Deloitte.

Enterprise Life Assurance Company (Nigeria) Limited

Financial Condition Report

31 December 2023

MAKING AN IMPACT THAT MATTERS since 1845

Contents

1. Executive Summary

This report is prepared to assist Enterprise Life Assurance (“Enterprise Life” or “Company”) provide an overview of the financial condition of the business as at 31 December 2023.

Deloitte has been appointed by the management of Enterprise Life to produce a Financial Condition Report (“FCR”) of their life assurance business as at 31 December 2023.

A Financial Condition Report is a report designed to provide the Board of Directors and other parties insight into the actuarial function’s view of the business. The FCR is prepared in accordance with the requirements of prudential guidelines for insurance Institutions in Nigeria.

The guidelines stipulate that “An insurer shall on an annual basis appoint an independent Actuary who shall conduct and submit a Financial Condition Report with details of inter alia; measures governing the business operations, corporate governance, risk management, solvency and financial performance of an insurer.”

This report has been prepared in compliance with the guidelines.

We understand this report will form part of the Company’s submissions to NAICOM for this reporting period (2023 financial year).

<u>Business and Performance</u>

Over the period 2022 to 2023 financial years, Enterprise Life business has experienced or achieved:

- a 70% growth in gross premiums received from N407m to N1,370m, with around 39% of total premiums coming from its Group Life business.
- an improvement in its combined ratio (as a percentage of premium received) on its insurance contracts from 178% to 153% driven by a reduction in its acquisition costs and management expenses.
- a profit before tax of – N1,833m over the year ending 31 December 2023, a deterioration of N416m compared to the profit before tax of - N1,417m in the previous year on restated IFRS 17 bases. This increased loss was driven by the increase in insurance service expenses.
- The recoveries from reinsurance have been very low compared to the premiums ceded. This calls for reinsurance optimization. In addition, as Enterprise Life’s books continues to increase, the experience of a bigger population may differ from the current experience. Hence, it is advisable that the reinsurance experience is tracked regularly, and reinsurance arrangement should be optimized.
- a decrease in equity by 35% from N5,373m as at 31 December 2022 to N3,490m at 31 December 2023.
- The solvency margin decreased from 170% as at 31 December 2022 to 74% as at 31 December 2023. This is above the statutory requirement of 50%. Enterprise Life should continue to monitor its solvency margin.

<u>Governance Structure</u>

The Company maintains an efficient and sound organizational structure commensurate with its operational requirements and with a view to governing and managing its business efficiently and effectively. The governance structure is based on well-defined lines of responsibility (‘three lines of defense’) , covering Front-line functions, Risk, Compliance, and Internal Audit functions which are governed by the Board of Directors providing independent oversight and challenging the decisions of management.

The executive management team consists of experienced insurance industry professionals with extensive market experience and histories of success in their respective specialist areas.

Risk Profile

The Company's risk management system is proportionate to the nature, scale, and complexity of the risks to which the Company is exposed. The system includes processes for the identification, assessment, and reporting of all categories of risk. The risk management system includes the Solvency Self-Assessment, which assists the Board in determining whether there is adequate Available Capital to cover the Company's risks over its business planning horizon.

The Company's business activities give rise to market, credit, counterparty, insurance, and operational risks. The Company has adopted a robust process in managing its liquidity internally by continuously monitoring the asset and liability matching.

Valuation of Asset and Liabilities

The Company's current balance sheet comprises assets held in investment securities such as federal government bonds, money-market funds, cash deposits, and corporate bonds. All assets and liabilities have been valued in accordance with the applicable financial reporting framework. The Insurance contract liabilities have been calculated in accordance with the requirements of the IFRS 17 Standard, considering Company's IFRS 17 approved policy and methodology papers.

Capital Management

The structure of the Company's available capital comprises share capital and retained earnings. The capital management policy focuses on ensuring compliance with regulatory capital requirements and maintaining appropriate capital ratios to protect the security of its stakeholders, including policyholders while maintaining shareholder value.

The review of the capital position shows that the company is solvent on both the regulatory and economic capital requirements.

Conclusions and Recommendations

- Our view is that with regards to the business on its books as at the review date – 31 December 2023, Enterprise Life Assurance is likely to meet its liabilities as and when they arise, and hence, is in a good financial condition. This is based on the results of our analysis summarized below.
- Overall, this report demonstrates that the Company remains adequately capitalized with a strong and conservative investment portfolio to support current and projected liabilities while maintaining compliance with regulatory requirements.
- The level of excess capital both on a statutory basis and economic capital basis implies the company can write more business and take more calculated risks in search of enhanced return.
- The Company's asset mix appears to be broadly appropriate given the term, duration, and nature of the liabilities. As is current practice, the Investment policy should, amongst other decision factors, be derived from the Asset-liability matching (ALM) exercise for each line of business (including shareholder assets).

2. Introduction

2.1. Purpose

The primary purpose of this report is to present the results of our analysis of the financial condition of the Enterprise Life Assurance (Nigeria) Limited as at 31 December 2023.

Deloitte has been appointed by the management of Enterprise Life to produce a Financial Condition Report ("FCR") of their life assurance business as at 31 December 2023.

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This report has been prepared in compliance with the guidelines.

