the Company seeks to increase its Oil and Gas exposure. Evidently, there is a marked increase in premium written for this line observed in 2022, which is an indication that current management actions utilised to increase written premiums have been successful.

Actuarial Opinion

3.18 It is recommended that the Company make its strategy in paragraph 3.10 more explicit by breaking these down into actionable, measurable tasks to achieve the overarching objectives (e.g., using a new distribution channel will contribute 10% to premium growth but will require an additional N100 million to expenses). Granular Key Performance Areas with targets have been developed to identify whether the Company's objectives are met, but without clear, quantified impacts of individually identified strategies (with expected impact), these KPI's may become difficult to achieve.

4. Profitability and Financial Position

Overall Profitability

4.1 All financial results presented in this report (apart from Section 5: Reserve Review) have been derived from the financial statements as supplied by the Company.

4.2 The table below details the profitability of the Company for the financial years ending between 31 December 2019 and 31 December 2022. Key financial ratios[1] have also been included that are used to identify any trends in the business.

Financial Data	**2019**	**2020**	**2021**	**2022**
	N'000	***N'000***	***N'000***	***N'000***
Income Statement				
Gross written premium	1 931 011	2 435 130	2 949 763	3 766 789
Reinsurance premium	(576 536)	(645 340)	(1 000 834)	(1 257 831)
Net Written Premium	**1 354 475**	**1 789 790**	**1 948 929**	**2 508 958**
Change in Unearned Premium Reserve	(60 730)	(179 474)	(136 988)	(324 364)
Net Earned Premium	**1 293 745**	**1 610 316**	**1 811 941**	**2 184 594**
Net claims incurred	(237 733)	(365 461)	(397 505)	(348 264)
Reinsurance Commission	164 391	171 467	276 517	324 402
Underwriting Expenses	(759 893)	(840 106)	(1 026 949)	(1 254 962)
Management Expenses	(642 336)	(650 520)	(783 850)	(985 579)
Underwriting Profit	**(181 826)**	**(74 304)**	**(119 846)**	**(79 809)**
Investment income	269 662	195 478	248 289	237 245
Finance charge	(4 029)	(7 590)	(6 618)	-
Profit Before Tax	**83 807**	**113 584**	**121 824**	**157 436**
Tax	(26 362)	(17 737)	(28 094)	(47 231)
Profit After Tax	**57 445**	**95 847**	**93 730**	**110 205**
Other Comprehensive Income	(69)	(189)	(49)	99
Total Comprehensive Income	**57 376**	**95 658**	**93 682**	**110 305**

Financial Ratios				
Growth in GWP	13%	26%	21%	28%
Net claims ratio	18%	23%	22%	16%
Expense ratio	96%	82%	85%	88%
Net combined ratio	114%	105%	107%	104%
Average investment return	6%	3%	3%	3%
Return on equity	1%	2%	2%	3%

[1] The expense ratio is calculated as the sum of Underwriting and Management expenses over net earned premium to identify whether the premium income is sufficient to cover claims and expenses.

4.3 The Company has experienced strong growth in gross written premium over the historical period, this is continued in 2022 with a 28% increase in gross premiums observed.

4.4 The claims ratio has been steadily decreasing over the period of investigation. However, the current claims ratio may be considered low. For example, for each N100 the Company receives in premium, N16 is returned to its policyholders – the remaining N84 stays within the Company. There is potential that, in the Long-term, the Company will need to incur higher claims ratios to remain competitive and support healthy business growth. This highlights the importance of growing to scale to bring down expense ratios in order to support a potential increase in the claims ratio.

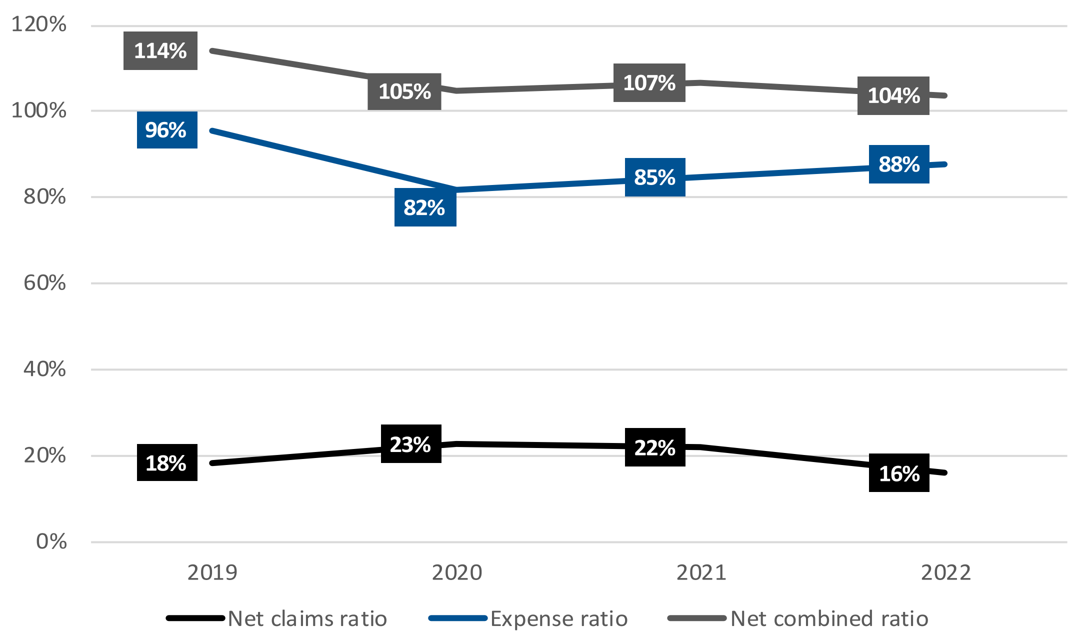
4.5 The expense ratio has remained stable over the historical period, with a spike observed in 2019. At 88%, the expense ratio has remained in line with the historical trend.

4.6 The net combined has remained stable, with a spike in 2019 relating to the claims ratio stated above. The net combined ratio has been consistently above 100%indicating that the premium levels are not adequate to cover claims and expenses relating to insurance operations. However, the Company is expecting an improvement in 2023 with the combined ratio expected to be below 100% due to a reduction in the expense ratio. More detail on premium adequacy can be found in Section 6.

4.7 Average investment returns have remained stable but low over the historical period, averaging 3% over the last three years.

4.8 It has been observed that the Company's return on equity is consistently low, mainly due to the significant shareholder's equity it holds to cover the regulatory capital requirement. As the Company grows to scale, and generate more profits, this ratio should also increase. Regulatory solvency is discussed in section 8 of this report.

4.9 The following graph illustrates the development of the net combined ratio and its constituents through the years 2019 to 2022.



4.10 The financial ratios quoted above have been calculated as follows:

- **Net Claims Ratio:** Net Claims Incurred / Net Earned Premium;
- **Expense Ratio:** (Net Commissions + Underwriting Expenses + Operating Expenses)/Net Earned Premium;
- **Net Combined Ratio:** Net Claims Ratio + Expense Ratio;
- **Average Investment Return:** Investment Income / Average Invested Assets[2]; and,
- **Return on Equity:** Profit After Tax / Opening Equity Balance.

