

Anchor Insurance Ltd

Financial Condition Report as at 31st December 2024

Prepared by



Rear Wing, 4th Floor Oshopey Plaza, 17/19, Allen Avenue, Ikeja, Lagos.

April 2025

EXECUTIVE SUMMARY

This report discusses the adequacy of the company's resources (capital, reinsurance arrangements) in meeting its contracted obligations, especially if adverse situations arise.

The following are the key conclusions of the report.

- The business is well capitalized to pursue its business strategic objectives.
 - We estimate that the economic/risk-based capital required to support the business at 31st December 2024 as N9billion. This is about 300% of the minimum statutory requirement of N3billion. The business however has Shareholder Funds of N18.3billion or 204% the needed Risk Based Capital.
 - The company's Capital Adequacy Ratio (CAR) has increased to 389% in 2024 from 380% in 2023; increase in Free Assets to ca N11.68bn in 2024 from ca 11.38bn in 2023. However, the proposed recapitalization program by the insurance regulator requiring a minimum capital requirement of N15bn, still implies that the company requires an additional capital injection of ca N4.5bn to meet up with the new capital requirements.
 - The company's combined ratio sat at 84% in 2024 compared with 68% in 2023. There was a deterioration in business performance at underwriting level considering the current's CR; this is largely associated to increases in expense ratio in 2024 to 62% from 50% in 2023. We recommend that the company should monitor expenses whilst sustaining the underwriting performance of all lines of business and ensuring adequate reinsurance protection is in place.
 - As the company looks to recapitalize, we advise an in-depth business planning exercise to be carried out to inform capital allocation into profitable business lines.
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STRICTLY PRIVATE AND CONFIDENTIAL

April 5, 2025

The Board of Directors
Anchor Insurance Ltd
Plot 21, Ahmed Onibudo Street
Victoria Island
Lagos.

Attention: Mr. Augustine Osegha Ebose (Managing Director)

Dear Sir,

Financial Condition Report as at 31st December 2024 – Anchor Insurance Ltd

1 Introduction

- 1.1 We are pleased to present our Financial Condition Report (“FCR”) for Anchor Insurance Ltd (“the Company”) as at 31st December 2024.
- 1.2 The aim of the Financial Condition Report is to present a non-technical easy to read document detailing the recent business and operational trends, the current financial status as well as an assessment of the business remaining solvent in the near future basing the future projections on different risk scenarios.
- 1.3 This report discusses the adequacy of the company’s resources (capital, reinsurance arrangements) in meeting its contracted obligations, especially if adverse situations arise.

2 Business Overview

2.1 Premium History

2.1.1 The company's Gross Written Premiums increased consistently over the last three years with about 87% growth achieved between 2023 and 2024. This is illustrated in the table below.

Gross Written Premiums (2020 - 2024)

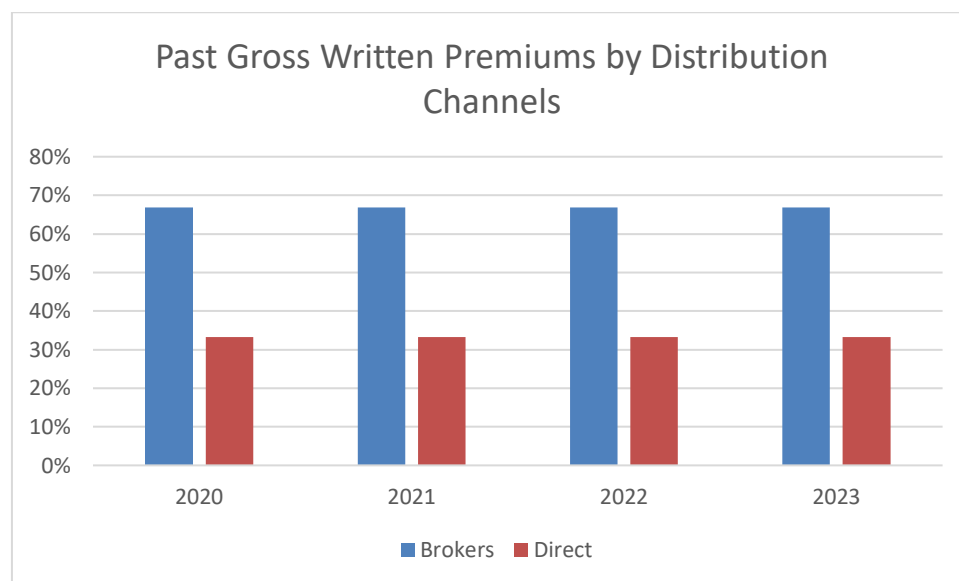
Line of Business	2020		2021		2022		2023		2024	
	₦' 000	%	₦' 000	%	₦' 000	%	₦' 000	%	₦' 000	%
General Accident	1,433,868	22%	1,697,832	16%	2,682,293	20%	3,006,830	16%	4,635,587	14%
Agriculture	-	0%	-	0%	-	0%	3,217	0%	25,092	0%
Aviation	-	0%	-	0%	-	0%	124,076	1%	7,769,219	23%
Bond	92,260	1%	48,995	0%	212,358	2%	218,985	1%	912,939	3%
Engineering	936,963	14%	496,388	5%	534,618	4%	1,132,134	6%	1,056,185	3%
Fire	255,434	4%	302,307	3%	1,164,502	9%	4,600,499	25%	1,455,303	4%
Marine	1,617,374	24%	2,353,220	23%	2,739,219	21%	3,237,196	18%	2,610,283	8%
Motor	1,082,765	16%	882,096	8%	863,383	7%	994,478	5%	1,536,872	4%
Oil & Gas	1,189,540	18%	4,664,354	45%	4,949,047	38%	4,978,542	27%	14,177,026	41%
Total	6,608,204	100%	10,445,192	100%	13,145,420	100%	18,295,957	100%	34,178,506	100%

2.1.2 We observed the following

- Oil & Gas was the largest contributor with Aviation being the second largest contributor of the business written during the year.
- Aviation, Oil & Gas, General Accident and Marine all had premium volumes in excess of N3bn.
- Fire and Marine lines are the fastest growing at an average of about 20% in the last 3 years.
- Aviation line grew significantly in the year under review.