This report has been prepared solely for the purpose of providing an overview of the current financial condition of Enterprise Life. We understand that this report will form part of Enterprise Life's submission to NAICOM. This report should not be distributed to any other parties other than NAICOM and is not suitable for any other purpose other than that stated above.

2.2. Reliance and Limitations

Management is ultimately solely responsible for preparing and submitting the Financial Condition Report. Our analyses do not include or constitute either a review or audit, and so we do not express any assurance on the financial condition, sustainability or the ability for Enterprise Life to continue as an ongoing concern.

We have assumed that the data provided was correct and we did not perform a full audit of the data and information provided. However, our analyses and conclusions must be limited to the accuracy of data and information and the realization of the assumptions used. In preparing this report, we have relied on information and data supplied by the management of Enterprise Life. We have reviewed these for reasonableness, consistency, and completeness, as well as checks that we deemed necessary to ascertain the quality and accuracy of the data and information provided.

This report is confidential. It should not be provided in whole or in part to any party apart from the directors and management of Enterprise Life, its auditors or advisors, and the Commissioner of Insurance, without Deloitte's prior written consent. Particularly, we do not accept any liability for anyone who obtains this report or learns of its contents, nor do we assume any liability for use for purposes not specifically stated in the report.

2.3. Data and Information Supplied

We were supplied with the following documents and information for this report by the management of Enterprise Life.

- Audited financial statements as at 31 December 2023.
- IFRS 17 financial statements as at 31 December 2023 and 31 December 2022
- Insurance liability valuation as at 31 December 2023 prepared by Deloitte.
- Summary of actual transactional data and cashflows in the reporting period.
- Risk Management Policy and Framework:
    - Risk management framework.
    - Investment policy.
    - Reinsurance policy.
    - Capital management framework.
    - Asset and liability management framework.

3. Business Overview

3.1. Legal Structure and Ownership Structure

Enterprise Life is a privately owned Life Insurance Company operating in the Nigerian market. It is 99.9% owned by Enterprise Group Plc. Enterprise Life Assurance Company (Nigeria) Limited is a member of the Enterprise Group Plc, headquartered in Ghana. Enterprise Group Plc takes its roots from Enterprise Insurance Company Ltd, the oldest Insurance Company in Ghana, established in 1924. Enterprise Life is a subsidiary of Enterprise Group Plc, which is a financial services company comprising the following operating companies; Enterprise Insurance Company, Enterprise Life Assurance Company, Enterprise Trustees, Enterprise Properties, Enterprise Funeral Services Ghana, Enterprise Life Ghana & Gambia, recently added Acacia Health to the Group.

Enterprise Life was officially launched on 1st of March 2021. Enterprise Life Assurance Company (Nigeria) Limited operates as a specialist Life Insurance Company, providing affordable and innovative, life assurance products designed to meet the needs of our policyholders and public.

The table below shows the shareholding of the company as at 31 December 2023:

Shareholder	Shareholding (NGN'000)	% Shareholding
Enterprise Group Plc	7,992,000	99.9%
Daniel Larbi- Tieku	8,000	0.1%

Over the reporting period, there were no changes in the holdings above.

The Board of Directors is made up of five Non-Executive Directors of which one is the chairman and two Executive Directors. The Board has three sub-committees made up Finance, Investment and General-Purpose, Audit and Compliance, Enterprise Risk.

3.2. Activities of the Company

The company's initial go to market strategy was to focus on the retail segment. However, in 2022 the company ventured into the corporate business segment. Its major distribution channel is the use of well-trained life planners for the retail business and brokers for the corporate business segment.

Enterprise Life distributes both risks and savings life insurance products in the Nigeria insurance market to address the two major needs of providing for dependents and of ensuring that savings are accumulated to meet major expenditure. Enterprise Life's business is made up of the following the lines of business; Protection, Investment-Linked; Endowment and Group Life. These products portfolio include the Funeral Support Plan, Education Plan; Lifetime needs Plan, the Income Protection Plan among other variety of life products.

There has been no change in the lines of business that Enterprise Life underwrites in 2023 financial year compared to 2022 financial year.

4. Operating Environment

In 2023, Nigeria's economy demonstrated resilience amidst persistent challenges, including rising costs, fuel subsidy removal, and currency devaluation.

The different reforms and initiatives by the new government administration impacted the business environment at large. Insurance penetration in Nigeria remained relatively low compared to other emerging insurance markets. Nevertheless, the concerted efforts to raise awareness about the importance of insurance coverage gained momentum.

The market exhibited considerable growth potential driven by regulatory enhancements, technology advancement, and initiatives aimed at increasing product innovation.

Outlook

Several factors are expected to drive continued growth and development of the insurance sector. The ongoing efforts by the present government administration to stabilize and grow the Nigerian economy will likely create a more favourable environment for the insurance industry. Growth in the economy is likely to increase disposable income and enhance the capacity of businesses and individuals to invest in insurance products.

NAICOM's continued focus on regulatory reforms and enforcement is likely to further strengthen the industry's foundation, enhance market confidence, and improve governance standards.

