CONSOLIDATED HALLMARK INSURANCE PLC

FINANCIAL CONDITION REPORT
AS AT 31 DECEMBER 2023

Consolidated Hallmark Insurance Plc

266 Ikorodu-Ososun Rd
Obanikoro 102216
Lagos, Nigeria

Prepared by

BECODA CONSULTING
Analytical • Innovative • Creating Value

7, Ibiyinka Olorunbe Close, Victoria Island, Lagos.
Email: info@becodaconsulting.com
Website: www.becodaconsulting.com

Consolidated Hallmark Insurance Plc
Financial Condition Report

10 September 2024

Becoda Consulting has prepared the financial condition report of Consolidated Hallmark Insurance PLC ("the Client" or "Consolidated Hallmark") as at 31 December 2023 and is addressed to the Managing Director of Consolidated Hallmark Insurance PLC. The Report was prepared for our client's sole use and benefit and to meet our client's regulatory requirements under the Insurance Act of 2003. Becoda Consulting makes no representation or warranties to any other third party as to the accuracy or completeness of the Report.

The Report was not prepared for any other third party not stated above and will not address the interests or concerns of any such third party. As this Report has not been prepared for such a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Becoda Consulting (or its members, partners, officers, employees, and agents) to any party other than the named Client. Becoda Consulting, therefore, disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

TABLES OF CONTENTS

EXECUTIVE SUMMARY

1.1 This report is prepared to assist Consolidated Hallmark Insurance PLC ("Consolidated Hallmark") provide an overview of the financial condition of the Company as at 31 December 2023. We understand that this report will form part of the Company's submission to NAICOM.

Key conclusions

1.2 Over the period 2022 to 2023, Consolidated Hallmark has experienced or achieved:

- an increase in premiums received from ₦12,062m to ₦16,630m, which is a 37.9% growth over the period.
- a reduction in its combined ratio (as a percentage of premiums received) from 73.7% to 64.2% driven by improvement in its incurred claims ratio from 32.7% to 19.8% partially offset by a worsening in its expense ratio from 40.9% to 44.5%. An incurred claims ratio of 19.8% is lower than should be usually expected.
- profits before tax of ₦4,113m over the year ending 31 December 2023 compared to ₦939m in the previous year, on an IFRS17 basis. This was driven by improvement in the financial insurance results, specifically investment income, over the period.
- deteriorating effectiveness of reinsurance arrangements over the period. A 3-year target of 80% would normally be advised and Consolidated Hallmark's 3-year ratio stands at 51.1%.
- increase in capital adequacy, assessed against the statutory minimum capital requirement of ₦3bn, stands at 405% at 31 December 2023, up from 300% at 31 December 2022. There have been discussions in the industry on increasing the minimum required statutory capital from ₦3bn to ₦10bn for general insurance companies. The Capital Adequacy Ratio at 2023 will be 121% assessed against a ₦10bn Minimum Required Statutory Capital.

1.3 The Company should review its reinsurance arrangements as the ratio of reinsurance inflows to reinsurance expenses over the last three years is relatively low at 51.1%.

1.4 Based on the above, our view is that with regards to the business on its books at the review date, Consolidated Hallmark is likely to meet its liabilities as and when they arise, and hence, is in good financial condition.

1. INTRODUCTION

1.1 Purpose

The primary purpose of this report is to present the results of our analysis of the financial condition of Consolidated Hallmark Insurance PLC ("Consolidated Hallmark") as at 31 December 2023.

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

1.2 Documents and Information Supplied

We were supplied with the following documents and information for this report by the Management of Consolidated Hallmark.

a) Audited financial statements as at 31 December 2022.
b) Audited financial statements as at 31 December 2023.
c) IFRS 17 financial disclosures as at 31 December 2023 and as at 31 December 2022, as prepared by Becoda and Consolidated Hallmark.
d) Insurance liability valuation as at 31 December 2023 prepared by Becoda.
e) Consolidated Hallmark Group 5-Year Corporate Strategy Plan (2020 – 2024).

1.3 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 of Consolidated Hallmark 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 realisation of the assumption used. In preparing this report, we have relied on information and data supplied by the Management of Consolidated Hallmark Insurance PLC.
- 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.

2. BUSINESS OVERVIEW

2.1 Activities of the Company

The principal business activity of Consolidated Hallmark is the provision of general insurance services, encompassing the following lines of business:

- Aviation
- Bond
- Engineering
- Fire
- General Accident
- Marine
- Motor
- Oil & Gas

There were no changes in the lines of business underwritten in 2023 compared to 2022.

The financial highlights for the year ending 31 December 2023 compared to the year ending 31 December 2022[1]:

Statement of profit or loss	2023	2022 restated
Amounts in N'000		
Insurance revenue	14,815,866	11,142,728
Insurance service expense	(11,518,480)	(8,300,194)
Net income or expense from reinsurance contracts held	(3,710,381)	(2,741,455)
Insurance service result	**(412,996)**	**101,079**
Financial insurance result	**5,493,102**	**1,333,161**
Other expenses	(967,087)	(495,695)
Profit before tax	**4,113,020**	**938,545**
Income tax	(759,953)	(410,768)
Profit for the year	**3,353,066**	**527,777**

Statement of changes in equity (GROUP)	2023	2022 restated
Amounts in N'000		
Opening equity	**9,354,852**	**9,004,544**
Profit for the year	3,769,150	547,015
Other comprehensive income for the year	96,702	21,448
IFRS 17 implementation adjustment	0	0
Transfer to Contigency Reserve	0	0
Cash Dividend	(325,200)	(216,800)
Other changes in equity	0	(1,354)
Closing equity	**12,895,504**	**9,354,852**

- Over the period, the shareholder equity (at the Group level) increased by 37.8%, driven by the profits and other comprehensive income earned during the year.
- The Company achieved a ₦4,113m profit before tax over the period compared to ₦939m over the previous period.
- The improved performance in 2023 was driven mainly by the financial insurance result ₦5,493m achieved in 2023 which is a ₦4,160m improvement compared to 2022.

[1] The results are based on IFRS17 compliant calculations and disclosures

2.2 Company Structure and Changes during the Year

The table below provides a summary of the profile of shareholders.

Shareholder	Shareholding	% Shareholding
Niger Delta Exploration & Production Plc	2,754,442,750	25.41
Capital Express Assurance Co. Ltd	1,066,666,666	9.84
Mr. Eddie Efekoha	1,040,000,000	9.59
Sephine Edefe Nig Ltd	586,798,809	5.41
Others	5,392,091,775	49.74
Total	**10,840,000,000**	**100.00**

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

2.3 Premium History

Consolidated Hallmark's gross premium written for general insurance business saw a significant increase of 37.9% over the period, rising from ₦12,062m in 2022 to ₦16,630m in 2023.