[2] *The average invested assets are taken over the current and previous financial year.*

Financial Position

4.11 The following table below considers the Company's financial position for financial years ending between 31 December 2019 and 31 December 2022

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Balance Sheet	**2019**	**2020**	**2021**	**2022**
	N'000	***N'000***	***N'000***	***N'000***
Cash and Cash Equivalents	2 034 162	3 629 206	2 940 277	2 970 135
Financial Assets	281 349	409 085	1 279 587	1 534 446
Reinsurance Assets	271 798	867 052	815 711	955 898
Deferred Acquisition Costs	90 725	118 568	141 110	206 704
Other Receivables and Prepayments	89 373	70 337	66 520	118 521
Investment Properties	2 148 000	2 041 000	2 015 400	2 015 400
Property and Equipment	99 367	203 857	268 945	361 200
Deferred Tax Assets	47 963	40 885	34 802	34 801
Statutory Deposits	300 000	300 000	300 000	300 000
Intangible Assets	33 250	26 250	19 250	19 917
Total Assets	**5 395 987**	**7 706 240**	**7 881 602**	**8 517 023**
Insurance Contract Liabilities	922 812	1 508 556	1 522 835	1 890 126
Trade Payables	111 143	88 721	94 070	247 780
Provisions and Other Payables	147 582	296 393	355 023	333 896
Income Tax Payable	67 831	62 958	66 381	91 625
Deposit for Shares	0	1 500 000	1 500 000	1 500 000
Total Liabilities	**1 249 368**	**3 456 628**	**3 538 309**	**4 063 427**
Ordinary Share Capital	3 586 051	3 586 051	3 586 051	3 586 051
Other Components of Equity	(8 830)	(9 019)	(9 068)	(8 969)
Contingency Reserves	1 037 690	1 110 744	1 199 237	1 312 240
Retained Earnings	(468 292)	(438 164)	(432 927)	(435 725)
Total Equity	**4 146 619**	**4 249 612**	**4 343 293**	**4 453 597**

4.12 Total assets and liabilites have remained stable over 2020 to 2021 with a significant increase observed in 2020 due to the planned injection of shares recorded as “Deposit for Shares”. An increase was also observed in 2022 due to profits achieved, the increased business volumes written and improvement in market value of the financial assets.

4.13 Shareholder’s equity has been increasing steadily over the period 2019 to 2022 broadly increasing with profits after taxes, since other comprehensive income has remained immaterial.

4.14 Cash and cash equivalents increased in 2020 due to the N1.5 billion deposit made by Keystone Bank.

4.15 In 2021 the cash and cash equivalents decreased, and the remaining financial assets increased. This was a strategic allocation to increase investment returns. A percentage of the portfolio has been allocated to fixed income assets as they are the highest drivers of investment income.

4.16 Insurance contract liabilities have also increased materially in 2022 due to the increase in premium volumes and increase in IBNR, mainly from large IBNR for Motor and Fire.

Business Forecasting

4.17 The table below considers the Company’s business forecasting, by considering the actual 2022 results as compared to the expected 2022 results in the form of the 2022 budget. The 2023 budget that shows the expected business performance over the year. The final two columns consider first how much deviation there is between actual and expected results for 2022 and secondly how much growth the Company expects in 2023.

Financial Data	**Actual 2022** *N'000*	**Budget 2022** *N'000*	**Budget 2023** *N'000*	**% Deviation: Actual vs 2022 Budget**	**% Increase: 2023 Budget from Actual**
Gross written premium	3 766 789	4 192 234	6 911 562	-10%	83%
Reinsurance premium	(1 257 831)	(1 338 580)	(2 570 064)	-6%	104%
Net Written Premium	**2 508 958**	**2 853 654**	**4 341 498**	**-12%**	**73%**
Change in UPR	(324 364)	(251 534)	(414 694)	29%	28%
Net Earned Premium	**2 184 594**	**2 602 119**	**3 926 804**	**-16%**	**80%**
Net Commission	324 402	376 882	639 320	-14%	97%
Net Claims Incurred	(348 264)	(544 990)	(760 272)	-36%	118%
Underwriting Expenses	(1 254 962)	(1 462 753)	(2 211 543)	-14%	76%
Management Expenses	(985 579)	(1 038 785)	(1 461 193)	-5%	48%
Underwriting Profit	**(79 809)**	**(67 528)**	**133 116**	**18%**	**-267%**
Finance Charge	(6 618)	(6 500)	(10 000)	**2%**	**51%**
Investment income & other income	237 245	406 500	420 000	-42%	77%
Profit Before Tax	**157 436**	**332 472**	**543 116**	**-53%**	**245%**

Deviations from 2022 Budgeted Plans

4.18 The Company's written premiums are 10% less than was budgeted for in 2022. In addition, net earned premium was 16% lower than budgeted mainly due to a smaller than expected reinsurance cession and movement in net UPR. The lower reinsurance premium implies that the Company expected to retain more exposure than what has actually occurred. It is recommended that the Company investigate the reason for this deviation.

4.19 Claims and expense ratios are roughly in line with what was expected but still maintained a combined ratio above 100%, which means the premiums would be insufficient to cover insurance outflows.

4.20 The Company has budgeted strong growth in its net earned premiums and proportional reduction in expenses. However, the earned premium was 16% lower than budgeted, but the reduction in management expenses were only 5% lower. Due to this disproportionate reduction, the company incurred a higher-than-expected expense ratio, however, this was offset by the lower than expected claims ratio experienced It is recommended that Company strengthens its budgeting methodology used to estimate the closing balance of the Unearned Premium Reserve ("UPR"), reinsurance arrangements and expenses.

4.21 It has also been observed that investment and other income were 41% lower than expected. This puts pressure on the company profits as they rely on investment income to make profits.

2023 Budgeted Plans

4.22 The Company expects gross written premium income in 2023 to increase substantially by approximately 83% with reinsurance premium expected to increase by 104% in the same year which either implies poorer reinsurance rates or retaining less exposure. It has been observed that the expected premium growth rates for 2023 materially exceeds actual growth rates in recent history and should therefore closely monitor its growth in net earned premium.

4.23 The company expects its expense ratio to be lower in 2023, therefore should have active plans to meet this target, or ensure growth is met in order to achieve scale can be used to reduce proportional expenses.

4.24 It can be observed from the claims ratio that the Company is projecting a slight worsening in claims experience in 2023 as well as an improvement in the expense ratio due to higher premium volumes. It is expected that with projected increases in written premium, the claims ratio would also increase. It is recommended that the Company considers the cost of its projected growth adequately in its budgeting process.

4.25 The projected results indicate that the Company expects to improve its profitability in 2022 through higher volumes of business, an overall improvement of its underwriting results through slightly lower claims and expense ratios and a significant increase in investment income.