This distribution, in our view, implies there was no undue concentration risk by business type over the review period.

We illustrate below the recent history of business acquisition by distribution channel. It is observed that the company's products were mainly acquired through Brokers. Thus, moving forward, the company will, as part of its business development plans, need to continue to nurture its relationships with brokers without compromising on underwriting standards



2.2 Experience analyses, Asset Mix and Capital Adequacy

2.2.1 We discuss in this section, some metrics that illustrate profitability and investment returns on the portfolio.

Metric	Definition
Claims Ratio	Net Claims Incurred/ Net Earned Premium
Expense Ratio	{Underwriting Expenses + Management Expenses – Commission Income}/ Net Written Premium
Combined Ratio	Claims Ratio + Expense Ratio
Capital Adequacy Ratio	Free Assets/Higer of 15% of Net written premiums or N3bn
Balance Sheet Solvency Ratio	(Shareholders' Funds+ Policyholders Funds)/Technical Reserves
*Regulatory Solvency Ratio	(Free Assets+ Policyholders Funds)/Technical Reserves

**Free assets includes allowance for admissibility rules*

2.2.2 The table below shows recent experience in terms of Claims, Expense and Combined Ratios.

Year	Claims Ratio	Expense Ratio	Combined Ratio	Investment Income as a % of NWP
2015	27%	65%	92%	10%
2016	16%	75%	91%	12%
2017	27%	81%	108%	12%
2018	29%	69%	98%	9%
2019	27%	23%	50%	6%
2020	26%	47%	72%	2%
2021	22%	34%	56%	1%
2022	11%	67%	78%	4%
2023	18%	50%	68%	3%
2024	22%	62%	84%	6%

**breakdown of combined ratio by line of business is shown in appendix 4 of the report*

2.2.3 The claims ratio has been low at under 25% in the last three years to review date indicating **good underwriting practice**. The expense ratio also increased to 62% in the year under review following an improvement in 2024. We advise the company continues to adopt measures that ‘curb’ these expenses to deliver more profits while maintaining the good underwriting practice.

2.2.4 Profit After TAX increased substantially in 2024 as shown in the table below. This position has been well supported by good underwriting results and recent consistent improvements in investment income.

Year	Profit After Tax N'000	Underwriting Profit * N'000	Investment Income N'000
2015	204,766	964,504	176,561
2016	227,540	1,013,146	202,955
2017	133,333	993,865	229,406
2018	175,179	1,515,053	244,892
2019	220,184	1,703,680	216,031
2020	436,498	2,160,704	160,770
2021	867,551	2,991,413	114,208
2022	1,223,298	4,015,903	269,894
2023	1,050,628	4,894,460	349,517
2024	3,917,174	1,177,630	1,177,630

**Excludes Management Expenses*

2.2.5 We illustrate in the table below, that company's return on equity has been low increased significantly in 2024. We are of the view that a 'taming' of the expense ratio will help increase/sustain returns in the future.

Year	Shareholders' Fund	Return on Equity
2015	4,522,386	5%
2016	4,749,926	5%
2017	5,071,649	3%
2018	5,162,072	3%
2019	5,495,818	4%
2020	5,669,177	8%
2021	6,449,404	13%
2022	13,045,957	9%
2023	14,383,905	7%
2024	18,354,073	21%

2.3 Asset Mix

We illustrate below the assets mix backing the technical provisions in 2022 and 2024.

Asset ₦'000	Insurance Funds					
	2022	%	2023	%	2024	%
	580,000	18%		49%	1,880,656	22%
Cash and Cash Equivalent			1,880,656			
Financial Assets	2,241,234	70%	697,805	18%	3,572,636	42%
Investment Properties	113,000	4%	539,796	14%	2,555,101	30%
Reinsurance Assets	246,801	8%	691,516	18%	549,652	6%
	3,181,035	100%		100%	8,558,045	100%
Total			3,809,773			

About 66% of the company's asset portfolios in 2024 were in cash and near cash assets which are placements with leading financial institutions and the balance represents Reinsurance assets i.e. payments expected from reinsurers which are leading international companies. Thus, we are of the view that this asset mix is adequate and secure – in particular we expect liabilities will be met as they arise.

2.4 Capital Adequacy

2.4.1 Balance Sheet Solvency

We illustrate in the table below that the company at all times had sufficient buffer to meet emerging liabilities.

₦'000	2020	2021	2022	2023	2024
Technical Liabilities	2,289,672	2,289,672	2,543,404	3,441,690	4,084,003
Shareholders Fund (Free Assets)	5,669,177	6,449,404	13,045,957	14,383,905	18,354,073
Balance Sheet Solvency Ratio	248%	282%	513%	418%	449%

These solvency ratios are high and give comfort that ordinarily, we expect liabilities to be met as at when due. We highlight regulatory solvency below and discuss risk-based solvency in section 6.

2.4.2 Regulatory Solvency

We illustrate below that the company met its regulatory solvency requirements throughout the three (3) year review period and had high (i.e. 389%) capital adequacy in 2024.

Year	2020	2021	2022	2023	2024
Technical Liabilities	1,445,117	2,289,672	2,543,404	3,441,690	4,084,003
Free Assets (allowing for admissible rules)	6,837,662	8,771,587	11,944,779	11,388,760	11,681,794
Maximum of 15% Net premium and N 3 Billion	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Capital Adequacy	228%	292%	398%	380%	389%
Regulatory Solvency Ratio	473%	383%	470%	331%	286%

The company met statutory capital requirements at all times, and at the review date had 389%, the minimum required capital level, which currently stood at N3bn (a significantly improved position).

We note that the Free Assets has increased to ca N11.68bn during the financial year. However, in December 2024, the Nigerian Senate passed the Nigeria Insurance Industry Reform Act, 2024, introducing significant changes to the minimum capital requirements for insurance businesses in the country. The proposed capital requirement for General is business is N15bn, which means the company requires an additional capital injection of about N4.5bn to meet up with the regulation.

2.6 Reinsurance Strategy Management

We summarized the schedule of latest reinsurance arrangements (shown in Appendix 2) and note that there are no significant changes from 2023. The structure of the treaty appears appropriate for the business written. However, it needs to be monitored in line with any future capital injections and linked to the risk appetite.