	Gross Premium Written (N'000)		
Line of business	2023 Actual	2022 Actual	2021 Actual
Aviation	1,311,683	1,093,006	1,126,657
Engineering	769,906	929,864	473,752
Fire	2,572,627	1,774,306	1,218,007
General Accident	1,795,121	1,565,664	1,292,547
Marine	1,144,726	799,608	801,591
Motor	4,937,462	2,767,423	2,252,875
Oil & Gas	3,393,213	2,647,699	2,601,348
Bonds	704,989	484,366	257,269
Total	**16,629,728**	**12,061,937**	**10,024,047**

In 2023, 76.4% of the premium income was derived from four key business lines: Motor (29.7%), Oil & Gas (20.4%), Fire (15.5%), and General Accident (10.8%). This distribution is consistent with the premium profiles of 2022 and 2021, where these lines of business accounted for 72.6% and 73.5% of premiums written, respectively.

2.4 Experience Analysis

We have carried out an analysis of the Company's experience for its insurance contracts over the period 2022 - 2023 in the table below; along with a comparison with its 2023 budget.

Amounts in N'000	**2023** *Budget*	**2023** *Actual*	**2022 restated** *Actual*
INSURANCE CONTRACT EXPERIENCE RATIOS			
Premiums received	19,219,430	16,629,728	12,061,937
Insurance revenue	18,636,030*	14,815,866	11,142,728
Incurred claims	(8,386,210)	(3,286,915)	(3,946,818)
Acquisition costs	0**	(3,841,648)	(2,713,967)
Fulfilment expenses	(4,286,290)	(2,583,471)	(1,727,690)
Other (management) expenses	(3,459,000)	(967,087)	(495,695)
Investment income	1,455,080	5,493,102	1,333,161
Profit before tax	**2,833,660**	**4,113,020**	**938,545**
As a % of premium received:			
Insurance Revenue	97.0%	89.1%	92.4%
Incurred Claims [A]	(43.6)%	(19.8)%	(32.7)%
Acquistion costs [B]	-	(23.1)%	(22.5)%
Fulfilment expenses [C]	(22.3)%	(15.5)%	(14.3)%
Other (management) expenses [D]	(18.0)%	(5.8)%	(4.1)%
Investment Income	7.6%	33.0%	11.1%
Profit before tax	14.7%	24.7%	7.8%
Combined ratio on Insurance Services *= [A] + [B] + [C] + [D]*	(83.9)%	(64.2)%	(73.7)%

** Insurance Revenue was not provided in the 2023 budget which was in the IFRS4 format. We have calculated the figure above as the gross premium written less the unexpired premium reserve.*
*** There no explicit acquisition expense stated in the 2023 budget. We have assumed that this is included in the underwriting expenses of ₦4,286m which we have recognised above in the fulfilment expense line.*

The profit before tax was ₦4,113m in 2023, an increase of ₦3,174m compared to the profit of ₦939m achieved in 2022. The 2023 result significantly outperforms the 2023 budget of ₦1,279m by 45.1%.

- The incurred claims ratio improved compared to 2022 from 32.7% to 19.8%. The 2023 incurred claims ratio is relatively low and a claims ratio at this level should not be expected to be a typical trend.
- The total of the ratios of acquisition costs, fulfilment expenses and other (management) expenses to premiums received deteriorated to 44.5% in 2023 compared to 40.9% in 2022. Each component i.e. acquisition costs, fulfilment expenses and other (management) expenses, increased over the period. This was worse than the target of 40.3% set in the 2023 budget.
- These resulted in an improvement in the combined ratio from 73.7% in 2022 to 64.7% at 2023, driven by the reduction in the incurred claims ratio. The Company exceeded the expected combined ratio of 83.9% as set in its 2023 budget.

- The investment income ratio improved from 7.8% in 2022 to 24.7% in 2023 which is the main driver of the improvement seen in the profit before tax ratio over the period.

Overall, the profits were driven by results from the Motor and Fire lines of business – these account for 79.8% of the reported profit before tax.

The table below provides a similar overview of the reinsurance contracts over the same period.

Amounts in N'000	**2023** *Budget*	**2023** *Actual*	**2022 restated** *Actual*
REINSURANCE CONTRACT EXPERIENCE RATIOS			
Reinsurance premiums paid	(6,534,610)	(6,007,917)	(4,986,932)
Inward commissions & fees	1,241,580	1,185,005	756,316
Reinsurance recoveries	4,193,119	1,507,162	2,082,997
Reinsurance contract remeasurements	(587,479)*	(394,631)	(593,836)
Net income or (expense) on reinsurance	(1,687,390)	(3,710,381)	(2,741,455)
As a % of reinsurance premium paid:			
Inward commissions & fees	19.0%	19.7%	15.2%
Reinsurance recoveries	64.2%	25.1%	41.8%
Reinsurance contract remeasurements	(9.0)%	(6.6)%	(11.9)%
Net income or (expense) on reinsurance	(25.8)%	(61.8)%	(55.0)%

** The 2023 budget reinsurance contract remeasurements figure above was derived by scaling the 2023 budget reinsurance premium paid figure with the ratio of the total reinsurance contract remeasurements over 2022 and 2023 to the total reinsurance premium paid over 2022 and 2023.*

There was a worsening in the results for reinsurance contracts in 2023 compared to 2022, with the net expense as a percentage of reinsurance premiums deteriorating from 55.0% to 61.8%. We see an increase in the inward commission & fees as a percentage of the reinsurance premium in 2023 when compared to 2022 and the 2023 budget.

We take a further look at the reinsurance performance in the following section.

2.5 Reinsurance Effectiveness

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

Amounts in N'000	2023 Actual	2022 restated Actual	2021 Actual	Total
Reinsurance premiums	**(6,007,917)**	**(4,986,932)**	**(4,893,973)**	**(15,888,822)**
Inward commission & fees	1,185,005	756,316	714,526	2,655,846
Reinsurance recoveries	1,507,162	2,082,997	1,869,608	5,459,767
Reinsurance Income	**2,692,167**	**2,839,312**	**2,584,134**	**8,115,613**
Value for Money Ratio	44.8%	56.9%	52.8%	51.1%

A three-year target of around 80% would normally be advised for the Value for Money ratio. Over the last three years, we see around 51% of the reinsurance premium was recovered by Consolidated Hallmark, with around 33% from claims and 67% from commission and fees each year.

