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MUTUAL BENEFITS LIFE ASSURANCE LIMITED

Financial Condition Report as at 31 December 2018

May 2019

Contents

1. Executive Summary

This Financial Condition Report ("FCR") sets out the results of the analysis of the financial condition of Mutual Benefits Life Assurance Limited ("Mutual Benefits" or "the Company") as at 31 December 2018. Where available, this report includes an analysis of the financial progress since the previous financial year end. The Company has contracted Zamara Actuaries, Administrators & Consultants Limited to provide actuarial services. In terms of this arrangement, Seth Chengo, FIA, is the appointed actuary.

The FCR is limited to the Mutual Benefits Life Assurance Limited information not the consolidated Mutual Benefits information.

1.1. Financial Performance

The table below details the profitability of Mutual Benefits, as well as a comparison of Actual performance for the financial year ended 31 December 2018. Key financial ratios have also been included that can be used to assess any trends in the business.

REVENUE ACCOUNT	31-Dec-18 NGN'000	31-Dec-17 NGN'000
Gross premium written	5,914,556	4,963,517
Gross premium income	6,193,018	4,637,470
Premium ceded to reinsurers	(537,713)	(761,363)
Net premium income	**5,655,305**	**3,876,107**
Fees and commissions	96,536	166,109
Net underwriting incomes	**5,751,841**	**4,042,216**
Net benefits and claims	4,088,467	2,592,489
Changes in individual life fund	455,428	(4,270)
Changes in annuity reserve	21,990	(22,252)
Underwriting expenses	1,403,045	1,136,011
Net underwriting expenses	**5,968,930**	**3,701,978**
Underwriting profit	**(217,089)**	**340,238**
Profit on investment contracts	1,548,910	891,899
Investment incomes	1,161,210	646,222
Net fair value loss on assets at FVTPL	(31,528)	(85,390)
Other income	19,778	303,148
Impairment charge no longer required	-	2,011
Impairment charges	(9,282)	(78,830)
Employee benefit expenses	(621,595)	(747,233)
Other management expenses	(1,144,311)	(925,258)
Result in operating activities	**706,093**	**346,807**
Finance costs	-	-
Finance income	-	-
Profit before income tax	**706,093**	**346,807**
Income tax(expense)/benefit	(80,917)	(31,950)
Profit from continuing operation	625,176	314,857
Net profit	625,176	314,857

Ratios

Net Claims Ratio (Including Change in the life fund)	80.8%	66.2%
Net Commission ratio	1.7%	4.3%
Underwriting Expense Ratio	24.8%	29.3%
Net Combined Ratio	105.5%	95.5%

From the above, there has been an increase in profits of N 310.3 million over the year which represents a growth in profits of 99%. The observed growth in profits is attributed to more net premiums written in the current year 2018 and higher returns from investment contract and income than in 2017.

The gross written premium increased by 19% over the year, increasing from N 4.96 billion in 2017 to N 5.91 billion in 2018.

Net claims paid increased from N 2.59 billion in 2017 to N 4.09 billion in 2018 representing an increase of 58% in paid claims. There was an increase in actuarial reserves in 2018 of N 264.2 million. The increase in reserves constituted a drastic increase in the reserve for the anticipated endowment contracts as some of the policies are expected to mature in 2019 with an estimated payment of about 1 billion naira in 2019. The number of annuitants remained fairly constant over the year increasing by only 2 annuitants leading to a increase in annuity actuarial reserves. The decrease in term assurance liabilities follows from the nature of term assurance reserves which exhibit a decreasing trend as policies draw closer to expiry. The huge jump of sum assured for many products increased their respective liabilities in 2018.

The underwriting expense ratio decreased slightly by 4.5% from 2017 to 2018. The expense ratio is still considerably high as the ideal ratio should be in the range of 10% -20%. Management should tighten expense controls by implementing effective cost cutting measures to reduce the expense ratio to appropriate levels.