We however illustrate in the tables below, the cash flows arising from reinsurance transactions in the last few years. The tables indicate that the overall value for money is within the reasonable range

Table 2.6.a – *VFM of 2020 Reinsurance Business*

₦'000

Class of Business	General Accident	Fire	Marine	Motor	Oil & Gas	Bond	Engineering	Total
Outflow								
Reinsurance Cost	51,619	53,627	15,267	23,654	21,873	-	44,861	210,901
Inflow								
Reinsurance Commission	141,958	107,726	151,550	15,333	101	14,903	86,230	517,801
Reinsurance Recoveries (Incl IBNR)	30,774	11,931	103,650	14,582	5,400	-	9,881	176,218
Total Inflow	172,732	119,657	255,200	29,915	5,501	14,903	96,111	694,019
Value for Money Ratio (VFM)	335%	223%	1672%	126%	25%	0%	214%	329%

Table 2.6.b – VFM of 2021 Reinsurance Business

N'000

Class of Business	General Accident	Fire	Marine	Motor	Oil & Gas	Bond	Engineering	Total
Outflow								
Reinsurance Cost	51,619	53,627	15,267	23,654	21,873	-	44,861	210,901
Inflow								
Reinsurance	141,958	107,726	151,550	15,333	101	14,903	86,230	517,801
Commission								
Reinsurance	30,774	11,931	103,650	14,582	5,400	-	9,881	176,218
Recoveries (Incl IBNR)								
Total Inflow	172,732	119,657	255,200	29,915	5,501	14,903	96,111	694,019
Value for Money Ratio (VFM)	335%	223%	1672%	126%	25%	0%	214%	329%

Table 2.6.c – VFM of 2022 Reinsurance Business

N'000

Class of Business	General Accident	Fire	Marine	Motor	Oil & Gas	Bond	Engineering	Total
Outflow								
Reinsurance Cost	305,770	777,369	1,930,204	11,597	2,519,382	24,949	130,021	5,699,292
Inflow								
Reinsurance	24,238	175,701	94,136	1,806	272,905	4,253	1,037	574,076
Commission								
Reinsurance	21,848	87,760	28,883	73,794	-	(1,521)	13,536	224,300
Recoveries (Incl IBNR)								
Total Inflow	46,086	263,461	123,019	75,600	272,905	2,732	14,573	798,376
Value for Money Ratio (VFM)	15%	34%	6%	652%	11%	11%	11%	14%

Table 2.6.d – VFM of 2023 Reinsurance Business

₦'000								
Class of Business	General Accident	Fire	Marine	Motor	Oil & Gas	Bond	Engineering	Total
Outflow								
Reinsurance Cost	305,190	1,674,276	590,915	33,240	2,217,123	39,296	117,857	4,977,897
Inflow								
Reinsurance Commission	37,480	393,280	322,496	3,338	329,453	4,154	36,160	1,126,360
Reinsurance Recoveries (Incl IBNR)	30,940	38,502	58,000	99,827	83,089	29,819	10,556	350,733
Total Inflow	68,420	431,782	380,496	103,165	412,542	33,973	46,716	1,477,093
Value for Money Ratio (VFM)	22%	26%	64%	310%	19%	86%	40%	30%

Table 2.6.e – VFM of 2024 Reinsurance Business

₦'000										
Class of Business	General Accident	Fire	Marine	Motor	Oil & Gas	Bond	Engineering	Aviation	Agriculture	Total
Outflow										
Reinsurance Cost	1,083,928	244,495	781,426	124,380	8,061,519	155,322	219,529	3,539,112	13,664	14,223,375
Inflow										
Reinsurance Commission	162,546	12,605	113,872	11,288	1,129,645	17,600	8,098	624,249	-	2,079,903
Reinsurance Recoveries (Incl IBNR)	42,970	34,266	22,585	21,003	770,869	-	12,725	-	3,010	907,428
Total Inflow	205,516	46,872	136,456	32,291	1,900,513	17,600	20,823	624,249	3,010	2,987,331
Value for Money Ratio (VFM)	19%	19%	17%	26%	24%	11%	9%	18%	22%	21%

2.7 Stress Scenario for 2024 Results

2.7.1 We applied a 20% stress on the current ultimate loss ratio for each line of business to derive the stressed estimate of outstanding claim reserves. This resulted in a total additional outstanding claim reserve of about N900 million.

2.7.2 We illustrate the revised solvency margin for 2024 in the table below

Year	2024 - Stressed	2024
Technical Liabilities	4,900,804	4,084,003
Shareholders Fund (Free Assets)	9,345,435	11,681,794
Balance Sheet Solvency Ratio	191%	286%

2.7.3 The above table demonstrate that the solvency margin would not be materially impacted should claim ratio increase by 20%.

3 Financial condition as at 31st December 2024

3.1 Based on our discussions above we are of the view that;

- **The business is in a sound financial condition.** We have demonstrated that the solvency ratio exceeded 280% of technical liabilities on both the regulatory admissibility basis and IFRS balance sheet basis.

We have further demonstrated that on a **stressed** basis, the balance sheet solvency ratio at the review date exceeds 190% of the liabilities.

3.2 We advise that the company should

- develop a quantitative Risk Appetite Statement incorporating its broad objective e.g.
 - Conducting your business in such a way that no more than 20% of your capital is at risk.
 - Probability of Profits being zero or worse $\leq 5\%$ (1 year in 20).
 - Risk Adjusted Returns on capital will always exceed 5% etc.
 - (Credit) Rating – Conduct your affairs to achieve/maintain an international credit rating of B etc.
- Further trim its expense ratio with a view to deliver more profits
- needs to inject an additional capital of at least N4.5bn to meet with the proposed new statutory minimum capital requirements. The company could also consider merging with another company.
- monitor closely claims ratios for all lines of business and continue to check reinsurance protection adequacy.

