AIICO INSURANCE PLC

Financial Condition Report as at 31 December 2023

August 2026

1. Executive Summary

This Financial Condition Report ("FCR") sets out the results of the analysis of the financial condition of the life and non-life insurance businesses of AIICO Insurance PLC ("AIICO" or "the Company") as at 31 December 2023.

The Company has contracted Zamara Consulting Actuaries Nigeria Limited to provide actuarial services. In terms of this arrangement, Nikhil Dodhia, FIA, is the appointed actuary.

1.1. Capital Management and Solvency

1.1.1. Solvency Assessment

The table below summarises the solvency position of AIICO over the past 3 years based on the capital requirements as prescribed by the National Insurance Commission of Nigeria ("NAICOM"):

Solvency Margin Assessment	2021	2022	*2023
Total Net Admissible Assets**	28,837	28,683	40,118
Minimum Solvency Capital Requirement (IFRS4)***	8,682	10,494	13,236
Minimum Solvency Capital Requirement (IFRS17)***			10,744
Excess Net Admissible Assets	20,155	18,188	26,883
Solvency Margin Ratio (IFRS4) Solvency Margin Ratio (IFRS17)	332%	273%	303% 373%

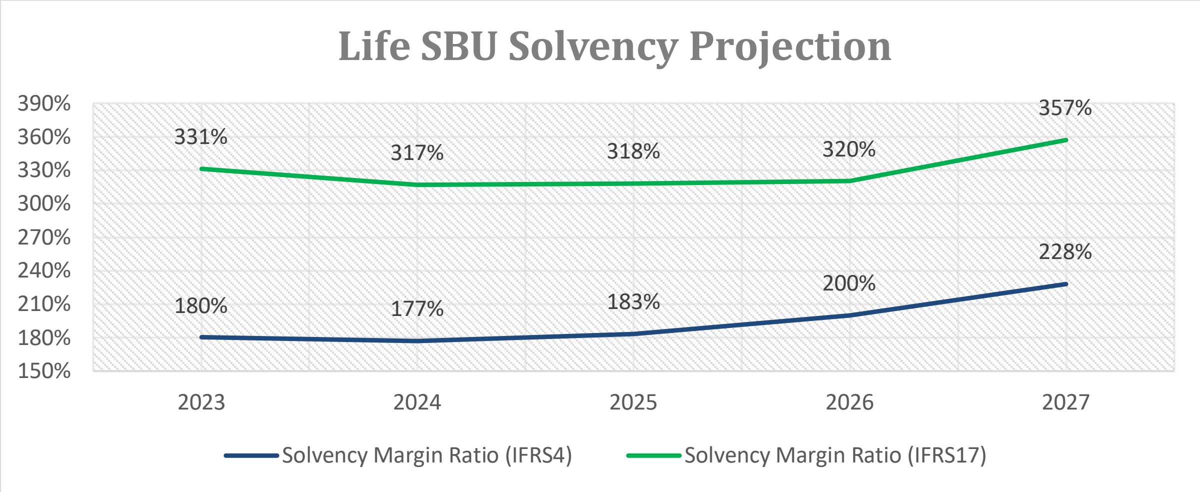
*IFRS 17 reporting-based numbers
** Excess of the total admissible asset over and above the admissible liabilities
***Maximum of the premium based capital and minimum capital requirement