However, looking at the year-on-year trend, we see that the "Value for Money Ratio" has been steadily deteriorating over the period. It is therefore instructive for Consolidated Hallmark to investigate drivers whilst also looking to review its reinsurance arrangements to optimise them.

The tables below present the results of the value-for-money analysis per line of business over 2023 and 2022.

Value for Money Ratio	2023 Actual	2022 restated Actual	Direction of Change
Motor	7.6%	422.6%	▼
Fire	95.4%	101.8%	▼
General Accident	75.5%	139.4%	▼
Marine	61.5%	53.4%	▲
Bonds	33.0%	35.2%	▼
Oil & Gas	0.0%	13.0%	▼
Engineering	87.9%	48.1%	▲
Aviation	0.0%	0.0%	▬
Total	**44.8%**	**56.9%**	▼

A review of the trend over a longer period and across different cohorts of business would give insight into the drivers and possible corrective actions that can be taken.

3. FINANCIAL POSITION AND MANAGEMENT

3.1 Statement of Financial Position

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

Statement of financial position

Amounts in N'000	2023	2022 restated
Financial Assets	12,432,077	6,325,958
Property	1,271,782	1,265,226
Cash Deposits	1,933,951	1,183,949
Invested Assets	**15,637,810**	**8,775,133**
Reinsurance Assets	3,446,441	3,552,377
Other balance sheet assets	4,902,990	4,430,256
Total Assets	**23,987,241**	**16,757,767**
Insurance liabilities	9,701,038	6,706,663
Other liabilities	2,148,569	1,038,794
Total Liabilities	**11,849,607**	**7,745,457**
Net Assets	**12,137,634**	**9,012,310**

The total assets stand at ₦23,987m as at 31 December 2023 and have increased by 43.1% from ₦16,758m in 2022. This is driven by an increase in the value of financial assets and cash deposits held over the period.

We see a 53.0% increase in total liabilities in 2023 compared to 2022, mainly due to the increase in the value of other liabilities, specifically deferred tax liabilities, current tax liabilities and trade payables, during the period.

Ultimately over the period, the net assets (or Shareholders' funds) improved 34.7% from ₦9,012m in 2022 to ₦12,138m in 2023.

3.2 Results of the Insurance Liability Valuation

The following table provides a reconciliation of the insurance contract liabilities and assets as at 31st December 2023.

Reconciliation of Insurance Contract Liabilities *N'm*	Total	Motor	Fire	General Accident	Marine	Bonds	Oil & Gas	Engineering	Aviation
Opening insurance contract assets	7,745.5	1,643.8	1,364.3	1,877.1	660.9	219.4	925.9	814.7	239.4
Opening insurance contract liabilities	6,706.7	1,404.1	1,064.3	1,731.0	594.9	180.5	779.2	733.7	219.0
Net opening balance	**1,038.8**	**239.7**	**300.0**	**146.1**	**65.9**	**38.9**	**146.7**	**81.1**	**20.4**
Insurance revenue	(14,815.9)	(4,031.3)	(2,296.6)	(1,669.3)	(890.3)	(599.2)	(3,223.5)	(871.2)	(1,234.4)
Insurance service expenses	-	-	-	-	-	-	-	-	-
Incurred claims and other expenses	5,870.4	1,965.7	737.5	1,377.4	455.0	140.4	657.4	288.5	248.4
Acquisition expenses	3,841.6	961.6	639.4	434.1	217.6	102.0	524.7	181.2	781.2
Changes related to future service	-	-	-	-	-	-	-	-	-
Changes related to past service	1,806.4	199.8	(83.8)	790.5	(201.9)	12.1	860.5	108.0	121.3
Total Insurance service expenses	**11,518.5**	**3,127.1**	**1,293.1**	**2,602.0**	**470.7**	**254.5**	**2,042.6**	**577.7**	**1,150.9**
Investment components	-	-	-	-	-	-	-	-	-
Insurance service result	**(3,297.4)**	**(904.3)**	**(1,003.5)**	**932.7**	**(419.7)**	**(344.8)**	**(1,180.9)**	**(293.5)**	**(83.5)**
Insurance finance expenses	-	-	-	-	-	-	-	-	-
Total change in comprehensive income	**(3,297.4)**	**(904.3)**	**(1,003.5)**	**932.7**	**(419.7)**	**(344.8)**	**(1,180.9)**	**(293.5)**	**(83.5)**
Premiums received	16,629.7	4,937.5	2,572.6	1,795.1	1,144.7	705.0	3,393.2	769.9	1,311.7
Claims and expenses paid	(6,496.3)	(2,031.8)	(697.7)	(1,692.8)	(564.5)	(143.7)	(707.3)	(380.2)	(278.3)
Acquisition costs paid	(3,841.6)	(961.6)	(639.4)	(434.1)	(217.6)	(102.0)	(524.7)	(181.2)	(781.2)
Total cash flows	**6,291.8**	**1,944.1**	**1,235.6**	**(331.8)**	**362.6**	**459.3**	**2,161.2**	**208.5**	**252.2**
Closing insurance contract assets	11,849.6	3,113.5	1,839.0	2,557.1	670.0	406.3	2,054.4	784.5	424.7
Closing insurance contract liabilities	9,701.0	2,443.9	1,296.4	2,331.9	537.9	295.0	1,759.5	648.7	387.7
Net closing balance	**2,148.6**	**669.6**	**542.6**	**225.3**	**132.1**	**111.2**	**294.9**	**135.9**	**37.0**

The next table provides a reconciliation of the risk adjustment element of the insurance contract liabilities as at 31st December 2023 as stated in the previous table.