4 New Business Plans

4.1 Business Plan Production

4.1.1 As indicated in section 2.1.1, the company experienced an average premium growth rate of about 52.4% p.a. over the 2020 - 2024 period. The company plans to grow at an average of 13% over the projection period. We illustrate this forecast business production:

Line of Business	2025		2026		2027	
	₦'000	%	₦' 000	%	₦' 000	%
General Accident	6,496,635	16%	7,276,231	16%	7,858,330	16%
Engineering	2,587,730	6%	2,898,258	6%	3,130,118	6%
Fire	10,515,413	25%	11,777,263	25%	12,719,444	25%
Marine	2,503,743	6%	2,804,192	6%	3,028,527	6%
Motor	2,273,089	5%	2,545,860	5%	2,749,529	5%
Bond	500,537	1%	560,602	1%	605,450	1%
Oil & Gas	11,379,509	27%	12,745,050	27%	13,764,654	27%
Aviation	4,895,553	12%	5,483,019	12%	5,921,661	12%
Agriculture	376,112	1%	421,245	1%	454,944	1%
Total	41,528,321	100%	46,511,720	100%	50,232,657	100%

4.1.2 We note that the planned business expansion could lead to an increase in management expenses between 2025 and 2027. However, because of the current high level of expenses and our firm recommendation that this can be moderated, we have only increased expense levels at 20% p.a in this projection exercise.

5 Solvency Projections

5.1 The projection process

We have projected the income statements for each of the years 2025 to 2027 assuming claim and expense patterns to date, continue, and adopting the premiums projected for each of the years.

The exercise leads to projected technical liabilities at the end of each year and a corresponding balance sheet. We have assumed that new money accruing into the fund will be invested in money market instruments.

We report our projected solvency ratios herein, we have also stressed these ratios in anticipation of adverse events and comment accordingly.

5.2 Data and Assumptions

- 5.2.1 The most recent portfolio status and the corresponding valuation dataset forms the base of the projection.
- 5.2.2 Projections of technical reserves i.e. outstanding claims and unexpired premium reserves are based on the projected sales volume and the historical information at our disposal. The target sales volume information is as detailed in Section 4.1.1 and was provided by the Company.
- 5.2.3 The unexpired premium reserves were projected for each line of business assuming risk would occur uniformly throughout the year and future portfolio would resemble the past written premiums.
- 5.2.4 The outstanding claims reserves were projected using the projected earned premiums and the projected claims settlement patterns as determined in the most recent valuation exercise.

5.3 Projections results

5.3.1 The following results were obtained:

Projected Income Statements

	2025	2026	2027
	N'000	N'000	N'000
Insurance revenue	41,528,321	46,511,720	50,232,657
Insurance service expenses	(13,413,879)	(15,023,545)	(16,225,428)
Net expenses on reinsurance contracts	(16,083,048)	(18,013,014)	(19,454,054)
Insurance service result	12,031,394	13,475,162	14,553,174
Net investment income	1,444,949	1,618,343	1,747,810
Net Insurance finance expenses	13,731	15,379	16,609
Net Insurance and Investment result	13,490,074	15,108,884	16,317,594
Other operating income	4,737	5,306	5,730
Other operating expenses	(8,332,111)	(9,331,965)	(10,078,522)
Profit before taxation	5,162,701	5,782,225	6,244,803
Income tax expense	(356,340)	(399,100)	(431,028)
Profit for the year	4,806,361	5,383,124	5,813,774

Projected Balance Sheet

	2025	2026	2027
	N'000	N'000	N'000
Assets			
Total assets	30,872,525	38,252,328	46,022,073
Liabilities			
Insurance contract liabilities	5,011,061	5,612,388	6,061,379
Other Technical Liabilities	47,089	47,089	47,089
Other Payables & Accruals	589,119	589,119	589,119
Borrowings	168,569	168,569	168,569
Income Tax Liabilities	485,388	485,388	485,388
Deferred Tax Liabilities	165,014	165,014	165,014
Total liabilities	6,466,240	7,067,567	7,516,558
Equity			
Issued share capital	7,712,880	7,712,880	7,712,880
Share premium	355,200	355,200	355,200
Contingency reserve	4,742,848	6,138,199	7,645,179
Accumulated losses	10,319,319	15,702,444	21,516,218
Other reserves	1,276,038	1,276,038	1,276,038
Total equity	24,406,285	31,184,761	38,505,515
Total liabilities and equity	30,872,525	38,252,328	46,022,073

The projected solvency margins are as shown below.

Year	2025	2026	2027
Technical Liabilities	5,011,061	5,612,388	6,061,379
Shareholders Fund (Free Assets)	24,406,285	31,184,761	38,505,515
Balance Sheet Solvency Ratio	487%	556%	635%

- 5.3.2 The section above illustrates that if business expands at a faster rate than expenses, profits (underwriting and pre-tax) will increase with the possibility of enhancing the payments of dividends to shareholders. The projected solvency ratios are significantly lower due to growth in liabilities not reflected in Shareholders' Funds. We however note that the projected levels are very adequate and that liabilities will be met as and we due.
- 5.3.3 We performed projections assuming an absolute 20% increase in loss ratio and the following results were obtained.

Projected Income Statements - Stressed

	2025	2026	2027
	N'000	N'000	N'000
Insurance revenue	41,528,321	46,511,720	50,232,657
Insurance service expenses	(14,084,573)	(15,774,722)	(17,036,700)
Net expenses on reinsurance contracts	(16,083,048)	(18,013,014)	(19,454,054)
Insurance service result	11,360,700	12,723,984	13,741,903
Net investment income	1,444,949	1,618,343	1,747,810
Net Insurance finance expenses	13,731	15,379	16,609
Net Insurance and Investment result	12,819,381	14,357,706	15,506,323
Other operating income	4,737	5,306	5,730
Other operating expenses	(8,332,111)	(9,331,965)	(10,078,522)
Profit before taxation	4,492,007	5,031,048	5,433,531
Income tax expense	(310,047)	(347,253)	(375,033)
Profit for the year	4,181,960	4,683,795	5,058,499

Projected Balance Sheet - Stressed

	2025	2026	2027
	N'000	N'000	N'000
Assets			
Total assets	31,250,336	38,051,075	45,155,343
Liabilities			
Insurance contract liabilities	6,013,273	6,734,866	7,273,655
Other Technical Liabilities	47,089	47,089	47,089
Other Payables & Accruals	589,119	589,119	589,119
Borrowings	168,569	168,569	168,569
Income Tax Liabilities	485,388	485,388	485,388
Deferred Tax Liabilities	165,014	165,014	165,014
Total liabilities	7,468,452	8,190,045	8,728,834
Equity			
Issued share capital	7,712,880	7,712,880	7,712,880
Share premium	355,200	355,200	355,200
Contingency reserve	4,742,848	6,138,199	7,645,179
Accumulated losses	9,694,918	14,378,713	19,437,211
Other reserves	1,276,038	1,276,038	1,276,038
Total equity	23,781,883	29,861,030	36,426,508
Total liabilities and equity	31,250,336	38,051,075	45,155,343