Overall, the Nigerian insurance market is poised for continued growth and development. The combination of regulatory support, technological advancements,

5. Significant Development Since the Previous Financial Year-End

The developments since the previous financial year-end that could have an impact on the risk profile of the Company are summarized below:

- Changes in the business environment:
  - Nigeria’s Gross Domestic Product (GDP) grew by 3.46% (year-on-year) in real terms in the fourth quarter of 2023. This growth rate is lower than the 3.52% recorded in the fourth quarter of 2022 and higher than the third quarter of 2023 growth of 2.54%. The performance of the GDP in the fourth quarter of 2023 was driven mainly by the Services sector, which recorded a growth of 3.98% and contributed 56.55% to the aggregate GDP.
  - Inflation surged to 28.92% in December 2023 from 21.8% in January, led by spikes in food (32.8%), Naira devaluation, and transportation (27%) costs.
  - With the parallel exchange rate market reaching a peak of N1,200/$. Nigeria's foreign reserves closed out 2023 at $32.80bn, losing about $4.2 billion during the year compared to $37.08 billion at the start of the year from data available at the Central Bank of Nigeria (CBN).
  - CBN took several actions to manage price stability, such as increasing the Monetary Policy Rate (MPR) to 18.75%, removing the cap on SDF, sustaining CRR debits at 32.5%, and issuing ₦6.66 trillion in OMO bills.
  - To address forex (FX) supply, the CBN collapsed all FX transaction windows into the I & E window, reintroduced BDCs, established a committee to monitor FX liquidity, and gradually cleared FX backlog obligations.
- Changes in the regulatory environment:
  - The Nigerian Insurance regulator (NAICOM) issued an update on regulatory procedures, mandating that all regulatory returns—covering Monthly, Quarterly, Bi-annual, Annual, and incident reports—are to be submitted exclusively through a now-developed NAICOM portal. Consequently, the previous practice of submitting reports to the regulator via email will no longer be applicable.
  - NAICOM implemented tenure limits for Executive Directors (EDs) of Insurance and Reinsurance Companies effective January 1, 2023. This regulation sparked structural changes within organizations in the industry. According to the regulation, the tenure of CEOs and EDs of Insurance and Reinsurance businesses is restricted to a maximum of ten years. However, if an ED transitions into the role of CEO within the same company, the cumulative tenure can extend to fifteen years.
  - International Financial Reporting Standard (IFRS) 17 became effective for financial reporting starting 1 January 2023. Therefore, the liabilities for the Company as at 31 December 2023 are calculated on IFRS 17 basis.

- Company-specific developments:
  - The company has implemented and continues to implement a number of reforms driven by its strategic aspirations (no material changes were identified).
  - There has been no change in the lines of business that Enterprise Life underwrites in 2023 financial year compared to 2022 financial year.

6. Valuation of Assets and Liabilities

6.1. Assets Overview

Enterprise Life's investments are held in Nigerian government bonds, corporate bonds, and cash & cash equivalents. There are currently no equities in the actual asset mix. The percentage of funds held in Government and Corporate securities (FGN and Corporate Bonds) are back in line with the target mix compared to prior year . The money market instruments are currently out of line because excess money is channelled into this fund because of lack of equities. There is currently no allowance to hold cash in the set target but actual cash holding of less than 1% is acceptable to the fund.

The distribution of the actual assets held for policyholders is shown in the table below. Most assets are held in fixed income securities and equities.

Asset Description	Target Asset Mix	31 Dec 2023 Ratio	31 Dec 2022 Ratio
FGN Bonds and Corporate Bonds	50.00%	45.87%	78.89%
Listed Equities	15.00%	0.00%	0.00%
Money Market	35.00%	54.08%	20.95%
Cash	0.00%	0.05%	0.17%
Totals	**100.00%**	**100.00%**	**100.00%**

6.2. Assets Valuation Basis

The assets are taken at their full balance sheet value. This is consistent with the basis used for the valuation of the liabilities.

6.3. Liabilities Overview

Enterprise Life's liabilities comprise technical provisions (insurance Contract liabilities) and non-technical provisions (other liabilities). The technical provision balances make up a significant proportion of the Company's liabilities at the reporting date.

The IFRS 17 insurance contracts liability breakdown is shown in the table below as at 31 December 2023 and 31 December 2022.

Individual Life Products	Measurement model	31 Dec 2023			31 Dec 2022		
		BEL ('000)	RA ('000)	CSM ('000)	BEL ('000)	RA ('000)	CSM ('000)
Funeral Support Plan	GMM	(63,874)	24,192	173,034	(38,437)	20,604	93,357
Life-Time Needs	VFA	97,449	28,515	66,355	23,350	17,891	38,281
EduCare	VFA	262,213	16,185	59,172	76,353	12,089	30,849
Income Protection Plan	GMM	(5,640)	3,809	15,501	(24,219)	1,678	29,955
Reinsurance	GMM	0	0	0	0	0	0
Total		**290,147**	**72,701**	**314,062**	**37,047**	**52,261**	**192,442**

Group Life (Amount in N'000)	31 Dec 2023	31 Dec 2022	31 Dec 2021
Liabilities for Remaining Coverage (LRC)			
Excluding Loss Component	87,451	31,694	733
Loss Component	40,860	54,749	1,267
Total LRC	**128,310**	**86,443**	**2,000**
Liability for Incurred Claims (LIC)			
Estimated PV of FCF	71,230	15,261	190
Risk Adjustment	7,123	1,526	19
Total LIC	**78,353**	**16,788**	**209**
Insurance Contract Liabilities	**206,663**	**103,231**	**2,209**
Asset for Remaining Coverage (LRC)			
Excluding Loss Component	2,828	1,267	0
Loss Component	0	0	0
Total LRC	**2,828**	**1,267**	**0**
Asset for Incurred Claims (LIC)			
Estimated PV of FCF	740	318	0
Risk Adjustment	74	32	0
Total LIC	**814**	**350**	**0**
Reinsurance Contract Assets	**3,642**	**1,617**	**0**
Net Group Life Liabilities	**203,021**	**101,614**	**2,209**

6.4. Liabilities Methodology and Assumptions

Insurance Contract Liabilities

The valuation of the insurance contract liabilities is based on the requirements of IFRS 17 Standard.