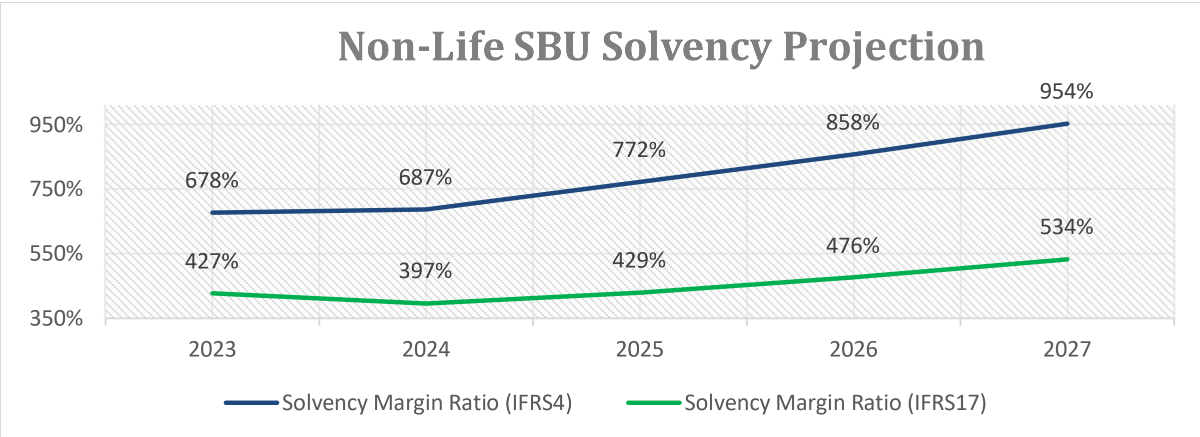
In line with the prescribed regulations, AIICO's minimum capital requirement as at 31 December 2023 was determined as the higher of the volume-based capital requirement and the minimum paid-up capital requirement. On the IFRS 4 basis, the volume-based capital requirement, determined as 15% of net written premium, amounted to NGN 13.2 billion, resulting in a solvency ratio of 303%. On the IFRS 17 reporting basis, the equivalent minimum solvency capital requirement was NGN 10.7 billion, resulting in a solvency margin ratio of 373%. The Company's Net Admissible Assets available to meet the regulatory capital requirement amounted to NGN 40.1 billion.

AIICO's Net Admissible Assets available to meet the regulatory capital requirement rose to NGN 40.1bn as of 31 December 2023, up from NGN 28.7bn in 2022. On an IFRS 4 basis, the Solvency Capital Requirement increased from NGN 10.5bn in 2022 to NGN 13.2bn in 2023, resulting in a 2023 solvency ratio of 303% from solvency ratio of 273% in 2022. On an IFRS 17 reporting basis, the 2023 Solvency Capital Requirement was NGN 10.7bn, resulting in a solvency margin ratio of 373%. Business volumes increased by 28% from NGN 85.3bn to NGN 109.4bn, driven by an increase in business volumes for Annuity (by NGN 11.5bn), as well as increase in some NL products (Motor, Special Oil, Fire). Hence, these business changes place an increased demand on the required capital held for the respective businesses AIICO Insurance Plc participates.

1.1.2. Solvency Projections

Based on the Company's business projections, AIICO is expected to be solvent on a regulatory basis over the Company's 4 -year business planning horizon. The graphs below summarise the projected solvency ratios for the life and non-life businesses of AIICO:





AIICO is expected to have adequate admissible net assets comprising largely of quality assets expected to be predominantly invested in treasury bonds and bills of the Federal Government of Nigeria to meet the regulatory capital requirements. The regulatory solvency cover ratios for Life SBU is expected to steadily rise over the projection period as the Net Admissible Assets grow faster than the regulatory capital requirement indicating a projected faster increase in Net Admissible assets relative to liabilities over the projection period. In contrast, the solvency ratio for the Non-Life SBU is expected to decline gradually over the same period, indicating that regulatory capital requirements are increasing faster than the growth in net admissible assets due to an aggressive increase in its business volumes. It should be noted that the minimum paid-up capital of NGN 2bn and NGN 3bn for the Life and Non-life business respectively, was used for these projections. The growth of the Net Admissible Assets over the projection period is largely driven by the projected profitable growth of the insurance businesses where reward for risk is expected to exceed the risk taken. For the Life business, the regulatory capital requirement changes over the projection period under the current minimum capital requirements. At the minimum capital base, the volume-based solvency capital requirement of 15% of net written premiums dominates for AIICO, given the volume of business written. It should also be noted that the volume-based solvency capital requirement of 15% of net written premiums dominates for all projection periods. For the non-life business, under the current minimum paid-up capital of NGN 3bn, the regulatory capital requirement changes over the projection period as the volume-based solvency capital requirements of 15% of net written premiums dominates.