Actuarial Opinion

4.26 *Through the monitoring of expenses, combined with continued premium growth, the Company can expect to achieve economies of scale to lower the expense ratios. Alternatively, the Company can reduce its expenses which will also lead to a reduced expense ratio. If the reduction of expenses is sufficient, this could lead to a combined ratio below 100%. This leads to underwriting profits and reducing the reliance on investment income to generate profits.*

4.27 *It is proposed that the Company perform a detailed expense allocation to each line of business. This will aid in determining the true underwriting results per line (which can be used for granular planning and decision-making) and emphasise monitoring of expense levels and its effect on the expense ratio.*

4.28 *It has been observed that due to the large capital base the Company currently has, it is not generating a very high return on equity. This means that the shareholders could potentially generate higher returns through alternative investments. However, as the Company is still growing and maturing, it is expected that the Company will generate stronger returns in the medium to long-term.*

4.29 *It is recommended that the Company considers the impact on its projections should there be a delay for the initiatives to translate into higher business volumes. The projection process can be strengthened through the use of sensitivity testing to consider the impact of actual experience varying from expectations.*

4.30 *The Company could also consider strengthening its projection process by considering historical experience when setting projection assumptions to prevent planning errors.*

5. Reserve Review

5.1 The Reserve Review as at 31 December 2022 was conducted by QED on behalf of the Company. This section includes a summary of the results and key recommendations of the review and does not necessarily reflect the values used in the Financial Statements.

5.2 It should be noted that at the time of writing this report, the valuation numbers had not yet been finalised by QED. Once finalised, more detail on the valuation numbers can be found in the Valuation Report as 31 December 2022.

Results of the Reserve Review

5.3 The table below indicates the estimated value of the Company's insurance liabilities as at 31 December 2022. Estimates as at the previous year-end have been included for comparative purposes.

Insurance Liabilities	**31-Dec-2021**	**31-Dec-2022**
	N'000	***N'000***
Gross Claims Liabilities	**611 884**	**684 678**
Incurred But Not Reported (*"IBNR"*)	234 950	307 744
Outstanding Claims Reserve (*"OCR"*)	376 934	376 934
Gross Premium Liabilities	**1 071 901**	**1 457 253**
Unearned Premium Reserve (*"UPR"*)	930 791	1 251 380
Unexpired Risk Reserve *("URR")*	-	-
Deferred Acquisition Cost *("DAC")*	141 110	205 874
Additional Unexpired Risk Reserve (*"AURR"*)	-	-

5.4 The largest contributors to the total outstanding claims reserve are the Accident and Motor lines of business.

5.5 The gross IBNR increased by 55.6% driven by the increase in large IBNR reserve from NGN235.0m to NGN365.5m

5.6 The increase in large IBNR is largely driven by increase of NGN51.8m in Accident and the identification of large losses of NGN61.0m in Fire compared to no large losses in 2021.

5.7 The following table details the projected Ultimate Loss Ratios for the period ending 31 December 2022:

Class of Business	*Ultimate Loss Ratio* *Including Large Claims*	**Exluding Large Claims**
Accident	52%	24%
Bond	22%	22%
Engineering	54%	44%
Fire	24%	6%
Marine	19%	7%
Motor	41%	21%
Oil & Gas	10%	5%
Total	**33%**	**16%**

Methodology Used in Calculating Reserves

5.8 QED calculated the reserves of the Company using the following methodologies:

Insurance Liabilities	31 December 2021	31 December 2022
Gross Claims Liabilities		
Incurred But Not Reported (*"IBNR"*)	Basic Chain Ladder, Loss Ratio, and Bornhuetter Ferguson	Basic Chain Ladder, Loss Ratio, and Bornhuetter Ferguson
Outstanding Claims Reserve (*"OCR"*)	Sum of Case Estimates	Sum of Case Estimates
Gross Premium Liabilities		
Unearned Premium Reserve (*"UPR"*)	365ths method	365ths method
Unexpired Risk Reserve (*"URR"*)	Consideration of combined ratio	Consideration of combined ratio
Deferred Acquisition Cost ("*DAC*")	365ths method	365ths method

5.9 For further details regarding the calculation and the methodologies applied, please consult the Valuation Report as at 31 December 2022.

6. Pricing and Premium Adequacy

Underwriting and Setting Premiums

6.1 The Company currently does not have a documented Pricing Policy. However, the following table identifies key features of the process used in setting premiums in 2022:

Component	Implementation
Underwriting Practices	The Company's underwriting practices can be summarised through the following key steps: • The use of a proposal form to elicit information from the proposer. • Insurance quote which is an estimate of premium charged for the risk proposed for insurance coverage. • Evaluation of risks/Acceptance of risk. • Pricing/Rating of risk. • Determining premium payment. • Raising debit note /Receipt of payment. • Preparing policy document. • Survey/Pre-loss inspection of risk. • Reinsurance. • Record keeping/Filing. • Renewal notice. • Instruction to renew. • Renewal premium/Debit note/Receipt. • Renewal endorsement.
Underwriting Standards	The underwriting standards can be summarised through the following key processes: • Risk Selection: By securing vital information from the proposer, evaluating the information and deciding whether to accept the risk or not. • Classification and Rating: In order to classify the risk and then apply appropriate rate to arrive at a reasonable premium. • Payment of premium, raising of debit note and issuance of receipt. • Policy Document: Refers to the terms and conditions in the policy. • Retention and Reinsurance: To retain our net account and cede to the Reinsurers for the excess cover. • To monitor risk and put in risk improvement measures through Vehicle inspection, Pre-loss inspection and Cargo Superintendents. • Maintain proper keeping of records.
Expense Assumption Applied in Premium	Assumptions are classified in the following categories for purposes of pricing: • Pay valid claims. • Pay overhead costs. • Pay commissions. • Pay for reinsurance costs. • Pay for survey bills.
Actual vs. Expected Expenses	Actual expenses comprise of the following: • Commission expenses. • Reinsurance expenses. • Overhead expenses. • Survey expenses. Expected expenses include: • Claims expenses.

Component	Implementation
Profit Margins	Target profit business margins are specified for each class of business.
Treatment of Reinsurance Costs	Reinsurance costs are allowed in the pricing process.
Incorporation of Experience	Pricing is based purely on its merits and experience on the type of risk under consideration and the level of exposure.

Premium Adequacy

6.2 The tables below provide key financial metrics examining the Company's premium adequacy:

Financial Metrics:	**2019**	**2020**	**2021**	**2022**
Gross written premium *(N'000)*	1 931 011	2 435 130	2 949 763	3 766 789
GWP growth rate	13%	26%	21%	28%
Claims ratio	18%	23%	22%	16%
Expense ratio	96%	82%	85%	88%
Net combined ratio	114%	105%	107%	104%

6.3 The Company's combined ratio being above 100% indicates that the premiums are not currently adequate to meet claims and underwriting expenses which leads to an underwriting loss. The Company therefore depends on investment and other income to generate profits.

6.4 It is observed that the Company's expense levels are the main driver for the combined ratio exceeding 100% considering that the Company has historically experienced low claims ratios. As stated in section 4, the expense ratio can be reduced through growing the business and achieving economies of scale, or institution of expense reduction initiatives.

Actuarial Opinion

6.5 QED is of the view that the Company's premiums are not adequate to cover its claims and expenses from its non-investment activities. In order to ensure that the Company is able to assess the ability of its premium income to cover expenses and claims, it is recommended that, building on an expense analysis, a premium adequacy exercise be performed where adequacy of premium by accident year and line of business is considered.