The IFRS 17 policyholder liabilities are made up of the following:

- Liability for Remaining Coverage (LRC) relating to future service, comprising of:
  - Best Estimate Liabilities ("BEL") or present value of future cashflows.
  - Risk Adjustment ("RA") for non-financial risks; and
  - Contractual Service Margin ("CSM") for groups of contracts measured using the General Measurement Model ("GMM") and Variable Fee Approach (''VFA'').
- Liability for Incurred Claims ("LIC") relating to past services, comprising of:
  - BEL (IBNR and Outstanding Claims Reserves); and
  - RA for non-financial risks.
- Asset for Remaining Coverage ("ARC") relating to future services, comprising of:
  - Any applicable PAA loss recovery component; and

    - Reinsurance UPR for groups of reinsurance contracts held measured using PAA.
- Asset for Incurred Claims ("AIC") relating to past services, comprising of:
    - BEL for reinsurance contracts held; and
    - Reinsurance RA
- Manual actuarial adjustments, if any.

The following measurement models were applied based on the product features:

Individual Life products

Insurance contract liabilities are calculated in accordance with the International Financial Reporting Standards (IFRS). Product classifications were done at transition and any subsequent new product launches.

Assessment of profitability grouping is carried out at the new business stage into profitable, profitable at risk or onerous groups for each portfolio. Enterprise allocates contracts to the onerous group if the fulfilment cashflows are positive at inception. Contracts are allocated to the profitable at-risk group if the fulfilment cashflows are negative, but the stressed BEL is positive. The remaining contracts are allocated to the profitable group.

The products have been grouped according to the below portfolios and corresponding IFRS 17 measurement models:

- Funeral Support Plan (FSP) – General Measurement Model (GMM)
- Income Protection Plan (IPP) - General Measurement Model (GMM)
- EduCare (EDUC)– Variable Fee Approach (VFA)
- Life-Time Needs (LTN) – Variable Fee Approach (VFA)
- Reinsurance (RE) – General Measurement Model (GMM)

Note that the reinsurance portfolio above includes individual products that have reinsurance business.

Group business products

For Group business, Enterprise Life identifies portfolios by aggregating insurance contracts that are subject to similar risks and managed together. In grouping, insurance contracts into portfolios, the Company considers the similarity of risks and has determined that all contracts within each product line, as defined for management purposes, have similar risks. Therefore, when contracts are managed together, they represent a portfolio of contracts. Consequently, the insurance contracts issued by Enterprise life for short term business are grouped as five portfolio portfolios based on similar risks managed together as required by IFRS 17.

Enterprise Life has determined the appropriate cohort establishment period to be one year, aligned to the financial reporting period; thus, a cohort is considered as products issued between January 1 to December 31.

The company has adopted the following for profitability groupings:

- Ultimate Loss ratio + Risk Adjustment factor + Expense Ratio + Acquisition Ratio > 100%, then the insurance contract/policy is onerous.
- Ultimate Loss ratio + 1.2*Risk Adjustment factor + Expense Ratio + Acquisition Ratio < 100%, then policy is profitable.

- Ultimate Loss ratio + 1.2*Risk Adjustment factor + Expense Ratio + Acquisition Ratio >100%, then policy is considered as Others.

In compliance with IFRS 17, NAICOM has recommended that the Premium Allocation Approach should be used in estimating Liability for Remaining Coverage for all short-term contracts including reinsurance contract held. Consequently, Enterprise life has used the Premium Allocation Approach in estimating Liability of Remaining Coverage for all its portfolios including reinsurance contracts held as below:

Corporate Risk – Premium Allocation Approach (PAA)

Other Liabilities

Other liabilities relate to other current liabilities incurred during the normal course of the business operation. Management have indicated that these liabilities have all been valued at historical costs.