Year	2025	2026	2027
Technical Liabilities	6,013,273	6,734,866	7,273,655
Shareholders Fund (Free Assets)	23,781,883	29,861,030	36,426,508
Balance Sheet Solvency Ratio	395%	443%	501%

6 Economic Capital

- 6.1 The technical figures (technical liabilities, reinsurance assets, etc.) estimated for balance sheet purposes are our 'best' estimate and broadly reflect the 'mean' of possible outcomes. However in the course of time these estimate may fluctuate adversely as a result of unexpected realities.
- 6.2 It is prudent and best practice to estimate the extent to which the best estimate can be exceeded due to possible adverse situations and establish on the corresponding risk capital, called ECONOMIC CAPITAL.
- 6.3 The key risks the company is exposed to are **underwriting risk, market risk, counterparty risk and operational risk**, they are described and discussed in appendix 6 of the report.
- 6.4 We have calculated for each of the risks, the amount of capital required as at year end 2019 at 95% and 99.5% level of confidence.
- 6.5 This report discusses in detail capital requirements at 99.5%, which is equivalent to a 1-in-200 event. **Put differently, this is the capital required** to sustain the company should extreme events that are expected to occur once every 200 years, occur in 2024. Such events would typically lead to large 'unexpected' losses that could significantly affect the fortunes of the company. The results at 95% (1 in a 20year event) are shown in appendix 5 of the report.
- 6.6 We have adopted the following methods in calculating the Economic capital:
- Value at Risk → this was applied to Market risk and Credit risk
 - Stochastic approach using Bootstrapping → this was applied to Non-Life reserving and premium risks.
 - Solvency II standard formula approach was adopted for operational risk

Detailed explanation of each of the risks including derivation of the stresses applied are given in appendix 6 of the report.

- 6.7 In order to recognize that each individual risk event is unlikely to occur in the same year, aggregation of capital requirements was done. This has the effect of reducing the total required capital – technically called a diversification. The assumed correlation matrix is shown in appendix 7.
- 6.8 The calculations were based on same data used to prepare the IFRS valuation as at 31 December 2024 and asset information shown in section 2.3 of this report.
- 6.9 The following results at 99.5% confidence level were obtained.

Risk Sub-module	Risk Type	Capital Requirement (N) - 2024
Non-Life Underwriting Risk	Reserve Risk	8,547,871,543
	Premium Risk	1,484,566,251
	Catastrophe Risk	1,902,016,247
	Lapse Risk	-
	SCRnl Pre-Div	11,934,454,041
	SCRnl Div Credit	4,008,292,041
	SCRnl Post Div	7,926,162,000
Market Risk	Interest Rate Risk	-
	Equity Risk	-
	Property Risk	1,009,264,895
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCRmkt Pre-Div	1,009,264,895
	SCRmkt Div Credit	-
	SCRmkt Post Div	189,233,435
Counterparty Default Risk	Reinsurance credit	39,589,663
	Investment credit & Debtors	252,202,994
	SCRdef Pre-Div	291,792,658
	SCRdef Div Credit	-
	SCRdef Post Div	583,585,315
UnDiversified BSCR		8,698,980,750
Diversification Credit		216,663,018
Basic SCR		8,482,317,733
Operational Risk		1,115,817,053
		-
Solvency Capital Requirement		9,013,037,857
Shareholders' Funds		18,354,074,000
as a % of Shareholder's Fund		49.1%

- 6.10 As shown in the table above, the total **Economic Capital** required in connection with the business profile at 31st December 2024 was ~~₦~~5.65billion. This represents 39% of the total shareholder funds and implies that the company was well capitalized at the review date to meet liabilities (in respect of business on the books) as and at when they arise.

7 Conclusion and Recommendations

- 7.1 The business is well capitalized to pursue its business strategic objectives.
- 7.2 We estimate that the economic/risk-based capital required to support the business at 31st December 2024 as N9billion. This is about 300% of the minimum statutory requirement of N3billion. The business however has Shareholder Funds of N18.3billion or 204% the needed Risk Based Capital.
- 7.3 The company's Capital Adequacy Ratio (CAR) has increased to 389% in 2024 from 380% in 2023; increase in Free Assets to ca N11.68bn in 2024 from ca 11.38bn in 2023. However, the proposed recapitalization program by the insurance regulator requiring a minimum capital requirement of N15bn, still implies that the company requires an additional capital injection of ca N4.5bn to meet up with the new capital requirements.
- 7.4 The company's combined ratio sat at 84% in 2024 compared with 68% in 2023. There was a deterioration in business performance at underwriting level considering the current's CR; this is largely associated to increases in expense ratio in 2024 to 62% from 50% in 2023. We recommend that the company should monitor expenses whilst sustaining the underwriting performance of all lines of business and ensuring adequate reinsurance protection is in place.
- 7.5 As the company looks to recapitalize, we advise an in-depth business planning exercise to be carried out to inform capital allocation into profitable business lines.
- 7.6 We thank you for the opportunity to perform a financial condition assessment for the company leading to the production of this report. We hope you will find the report helpful.

Yours sincerely,



.....
Jonathan Ben Phiri
Fellow, Institute of Actuaries, UK
(FRC/2016/NAS/00000015016)

APPENDIX 1 – RELIANCE & LIMITATION

Reliance

In carrying out this work we have relied upon the financial statements, business plans and other information (including discussions with the Management) provided by Anchor Insurance Ltd. The liability information used was the same as that used in the IFRS actuarial valuations. Where stated in this report we have reviewed this data for reasonableness.

This report takes into account data made available as at 31 December 2024.

In some instances, we were unable to obtain granular information so had to make approximations in certain instances about the composition given knowledge of certain details during the normal end of year valuation process.