Investment income increased from N 3.9 billion in 2017 to N 4.9 billion in 2018 with the investment return remaining constant at 13.4%. The table below provides a breakdown of the investment income over the past 2 years:

Investment income	31-Dec-18 N '000	31-Dec-17 N'000
Income from investment Contracts	3,799,137	3,360,970
Investment income	1,161,210	646,222
Fair value loss on property investments	(31,528)	(85,390)
Total Investment income	4,928,819	3,921,802

1.1.1. Net Assets

The following table summarises the Net Assets of the Company:

Asset Class	31 Dec 2018 N '000	%	31 Dec 2017 N'000	%
Fixed interest	25,751,517	66%	23,237,024	58%
Property	1,420,000	4%	8,510,000	21%
Equity	604,740	2%	786,472	2%
Cash deposits	7,724,284	20%	4,151,584	10%
Statutory Deposit	200,000	1%	200,000	1%
Invested assets	35,700,541	91%	36,885,080	93%
Reinsurance recoveries	1,635,300	4%	1,070,169	3%
Other balance sheet assets	1,919,798	5%	1,896,955	5%
Total Assets	39,255,639	100%	39,852,204	100%
Insurance and Investment Liabilities	(31,968,579)		(31,708,029)	
Current Liabilities	(1,323,959)		(2,538,228)	
Net Assets	5,963,101		5,605,947	

Net Assets increased from N 5.60 billion in 2017 to N 5.96 billion in 2018 representing an increase of 6.37%.

1.2. Material risks identified

The following section summarises the key risks faced by Mutual Benefits, as well as their impact and implications, based on our reviews as the Appointed Actuary:

1.2.1 Insurance Risk

Mutual Benefits is exposed to the following elements of insurance risk, with varying levels of exposure.

- Mortality Risk – The Company is exposed to the risk of actual mortality rates being higher than the assumed rates in the pricing of products. This would represent higher death pay-outs than expected.

- Longevity Risk – The Company has an annuity book that is exposed to the risk of the annuitants living longer than expected as per the pricing basis of the annuities, representing higher pay-outs than expected. It should be noted that **the Company stopped adding to its annuity business in 2017 pending a complete review of its annuity business model.**

- Expense Risk – The Company is exposed to the risk of the actual expenses incurred exceeding the assumed expenses in the valuation of the liabilities. This is especially crucial given that the expense (including commissions) ratio as at 31 December 2018 was 26.5%. The assumed renewal expenses per policy basis for next year might increase the actuarial liabilities due to future expenses incurred.

- Lapse Risk –The Company's lapse experience needs to be analysed in order to identify the key drivers of the lapses. A high rate of lapses experienced at early policy durations may result in reduced profits as the Company fails to recoup initial expenses incurred in sales and initial policy administration. Lapses also affect the spread of the Company's fixed per policy expenses. Increased lapses may result in an insufficient contribution to the Company's fixed costs by the policies in force. Allowance should therefore be made for surrenders and lapses while pricing and reserving.

- Data Risk – The Company's valuation data includes matured and terminated policies relating to policyholders whose benefits are yet to be settled. This renders the data difficult to reconcile from year to year. There is therefore a risk of under reserving or over reserving in which case profits are misstated.

1.2.2 Investment Risk

The Company's product offering includes policies with significant guaranteed rates of return. This exposes the Company to the risk that the actual investment return achieved is insufficient to meet guaranteed interest rates.

1.2.3 Liquidity Risk

The Anticipated Endowment Product exposes the Company to partial maturity benefit pay-outs in the region of 1 billion naira from year 2020, which would exert pressure on the company's liquid assets. This was the primary driver of the significant increase of about 400 million naira in reserves.

1.2.4 Solvency Risk / Regulatory Risk

The Company should ensure that the proceeds from the maturity of the loan to Prime Exploration and Production Limited are reinvested in admissible assets that earn an appropriate rate of return.

1.3. Recommendations

1.3.1 Addressing Insurance Risk

We recommend that the Company undertakes experience analysis investigations in order to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of the reserves held. Experience should be continuously monitored to effectively manage insurance and investment risks.

It is worth noting that proper data management is key in facilitating the investigations mentioned above. The company should aim at collecting and maintaining accurate data records. In growing the ordinary individual life business, it is important that policyholder movements can be reconciled from year to year to properly assess the profitability of new business.