Other Liabilities classification	Amount (N'000)
Other payables	272,278
Lease liabilities	118,847
Total	**391,125**

7. Recent experience and financial performance

7.1. Financial Performance

The financial highlights for the year ending 31 December 2023 compared to the year ending 31 December 2022:

Statement of profit or loss Amount in N'000	31 Dec 2023	31 Dec 2022 restated
Insurance revenue	369,008	495,170
Insurance service expense	(1,924,452)	(1,779,595)
Net income or expense from reinsurance contracts held	2,025	1,611
Insurance service result	**(1,553,419)**	**(1,282,814)**
Financial insurance result	**(36,137)**	**(34,932)**
Investment Income	518,563	489,865
Other expenses	(659,413)	(551,396)
Profit before tax	**(1,730,407)**	**(1,379,277)**
Income tax	0	0
Profit for the year	**(1,730,407)**	**(1,379,277)**

Statement of changes in equity Amount in N'000	31 Dec 2023	31 Dec 2022 restated
Opening equity	5,212,411	6,541,688
Profit for the year	(1,730,407)	(1,329,277)
Other comprehensive income for the year	0	0
Asset revaluation/reallocation	0	0
Cash Dividend	0	0
Closing equity	**3,482,003**	**5,212,411**

*2022 figures where restated to reflect the IFRS 17 basis (previously calculated on IFRS 4 basis)

The Company made a loss before tax of N1,730m over 2023 financial year, which is a 30% increase in the loss compared to N1,379m made over 2022 financial year. The deteriorated performance in 2023FY was largely driven by the increase in insurance service expense of N145m in 2023FY compared to 2022FY and also the decrease in insurance revenue of N126m in 2023FY compared to 2022FY. We note that shareholder equity decreased by 33% over the period, driven by the increased loss earned during the year.

The table below presents Enterprise Life's statement of financial position for the year ending 31 December 2023 compared to 31 December 2022.

Statement of financial position Amount in N'000	31 Dec 2023	31 Dec 2022 restated
Financial Assets	3,402,321	4,247,509
Property	563,310	583,965
Cash Deposits	355,458	423,309
Invested Assets	**4,321,089**	**5,254,783**
Reinsurance Assets	3,642	1,617
Other balance sheet assets	995,507	1,016,671
Total Assets	**5,320,238**	**6,273,071**
Insurance liabilities	1,447,110	586,305
Other liabilities	391,125	474,355
Total Liabilities	**1,838,235**	**1,060,660**
Net Assets	**3,482,003**	**5,212,411**

The total assets stand at N5,320m as at 31 December 2023 and have decreased by 15% from N6,273m as at 31 December 2022. This is mainly driven by the decrease in value of financial assets and cash deposits held over the period.

There has been a 73% increase in total liabilities as at 31 December 2023 compared to as at 31 December 2022, mainly due to the increase in the value of insurance liabilities.

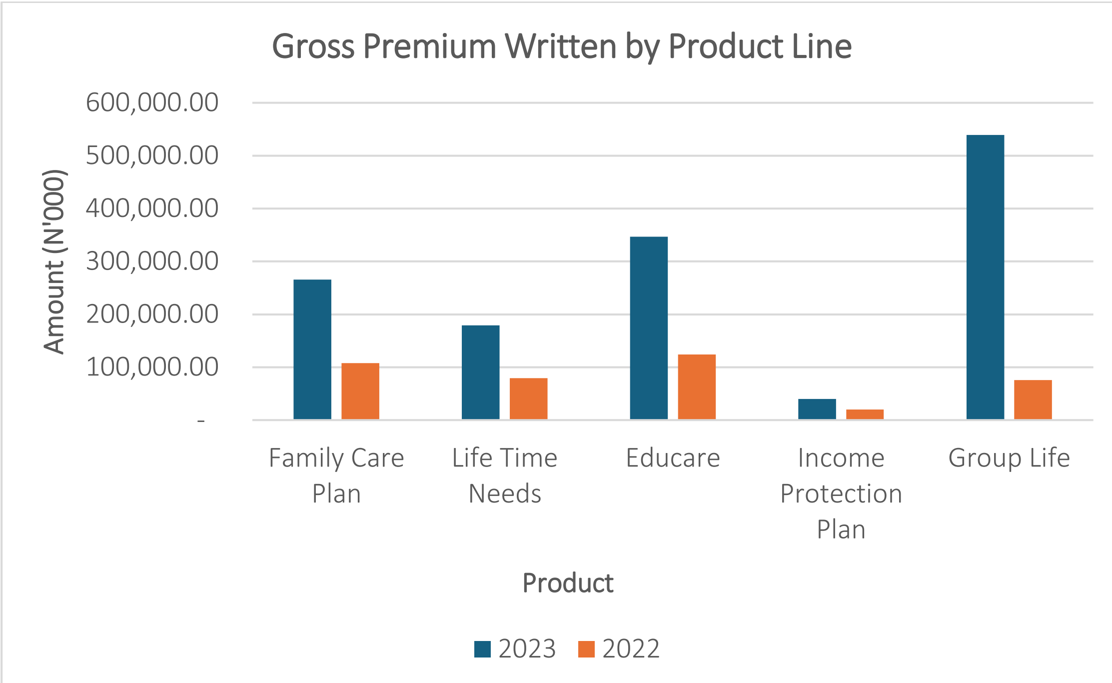
Ultimately over the period, the net assets (or Shareholders' funds) decreased by 33% from N5,212m as at 31 December 2022 to N3,482m as at 31 December 2023.

7.2. Gross Written Premiums by Product Line

The Company's gross premium written (GWP) increased by 70% over the period, from N407m in 2022FY to N1,370m in 2023FY.

Gross Premium Written Amount in N'000	2023 FY	2022 FY	% change
Family Care Plan	265,547	107,885	59%
Life- Time Needs	179,091	79,529	56%
Educare	346,575	124,038	64%
Income Protection Plan	40,124	19,738	51%
Group Life	539,072	75,687	86%
Total	**1,370,408**	**406,876**	**70%**

There has been growth in the premium written across all the products. Group Life premium grew from 19% of the total GWP in 2022 to 39% of the total GWP in 2023FY. Group Life has the largest share of the Gross Written Premiums, amongst the products.