Limitations

Our understanding is that this is a Board report that could be used to demonstrate regulatory compliance with NAICOM, when requested.

Except with the consent of Logic Professional Services, the report and any written or oral information or advice provided by Logic Professional Services must not be reproduced, distributed or communicated in whole or in part to any other person or relied upon by any other person. The report may be distributed to a third party where there is a legal requirement to do so.

The report may be distributed to the Senior Management of Anchor Insurance Ltd for the purpose of discussing its contents.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. It should therefore be expected that the actual emergence of profits will vary, perhaps materially, from any estimates.

This report must be contained in its entirety, as individual sections, if considered in isolation, may be misleading.

The report is subject to the terms and limitations, including limitation of liability, agreed when commencing this exercise.

APPENDIX 2 – REINSURANCE TREATY PROGRAM

2024

CLASS	TREATY TYPE RETURNS	TREATY CAPACITY	TOTAL CAPACITY
FIRE/ALLIED PERILS			
Con Loss, Householder/Comprehensive	1st Surplus 39 lines of N60,000,000	3,900,000,000	4,000,000,000
Terrorism & Political Violence	1st Surplus 15 lines of N20,000,000	300,000,000	320,000,000
Fire Working Excess of Loss	N40,000,000 Xs N60,000,000 per risk and per loss	100,000,000	100,000,000
MARINE CARGO	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
MARINE HULL	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
Engineering CONTRACTORS ALL RISKS			
Erection All Risk, Machinery Breakdown, E.E	Surplus 30 lines of N50,000,000	1,500,000,000	1,550,000,000
Plant All Risk, Boiler and BURGLARY			
Private Premises	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Business Premises	Surplus 50 lines of N25,000,000.00	1,250,000,000	1,270,000,000
MONEY INSURANCE			
Transit Per Conveyance	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Safe	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Personal Custody	Surplus 25 lines of N10,000,000.00	250,000,000.00	260,000,000
Cash in Counting Area	Surplus 25 lines of N10,000,000.0	250,000,000.00	260,000,000
GOODS-IN-TRANSIT			
General Goods	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
Own Goods	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
ALL RISKS	Surplus 50 lines of N10,000,000.00	500,000,000	510,000,000
FIDELITY GUARANTEE			
Per Person	Surplus 25 lines of N7,500,000.00	187,500,000	195,000,000
Per Firm	Surplus 25 lines of N10,000,000.00	250,000,000	260,000,000
PERSONAL ACCIDENT			
Per Person	Surplus 50 lines of N15,000,000.00	750,000,000	765,000,000

Per known accumulation	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
OCCUPIER'S LIABILITY			
Bodily Injury/Death	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Property Damage	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Public Liability	Surplus 50 lines of N7,000,000.00	350,000,000	357,000,000
Director's Liability	Surplus 100 lines of N7,500,000.00	750,000,000	757,500,000
Professional Indemnity	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Product Liability	Surplus 50 lines of N20,000,000.00	1,000,000,000	1,020,000,000
Employers' Liability	Surplus 50 Lines of N20,000,000.00	1,000,000,000	1,020,000,000
BOND			
Performance, Bid/Tender, Maintenance Bonds, Customs Bond, Excise Bonds, Court Bonds, Advance Payment, Supply Agriculture Insurance	Reinsurers - 50% Reinsured's Retention - 50%	200,000,000 per contract	200,000,000 per contract
Crop Insurance	Reinsurers - 80% Reinsured's Retention - 20%	N20,000,000.00 Per Contract	N20,000,000.00 Per Contract
Area Yield Index Based	Reinsurers - 80% Reinsured's Retention - 20%	N50,000,000.00 Per Contract	N50,000,000.00 Per Contract
Livestock Insurance	Reinsurers - 80% Reinsured's Retention - 20%	N10,000,000.00 Per Contract	N10,000,000.00 Per Contract
Power Risks Ins	Capacity Per Power Plant Location	Deductible	
Power Risk Stand Alone	\$102,500,000.00	\$134,000.00	
Political \violence and Terrorism	Capacity Per Contract	Deductible	Aggregate Limit
	\$1,32,000,000.00	\$134,000.00	\$1,250,000,000.00
Oil and Gas			
	Deductible		Capacity
Facility By Gallagher Re	Operational Risks	\$134,000.00	\$636,500,000.00

Facility By Howden Specialty	Construction Risk	\$67,460.68	
	Operational Risks	\$134,000.00	\$318,250,000.00
	Construction Risk	\$67,460.68	

APPENDIX 3 – ECONOMIC CAPITAL RESULTS AT 95% CONFIDENCE LEVEL

At a lower confidence level of 95%, the total economic capital requirement reduces to ~~N=~~7.2 billion that represents 39.3% of the shareholder funds as at December 31 2024.

Table 3.1 - *Economic Capital: SCR at 99.5% Confidence level*

Risk Sub-module	Risk Type	Capital Requirement (N) - 2024
Non-Life Underwriting Risk	Reserve Risk	6,838,297,235
	Premium Risk	1,187,653,001
	Catastrophe Risk	1,521,612,998
	Lapse Risk	-
	SCRnl Pre-Div	9,547,563,233
	SCRnl Div Credit	3,206,633,633
	SCRnl Post Div	6,340,929,600
Market Risk	Interest Rate Risk	-
	Equity Risk	-
	Property Risk	781,860,906
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCRmkt Pre-Div	781,860,906
	SCRmkt Div Credit	-
	SCRmkt Post Div	189,233,435
Counterparty Default Risk	Reinsurance credit	31,671,731
	Investment credit & Debtors	201,762,395
	SCRdef Pre-Div	233,434,126
	SCRdef Div Credit	-
	SCRdef Post Div	466,868,252
UnDiversified BSCR		6,997,031,287
Diversification Credit		216,663,018
Basic SCR		4,560,465,912
Operational Risk		892,653,643
		-
Solvency Capital Requirement		7,210,430,286
Shareholders' Funds		18,354,074,000
as a % of Shareholder's Fund		39.3%

APPENDIX 4 – ECONOMIC CAPITAL METHODOLOGY & STRESS LEVEL DERIVATION.

This appendix provides a detailed explanation on how each of the risks were modelled including stress levels derivation. Worthy to note that these comprehensive explanations are provided whether or not ANCHOR is exposed to these risks.