1.3.2 Investment Risk

Management should consider setting up bonus stabilisation and cost of guarantee reserves in order to manage investment risk. A bonus stabilisation reserve will allow the company to smooth bonuses (interest additions) declared over time and manage policy holder expectations. An asset liability matching exercise should also be undertaken in order to reduce investment risks associated with mismatching assets and liabilities.

1.3.3 Solvency Risk / Regulatory Risk

The Company should ensure that the proceeds from the maturity of the loan to Prime Exploration and Product Limited are reinvested in admissible assets that earn an appropriate rate of return.

1.3.4 Liquidity Risk

We recommend the Company makes adequate provision including sufficient liquidity for partial maturity payments expected under the Anticipated Endowment product. This is especially crucial given that in 2020 majority of the policies underwritten in 2017 will be in their third year and therefore due to receive the first partial maturity payments.

1.4. Status of Prior Year Recommendations

The following is a summary of the status of the key recommendations made in the 2018 FCR:

Recommendation	Status	Comment
Conducting Experience Analyses		This continues to be a point of focus for the company, as experience investigation analyses are yet to be conducted
Setting up an investment guarantee reserve		The Company is yet to set up an investment management guarantee reserve.

Colour	Status	Meaning
Red		Needs immediate action.
Amber		Continues to be an area of focus.
Green		No longer a point of focus.

1.5. Conclusion

I, Seth Chengo, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2018, this Financial Condition Report for Mutual Benefits Life Assurance Limited has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Seth Chengo FIA
Mutual Benefits Life Assurance Limited
Appointed Actuary

FRC No: FRC/2017/NAS/00000016912

2. Information Requirements

2.1 Data Obtained

The following data was received from Mutual Benefits in order to complete the FCR:

- Audited financial statements as at 31 December 2018 for the 2018 financial year.
- Audited financial statements as at 31 December 2017 for the 2017 financial year.
- Actuarial valuation of the Life Fund report as at 31 December 2018 prepared by Zamara.
- Mutual Benefits Financial Condition report as at 31 December 2017.
- Various documents relating to company governance structure and business plans for Mutual Benefits, including:
  - Mutual Benefits Life Assurance Limited Reassurance Management Strategy
  - Mutual Benefits Investment Strategy (2018)
  - Mutual Benefits Enterprise Risk Management (ERM) Framework
  - Mutual Benefits Shareholder Summary and Company Organogram

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

2.2 Reliance and Limitations

This FCR is based on the life revenue accounts of the Company as at 31 December 2018, audited financial statements of the Company as at 31 December 2018, as well as the business plans and company information that were provided to Zamara.

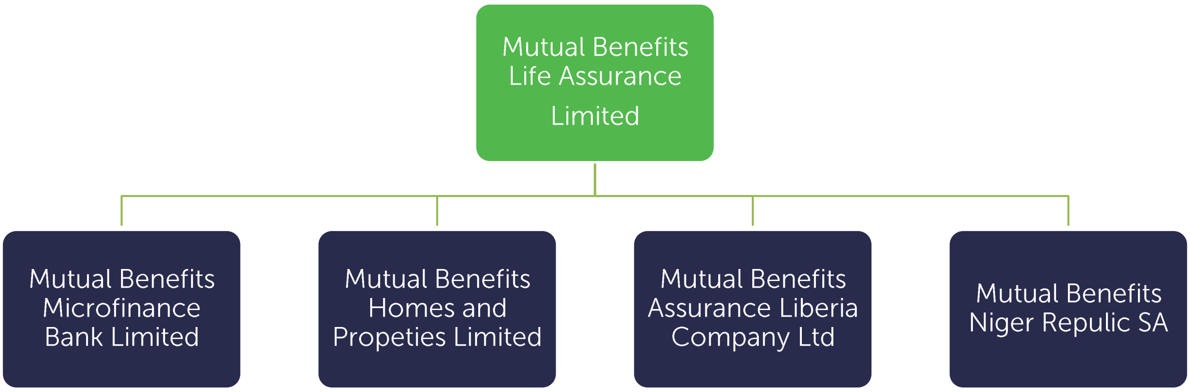
Zamara also conducted the Actuarial Valuation of the Life Fund as at 31 December 2018, the results of which are summarised in section 4.