Reconciliation of Risk Adjustment on Insurance Contract Liabilities *N'm*	**Total**	**Motor**	**Fire**	**General Accident**	**Marine**	**Bonds**	**Oil & Gas**	**Engineering**	**Aviation**
Opening insurance contract assets	7,745.5	1,643.8	1,364.3	1,877.1	660.9	219.4	925.9	814.7	239.4
Opening insurance contract liabilities	6,706.7	1,404.1	1,064.3	1,731.0	594.9	180.5	779.2	733.7	219.0
Net opening balance	**1,038.8**	**239.7**	**300.0**	**146.1**	**65.9**	**38.9**	**146.7**	**81.1**	**20.4**
Changes related to current services	-	-	-	-	-	-	-	-	-
CSM for service provided	-	-	-	-	-	-	-	-	-
Risk Adjustment release for expired risks	240.1	20.9	52.4	(28.6)	0.8	1.5	150.5	14.0	28.3
Experience adjustments	(5,103.8)	(1,104.1)	(919.7)	142.2	(217.7)	(356.8)	(2,041.4)	(401.5)	(204.8)
Total changes related to current services	**(4,863.8)**	**(1,083.1)**	**(867.2)**	**113.6**	**(216.9)**	**(355.3)**	**(1,890.9)**	**(387.4)**	**(176.5)**
Changes related to future services	-	-	-	-	-	-	-	-	-
New contracts recognised	-	-	-	-	-	-	-	-	-
Changes in estimates reflected in CSM	-	-	-	-	-	-	-	-	-
Changes in estimates resulting in contract losses	-	-	-	-	-	-	-	-	-
Total changes related to future services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes that relate to past service	-	-	-	-	-	-	-	-	-
Adjustments to liabilities for incurred claims	1,566.4	178.8	(136.2)	819.1	(202.7)	10.5	710.0	93.9	93.0
Total changes that relate to past service	**1,566.4**	**178.8**	**(136.2)**	**819.1**	**(202.7)**	**10.5**	**710.0**	**93.9**	**93.0**
Insurance service result	**3,297.4**	**904.3**	**1,003.5**	**(932.7)**	**419.7**	**344.8**	**1,180.9**	**293.5**	**83.5**
Insurance finance expenses	-	-	-	-	-	-	-	-	-
Total change in comprehensive income	**3,297.4**	**904.3**	**1,003.5**	**(932.7)**	**419.7**	**344.8**	**1,180.9**	**293.5**	**83.5**
Total cash flows	**6,291.8**	**1,944.1**	**1,235.6**	**(331.8)**	**362.6**	**459.3**	**2,161.2**	**208.5**	**252.2**
Closing insurance contract assets	11,849.6	3,113.5	1,839.0	2,557.1	670.0	406.3	2,054.4	784.5	424.7
Closing insurance contract liabilities	9,701.0	2,443.9	1,296.4	2,331.9	537.9	295.0	1,759.5	648.7	387.7
Net closing balance	**2,148.6**	**669.6**	**542.6**	**225.3**	**132.1**	**111.2**	**294.9**	**135.9**	**37.0**

Similar to the insurance contract liabilities, the following table provides a reconciliation of the reinsurance contract assets as at 31st December 2023.

Reconciliation of Reinsurance Contract Assets *N'm*	Total	Motor	Fire	General Accident	Marine	Bonds	Oil & Gas	Engineering	Aviation
Opening insurance contract assets	3,558.2	80.6	982.7	1,009.0	306.1	64.7	683.8	296.3	135.0
Opening insurance contract liabilities	-	-	-	-	-	-	-	-	-
Net opening balance	**3,558.2**	**80.6**	**982.7**	**1,009.0**	**306.1**	**64.7**	**683.8**	**296.3**	**135.0**
Insurance revenue	(5,146.2)	(296.0)	(763.7)	(619.8)	(385.1)	(176.5)	(1,805.5)	(320.8)	(778.7)
Insurance service expenses	-	-	-	-	-	-	-	-	-
Incurred claims and other expenses	474.7	10.8	151.0	192.8	83.1	1.1	14.6	16.3	5.1
Acquisition expenses	-	-	-	-	-	-	-	-	-
Changes related to future service	-	-	-	-	-	-	-	-	-
Changes related to past service	874.4	(47.4)	128.8	683.0	(54.6)	(14.0)	15.5	113.0	50.0
Total Insurance service expenses	**1,349.1**	**(36.6)**	**279.7**	**875.8**	**28.5**	**(12.9)**	**30.1**	**129.3**	**55.1**
Investment components	-	-	-	-	-	-	-	-	-
Insurance service result	**(3,797.1)**	**(332.6)**	**(484.0)**	**256.0**	**(356.6)**	**(189.4)**	**(1,775.4)**	**(191.5)**	**(723.6)**
Insurance finance expenses	-	-	-	-	-	-	-	-	-
Total change in comprehensive income	**(3,797.1)**	**(332.6)**	**(484.0)**	**256.0**	**(356.6)**	**(189.4)**	**(1,775.4)**	**(191.5)**	**(723.6)**
Premiums received	4,822.7	338.1	793.0	619.1	417.0	195.9	1,526.1	231.9	701.5
Claims and expenses paid	(1,507.2)	(14.4)	(736.9)	(400.6)	(169.3)	-	-	(186.0)	-
Acquisition costs paid	-	-	-	-	-	-	-	-	-
Total cash flows	**3,315.6**	**323.7**	**56.1**	**218.4**	**247.8**	**195.9**	**1,526.1**	**45.9**	**701.5**
Closing insurance contract assets	3,076.6	71.7	554.8	1,483.5	197.2	71.2	434.5	150.7	112.9
Closing insurance contract liabilities	-	-	-	-	-	-	-	-	-
Net closing balance	**3,076.6**	**71.7**	**554.8**	**1,483.5**	**197.2**	**71.2**	**434.5**	**150.7**	**112.9**

The table below provides a reconciliation of the risk adjustment element of the reinsurance contract assets as at 31st December 2023 stated in the previous table.

Reconciliation of Risk Adjustment on Reassurance Contract Assets *N'm*	**Total**	**Motor**	**Fire**	**General Accident**	**Marine**	**Bonds**	**Oil & Gas**	**Engineering**	**Aviation**
Opening insurance contract assets	3,558.2	80.6	982.7	1,009.0	306.1	64.7	683.8	296.3	135.0
Opening insurance contract liabilities	-	-	-	-	-	-	-	-	-
Net opening balance	**3,558.2**	**80.6**	**982.7**	**1,009.0**	**306.1**	**64.7**	**683.8**	**296.3**	**135.0**
Changes related to current services	-	-	-	-	-	-	-	-	-
CSM for service provided	-	-	-	-	-	-	-	-	-
Risk Adjustment release for expired risks	71.5	(1.8)	17.9	6.2	4.7	(0.6)	33.8	(3.5)	14.8
Experience adjustments	(4,671.5)	(285.2)	(612.8)	(427.0)	(302.1)	(175.4)	(1,790.9)	(304.5)	(773.6)
Total changes related to current services	**(4,600.0)**	**(287.0)**	**(594.9)**	**(420.7)**	**(297.4)**	**(176.0)**	**(1,757.1)**	**(308.0)**	**(758.8)**
Changes related to future services	-	-	-	-	-	-	-	-	-
New contracts recognised	-	-	-	-	-	-	-	-	-
Changes in estimates reflected in CSM	-	-	-	-	-	-	-	-	-
Changes in estimates resulting in contract losses	-	-	-	-	-	-	-	-	-
Total changes related to future services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes that relate to past service	-	-	-	-	-	-	-	-	-
Adjustments to liabilities for incurred claims	802.8	(45.6)	110.9	676.8	(59.3)	(13.4)	(18.3)	116.5	35.2
Total changes that relate to past service	**802.8**	**(45.6)**	**110.9**	**676.8**	**(59.3)**	**(13.4)**	**(18.3)**	**116.5**	**35.2**
Insurance service result	**3,797.1**	**332.6**	**484.0**	**(256.0)**	**356.6**	**189.4**	**1,775.4**	**191.5**	**723.6**
Insurance finance expenses	-	-	-	-	-	-	-	-	-
Total change in comprehensive income	**3,797.1**	**332.6**	**484.0**	**(256.0)**	**356.6**	**189.4**	**1,775.4**	**191.5**	**723.6**
Total cash flows	**3,315.6**	**323.7**	**56.1**	**218.4**	**247.8**	**195.9**	**1,526.1**	**45.9**	**701.5**
Closing insurance contract assets	3,076.6	71.7	554.8	1,483.5	197.2	71.2	434.5	150.7	112.9
Closing insurance contract liabilities	-	-	-	-	-	-	-	-	-
Net closing balance	**3,076.6**	**71.7**	**554.8**	**1,483.5**	**197.2**	**71.2**	**434.5**	**150.7**	**112.9**