Market Risks

Market risk is defined as the potential for adverse change in the net assets (Market value of assets less Market value of liabilities) due to movements in market factors such as equity prices, interest rates, property prices and foreign exchange.

The company's insurance funds are mainly invested in money market instruments and hence have a very low exposure to market risks.

Credit spread and liquidity risks have not been explicitly calculated for the following reasons:

- Credit spread – the company has no corporate bond holdings as part of assets backing technical provisions and hence no credit risk exposure.
- Liquidity risk – this is a difficult risk to quantify within the economic calculations. The Company is recommended to ensure that a robust Liquidity management policy is in place in order to be able to monitor this risk (not sure this has been executed as previously advised).

The market risk capital requirement C_{Mkt} for each risk was calculated using the following formula:

$$C_{Mkt} = (A_{Mkt} - A_0)$$

where,

C_{Mkt} – capital calculation for market risk

A_{Mkt} – stressed assets value

A_0 – base market value of assets

The stresses applied for the market risk module were as follows:

Table 4.1a – *Stress Levels by Asset Class*

Asset class	Stress level @ 95%	Stress level @ 99.5%
Equity	29.10%	41.50%
Property	30.60%	39.50%
Interest rate	24.00%	35.00%
Currency	29.00%	13.00%

Table 4.1b – *Stress Levels by Asset Class*

Asset class	Stress level @ 95%	Stress level @ 99.5%	Stress level @ 99.5%
Equity	24.06%	35.90%	37.38%
Property	15.72%	21.6400%	22.38%
Interest rate	29.10%	40.12%	41.50%

The above stresses were obtained by using a combination of fitting historical data of various market indices (were available) to find the appropriate stress level and benchmarking against Solvency II widely used stress levels.

The details of the derivation and computation are contained below for each sub-risk module.

Equity Risk

This is the sensitivity of assets, liabilities and financial investments to fluctuations in the level or volatility of the market prices for equities.

The company is invested in both quoted and unquoted equities. Both types of equities were stress tested.

The level of stress was derived by considering the historical distribution of the total return Nigerian Stock Exchange (“NSE”) index and fitting a distribution to determine the stress level at the various confidence levels.

We fitted the NSE historical index values from January 1985 to December 2020. The normal distribution was a good fit for the data. Using the normal distribution, we determined stress levels of 29% and 41% for Confidence levels of 95% and 99.5% respectively.

We also checked how frequently historical annual returns have fallen or been close to the 29.1% and 41.5% levels. In 2008, the stock index fell by about 46% and in 2011 also fell by about 23%.

Both the quoted and unquoted equities were assumed to be similarly affected by any declines in stock market. This assumption would need to be revisited in the next assessment.

Property Risk

This is the sensitivity of assets, liabilities and financial investments to fluctuations in the level or volatility of the market prices for properties.

The main downside risk is the fall in property values.

The local market level of stress for this risk was difficult to obtain given the non-existence of property indices or well defined historical property values in the local market.

In order to derive an appropriate stress, we assumed the property returns would follow closely equity returns but slightly better and less risky. This is a unique feature of the local market. The recent past has shown m positive performance of property investments whilst equity returns have been negative in some instances.

We then assumed annual property returns of 15% with standard deviation of 9.5%. Assuming a normal distribution of returns, we then calculated the relevant stress levels at 95%, 99.5%, 99.75% and 99.95% confidence levels as shown in the table 3 above respectively.

To support the notion of better property returns is the fact that the company is invested in properties mainly in the Lagos State. Property values have been on an increase over the last 20 years, so it is hoped that the trend will continue in the near to medium term. However, this assumption will continue to be monitored in the future computation of economic capital.

Interest Rate Risk

Interest rate risk is caused by the sensitivity of the value of any assets, liabilities and financial investments to fluctuations in the term structure of interest rates or interest rate volatility, whether valued by mark-to-model or mark-to-market techniques.

Stresses were determined by constructing the term structure of interest rates by referencing the 12 month, 3 year, 5 year, 7 year, 10 year and 20 year yields from the Federal Government Bonds.

The historical returns were fitted to distributions to determine the best fit distribution. The Uniform and Normal distributions were both good fit. The normal distribution was used instead in order to apply some consistency with the other market risk stresses.

As the local term structure of interest rates show a flat yield curve; a flat stress level was applied to bonds of varying durations.

The stresses used are shown in table 3 above at various confidence levels to all bond yields of varying duration according to the Company bond holdings.

The stressed yields were applied using the formula: current yield x (1+Upward stress) OR current yield x (1+Downward stress).

The capital requirement was then determined by adopting the stress level (between the upward and the downward stress) that resulted in a higher capital requirement i.e. Interest Rate capital requirement = Max {0; Upward stress capital; Downward stress capital}

Overall Market Risk Capital

The overall market risk capital was then derived by combining the equity, property and interest rate risk capital using the suggested correlation matrix below.

$$C_{Mkt} = \sqrt{\sum CorrMkt_{ij} * C_{Mkt_i} * C_{Mkt_j}}$$

where C_{Mkt} — overall market risk capital calculation including equity, property and interest rate

C_{Mkt_i} — capital for i-th risk (i could be any of the three risks)

C_{Mkt_j} — capital for j-th risk (j could be any of the three risks)

The correlation matrix used is shown in Appendix 7

Non-Life Insurance Risks

The non-life insurance risks modelled were:

- Reserving risk
- Premium risk
- Catastrophe risk

Reserving Risk

This is one of the sources of underwriting risk for general insurance.

Reserve risk results from fluctuations in the timing and amount of claim settlements.

The reserve risk methodology was as follows:

- We fitted a log-normal distribution (best fit) to the historical link ratios for each claims development year
- For each accident year, claims were projected to the ultimate position using a factor derived from the parameters of the fitted model and randomly generated numbers
- We then used the bootstrap approach to derive a distribution of ultimate claims

- Reserve capital is the difference between the 95th-percentile of the distribution and the 50th - percentile (Best estimate)
- Because the volume of data available was not credible enough for the bootstrap approach, capital values for Bond and Oil & Gas were calculated using the expected ultimate loss ratio method. The VaR approach was used in calculating the required capital at various confidence levels.