3. **Business overview**

3.1. Company overview

Mutual Benefits Life Assurance Limited ("Mutual Benefits" or "the Company") is part of a group of Companies owned by Mutual Benefits Assurance Plc in Nigeria. Mutual Benefits Assurance Plc began operations in Nigeria in October 1995 as a private Company and became a public liability company in May 2001. Mutual Benefits Life Assurance primarily transacts life insurance with its Subsidiaries providing other financial services including Microfinance banking and General insurance.

Below is the Company structure of Mutual Benefits



Mutual Benefits Life Assurance Limited ownership structure is as follows:

Shareholder	No of Shares	Percentage Shareholding
Mutual Benefits Assurance Plc	249,000,000	99.6%

3.2. Products

The Company underwrites the following life assurance products for individuals and businesses:

Group Products

- Group Term Assurance
- Deposit Administration Funds

Individual Risk Products

- Term Assurance
- Whole Life
- Anticipated Endowment Assurance
- Mortgage Protection

Individual Investment Products

- Children Education Plan
- Individual Savings and Protection Plan
- Individual Savings and Protection Plan Plus
- Micro-Pension and Investment Plan
- Mutual Benefit Life Investment Plan
- Mutual Dignity Plan
- Mutual Education Guarantee Plan
- Mutual School Fees Guarantee Scheme
- Personal Pension and Investment Plan

Annuities

- Immediate Annuities
- Deferred Annuities

3.3. Recent Experience and Profitability

3.3.1. Revenue Accounts

The table below details the profitability of Mutual Benefits, as well as a comparison of Actual performance for the financial year ended 31 December 2018. Key financial ratios have also been included that can be used to assess any trends in the business.

Revenue Account	31 December 18 N'000	31 December 17 N'000
Gross premium written	5,914,556	4,963,517
Gross premium income	6,193,018	4,637,470
Premium ceded to reinsurers	(537,713)	(761,363)
Net premium income	**5,655,305**	**3,876,107**
Fees and commissions	96,536	166,109
Net underwriting incomes	**5,751,841**	**4,042,216**
Net benefits and claims	4,088,467	2,592,489
Changes in individual life fund	455,428	(4,270)
Changes in annuity reserve	21,990	(22,252)
Underwriting expenses	1,403,045	1,136,011
Net underwriting expenses	**5,968,930**	**3,701,978**
Underwriting profit	**(217,089)**	**340,238**
Profit on investment contracts	1,548,910	891,899
Investment incomes	1,161,210	646,222
Net fair value gain on assets at FVTPL	(31,528)	(85,390)
Other income	19,778	303,148
Impairment charge no longer required	-	2,011
Impairment charges	(9,282)	(78,830)
Employee benefit expenses	(621,595)	(747,233)
Other management expenses	(1,144,311)	(925,258)
Result in operating activities	**706,093**	**346,807**
Finance costs	-	-

Finance income	-	-
Profit before income tax	**706,093**	**346,807**
Income tax(expense)/benefit	(80,917)	(31,950)
Profit from continuing operation	625,176	314,857
Net profit	625,176	314,857

Ratios

Net Claims Ratio (Excluding Change in the life fund)	72.3%	66.9%
Net Claims Ratio (Including Change in the life fund)	80.8%	66.2%
Underwriting Expense Ratio	25%	29%
Net Combined Ratio	106%	96%

From the above, there has been an increase in profits of N 310.3 million over the year which represents a growth in profits of 99%. The observed growth in profits is attributed to more net premiums written in the current year 2018 and higher returns from investment contract and income than in 2017.

The gross written premium increased by 19% over the year, increasing from N 4.96 billion in 2017 to N 5.91 billion in 2018.