Please see the Appendix for more detailed reconciliation tables.

3.3 Solvency

The table below provides Consolidated Hallmark's balance sheet adequacy and solvency margins over the years 2022 -2023.

Amounts in N'000	2023	2022 restated
Insurance contract liabilities	9,701,038	6,706,663
Shareholders' Funds	12,137,634	9,012,310
Balance Sheet Solvency Margin	**125%**	**134%**
Minimum Required Statutory Capital	3,000,000	3,000,000
Capital Adequacy Ratio	**405%**	**300%**

The Company's available shareholders' funds exceeded the minimum level of ₦3bn over the period 2022 – 2023. The Capital Adequacy Ratio has increased over the period and remained more than the minimum required statutory capital, standing at 405% at 31 December 2023.

We note there have been discussions within the industry around taking the minimum required statutory capital from ₦3bn to ₦10bn for life insurance companies. The Capital Adequacy Ratio at 2023 will be 121% assessed against a ₦10bn Minimum Required Statutory Capital.

The solvency ratio is a measure of an insurance company's ability to absorb risks, and the above suggests that Consolidated Hallmark is solvent. We do however recommend a risk-based solvency approach which would allow key risks to be individually assessed and better managed.

The Balance Sheet Solvency Margin of 125% at 2023 is reduced over its 2022 value of 134%.

The following tables show how sensitive the balance sheet solvency margin and capital adequacy ratio are to changes in the confidence interval used to set the Risk Adjustment.

Balance Sheet Solvency Margin Sensitvity to Risk Adjustment Confidence Level

	Solvency Margins		Sensitivity to Base	
	2023	2022 restated	2023	2022 restated
60% confidence interval	142%	150%	+17%	+16%
70% confidence interval	136%	144%	+11%	+10%
Base (75% confidence interval)	**125%**	**134%**	**125%**	**134%**
80% confidence interval	115%	128%	-10%	-6%
90% confidence interval	59%	97%	-66%	-38%
99.5% confidence interval	55%	94%	-70%	-40%

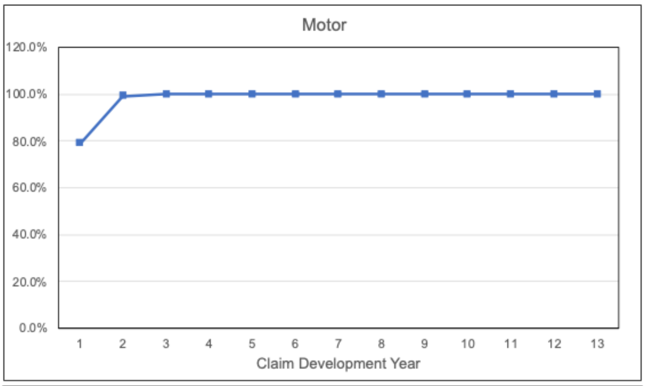
Capital Adequacy Ratio Sensitvity to Risk Adjustment Confidence Level

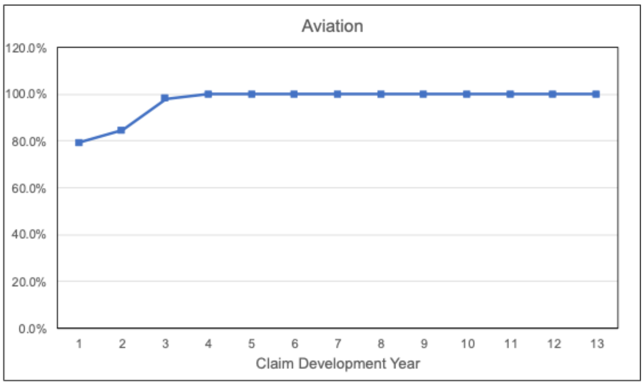
	Solvency Margins		Sensitivity to Base	
	2023	2022 restated	2023	2022 restated
60% confidence interval	427%	315%	+22%	+14%
70% confidence interval	419%	309%	+15%	+9%
Base (75% confidence interval)	**405%**	**300%**	**405%**	**300%**
80% confidence interval	390%	294%	-15%	-6%
90% confidence interval	270%	258%	-134%	-43%
99.5% confidence interval	259%	254%	-145%	-46%

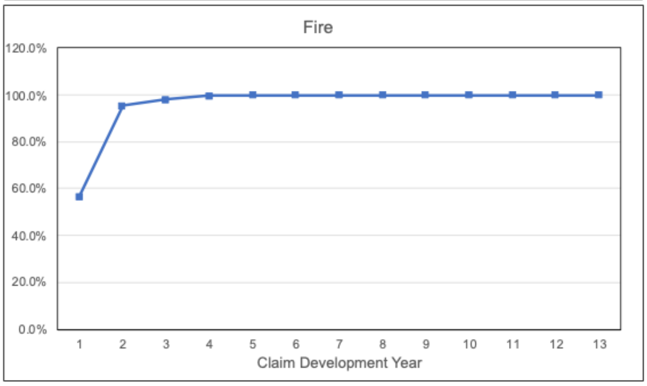
3.4 Liability Profiles

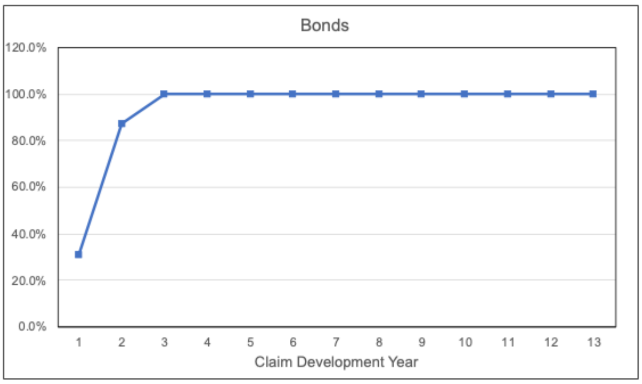
The currency, nature and term of liabilities must inform the assets that Consolidated Hallmark invests in to reduce the risk of mismatch between assets and liabilities.