Premium Risk

This is another source of underwriting risk for general insurance.

Premium risk results from fluctuations in the timing, frequency and severity of insured events. It relates to the unexpired risks on existing contracts. Premium risk includes the risk that premium provisions turn out to be insufficient to compensate claims or need to be increased.

The premium risk methodology was as follows:

- Average loss ratios were derived from the expected loss ratio in the business plan (pricing)
- Historical loss ratios were investigated and deviations from the mean studied.
- The normal distribution was fit (which was the best fit) to the deviations
- The VaR approach was then used to compute the capital requirement at 95% confidence level.

Catastrophe risk

This is Catastrophe for the general insurance business.

It covers mainly high severity and low frequency catastrophic events e.g. floods, hurricanes, large accidents impacting on all general insurance lines of business insured by the Company.

There have been no major catastrophic events in Nigeria recently hence the data to use in determining the risk capital was scarce.

The catastrophe risk methodology was therefore as follows:

- The 2018 loss ratios were increased by 500% for all lines of business to resemble a catastrophic-like event
- A 0.5% probability of occurrence was applied to determine the final capital requirement.

Credit Risk

Credit risk arises as a result of the unexpected default, or deterioration in credit standing, of an insurer's counterparties or debtors.

The scope of the calculation under this risk module covered possible defaults by banks; where cash and cash equivalents are held by the Company, defaults by reinsurers compromising reinsurance recoveries and the inability by debtors to pay their dues.

The following exposures to counterparties were used:

- Banks → cash and cash equivalent holdings
- Reinsurers → estimated reinsurance recoveries over the next 12 months
- Debtor → amounts owed.

The expected losses given default were calculated using the latest credit ratings and associated probabilities of default for the different counterparties. A combination of local ratings agencies' and the S&P default rates were used for the bank holdings as per the following table:

Table 4.4 – *Default Probability by Counterparty Rating*

Rating Scale	Default Probability
AAA	0.01%
AA+	0.01%
AA	0.02%
AA-	0.03%
A+	0.06%
A	0.09%
A-	0.11%
BBB+	0.16%
BBB	0.22%
BBB-	0.39%
BB+	0.54%
BB	0.81%
BB-	1.39%
B+	2.54%
B	5.37%
B-	8.72%
Unrated	26.53%

The above default rates were applied to both the banks and reinsurers' counterparties to the Company.

The formula used was: Estimated exposure x Probability of Default.

Operational Risk

This is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

Operational risk is generally a material risk and one of the major causes of organizational failure.

There are several approaches used to assess Operational risk namely;

- Basic indicators or some Standard Formula – this is a simpler approach and largely defined by regulatory bodies. It is transparent and a well-known approach.
- Scenario approach – qualitative scenario assessments of the operational risks as defined by management through the risk heat map are transformed into quantitative assessments to determine the overall operational risk capital
- Statistical or Loss Distribution Approach – this uses a lot of statistics. The amount of possible losses and frequency of losses are modelled separately and then combined to determine the overall capital requirement. This approach relies on the availability of credible historical and forward-looking data.
- The Structural or Causal approach – this is the most complex and recently researched approach. It also relies on understanding the interdependencies across risks in addition to the data availability.

We adopted the standard formula approach due to limited quantity of data available. The approach took into account the earned premium, technical provisions and Base capital calculated before operational risk.

The formula used to compute the capital requirement was as follows:

$$C_{op} = \text{Min}\{0.3 * CR_{Op}, BOp\} + 0.25 \times Exp_{nl}$$

Exp_{nl} is the amount of annual expenses incurred during the previous 12 months in respect of non-linked business

CR_{Op} is the preliminary capital required before allowing operational risk and, for the risk requirements it is defined as:

$$CR\ Op = \Sigma(C_{ins} + C_{Mkt} + C_{Credit})$$

Bop is the basic operational risk requirement for all business and is determined as follows:

$$BOp = \text{Max} \{Op_{premiums}; Op_{provisions}\}$$

where,

$$Op_{premiums} = 0.04 \times Earn_{nl} + \text{Max} \{0, 0.04 \times [Earn_{nl} - 1.1 \times pEarn_{nl}]\}$$

and

$$Op_{provisions} = 0.0045 \times \text{Max} \{0, TP_{nl}\}$$

Earn_{nl} are the gross premiums earned during the previous 12 months.

pEarn_{nl} are the gross premiums earned during the 12 months prior to the previous 12 months.

TP_{nl} are the technical provisions

In the future, we recommend the following be recorded at granular level:

Frequency of occurrence of all risk scenarios captured in the Risk Heat Map

Identification of new exposures and new likelihood percentages after mitigation efforts have been applied.

This would improve how operational risk is quantified.

APPENDIX 5 – CORRELATION MATRICES

Correlations for Market risks have been derived using actuarial judgment and referencing correlations being used in other jurisdictions for new solvency regimes.

Local market relevance was taken into account before applying these correlations.

As a rule of thumb, the following thought process was applied:

Correlation coefficient	Interpretation
0%	Independent
25%	Weakly correlated
50%	Moderately correlated
75%	Strongly correlated
100%	Dependent

The correlation matrices used for diversification are shown below.

Market Risk Correlations

Parameters						
Corr _{ij}	Mkt _{int}	Mkt _{eq}	Mkt _{prop}	Mkt _{sp}	Mkt _{conc}	Mkt _{fx}
Mkt _{int}	100%	0%	0%	0%	0%	25%
Mkt _{eq}	0%	100%	25%	75%	0%	25%
Mkt _{prop}	0%	25%	100%	50%	0%	25%
Mkt _{sp}	0%	75%	50%	100%	0%	25%
Mkt _{conc}	0%	0%	0%	0%	100%	0%
Mkt _{fx}	25%	25%	25%	25%	0%	100%

Comments:

- Equity vs Property – the local stock and property markets have seen low correlations.
- The drops in equity values seem not to affect the property values, hence a weak correlation assumption.

- Interest rate vs Equity/Property – no correlation was assumed if under the interest rate stress an increase in interest rates triggered a capital requirement (as opposed to a decrease in interest rates). 50% correlation was assumed if the decrease in interest rates would trigger a capital requirement under the interest rate stress.
- Spread, concentration and foreign exchange risks were not modelled.