7. Asset and Liability Management

Investment Strategy

7.1 The investment philosophy aims to build a diversified portfolio that matches risk tolerance with the asset allocation structure, taking cash flow requirements into account.

7.2 The investment objectives of the Company effective include:

- The protection of the principal shall be given priority in any investment decision. Best judgment shall be relied upon when selecting and managing investment that will protect and preserve the capital resources of the Company.
- Sufficient liquidity shall be maintained in order to provide timely funding for the Company’s operational needs. The portfolio structure shall at all times provide sufficient liquidity to adequately cover personnel, operating and other expenses.
- Investments in money market will not exceed 90 days tenure at any time in order to limit interest rate risk. Capital market instruments shall be reviewed on a monthly basis due to inherent volatility in these asset classes. The Company aims to invest at a competitive rate of return, taking into consideration portfolio structure and risk constraints.
- The Investment policy will be reviewed annually by the Board Finance and Investment Committee. This ensures compliance with the relevant statutory regulations and policy guidelines.

7.3 The investment committee meets at least quarterly and receives the following reports as part of the process:

- A list of fixed deposits, amounts and maturity dates;
- A list of quoted equities, cost and market values; and,
- A Management report on the overall company investment portfolio.

Asset Allocation

7.4 The Company only invests in the asset types and bands allowed by NAICOM. The Company does however have the right to determine the asset types and limits based on the economic and market conditions at the time while maintaining within regulatory limits.

7.5 More detailed limits for each investment term are prescribed within the Investment Policy. A further assessment is required as to whether these limits are being complied with. This assessment will analyse the investments by counterparty and the diversification of the property by investment portfolio or location.

7.6 The Investment Policy also requires sufficient levels of diversification of its investments in order to reduce risk. Currently the Company is exposed to concentration risk as 31% of its investible assets are invested in the property market. The Company should assess whether this concentration is within its risk appetite and whether it should seek some addition diversification.

Assets

7.7 The following table below shows the composition of the Company's assets to the various asset classes, between 31 December 2019 and 31 December 2022.

Asset Class ***(N'000)***	**2019**	**2020**	**2021**	**2022**
Financial Assets	281 349	409 085	1 279 587	1 534 446
Cash Deposit	2 034 162	3 629 206	2 940 277	2 970 135
Property	2 148 000	2 041 000	2 015 400	2 015 400
Statutory Deposits	300 000	300 000	300 000	300 000
Total Invested Assets	**4 763 511**	**6 379 291**	**6 535 264**	**6 819 981**
Other Balance Sheet Assets	271 305	389 560	464 107	622 623
Reinsurance Asset	271 798	867 052	815 711	955 898
Insurance and Other Receivable	89 373	70 337	66 520	118 521
Total	**5 395 987**	**7 706 240**	**7 881 602**	**8 517 023**

7.8 Invested assets have been increasing over the period since 2019, with a significant increase observed in 2020 due to a N1.5 billion capital injection in the form of cash. The increase observed In 2022 is driven by profits achieved and investment into Government bonds.

Liabilities

Currency of Liabilities

7.9 According to the previous audited financial statements, the Company has minimal exposure to currency risk as the Company's financial assets are primarily matched to the same currencies as its insurance and investment contract liabilities. An investigation has not been performed as part of this FCR.

Nature and Term of Liabilities

7.10 The currency, nature and term of the liabilities impact the assets that the Company should invest in to reduce the risk of a mismatch between assets and liabilities. The following table shows the breakdown of gross written premium between the different classes.

Gross Written Premium

Class of Business	**2021**		**2022**		
	N'000	**%**	***N'000***	**%**	**% Change**
Accident	395 882	13%	514 449	14%	30%
Bond	15 030	1%	13 724	0%	-9%
Engineering	210 998	7%	339 298	9%	61%
Fire	770 108	26%	959 511	25%	25%
Marine	600 450	20%	768 181	20%	28%
Motor	927 826	31%	1 036 043	28%	12%
Oil & Gas	29 469	1%	135 583	4%	360%
Total	**2 949 763**	**100%**	**3 766 789**	**100%**	**28%**

7.11 The majority of the Company’s business is Motor, Marine and Fire. Motor claims are generally reported and settled soon after occurrence and thus are considered short tail. There is a possibility of Motor including bodily injury claims, which could take longer settle. Fire claims are generally not affected by inflation from occurrence to settlement. Marine claims are typically long tailed and may take more than 3 years to settle. Marine class claims may increase with inflation, specifically court-award and price inflation.

7.12 Engineering makes up a smaller proportion of the Company’s business and similar to the Marine class, these claims are typically long tailed and may take more than 3 years to settle.

7.13 It can be observed that a large proportion of the Company’s insurance contracts are of a short-term, with the exception of Marine which is longer tailed in nature. Currently the investible assets are mainly invested in cash and property. The Company should ensure that its asset mix in terms of duration is appropriate to cover liabilities through the performance of an Asset-Liability Management Exercise.

7.14 It is also recommended that the Company performs a liquidity analysis to ascertain its updated funding requirements and checking the funding requirement against its available liquid assets.

Actuarial Opinion

7.15 It is proposed that the Company considers reducing its investment in property and investing in a more diversified portfolio, this may lower liquidity and concentration risk. It could also enhance investment income if the Company invests in a higher yielding investment class.

7.16 QED recommends that the Company perform an Asset Liability Management Exercise in order to ensure that the matching of assets to liabilities minimises its liquidity risk and maximises its returns from riskier assets. A liquidity cashflow exercise can also be performed during the exercise.

7.17 It is recommended that the Company formulate its approach to Asset Liability Management in an ALM Policy or in its Investment Policy.

8. Capital Management and Capital Adequacy

Capital Management Framework

8.1 The Company manages its available capital in order to ensure its going concern and compliance with its regulatory capital requirements while maximising the shareholder return.

8.2 The capital structure of the Company consists of equity attributable to its equity holders, consisting of:

- Issued Capital;
- Reserves; and,
- Retained Earnings.

Solvency Margin Requirement

8.3 According to regulatory requirements, insurers need to ensure that their Solvency Margin exceeds the maximum of 15% of the net premium income and the minimum regulatory requirement of N3 billion. The Solvency Margin is calculated as the excess of admissible assets over admissible liabilities.

8.4 The final solvency capital requirement and solvency ratio was calculated by the auditors and is based on the Company's audited financial statements. The results for 31 December 2021 and 31 December 2022 are shown in the table below:

Solvency Margin Requirement	**31 December 2021** *N'000*	**31 December 2022** *N'000*
Cash and Cash Equivalents	2 940 277	2 970 135
Financial Assets	1 279 587	1 534 446
Trade Receivables	0	0
Reinsurance Assets	815 711	955 898
Deferred Acquisition Costs	141 110	206 704
Other Receivables and Prepayments	66 520	118 521
Investment Properties	2 015 400	2 015 400
Property, Plant and Equipment	268 945	361 200
Deferred Tax Assets	34 802	34 801
Statutory Deposits	300 000	300 000
Intangible Assets	19 250	19 917
Total Assets	**7 881 602**	**8 517 023**
Net Inadmissable Assets	1 110 204	1 156 776
Total Admissible Assets	**6 771 398**	**7 360 247**
Total Liabiliites	**3 538 309**	**4 063 427**
Inadmissable Liabilities	0	0
Total Admissible Liabilities	**3 538 309**	**4 063 427**
Solvency Margin	**3 233 089**	**3 296 820**
Minimum Regulatory Capital	3 000 000	3 000 000
15% of Net Premium	292 339	376 344
Regulatory Capital	**3 000 000**	**3 000 000**
Statutory CAR Cover	**1,08**	**1,10**

8.5 The SCAR cover was calculated as 1.10 and is above the regulatory requirement of 1.00.

8.6 The parent company provided a capital injection of N 1.5bn in 2020 to increase the Company's share capital. However, due to legal and regulatory delays this injection has not yet been converted to shareholders' capital and is recognised as a "Deposits for Shares" liability until the documentation is approved. We have placed reliance on the auditor's decision and report the solvency based on the auditor's calculation.