Gross Premium Written by Product Line
600,000.00
500,000.00
400,000.00
300,000.00
200,000.00
100,000.00
-
Amount (N'000)
Family Care Plan
Life Time Needs
Educare
Income Protection Plan
Group Life
Product
2023
2022

8. Pricing and Premium Adequacy

8.1. The pricing methodology

The pricing methodology is based on the predetermined rates that incorporates mortality, lapses and surrender rates, and maintenance expenses. Prices are updated regularly based on experience.

8.2. Profitability of new business

With IFRS 17 effective from annual reporting periods beginning on or after 1 January 2023 making 2023 an unprecedented milestone for changes in financial reporting for the insurance sector. The standard replaces the interim standard, IFRS 4, which has for the past decade guided insurance accounting.

IFRS 17 requires that the impact of new business is measured and disclosed to show whether new contracts written over the period are profitable or onerous at inception. The IFRS 17 Standard introduces the “contractual service margin” (CSM). The CSM at initial recognition represents the unearned profit which is the positive net present value future cashflows after adjusting for risk adjustment. The product is expected to be loss-making if the net present value is negative.

We have determined the profitability by line of business of new policies sold during the year, according to an end-of-year valuation basis. The expected profitability is calculated as the CSM divided by the present value of premiums, also referred to as the VNB margin. The product is expected to be loss-making if the VNB margin is negative. The converse is also true.

Products Amount in N'000	31 Dec 2023		
	CSM (NB)	PVNBP (NB)	VNB Margin
Funeral Support Plan	219,486	779,496	28%
Life -Time Needs	124,035	1,260,132	10%
EduCare	58,013	703,742	8%
Income Protection Plan	34,232	77,060	44%
Total	**435,765**	**2,820,430**	**15%**

9. Asset Liability Management (ALM)

The ALM framework/policy sets out coordinated processes to oversee Enterprise Life's asset mix, liability management and its entire balance sheet. The policy introduces practices that are focused on asset management and risk mitigation on a macro level to address areas such as market, liquidity and credit risks.

The framework covers the uniqueness of Enterprise Life's financial characteristics changes in response to market conditions, competition and the characteristics of customer use of services offered. Therefore, the ALM policy and procedures will reasonably be flexible and continuously reviewed and modified when appropriate. The objective of Enterprise Life' ALM policy is to effectively implement a framework which will help the Enterprise Group and its subsidiaries to manage its cashflows and liabilities strategically and be better prepared for claims and liabilities when due. The framework aims to quantify risks present on the Company's balance sheet and help to reduce risks resulting from a mismatch of assets and liabilities by strategically matching assets and liabilities to achieve greater efficiency and profitability.

The objectives of the ALM policy can be summarized as follows:

- To ensure adequate liquidity to meet claims and expenses.
- To protect capital.
- To maintain stability of earnings and capital.
- To maximise earnings.

These objectives can be achieved by investing assets within acceptable levels of risk such as:

- Interest rate fluctuation – Impact on earnings and net worth from potential short and long-term changes in interest rates.
- Liquidity – Sufficiency of funds available to respond to the legitimate claims and benefits of policyholders and to access unanticipated earnings enhancement opportunities.
- Net worth – Adequacy relative to regulatory and internal guidelines as well as impact on asset size and resultant earnings capacity.
- Credit – Implications of asset quality relative to net worth and earnings.
- Operations – Possibility of loss due to deficiencies in information systems or internal controls.
- Legal – Contracts are not legally enforceable or documented correctly.
- Compliance – Risk of violations and non-compliance with applicable laws and regulations resulting in fines, penalties, payment or damages.
- Event – Changes in laws, regulations, or other external factors may adversely impact the organization.
- Strategic – Risk of adverse business decisions through management's actions or inactions
- Reputation – Negative public opinion or perception leading to a loss of confidence or severance of relationships.

Guiding Principles:

The cornerstone of a strong asset/liability management program is the identification of key risks, having a program to monitor those risks, and establishing strategies to reduce the risks, if excessive. The policy is designed to ensure:

- Stable or increasing net interest margin.
- Adequate earnings.
- Adequate liquidity.
- Acceptable level of net worth.

10.Capital Management and Capital Adequacy

10.1. Capital Management Strategy

Enterprise Life's capital management strategy consists of:

- **Guiding principles**:

  Scarcity: An underlying principle of this policy is that capital is a scarce resource in the face of numerous and varying projects/opportunities. As the Company seeks to create value, it obviously will be presented with several opportunities or projects as against limited capital. Scarcity does not itself imply the lack of or inadequate capital, but it is considered relative to the insatiable needs of man and the quest to optimize stakeholder interest in a competitive market.

  Strategic fit: Capital must be deployed into opportunities that fit within the firm's overall strategy. To stay within the approved business play of the Company, capital is managed in such a manner that all opportunities and projects are assessed according to its fit and proper test within the context of the overall Company vision. Without limiting the organization's scope of opportunities, projects that satisfy the strategic objectives are prioritized as against those that are not within the overall strategy considering capital availability.