Net claims paid increased from N 2.59 billion in 2017 to N 4.09 billion in 2018 representing an increase of 58% in paid claims. There was an increase in actuarial reserves in 2018 of N 264.2 million. The increase in reserves constituted a drastic increase in the reserve for the anticipated endowment contracts as some of the policies are expected to mature in 2019 with an estimated payment of about 1 billion naira in 2019. The number of annuitants remained fairly constant over the year increasing by only 2 annuitants leading to a increase in annuity actuarial reserves. The decrease in term assurance liabilities follows from the nature of term assurance reserves which exhibit a decreasing trend as policies draw closer to expiry. The huge jump of sum assured for many products increased their respective liabilities in 2018.

The underwriting expense ratio decreased slightly by 4.5% from 2017 to 2018. The expense ratio is still considerably high as the ideal ratio should be in the range of 10% -20%. Management should tighten expense controls by implementing effective cost cutting measures to reduce the expense ratio to appropriate levels.

Investment income increased from N 3.9 billion in 2017 to N 4.9 billion in 2018 with the investment return remaining constant at 13.4%. The table below provides a breakdown of the investment income over the past 2 years:

Investment income	31-Dec-18 N '000	31-Dec-17 N'000
Income from investment Contracts	3,799,137	3,360,970
Investment income	1,161,210	646,222
Fair value loss on property investments	(31,528)	(85,390)
Total Investment income	4,928,819	3,921,802

3.3.2. Net Assets

The following table summarises the Net Assets of the Company:

Asset Class	31 Dec 2018 N '000	%	31 Dec 2017 N'000	%
Fixed interest	25,751,517	66%	23,237,024	58%
Property	1,420,000	4%	8,510,000	21%
Equity	604,740	2%	786,472	2%
Cash deposits	7,724,284	20%	4,151,584	10%
Statutory Deposit	200,000	1%	200,000	1%
Invested assets	35,700,541	91%	36,885,080	93%
Reinsurance recoveries	1,635,300	4%	1,070,169	3%
Other balance sheet assets	1,919,798	5%	1,896,955	5%
Total Assets	39,255,639	100%	39,852,204	100%
Insurance and Investment Liabilities	(31,968,579)		(31,708,029)	
Current Liabilities	(1,323,959)		(2,538,228)	
Net Assets	5,963,101		5,605,947	

Net Assets increased from N 5.60 billion in 2017 to N 5.96 billion in 2018 representing an increase of 6.37%.

3.4. Deviations from budgeted plans

The table below identifies deviations in the financial performance of Mutual Benefits for the financial year ended 31 December 2018 relative to the budget for the same period.

Income Statement	2018 Actual	2018 Budget	Difference	Difference
	N'000	N '000	N'000	%
Gross premium written	5,914,190	7,200,943	1,286,753	-18%
Gross premium income	6,192,652	5,602,307	(590,345)	11%
Premium ceded to reinsurers	(537,713)	(456,000)	81,713	18%
Net premium income	**5,654,939**	**5,146,307**	(508,632)	10%
Fees and commissions	96,536	134,700	38,164	-28%
Net underwriting incomes	**5,751,475**	**5,281,007**	(470,468)	9%
Net benefits and claims	4,568,628	2,614,500	(1,954,128)	75%
Underwriting expenses	1,399,936	1,378,898	(21,038)	2%
Net underwriting expenses	**5,968,564**	**3,993,398**	**(1,975,166)**	49%
Underwriting profit	**(217,089)**	**1,287,609**	**1,504,698**	-117%
Profit on investment contracts	1,548,910	845,032	(703,878)	83%
Investment incomes	1,161,210	833,345	(327,865)	39%
Net fair value gain on assets at (FVTPL)	(31,528)	-	31,528	0%
Other income	19,778	348,205	328,427	-94%
Impairment charge no longer required	-	-	-	0%
Impairment charges	(9,282)	-	9,282	0%
Employee benefit expenses	(621,595)	(828,558)	(206,963)	-25%
Other management expenses	(1,144,311)	(1,330,518)	(186,207)	-14%
Result in operating activities	706,093	1,155,115	(393,170)	-39%
Ratios				
Net Claims Ratio	80.8%	50.8%		
Underwriting Expense Ratio	24.8%	26.8%		
Net Combined Ratio	105.5%	77.6%		

The actual financial performance in 2018 was below the expected performance as per the 2018 budget projections. We attribute the deviation to the below budget premium written and above budget claims incurred.