Based on the solvency projections, AIICO's insurance businesses are expected to remain solvent over its business planning period.

After transitioning to IFRS 17 reporting, AIICO has extended its reporting framework to include the IFRS 17 equivalent of the solvency ratio, which is predicated upon insurance revenue. This approach is in accordance with the principles-based methodology, offering valuable insights into insurers' capacity to fulfil obligations while fostering uniformity and comparability within the industry.

1.2. Pricing and Premium Adequacy

A comparison of AIICO’s premium rates to the corresponding to industry average rates in respect of the Company’s short-term businesses (i.e. both group-life and non-life), shows that the applicable AIICO premium rates are largely not under-priced.

Similarly, on the retail life insurance business, AIICO’s premium rates are adequately priced. This is evidenced in the Value for New Business margin analysis, which has historically been positive.

1.3. Financial Performance

From AIICO’s historical technical analysis (based on audited financial statement for 5 years), we note that AIICO’s Non-life and Group-life business performance improved significantly over the year 2023, relative to the average of the preceding 4 years period. The improved financial performance was driven by AIICO’s implemented strategies to improve its underwriting margin at both net and gross of reinsurance. AIICO’s assessment shows that the operating ratio for non-life increased significantly from 8% as at 2022YE to 34% as at 2023YE, while for group-life, operating ratio improved significantly from 11% as at 2022YE to 38% as at 2023YE.

On the retail life business, an abridged income statement for the past 5 years was analysed; AIICO’s profit before tax (PBT) reduced as at 2022YE relative to the average of the past 3 years by about 73% and improved significantly from a loss position of N366m in 2022YE to N5.7bn in 2023 under the IFRS17 measurement. The improved profitability in 2023 is driven by the release of deferred profits in the Contractual Service Margin (CSM) as well as increased investment profits from strategic ALM. The product mix of AIICO is also changing, with the Company writing more immediate and deferred annuities and endowments compared to savings products which are not as profitable. This has also contributed to the improved profits in 2023.

1.4. Asset Liability Management (ALM)

AIICO’s ALM approach is robust with a strong governance framework and controls to ensure the overarching ALM objectives are achieved. The primary objective of AIICO’s ALM process is the management of Market risk to maximize the market-consistent balance sheet (mark-to-market value of assets less market consistent value of the liabilities) over a three-to-five-year period (i.e. medium-to long-term target).

AIICO's liabilities are largely backed by fixed income assets such as federal government bonds since the value of the liabilities are dependent on the movement of the FGN Bonds yields. It can be observed that the life business mainly invests in fixed income asses (majorly the Nigerian government securities) with the asset class constituting about 87% of the total assets in the financial period (i.e., 2021 – 2023). The asset composition is consistent with the company's strategy of investing in assets the match the term, nature, and duration of the liabilities.

The Non-life business, however, has its assets majorly invests in fixed income asses (majorly the Nigerian government securities) and RI assets with these asset classes constituting approximately 49% and 39% respectively of total invested assets as of 31 December 2023.

AIICO measures and monitors its net exposure to market risk using immunization approaches such as money duration, convexity, and sensitivity analysis to maintain a high level of matching of assets and liabilities

1.5. Reinsurance Management Strategy

Overall, AIICO's reinsurance strategies have been profitably adequate for its Group Life and General insurance business.

1.6. Development since the previous year

AIICO's last financial condition report was for FY2022. The report was based on financial analyses under IFRS 4. AIICO has since implemented IFRS 17 with accounts officially prepared under IFRS 17. Overall, the Company's profitability has improved from 2022 to 2023, driven by the implementation of improved pricing and reinsurance strategy for Non -Life and Group Life business units. For Retail life, the adoption of IFRS 17 resulted in reduced profits in 2022, however AIICO's profits improved in 2023 driven by investment profits and the adoption of a more profitable product mix.

1.7. Conclusion

I, Nikhil Dodhia, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2023, this Financial Condition Report for AIICO Insurance PLC has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Nikhil Dodhia FIA
AIICO Insurance PLC
Appointed Actuary

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