8.7 The following table illustrates the development of the SCAR between 2019 and 2022.

8.8 It has been observed that the SCAR cover been increasing slowly over the period 2019 to 2020 due to an increase in admissible assets, however, it is noted that the cover ratio has decreased to pre-2019 levels in 2021. The reduction in cover ratio in 2021 is due a change in calculation methodology. In the 2020 calculation, the “deposit for shares” was essentially treated as equity, while only a portion of the cash balance (which was less than the N 1.5 billion “Deposit for shares” balance) was disallowed. In 2021, however, the disallowance of a portion of the cash balances was removed, while the full “Deposit for shares” item was included as a liability. The improvement in the SCAR cover in 2022 reflects the profits experienced over the year.

8.9 It can be noted that the Company has sufficient capital available to cover the Net Written Premium capital requirement several times over. It can further be noted the Company has sufficient capital available to cover the minimum paid-up capital requirement of N3 billion as at 31 December 2022.

Capital Planning

8.10 The Company has previously stated that the strategic event for which additional capital would be required would relate to a scenario where the Solvency Margin would fall below the Regulatory limit. By nature of its business as a risk bearer as well as the need to comply with all regulatory requirements, the Company states that it will always maintain a buffer of at least 5% of regulatory capital as its solvency margin.

8.11 Since there is a potential recapitalisation exercise as proposed by the regulator (which has been held up due to legal action), it is proposed that contingency plans (that state how capital will be attained when needed) will need to be drafted if the legal action fails.

8.12 Management has confirmed that the Company does not have Preference shares.

Actuarial Opinion

8.13 Based on the auditor’s calculation of the regulatory capital cover ratio, the Company has sufficient admissible excess assets in accordance with the Insurance Act of Nigeria.

8.14 QED recommends developing a recapitalisation plan stating how capital would be raised if required, especially if the recapitalisation regulation succeeds.

9. Reinsurance Arrangements

Reinsurance Management Strategy

9.1 The Company's reinsurance strategy aims to provide security and an increased capacity to underwrite more businesses. The Company views it as increasingly crucial to adopt adequate and effective reinsurance arrangements in view of recent catastrophic events and rapid changes in the global business environment.

9.2 The Company has stated that, in order to achieve its reinsurance management strategy, the following actions will be performed:

- Determining the Company's tolerance level to risks;
- Identifying the level of cessions appropriate to the Company's tolerance for risk (apportioning percentages to different reinsurers on different classes);
- Setting out principles for the selection of reinsurance counterparties, including formal evaluation procedures to assess the diversification and creditworthiness of reinsurance counterparties;
- Controlling any concentration of reinsurance programs with reinsurance counterparties which would create large exposures or detract from diversification benefits;
- Frequently providing a summary of the processes for selecting, implementing, monitoring and reviewing reinsurance arrangements;
- Setting out how liquidity is managed to cover any timing mismatch between the payment of claims and the receipt of reinsurance recoveries; and,
- Managing concentration risks with respect to a particular industry, geographical region, product type, and/or single cedant in the Company's books.

9.3 As part of this FCR, the implementation of the above process was not assessed.

9.4 The remainder of this section details the Company's reinsurance management practices.

Placing Reinsurers

9.5 The Company considers only reinsurance counterparties with good track records and strong financial position. It is however not clear if the Company makes use of limits on credit ratings when selecting reinsurers.

9.6 The Company determines its reinsurance levels by:

- Considering its risk appetite and tolerance levels while applying sound risk management techniques in order to maximise profit;
- Reviewing levels within the insurance markets and its peers;
- Performing optimisation techniques;
- Performing claims analysis and calculating financial ratios; and,
- Considering the nature of the risk.

9.7 Liquidity in terms of timing mismatches between recoveries and payments are managed by using mutual debts or cash calls.

Reinsurance Programme

9.8 The information about the Company's current and future reinsurance programmes are contained within Appendix 3 and Appendix 4 of this report. It can be observed that the Company mostly uses surplus treaties with some quota share and excess of loss treaties. The Company has catastrophe treaties in place for its Fire and Marine Cargo business.

9.9 The following table illustrates the placement of reinsurance among participating reinsurance counterparties for their local and foreign exposures.

Reinsurer		**Average Share of Treaties (%)**	
	Credit Rating	**Local**	**Foreign**
Swiss Re Company Ltd	A+	0.0%	46.5%
Africa Reinsurance Corporation	A	55.0%	27.5%
Continental Reinsurance Plc	B+	25.0%	12.5%
Waica Reinsurance Corporation Plc	B+	15.0%	7.0%
Nigeria Reinsurance Corporation	BBB+	1.0%	1.0%
NCA Reinsurance	B	0.0%	2.5%
FBS Re	Unrated	4.0%	3.0%
TOTAL		**100.00%**	**100.00%**

Peak Exposures

9.10 Refer to Appendix 2 for a table providing details of the peak exposures in respect of each class of business underwritten by the Company as at 31 December 2022.

Non-traditional Reinsurance

9.11 As at 31 December 2022 the Company did not make use of any of the following non-traditional reinsurance arrangements:

- Alternative Risk Transfer treaties;
- Financial Reinsurance Arrangements;
- Whole Account Protections; and,
- 100% quota share arrangements.

Reinsurance Exposure Monitoring

9.12 The process followed by the Company for monitoring exposures to various reinsurers includes:

- Reviewing and analysing the financial accounts of reinsurance counterparties; and,
- Periodic reviews of the Claims Paid and Outstanding reports to ensure that claims are reported to the appropriate reinsurer and that necessary reinsurance claims recoveries are being promptly made.

Actuarial Opinion

9.13 *It is recommended that the Company closely monitor the pricing and terms of its reinsurance in future. This will aid in ensuring the cover is back-to-back and that premiums ceded do not increase too significantly while commissions do not reduce.*

9.14 *The Company can consider performing a reinsurance analysis to ensure each of the items in the above tables are allocated correctly. This will aid in understanding the business and ensure products are performing in line with the Company's understanding.*

9.15 *QED did not assess to what extent the Company implemented its Reinsurance Management Strategy.*

10. Risk Management

Background

10.1 This section provides a high-level description of the Company's risk management framework, including the risk management process. This section should be read with reference to the Company's Enterprise Risk Management ("ERM") Framework.