Management expenses and underwriting expenses were below budget which is commendable.

3.5. Business plans

Mutual Benefits has developed a 4-year business plan from 2018. We have outlined below the main points of the second year of the budget

Income Statement	2018 Actual	2019 Budget	Difference	Difference
	N'000	N '000	N'000	%
Gross premium written	5,914,190	9,224,332	3,310,142	56%
Gross premium income	6,192,652	8,265,890	2,073,238	33%
Premium ceded to reinsurers	(537,713)	(826,589)	(288,876)	54%
Net premium income	**5,654,939**	**7,439,301**	**1,784,362)**	**32%**
Fees and commissions	96,536	165,318	68,782	71%
Net underwriting incomes	**5,751,475**	**7,604,619**	**1,853,144**	**32%**
Net benefits and claims	4,568,628	4,650,303	81,675	2%
Underwriting expenses	1,399,936	2,128,812	728,876	52%
Net underwriting expenses	**5,968,564**	**6,779,115**	**810,551**	**14%**
Underwriting profit	**(217,089)**	**825,503**	**1,042,592**	**-480%**
Profit on investment contracts	1,548,910	1,132,600	(416,310)	-27%
Investment incomes	1,161,210	1,075,225	(85,985)	-7%
Net fair value gain on assets at (FVTPL)	(31,528)	21,299	52,827	-168%
Other income	19,778	-	(19,778)	100%
Impairment charge no longer required	-	-	-	0%
Impairment charges	(9,282)	-	9,282	100%
Employee benefit expenses	(621,595)	(648,218)	(26,623)	4%
Other management expenses	(1,144,311)	(1,183,095)	(38,784)	3%
Result in operating activities	706,093	1,223,313	517,220	73%
Ratios				
Net Claims Ratio	80.8%	62.5%		
Underwriting Expense Ratio	24.8%	28.6%		
Net Combined Ratio	105.5%	91.1%		

From the above projections, the top line is expected to grow by 56% from 2018 which implies a growth of N 3.3 billion in written premiums corresponding to an increase of 33% in gross premium income. The expected growth in written premiums is to be supported by implementing the following action points of the business strategy in place:

- Establishing the brand of Mutual Benefits as the most customer focused insurance Company by establishing a platform of getting customer feedback and optimising key customer facing processes
- Aggressive expansion of the customer base particularly in the retail segment by using alternative distribution channels.
- Recruitment, training and retention of over 10,000 marketing agents

The proposed business growth strategy is reasonable; however, it requires a considerable amount of capital resources to implement. It is estimated that about a 65% increase in management expenses in 2018 from 2017 will be required to implement the proposed business growth strategy. In addition, in view of the below budget financial performance in 2017 the projected growth is too optimistic. We recommend that management takes a more prudent view.

The projected claims ratio of 50.8% is fairly reasonable. However, the realisation of this will also be dependent on adequate pricing with regard to making sufficient allowance for expenses.

The projected growth in investment income is consistent with the projected business growth and hence the expected growth in the assets of the life fund. The investment returns are achievable if the investment strategy in place is implemented.

Overall, Mutual Benefits is expected to remain profitable, but management should continue focussing on controlling claims and management costs while monitoring its top-line and maintaining strong investment returns.

4. Financial Position and Solvency Management

Zamara conducted an actuarial valuation of the Life fund of Mutual Benefits as at 31 December 2018, and this section includes a summary of the analysis.

The appointed actuary, on the basis of the audited financial statements provided, has verified that Mutual Benefits has adopted actuarial liabilities at least as high as those recommended by Zamara.