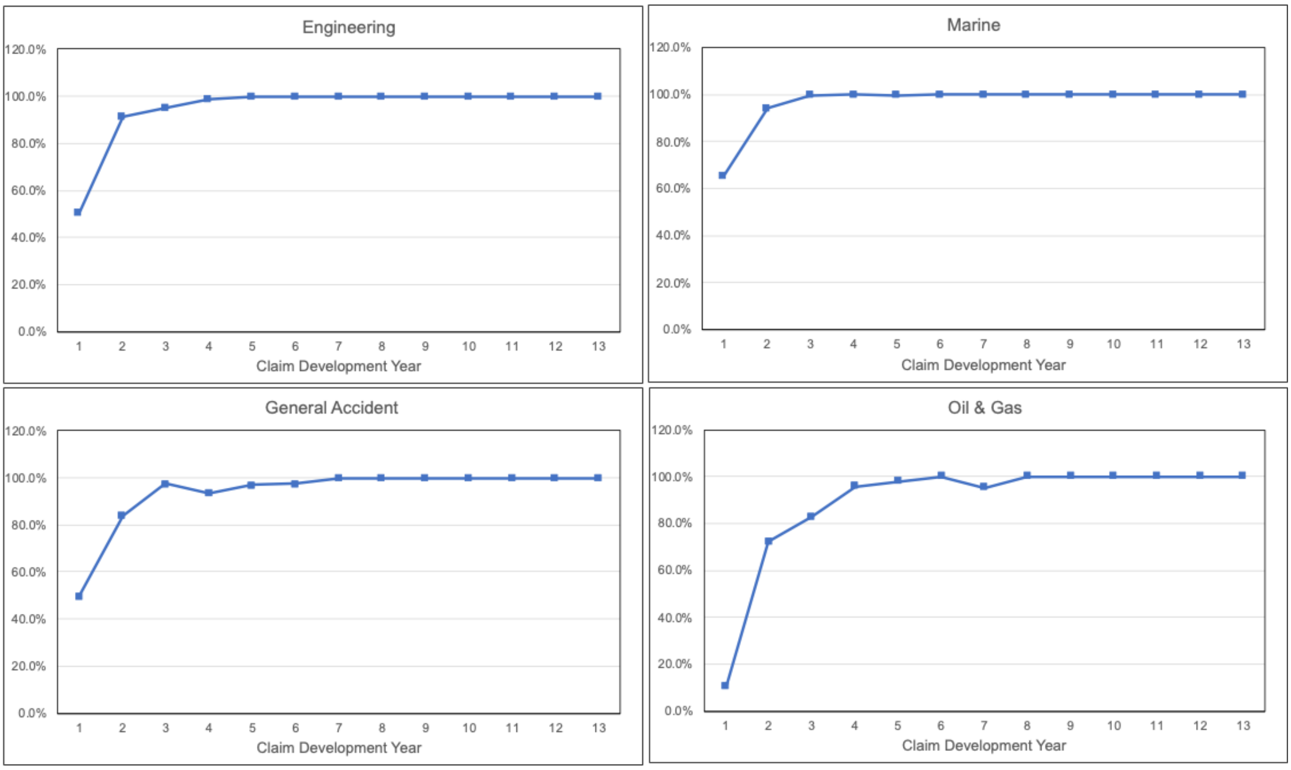
The following charts provide the claim development profile for each line of business based on claims payment data for 2016 – 2022. These provide insight into the term and average progression of the liabilities.











Motor claims have the shortest tails and quickest progression on average compared to other lines of business, whilst Oil & Gas claims have the longest tail and slowest (most volatile) progression on average, based on the historical claims data provided.

3.5 Business Plan

Consolidated Hallmark's proposed budget for the year ending 31 December 2024 is shown in the tables below.

Amounts in N'000	**2024** *Budget*	**2023** *Actual*	**2022 restated** *Actual*
INSURANCE CONTRACTS			
Premiums received	23,063,320	16,629,728	12,061,937
Insurance revenue	22,363,230	14,815,866	11,142,728
Incurred claims	(10,063,450)	(3,286,915)	(3,946,818)
Acquistion costs	0*	(3,841,648)	(2,713,967)
Fulfilment expenses	(5,143,540)	(2,583,471)	(1,727,690)
Other (management) expenses	(4,151,000)	(967,087)	(495,695)
Investment income	1,619,980	5,493,102	1,333,161
Profit before tax	**3,291,240**	**4,113,020**	**938,545**
As a % of premium received:			
Insurance Revenue	97.0%	89.1%	92.4%
Incurred Claims [A]	(43.6)%	(19.8)%	(32.7)%
Acquistion costs [B]	-	(23.1)%	(22.5)%
Fulfilment expenses [C]	(22.3)%	(15.5)%	(14.3)%
Other (management) expenses [D]	(18.0)%	(5.8)%	(4.1)%
Investment Income	7.0%	33.0%	11.1%
Profit before tax	14.3%	24.7%	7.8%
Combined ratio on Insurance Services = [A] + [B] + [C] + [D]	(83.9)%	(64.2)%	(73.7)%

** There no explicit acquisition expense stated in the 2023 budget. We have assumed that this is included the underwriting expenses of ₦5,144m which we have recognised above in the fulfilment expense line.*

Amounts in N'000	**2024** *Budget*	**2023** *Actual*	**2022 restated** *Actual*
REINSURANCE CONTRACTS			
Reinsurance premiums paid	(7,841,530)	(6,007,917)	(4,986,932)
Inward commissions & fees	1,489,890	1,185,005	756,316
Reinsurance recoveries	5,031,730	1,507,162	2,082,997
Reinsurance contract remeasurements	(933,757)*	(394,631)	(593,836)
Net income or (expense) on reinsurance	(2,253,667)	(3,710,381)	(2,741,455)
As a % of reinsurance premium paid:			
Inward commissions & fees	19.0%	19.7%	15.2%
Reinsurance recoveries	64.2%	25.1%	41.8%
Reinsurance contract remeasurements	(11.9)%	(6.6)%	(11.9)%
Net income or (expense) on reinsurance	(28.7)%	(61.8)%	(55.0)%

** The 2024 budget the reinsurance contract remeasurements figure above was derived by scaling the 2023 budget reinsurance premium paid figure with the ratio of the total reinsurance contract remeasurements over 2022 and 2023 to the total reinsurance premium paid over 2022 and 2023.*

The target for 2024 is a 38.7% increase in premiums received to ₦23,063m with a target combined ratio of 83.9% of premiums received in 2024 compared to the 64.2% achieved in 2023. This is underpinned by reducing the expense ratios in 2024 to a total of 40.3% of premiums received compared to 44.5% achieved in 2023, and an incurred claims ratio of 43.6%. The targeted level of profitability for 2024 of 14.3% of premiums received.