  Return Targets: Capital allocation must be based on Financial Return Targets. This policy is to ensure that capital is only committed when the expected returns are founded on established targets.

  Risk vs Return: Financial Return Targets must reflect Riskiness. The level or returns in every capital allocation must well match the returns. The golden principle of "the Higher the risk, the higher the return" will be largely observed so that the company will be well compensated for every risk it assumes.

  Opportunity Cost: Capital cannot be left idle. Excess capital situation arises when there are fewer projects that require capital. In such cases where capital is not being fully utilized, it must be returned to Shareholders. Albeit the admission that capital is a scarce commodity, and it is also recognizable that capital will not be left idle.

- **Sources and Uses of Capital**: Enterprise Lif combines a "Sources & Uses" approach with "Qualitative Standards" to guide deployment of capital. The approach has been broken down into the following: Assemble all Capital Sources, Allocate capital to Non-Discretionary Needs and Determine which Discretionary Uses warrant their Capital Needs. This assessment will be based on Qualitative Standards.

  Capital shall be allocated to users based on needs being discretionary or non-discretionary.

  Non-Discretionary Uses:

  - Regulatory Capital Needs, Policyholder Liability, Financial Obligations etc.
  - Capital Infusion into Subsidiaries
  - Dividends to Shareholders

- Capital Expenditure.

Discretionary uses:

- These are capital usage where Projects/Opportunities will be considered based on competitive advantages.
- All qualitative and quantitative standards will be considered in determination of projects which requires capital funding.

- **Standard**

  Strategic Fit:
  - Projects will be considered against a "Go" or "No Go" decision point.
  - Major capital deployment must fit into the company's long-term strategy and short-term plans.
  - All discretionary projects must have a strategic rationale and ideally fit into the company's 5-year strategic plan.
  - All major initiatives must cross this point by making a case for strategic fit.
  - Key questions to facilitate decisions to proceed or kill initiatives must be cleared

  Business Plan Standard:

  - All major capital deployment must be accompanied with a business plan that meets the newly created minimum standards.
  - An appointed Finance person must sign-off on the financial plan
  - The business plan must include the relevant components.

  Financial Return Targets:

  - All initiatives must meet an established minimum Financial Return Target.
  - Higher risk initiatives will have higher return targets. Target returns for projects will reflect their riskiness, based on the resulting sensitivity of the final projections to moderately adverse changes in key assumptions.
  - Discretionary uses will be allocated based on highest return for riskiness. Project exceeding the minimum target will compete for the scarce capital to be deployed among Discretionary Projects. The actual target above the minimum return will be determined by the CRO and CFO.

10.2. Solvency Position

The table below provides Enterprise Life's balance solvency margin over as at 31 December 2023 and as at 31 December 2022.

Amount in N'000	31 December 2023	31 December 2022 restated
Share capital	8,000,000	8,000,000
Retained earnings	(4,509,709)	(2,597,016)
Contingency reserve	19,136	5,435
Excess of admissible assets over liabilities	3,509,428	5,408,419
Solvency Margin	**75%**	**170%**

The Company's available shareholders' funds exceeded the minimum level of N2bn over period 2022 - 2023. The Solvency Margin of 75% at 2023 year-end declined compared to 170% as at 2022 year-end. However, we understand that this is because the company is at a growth phase.

The solvency is measure of insurance company's ability to absorb risks, and the above suggest that Enterprise Life is solvent. The current regulatory capital is not calculated on a risk-based approach. If the regulator (NAICOM) implements the new minimum capital requirements (which are risk-based), the current and future required capital is expected to increase, which will reduce the solvency cover ratio. It should however be noted that the implementation of this requirement is still currently suspended at the court level.

11.Reinsurance Management Strategy

Enterprise Life has a Surplus treaty arrangement on all Individual and Group Life businesses that Company underwrites. The risks covered are death, permanent disability and other riders.

Enterprise Life bound itself to retain N20 million (this has been reviewed upwards to N40 million for year 2024) for each covered Individual (including on Group Life cover). Any sum assured in excess of this retention is ceded up to the Treaty Capacity of the reinsurer.

The reinsurers' automatic acceptance limit is N100 million per any one life for both Individual and Group life (it shall be subject to reviewability at the end of each underwriting year). However, the reinsurer's 100% Treaty Capacity shall be limited to a maximum of N700 million; the excess must be placed on a facultative with the reassurer on special conditions and premium rates mutually agreed in writing by the Ceding company and the Reassurer.

The reinsurers participating in this arrangement and their share are given below:

- African Reinsurance Corporation – 55%
- Continental Reinsurance Plc – 15%
- WAICA Reinsurance Corporation Ltd. – 15%
- FBS Reinsurance Limited – 15%

The reinsurer shall be involved in all claim assessments where sum assured exceeds N100 million per life.

The table below provides a general assessment of the value derived from reinsurance arrangements over the last two years.

Amount in N'000	2023 FY Actual	2022 FY restated Actual	Total
Reinsurance expense	1,561	1,262	2,823
Reinsurance recoveries	464	350	814
Value for Money Ratio	**29%**	**28%**	**29%**

A three-year target of around 80% would normally be advised for the Value for Money ratio. Over the two-year period, we see that less than 30% of reinsurance premium was recovered by Enterprise Life, which is low.