4.1. Results of the Actuarial Valuation

The tables below shows the results of the actuarial valuation of the Company's Life Fund as at 31 December 2018. The results of the valuation as at 31 December 2017 have also been provided for comparative purposes:

Published assets	31-12-2018 N '000	31-12-2017 N'000
Total assets from balance sheet	39,255,639	39,852,204
Less: Gross policyholder liabilities	31,968,579	31,704,419
Less: Current liabilities	1,323,959	2,538,228
Less: Risk Margin	-	3,610
Excess of assets over liabilities	5,963,101	5,605,947
Represented By		
Share Capital	250,000	250,000
Share Premium	3,750,000	3,750,000
Contingency Reserve	465,798	403,280
Less: Fair value losses	111,732	-
Retained Income	1,609,035	1,202,667
Total	5,963,101	5,605,947

Actuarial liabilities for each class of business summarized in the table below;

Published assets	2018 Reserves N '000	2017 Reserves N '000
Insurance contract		
Individual Life	535,353	79,925
Annuities	419,108	397,118
Group Life	5,752,782	4,679,530
Investment Contract		
Individual investment contracts	24,997,834	26,300,055
Deposit Administration contracts	263,502	247,791
Total	**31,968,579**	**31,704,419**

There was a significant increase of actuarial reserves in respect to individual life assurances in 2018 of 455.4 million. Annuity reserves increased due to changes in the assumptions adopted for the 2018 valuation as the number of annuitants remained fairly constant over the year increasing by only two annuitants. The increase in reserves are majorly attributed to the allowance of renewal expenses in the current year valuation. Reserves in respect to risk policies reduced over the year owing to the nature of term assurance reserves that reduce toward the end of the policy term.

The observed increase in Group Life reserves is attributed to the growth in the volume of business.

Increase in the reserves of investment contracts follows from interest additions and deposits made over the year. We also note that the investment contract data also includes deposits of matured and terminated policies that are being processed for pay-out.

4.2. Adequacy of past estimates of insurance liabilities

The bulk of Mutual Benefits reserves comprise of investment contracts which make up 79% of the total reserves. Reserves held as at 31 December 2017 constituted policyholder contributions and interest earned to the date of the valuation which represent the full amount owed by the Company in respect to policy holder liabilities. The reserves were therefore sufficient. It was however recommended that the Company establishes an investment reserve in order to manage the investment risk associated with guaranteed interest rates.

For long term assurance contracts which make up 1.7% of the total liabilities, the adequacy of GPV reserves held depends on how closely assumptions adopted in the valuation represent the actual experience of the Company. If the actual experience of the Company turns out to be worse than that expected as per the valuation assumptions adopted, the reserves held will prove to be insufficient

There were two key assumptions on which computed reserves were based:

- Interest Rate Assumptions
- Expense Assumptions
- Mortality Assumptions

The assumed valuation rate of return was 5% for assurances and 11% for annuities. The investment return assumptions compare to the 13.4 % rate of return actually earned on the assets of the life fund. This therefore implies that the actual experience of the Company was more favourable than that assumed.

Mortality assumptions for individual life assurances were based on SA 1956-62 ultimate mortality tables published on behalf of the Actuarial Society of South Africa (ASSA). For the valuation of annuitants' mortality, assumptions were based on SA 1985-90 ultimate mortality tables. The Company has not undertaken a mortality investigation analysis over the year to assess the suitability of the mortality assumptions. However, given that the volume of insurance risk business is relatively small, the volume of data available will not be sufficient to provide credible mortality rates for the Company to adopt. Overall, actual mortality rates should still be monitored relative to the expected rates as per the reserves held.

We tested the sensitivity of the reserves to various changes in the assumptions adopted and below are the results of the analysis:

Assumptions	Change in Assumption	Increase/Decrease in Liability N'000
Mortality (assurances)	+10%	30,381
Mortality (Annuities)	+10%	(3,861)
Lapse and Surrender	+10%	(9,794)
Discount rate	+1%	(35,804)
Mortality (assurances)	-10%	(26,237)
Mortality (Annuities)	-10%	4,012
Lapse and Surrender	-10%	10,416
Discount rate	-1%	40,844

From the analysis above, the Company's profits will reduce by N 30.4 million if mortality deteriorates by 10%. The profitability of term assurance products is especially sensitive to changes in mortality rates. Management should consider incorporating appropriate risk margins on mortality assumptions used in pricing and reserving.