3.6 Material Risks

Expense Risk

Consolidated Hallmark achieved an expense ratio[2] of 44.5% in 2023 which is better than the 40.9% achieved in 2022. We see that the target for 2024 is 40.3% which will be an improvement on 2023 and will require robust reduction and control of expenses in the face of inflationary pressures.

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. The combined ratio of at most 100% is ideal – please see the next section for details of the combined ratio by line of business.

We note that the combined ratio for 2023 improved on 2022 at the aggregate level. Allowing for relevant rating factors and employing strict underwriting manages 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 improved over 2022-2023 from 32.7% in 2022 to 19.8% which is unusually low and should not be taken as typical. For the 2024 projected business plan, this target is 43.6%.

Catastrophe Risk

This is the risk of high-severity and low-frequency loss events. This can be mitigated by diversifying the spread of risks covered, geographically and socio- through its underwriting procedures.

Reinsurance can also be used to mitigate this risk.

Economic Risk

This specifically relates to the impact of market conditions, fiscal measures and inflationary pressures on the operations of Consolidated Hallmark. One key market risk for general business is inflationary pressure when claims take longer to settle or are subject to litigation.

Currency Risk

[2] This is the sum of the acquisition cost ratio, fulfilment expense ratio and other (management) expense ratio

Consolidated Hallmark holds US Dollar-denominated assets and, as such is exposed to currency risk. We understand that all Consolidated Hallmark's premiums and claims are received and paid in Nigerian Naira. As such, holding these foreign-denominated assets to back local liability exposures in Naira creates a mismatch that could lead to a strain on the company if adverse changes to exchange rates occur. This risk should be actively managed, hedged and capital held to back any residual exposure.

4. PRICING AND PREMIUM ADEQUACY

The tables below show the incurred claims ratio, expense ratio and combined ratio across each line of business for 2023 and 2022 along with the change over the period. Improvements are highlighted in green and deteriorations are highlighted in red.

	2023			2022			Change over the period		
Line of business	Incurred Claims Ratio	Expense Ratio	Combined Ratio	Incurred Claims Ratio	Expense Ratio	Combined Ratio	Incurred Claims Ratio	Expense Ratio	Combined Ratio
Motor	24.3%	40.8%	65.1%	44.5%	40.3%	84.7%	*(20.2)%*	*0.6%*	*(19.6)%*
Fire	13.1%	46.2%	59.3%	(26.8)%	41.7%	15.0%	*39.9%*	*4.5%*	*44.4%*
General Accident	61.2%	45.5%	106.7%	186.6%	41.6%	228.2%	*(125.4)%*	*4.0%*	*(121.5)%*
Marine	24.2%	40.4%	64.6%	(24.4)%	42.5%	18.1%	*48.6%*	*(2.1)%*	*46.5%*
Bonds	4.4%	35.8%	40.2%	9.3%	40.9%	50.2%	*(5.0)%*	*(5.0)%*	*(10.0)%*
Oil & Gas	3.8%	36.8%	40.7%	1.4%	35.2%	36.7%	*2.4%*	*1.6%*	*4.0%*
Engineering	21.9%	44.9%	66.8%	24.5%	41.4%	66.0%	*(2.6)%*	*3.5%*	*0.9%*
Aviation	3.4%	80.9%	84.3%	13.9%	53.2%	67.1%	*(10.5)%*	*27.7%*	*17.2%*

In aggregate, we have noted earlier in section 2.4 an improvement in the combined ratios. The table above shows that the aggregate result is due to offsetting changes in the combined ratios across all lines of business.

It is worth noting that the combined ratio for general accidents business was more than 100% in both 2022 and 2023. Consolidated Hallmark should investigate whether the premiums are indeed adequate for this line of business. All other lines of business had combined ratios lower than 100%. This suggests the premiums over these years at the aggregate level are adequate, as the premiums received can cover the claims and expenses incurred. A more detailed analysis over the longer period and across different cohorts would give a better view of the adequacy of the premium setting.

5. ACTUARIAL STANDARDS

Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

The following Technical Actuarial Standards are applicable in relation to this report and have been complied with where material:

- TAS 100: Generic TAS - Principles for Technical Actuarial Work, which applies to all technical actuarial work and promotes high-quality technical actuarial work.
- TAS 200: Insurance - Insurance (TAS 200) promotes high-quality technical actuarial work in insurance on matters where there is a high degree of risk to the public interest.

…………………………………………….

Benjamin Awunor BSc, MSc, FIA, FRM
Managing Director, Becoda Consulting
Fellow of the Institute and Faculty of Actuaries
FRC/2015/NAS/00000012946

6. APPENDIX: Aggregate Reconciliation of Insurance Contract Liabilities and Reinsurance Contract Assets

Reconciliation of the liability for remaining coverage and the liability for incurred claims for insurance contracts

Reconciliation of carrying amounts by LRC/LIC: insurance	Liability for Remaining Coverage (LRC)		Liability for Incurred Claims	Insurance Contract Liabilities (ICL)
	Non-onerous	Onerous	LIC	
Opening insurance contract assets	3,999,732,042	-	3,745,724,913	**7,745,456,955**
Opening insurance contract liabilities	3,426,196,149	-	3,280,467,021	**6,706,663,170**
Net opening balance	**573,535,893**	**-**	**465,257,892**	**1,038,793,785**
Insurance revenue	(14,815,865,738)	-	-	**(14,815,865,738)**
Insurance service expenses	-	-	-	**-**
Incurred claims and other expenses	-	-	5,870,386,112	**5,870,386,112**
Acquisition expenses	3,841,647,546	-	-	**3,841,647,546**
Changes related to future service	-	-	-	**-**
Changes related to past service	**-**	**-**	**1,806,446,548**	**1,806,446,548**
Total Insurance service expenses	**3,841,647,546**	**-**	**7,676,832,660**	**11,518,480,206**
Investment components	-	-	-	**-**
Insurance service result	**(10,974,218,192)**	**-**	**7,676,832,660**	**(3,297,385,531)**
Insurance finance expenses	-	-	-	**-**
Total change in comprehensive income	**(10,974,218,192)**	**-**	**7,676,832,660**	**(3,297,385,531)**
Premiums received	16,629,727,642	-	-	**16,629,727,642**
Claims and expenses paid	-	-	(6,496,319,933)	**(6,496,319,933)**
Acquisition costs paid	(3,841,647,546)	-	-	**(3,841,647,546)**
Total cash flows	**12,788,080,096**	**-**	**(6,496,319,933)**	**6,291,760,163**
Closing insurance contract assets	6,573,748,833	-	5,275,858,306	**11,849,607,140**
Closing insurance contract liabilities	5,240,058,053	-	4,460,979,749	**9,701,037,802**
Net closing balance	**1,333,690,780**	**-**	**814,878,557**	**2,148,569,338**