10.2 Management has confirmed that there were no written reviews on the ERM Framework in 2022, however there were some risk developments over the year.

10.3 It should be noted that the FCR does not replace the need to perform an independent review of the ERM framework. Some areas for further development have however been identified and listed in this section but does not necessarily include all areas requiring further development.

10.4 NAICOM has developed minimum standards for risk management frameworks within insurance companies in order to provide stakeholders with assurance that the risks they are exposed to are adequately managed. As part of the risk management guidelines all insurers are required to:

- Establish a risk management framework including a risk management strategy and relevant risk management policies;
- Implement risk controls;
- Articulate a business plan that is approved by the Board;
- Develop a Risk Governance Framework;
- Appoint a Chief Risk Officer ("CRO");
- Establish a Risk Committee;
- Develop Risk Registers; and,
- Establish independent review processes.

10.5 The guidelines require that the risk management framework address all material risks including, Credit Risk, Operational Risk, Liquidity Risk, Reinsurance Risk, Underwriting Risk, Reserving Risk, Claims Management Risk, Reputational Risk, Group Risk and Legal Risk.

Risk Management Framework

10.6 The Company's ERM Framework aims to:

- Provide good guidelines for identifying, assessing, mitigating and monitoring all material risks in the Company's business;
- Set out an appropriate risk governance structure, assign authority and define the roles and responsibilities of the key stakeholders involved in the risk oversight;
- Ensure that the Company's risk appetite is properly aligned with its risk management strategy;
- Meet regulatory requirements for appropriate enterprise risk management framework in the operations of insurance companies in Nigeria;

- Maximising business opportunities by deploying resources efficiently and effectively in line with its risk management strategies;
- Achieve sustainability and growth in the Company's business over a long period of time – in its quest to become more competitive in the Nigerian insurance space; and,
- Improve the Company's ability to deploy capital in the most efficient manner, matching risk and return in line with the defined risk appetite.

Risk Strategy

10.7 The Risk Strategy refers to the Company's strategy with regards to the types of business and risks it is willing to participate in and provides guidance on the approach to measuring and managing risk and return, which is consistent with the overall business strategy.

10.8 NAICOM's guidance on risk management requires that all insurers within the Nigerian insurance market develop a Risk Strategy.

10.9 It was observed that in performing the FCR process that the Company still needs to develop a Risk Strategy.

Risk Management Strategy

10.10 The Risk Management Strategy refers to the Company's strategy with regards to risk management in the Company. The strategy states that the risk management function should establish and sustain a robust ERM framework that is technology driven and embedded in all processes. This includes monitoring daily positions, reducing volatility in products, managing political risks and ensuring consistency in the risk management process.

Risk Appetite Framework

10.11 The Company has a risk appetite statement that articulates its appetite for regulatory capital, economic capital, liquidity and credit risk metrics. In addition, operational risk, risk acceptance, reputational risk and fraud risk metrics are also articulated by using a combination of quantitative and qualitative statements. QED did not assess as part of this FCR the extent to which the risk appetite process is implemented in the organisation.

Risk Governance

10.12 The Company has identified a few of the major risk areas and is addressed in the ERM Framework. However, the insurance-specific risks namely, Reinsurance Risk, Underwriting Risk, Reserving Risk and Claims Management Risk, prescribed by the regulatory guidelines is not currently being addressed in the ERM framework. In addition, Group Risk and Legal Risk required by the regulatory guidelines are not addressed in the framework.

10.13 The following table sets out the roles and responsibilities of the Company Enterprise Risk Management Function. Management Risk Committee and Chief Risk Officer as stated in the ERM framework:

Company Enterprise Risk Management Function	Management Risk Committee	Chief Risk Officer
The Company Enterprise Risk Management function is responsible for: • Championing the implementation of the Enterprise-wide Risk Management framework. • Developing risk policies, principles, process, and reporting standards that define the Company's risk strategy and appetite in line with the Company's overall business objectives. • Ensure that controls, skills, and systems are in place to enable compliance with the Company's policies and standards. • Facilitating the identification, measurement, assessment, monitoring, and controlling the level of risks in the Company. • Collecting, processing, verifying, monitoring and distribution of risk information across the Company and other material risk issues to the EXCO, and the Board. • Monitoring compliance with the Company's risk policies and limits. • Providing the Executive Committee with practical, cost-effective recommendations for mitigating risks. • Promoting risk awareness and provide education on risk management. • Developing a comprehensive training plan on an annual basis.	The Management Risk Committee is responsible for: • Periodically recommending specific measures relating to risk appetite to the Board (or its committees) for approval. • Implementation of strategies, processes and procedures set by the Board of directors. • Implementation of internal control systems. • setting risk management priorities. • Determining the frequency for conducting risk assessment activities.	The Chief Risk Officer is responsible for: • Ownership of the Risk Management Framework. • Implementing the risk management framework across the Company. • Ensuring the continued relevance of the Framework and evaluating and monitoring the Framework on continuous basis. • Distributing the risk appetite by business unit. • Ratification of the Company's business plan and strategy to ensure adequacy of the risks identified and the mitigating factors. • Providing recommendations on resource allocation, investment decisions and reward/sanctions system in the Company.

Three Lines of Defence Model

10.14 The Company has adopted the three lines of defence model for its risk governance framework, specifying roles and responsibilities for each line of defence and ensuring independence of the parties involved.

10.15 The model was implemented to enhance the Company's systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

10.16 The following table provides a brief summary of the model:

Line of Defence	Parties Responsible	Risk Management Function
First line of Defence	KBL Board Executive Management Committee Business Units	• Concerned with risk ownership and risk management. • Identifying and assessing the risks within the Company. • Responsible for ensuring that appropriate controls are established and maintained within their respective areas. • Reporting and escalating material risks and implementing remedial actions.
Second line of Defence	Board ERM Committee Management Risk Committee CRO/Enterprise Risk Management Function	• Providing independent risk oversight, coordination, facilitation, monitoring and challenge of the effectiveness and integrity of the risk management processes. • Providing training and counselling to business units. • Reporting on risk management activities to the Board and Executive management. • Assist the first line with implementation of the Company's risk management framework.
Third line of Defence	Audit Committee Internal Auditors External Auditors	• Assessing and providing independent assurance on the adequacy, appropriateness, effectiveness and integrity of the Company's overall risk management framework, policy, and actions. • Monitoring and compliance with risk policies and procedures.

Risk Management Process

Risk Identification

10.17 The risk identification process is concerned with identifying those risks which could have a material adverse impact on the financial condition, capital position, reputation and sustainability of the Company. The Risk Register is also populated and updated as part of the risk identification process.

10.18 The various methods or techniques that are utilised as part of the risk identification process includes Workshops and Brainstorming sessions, One-on-one interactions with various parties within the Company, Questionnaires and Surveys, Risk Control and Self-Assessment and Data Analysis.

Risk Assessment

10.19 As a next step, all risks that are identified during the risk identification process are assessed by the Risk Management Function. The assessment is conducted through Desktop-based assessments, facilitated workshops, structured interviews and questionnaires. The frequency of the assessment is determined by the Management Risk Committee.