Looking at the year-on-year trend, we see that the "Value for Money Ratio" slightly improved in 2023FY compared to 2022FY, though the value is still low. We note that the organization is still growing, and the influx of different new businesses can have a significant impact on the experience. As such, Enterprise Life should review its reinsurance arrangements regularly and optimize them.

12. Risk Management

12.1. Risk management framework

The risk management framework encompasses all the strategies, systems, policies, policies, controls, and human resources required for the identification, assessing, mitigation, monitoring and reporting all material risks to which Enterprise Life may be exposed to. It is primarily targeted at the following:

- Safeguarding the company's assets (including information) and investments.
- Supporting strategic business goals.
- Supporting business sustainability under normal and adverse operating conditions
- Ensuring responsible behaviour towards all stakeholders and
- Promoting reliability in reporting.

Enterprise Life employs three key strategic mechanisms for implementation of its risk management framework:

Defence mechanism: This mechanism is fundamentally the laid down procedure for all operational management and risk guidance for the organization's day to day activities. It comprises the set of policies, procedures, and frameworks that are in place to mitigate or prevent risks that could happen.

Offence mechanism: This mechanism basically applies to all strategies and projects which are yet to be implemented. The approach is to incorporate Risk Management principles and approaches into projects and events as risk can naturally emerge within the businesses in the form of new Geographies, New Initiatives, New Products, New Regulations, New Channels etc. The offense strategy thus combats risks upfront rather than after the fact.

Learning opportunities: Enterprise Life recognizes that there may be slippages and cases where risks taken may crystallize amidst controls. The goal is to fully learn the right lessons from breakdowns in controls both within Enterprise Life and from other companies in the industry. Enterprise Life will not be oblivious of happenings in the organisation, the industry, or global best practices.

12.2. Lines of Defence

Enterprise Life applies three lines of defence:
The first line of defence are the risk owners. It comprises of core business and board of directors. They are responsible for identifying and assessing the risks faced in the business in line with the risk appetite and ensuring that appropriate controls are established and maintained. The board has overall risk responsibility for the firm. It is responsible for strategic and ethical leadership, attracts business, sets risk and culture tone.

The second line of defence is executed by the risk management and compliance functions. The role here is to ensure the risk management policy is developed, monitoring and implementation of the company's overall risk management.

The third line of defence is implemented by both internal and external auditors. The role here is to review and evaluate the design and implementation of risk management holistically and ensure effectiveness in the first and second layers of defence.

12.3. Material Risks

Economic Risk

This specifically relates to the impact of market conditions, specifically, fiscal measures and inflationary pressures on the operations of Enterprise Life.

Expense Risk

Enterprise Life achieved an expense ratio of 153.2% in 2023FY which is an improvement from 287.5% achieved in 2022FY. We recommend that this expense ratio is monitored closely.

Pricing Risk

This is the risk that the premiums charged do not adequately reflect the underlying risks being written. This leads to the premium charged being inadequate which adversely impacts profitability and solvency. Reducing pricing risk will require allowing for relevant rating factors and employing strict underwriting to manage this risk.

Insurance Risk

In assessing this we considered the incurred claims ratio at an aggregate level for the year ending 31 December 2023. This ratio deteriorated over 2022-2023FYs from 10% in 2022FY to 20% in 2023FY. For the 2024FY projected business plan, this target is 7% which is not unreasonable and would depend on Enterprise Life's management of the risk.

13.Conclusions and Recommendations

Over the period 2022 to 2023 financial years, Enterprise Life business has experienced or achieved:

- a 70% growth in gross premiums received from N407m to N1,370m, with around 39% of total premiums coming from its Group Life business.
- an improvement in its combined ratio (as a percentage of premium received) on its insurance contracts from 178% to 153% driven by a reduction in its acquisition costs and management expenses.
- a profit before tax of – N1,833m over the year ending 31 December 2023, a deterioration of N416m compared to the profit before tax of - N1,417m in the previous year on restated IFRS 17 bases. This increased loss was driven by the increase in insurance service expenses.
- The recoveries from reinsurance have been very low compared to the premiums ceded. This calls for reinsurance optimization. In addition, as Enterprise Life's books continues to increase, the experience of a bigger population may differ from the current experience. Hence, it is advisable that the reinsurance experience is tracked regularly, and reinsurance arrangement should be optimized.
- a decrease in equity by 35% from N5,373m as at 31 December 2022 to N3,490m at 31 December 2023.
- The solvency margin decreased from 170% as at 31 December 2022 to 74% as at 31 December 2023. This is above the statutory requirement of 50%. Enterprise Life should continue to monitor her solvency margin.

Overall, this report demonstrates that the Company remains adequately capitalized with a strong and conservative investment portfolio to support current and projected liabilities while maintaining compliance with regulatory requirements.

The level of excess capital both on a statutory basis and economic capital basis implies the company can write more business and take more calculated risks in search of enhanced return.

The Company's asset mix appears to be broadly appropriate given the term, duration, and nature of the liabilities. As is current practice, the Investment policy should, amongst other decision factors, be derived from the Asset-liability matching (ALM) exercise for each line of business (including shareholder assets).

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GT Waugh MA FASSA
FRC/2022/PRO/NAS/004/00000023543
Statutory Actuary
29 August 2024

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