Reconciliation of the components of insurance contract liabilities

Reconciliation of carrying amounts by BEL/RA/CSM: insurance	Estimates of present value of future cashflows	Risk Adjustment	CSM	Total
Opening insurance contract assets	7,273,412,019	472,044,936	-	7,745,456,955
Opening insurance contract liabilities	6,278,922,658	427,740,512	-	6,706,663,170
Net opening balance	**994,489,361**	**44,304,424**	**-**	**1,038,793,785**
Changes related to current services				
CSM for service provided	0	0	-	-
Risk Adjustment release for expired risks	0	240,056,551	0	240,056,551
Experience adjustments	(5,103,832,079)	-	-	(5,103,832,079)
Total changes related to current services	**(5,103,832,079)**	**240,056,551**	**-**	**(4,863,775,529)**
Changes related to future services				
New contracts recognised	-	-	-	-
Changes in estimates reflected in CSM	-	-	-	-
Changes in estimates resulting in contract losses	-	-	-	-
Total changes related to future services	**-**	**-**	**-**	**-**
Changes that relate to past service				
Adjustments to liabilities for incurred claims	1,566,389,997	-	-	1,566,389,997
Total changes that relate to past service	**1,566,389,997**	**0**	**-**	**1,566,389,997**
Insurance service result	**3,537,442,082**	**(240,056,551)**	**-**	**3,297,385,531**
Insurance finance expenses	-	-	-	-
Total change in comprehensive income	**3,537,442,082**	**(240,056,551)**	**-**	**3,297,385,531**
Total cash flows	**6,291,760,163**	**-**	**-**	**6,291,760,163**
Closing insurance contract assets	11,066,788,137	782,819,003	-	11,849,607,140
Closing insurance contract liabilities	9,033,240,739	667,797,063	-	9,701,037,802
Net closing balance	**2,033,547,398**	**115,021,940**	**-**	**2,148,569,338**

Reconciliation of the liability for remaining coverage and the liability for incurred claims for reinsurance contracts

Reconciliation of carrying amounts by LRC/LIC: reinsurance	Liability for Remaining Coverage (LRC)		Liability for Incurred Claims	Insurance Contract Liabilities (ICL)
	Non-onerous	Onerous	LIC	
Opening insurance contract assets	1,123,890,791	-	2,434,308,653	**3,558,199,444**
Opening insurance contract liabilities	-	-	-	**-**
Net opening balance	**1,123,890,791**	**-**	**2,434,308,653**	**3,558,199,444**
Insurance revenue	(5,146,189,606)	-	-	**(5,146,189,606)**
Insurance service expenses	-	-	-	**-**
Incurred claims and other expenses	-	-	474,668,319	**474,668,319**
Acquisition expenses	-	-	-	**-**
Changes related to future service	-	-	-	**-**
Changes related to past service	**-**	**-**	**874,388,084**	**874,388,084**
Total Insurance service expenses	**-**	**-**	**1,349,056,403**	**1,349,056,403**
Investment components	-	-	-	**-**
Insurance service result	**(5,146,189,606)**	**-**	**1,349,056,403**	**(3,797,133,203)**
Insurance finance expenses	-	-	-	**-**
Total change in comprehensive income	**(5,146,189,606)**	**-**	**1,349,056,403**	**(3,797,133,203)**
Premiums received	4,822,717,249	-	-	**4,822,717,249**
Claims and expenses paid	-	-	(1,507,162,125)	**(1,507,162,125)**
Acquisition cash flows	-	-	-	**-**
Total cash flows	**4,822,717,249**	**-**	**(1,507,162,125)**	**3,315,555,123**
Closing insurance contract assets	800,418,434	-	2,276,202,930	**3,076,621,364**
Closing insurance contract liabilities	-	-	-	**-**
Net closing balance	**800,418,434**	**-**	**2,276,202,930**	**3,076,621,364**

Reconciliation of the components of reinsurance contract assets

Assets with positive sign, liabilities with negative sign

Reconciliation of carrying amounts by BEL/RA/CSM: reinsurance	Estimates of present value of future cashflows	Risk Adjustment	CSM	Total
Opening insurance contract assets	3,264,644,564	293,554,880	-	3,558,199,444
Opening insurance contract liabilities	-	-	-	-
Net opening balance	**3,264,644,564**	**293,554,880**	**-**	**3,558,199,444**
Changes related to current services				
CSM for service provided	0	0	-	-
Risk Adjustment release for expired risks	0	71,538,314	0	71,538,314
Experience adjustments	(4,671,521,287)	-	-	(4,671,521,287)
Total changes related to current services	**(4,671,521,287)**	**71,538,314**	**-**	**(4,599,982,973)**
Changes related to future services				
New contracts recognised	-	-	-	-
Changes in estimates reflected in CSM	-	-	-	-
Changes in estimates resulting in contract losses	-	-	-	-
Total changes related to future services	**-**	**-**	**-**	**-**
Changes that relate to past service				
Adjustments to liabilities for incurred claims	802,849,770	-	-	802,849,770
Total changes that relate to past service	**802,849,770**	**0**	**-**	**802,849,770**
Insurance service result	**3,868,671,517**	**(71,538,314)**	**-**	**3,797,133,203**
Insurance finance expenses	-	-	-	-
Total change in comprehensive income	**3,868,671,517**	**(71,538,314)**	**-**	**3,797,133,203**
Total cash flows	**3,315,555,123**	**-**	**-**	**3,315,555,123**
Closing insurance contract assets	2,711,528,170	365,093,194	-	3,076,621,364
Closing insurance contract liabilities	-	-	-	-
Net closing balance	**2,711,528,170**	**365,093,194**	**-**	**3,076,621,364**