10.20 As part of the assessment process all risks are assigned a probability of occurring and the expected impact on the Company if the risk should materialise. A residual risk rating is calculated by taking the effectiveness of the respective risk controls into account.

10.21 The assessment of the various risks is used as an input into deciding how that risk needs to be managed. A qualitative assessment method is adopted that assigns “Rare”, “Unlikely”, “Possible”, “Likely and “Almost Certain” to the likelihood of occurrence. Similarly, the Impact is assigned a rating of “Insignificant”, “Minor”, “Moderate”, “Major” and “Catastrophic”.

10.22 A comprehensive risk taxonomy and common risk language is a core component of an effective ERM framework. This has been developed by the Company.

Risk Management

10.23 Following the assessment of the risks within the Company, the appropriate risk management techniques are identified for each risk. As part of the process, it is ensured that those risks that are retained are managed to be within the Company’s risk appetite and available resources.

10.24 Risk management decisions include Risk Termination; Risk Avoidance and Risk Transfer/ Sharing.

10.25 The 2019 Financial Statements specify how Financial Risk, Market Risk, Interest Rate Risk, Credit Risk, Insurance Risk and Liquidity Risk is managed within the Company. According to the Financial Statements, the main risk types are managed as follows:

Risk	Risk Management Process
Financial Risk	• The Company monitors and manages the financial risks relating to its operations through internal risk reports which analyses exposures by degree and magnitude of risks. • These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. In addition, does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.
Market Risk	• Policies and procedures have been established to manage its market risk.
Interest Rate Risk	• The Company undertakes certain transactions denominated in foreign currencies and is therefore exposed to exchange rate fluctuations. • The Company has minimal exposure to currency risk as the Company's financial assets are primarily matched to the same currencies as its insurance and investment contract liabilities.
Credit Risk	• The key areas of exposure to credit risk originate from its exposure to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries. • The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of loss from defaults. • The Company only transacts with entities that are rated the equivalent to investment grade and above. Exposures to counterparties are also continually monitored.
Insurance Risk	• The Company accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. • The Company manages risks via its underwriting and reinsurance strategy within an overall risk management framework.

Risk Monitoring

10.26 The Company monitors its risks to ensure the Company's risk priorities and risk treatment plans remain relevant. Actual progress against the risk treatment plan is monitored and is used as a performance measure of the plan.

Risk Reporting

10.27 Reporting enables the decision-makers to evaluate potential risks in a timely manner. Progress reports and benchmarks against previous reports and leading industry practices are reported. The Company is yet to develop and implement the calculation of KRI's and an escalation process for reporting changes. Risk management will be split by the Company as a whole, by business unit, risk segment, process, geography, products or service company.

Risk Profile

10.28 This subsection discusses the risks that may arise that could affect the financial position of the Company.

10.29 The Company currently relies on favourable investment returns to ensure operating profitability. With lower-than-expected investment income generated in 2022, the Company is exposed to market risk since a continued downturn in economic conditions could result in lower investment returns in the future and potentially making operational losses.

Actuarial Opinion

10.30 NAICOM's guidance on risk management requires that all insurers within the Nigerian insurance market develop a risk strategy. QED recommends that the Company develop and implement a Risk Strategy during future FCR cycles.

10.31 The above guidance also requires that insurers perform an independent review of their risk management framework. QED recommends that frequency and scope of the review be determined for independent review since the ERM Framework only requires independent review at Management's discretion and not an explicit timeframe. It is recommended that the Company considers performing an independent review in future FCR cycles.

Appendix 1: Reliance and Limitations

A1.1 The valuation calculations for the Company were performed by the appointed actuaries and included in Section 5. All other financial information uses the reserves determined by the Company and significant reliance was placed on these results.

A1.2 The accuracy of any values quoted in this FCR, and the conclusions reached must be limited to the realisation of the assumptions used, and the accuracy of the data and information to which these assumptions were applied.

A1.3 In conducting the valuation, we have not taken events after 31 December 2022 into account in stating the position as at 31 December 2022. The results have been based on the draft financial statements for the valuation period, as provided by Management. In particular, we are relying on the Company's Auditors to certify the existence and the value of the assets, including the disallowed assets, and assets used in the capital requirement calculation unless otherwise stated.

A1.4 The responsibility for maintaining accurate data files in respect of the non-life business lies with Management. The data for the valuation review was extracted from schedules and computer files provided by Management for purposes of the valuation. More detail on the valuation results can be found in in the Valuation Report as at 31 December 2022.

A1.5 This report and the estimates of value and opinions contained herein are subject to (but not exclusively to) the following reliances and limitations.

Reliances

A1.6 In performing our review and developing this report we have relied extensively on a substantial body of information supplied by the Management and Staff of the Company. This includes both published and unpublished information.

A1.7 Reliance is placed on, but not limited to, the accuracy of the information listed in Appendix 5 of this report.

Limitations

A1.8 The accuracy of any values quoted in this report and the conclusions reached must be limited to the realisation of the assumptions used, and the accuracy of the data and information to which these assumptions were applied.

A1.9 Our specific assumptions and other reliances and limitations are documented in the report and supporting appendices. These sections and appendices are an integral part of this report.

A1.10 As external actuaries, we are not part of the Company's management body; consequently, our exposure to the day-to-day activities of the Company is limited. We corresponded with Management to ensure that all material and pertinent actuarial issues are addressed. While we have undertaken to ensure that our report and analysis are a reliable reflection of the Company's true financial health, it is, nonetheless more likely for an external party to be unaware of material developments pertaining to the Company that may be pertinent to the analysis and reporting undertaken. We have acted as the Company's external actuary for an extended period, so we are aware of the Company's strategy, business model, risk governance system, and so forth.

A1.11 This report assumes knowledge of the business of the Company and of general actuarial and risk management issues. The report is addressed to the Board of the Company and its advisers. Certain information in this report is confidential and commercially sensitive. Our approval must be obtained before this report is shown to any other party (with the exception of the Regulator). It should be read as a whole as sections taken on their own could be misleading.

Appendix 2: Peak Exposures

A2.1 The table below shows the top 20 risks with highest sum insured as at 31 December 2022:

S/N	POLICY NUMBER	SUM INSURED (₦)	INSURED	CLASS	START DATE	END DATE
1	HOFFFSP000106/KBL	38,819,806,000.00	DEEJONES PETROLEUM & GAS LTD	FIRE AND SPECIAL PERILS	28-Sep-22	26-Jan-23
2	LAVIFSP009841KBL	12,234,614,666.06	KEYSTONE BANK LIMITED	FIRE AND SPECIAL PERILS	01-Jan-22	01-Jan-23
3	HOFFFSP002037/KBL	10,642,000,000.00	INNOSON TECHNICAL & INDUSTRIAL CO. LTD	FIRE AND SPECIAL PERILS	29-Dec-21	21-Dec-22
4	NCAJFSP007392KBL	9,526,142,986.83	CENTRAL BANK OF NIGERIA.	FSP	01-Jan-22	01-Jan-23
5	HOFFMO001423/KBL/RI	9,332,861,025.00	HERITAGE BANK LIMITED	MONEY	11-Mar-22	31-Dec-22
6	HOFFMO001026/KBL	8,796,560,000.00	FIDELITY BANK PLC	MONEY	19-Jan-22	18-Jan-23
7	HOFFPAR000643/KBL	8,677,300,000.00	NEWAY POWER TECHNOLOGY COMPANY LIMITED	PLANT ALL RISKS	18-Nov-22	17-Nov-23
8	HOFFPAR000596/KBL	8,120,279,227.10	LIBROD ENERGY SERVICES	PLANT ALL RISKS	20-Aug-22	19-Aug-23
9	BAGAPAR000425/KBL	8,016,896,500.00	A G VISION CONSTRUCTION NIGERIA LIMITED	PLANT ALL RISKS	03-Nov-22	02-Feb-23
10	HOFFPAR000363/KBL	7,797,903,979.89	TINCAN ISLAND CONTAINER TERMINAL LTD	PLANT ALL RISKS	01-Jan-22	31-Dec-22
11	HOFFFSP000982/KBL	7,624,216,156.66	PZ CUSSONS NIG. PLC & SUBSIDIARIES CO.	FSP	01-Jun-22	31-May-23
12	HOFFFSP000178/KBL	5,994,125,575.00	BUA CEMENT PLC (OBU/EDO)	FSP	10-Nov-22	14-Jan-23
13	LAIKFSP000338/KBL	5,812,333,000.00	CHICASON GROUP	FSP	17-Nov-22	17-Nov-23
14	HOFFFSP001203/KBL	5,600,000,000.00	PETROSTAR NIGERIA LTD	FSP	03-Mar-22	23-Feb-23
15	NCKNPAR000590/KBL	4,739,028,000.00	NB FERTILIZER AND AGRO CHEMICAL NIGERIA LIMITED	PLANT ALL RISKS	03-Aug-22	02-Aug-23
16	LAIKFSP000712/KBL	4,537,740,000.00	AFRO-ASIA AUTOMOBILE AND PLASTICS LTD	FSP	29-Mar-22	16-Mar-23
17	HOFFFSP002854/KBL	4,465,500,000.00	NEWAY POWER TECH. COMPANY LIMITED	FIRE AND SPECIAL PERILS	18-Nov-22	17-Nov-23
18	NCKNFSP001376/KBL	4,184,462,520.00	MALAM ALU AGRO ALLIED COMPANY LIMITED	FSP	31-Jan-22	31-Jan-23
19	NCKNFSP002743/KBL	4,130,000,000.00	SALBAS OIL AND GAS NIGERIA LIMITED	FSP	17-Oct-22	17-Oct-23
20	NCKNFSP002846/KBL	3,967,057,500.00	SALBAS OIL AND GAS NIG. LTD	FSP	18-Nov-22	18-Nov-23

Appendix 3: Summary of the 2022 Reinsurance Programme

Class of Business	Type of Treaty	Net Retention N'000	Lines	Treaty Limit N'000	Gross Capacity	Commission
PROPORTIONAL						
Fire/Con Loss	Surplus	150 000 000	20	3 000 000 000	3 150 000 000	30,00%
Marine Cargo	Surplus	100 000 000	15	1 500 000 000	1 600 000 000	30,00%
Marine Hull	Surplus	20 000 000	15	300 000 000	320 000 000	25,00%
Engineering	Surplus	30 000 000	25	750 000 000	780 000 000	30,00%
Bond	Quota Share	6,000,000.00 max.	30/70	14,000,000.00 max.	20 000 000	25,00%
GENERAL ACCIDENT						
Business Premises	Surplus	25 000 000	39	975 000 000	1 000 000 000	32,50%
Private Premises	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
MONEY INSURANCE						
Cash-In-Transit	Surplus	25 000 000	39	975 000 000	1 000 000 000	32,50%
Cash-In-Safe	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%
Goods-In-Transit	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
All Risks	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
FIDELITY GUARANTEE						
Per Person	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
Per Firm	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%
PERSONAL ACCIDENT						
Any One Person	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
Known Accumulation	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%

Class of Business	Type of Treaty	Net Retention N'000	Lines	Treaty Limit N'000	Gross Capacity	Commission
PROFESSIONAL INDEMNITY						
Per Person	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
Per Firm	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%
Director's and Officers Liability	Surplus	15 000 000	15	225 000 000	240 000 000	32,50%
NON PROPORTIONAL EXCESS OF LOSS						
Fire/Con Loss & Allied Perils:	Catastrophe	150 000 000	-	300 000 000	450 000 000	0,00%
Motor/Liabilities	Working	40 000 000	-	5 000 000	45 000 000	0,00%
Marine Cargo	Catastrophe	100 000 000	-	300 000 000	400 000 000	0,00%

Appendix 4: Summary of the 2023 Reinsurance Programme

Class of Business	Type of Treaty	Net Retention N'000	Lines	Treaty Limit N'000	Gross Capacity	Commission
PROPORTIONAL						
Fire/Con Loss	Surplus	250 000 000	20	5 000 000 000	5 250 000 000	30,00%
Marine Cargo	Surplus	150 000 000	15	2 250 000 000	2 400 000 000	31,00%
Marine Hull	Surplus	25 000 000	15	375 000 000	400 000 000	25,00%
Engineering	Surplus	50 000 000	25	1 250 000 000	1 300 000 000	30,00%
Bond	Quota Share	6,000,000.00 max.	30/70	14,000,000.00 max.	20 000 000	25,00%
GENERAL ACCIDENT						
Business Premises	Surplus	25 000 000	39	975 000 000	1 000 000 000	32,50%
Private Premises	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
MONEY INSURANCE						
Cash-In-Transit	Surplus	25 000 000	39	975 000 000	1 000 000 000	32,50%
Cash-In-Safe	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%
Goods-In-Transit	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
All Risks	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
FIDELITY GUARANTEE						
Per Person	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
Per Firm	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%

Class of Business	Type of Treaty	Net Retention N'000	Lines	Treaty Limit N'000	Gross Capacity	Commission
PERSONAL ACCIDENT						
Any One Person	Surplus	15 000 000	45	675 000 000	690 000 000	32,50%
Known Accumulation	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
PROFESSIONAL INDEMNITY						
Per Person	Surplus	20 000 000	45	900 000 000	920 000 000	32,50%
Per Firm	Surplus	25 000 000	35	875 000 000	900 000 000	32,50%
NON PROPORTIONAL EXCESS OF LOSS						
Fire/Con Loss & Allied Perils:	Catastrophe	250 000 000	-	500 000 000	750 000 000	0,00%
Motor/Liabilities	Working	40 000 000	-	5 000 000	45 000 000	0,00%
Marine Cargo	Catastrophe	150 000 000	-	400 000 000	550 000 000	0,00%

Appendix 5: Information Requirements

A5.1 The following list includes the information that was provided by the Company in order to complete the FCR:

- Audited financial statements for financial years 2018 to 2021;
- Management accounts for 2022;
- 5-year business plan for 2021 to 2025;
- Budget statements for 2023;
- Company structure;
- Enterprise Risk Management Framework;
- Risk appetite statements;
- Risk Taxonomy and Risk Dictionary;
- Insurance Risk Register; and
- Peak Exposures for 2023;

A5.2 It was assumed that the data provided by the Company was correct, and a full audit of the data provided was not conducted.

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