The value placed on liabilities is also significantly affected by the rate of return used. This is especially critical for annuities, the profitability of which depends on the investment return earned on assets backing the liabilities.

The sensitivity analysis was also carried out on the Lapse and Surrender assumptions for the first time in the 2018 valuation. The results revealed that reserves decrease with increase in lapses. This is true for term assurances as the policies lapse without value. For the anticipated endowments however, the impact of lapses depends on the policies duration in force as well as the value of the surrender benefits payable relative to the reserve.

We recommend that the Company undertakes experience analysis investigations in order to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of the reserves held. Experience should be continuously monitored in order to effectively manage insurance and investment risks.

To assess the adequacy of Group Life reserves, past claim should be analysed against reserves held. We recommend that the Company maintains proper records of claims data including claim amounts, dates of deaths and reporting dates. The data will be used in carrying out IBNR and UPR sufficiency analyses.

Overall, we are confident that reserves computed are adequate. We however, recommend that the Company undertakes a detailed analysis of surplus exercise to assess the extent of the deviation of the actual experience from that assumed and to also make adequate provision including sufficient liquidity for partial maturity payments expected under the Anticipated Endowment product. This is especially crucial given that in 2020 majority of the policies underwritten in 2017 will be in their third year and therefore due to receive the first partial maturity payments.

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4.3. Solvency

The statutory solvency position of the Company over the past two years is summarised below:

Published assets	31-12-2018 N '000	31-12-2017 N'000
Total assets from balance sheet	28,875,871	28,995,792
Less: Gross policyholder liabilities	31,968,579	31,704,419
Less: Current liabilities	1,323,959	2,507,159
Excess of assets over liabilities	(4,416,667)	(5,215,786)
Required Solvency Margin (max (N 2b, 15% net premiums)	2,000,000	2,000,000
Solvency Ratio	(2.208)	(2.608)

From the above, the solvency status of the Company reflects a deficit of N 4.4 billion This follows from the inadmissible assets held by the Company comprising, staff loans of N 52.7 million, a loan to Mutual Homes and Properties limited of N 0.32 billion, a loan to Prime Exploration and Production Limited of N 10.2 billion and intangible assets of N 0.8 million.

The statutory basis also deducts from the current liabilities as the current liabilities reduces to N 1.32 billion from the prior year.

We understand that the Company was permitted by the regulator (National Insurance Commission "NAICOM") to hold as an admissible asset, its loan to Prime Exploration and Production Limited until the end of the loan tenure in 2019.

The table below summarises the valuation results including the solvency status on a statutory basis allowing for the admissibility of the loan to Prime Exploration and Production Limited and adjustments for some other items as per the approved statements by NAICOM:

Published assets	31-12-2018 N '000	31-12-2017 N'000
Total assets from balance sheet	39,255,639	39,852,204
Less: Gross policyholder liabilities	31,968,579	31,704,419
Less: Current liabilities	1,323,959	2,507,159
Excess of assets over liabilities	5,963,101	5,640,626
Required Solvency Margin (max (N 2b, 15% net premiums)	2,000,000	2,000,000
Solvency Ratio	2.982	2.820

From the table above, the solvency status of the Company, allowing for the admissibility of the loan to Prime Exploration and Production Limited is 3.00 which implies that the Company is sufficiently capitalised. There is however a regulatory risk to which the Company is exposed relating to the admissibility of assets held in demonstrating solvency. We note that the loan to Prime Exploration and Production Limited expires in 2019. The Company will therefore be looking to reinvest the proceeds of the debt in 2019. It is important that the Company selects admissible assets that will still provide an appropriate level of investment returns.

5. Premium adequacy

5.1 Premium Adequacy

The table below indicates key financial ratios for Mutual Benefits for the financial year ended 31 December 2018. The corresponding statistics from the previous year have been included for comparative purposes.

Ratios	31 December 2018	31 December 2017
Net claims ratio	80.8%	66.2%
Net Commissions ratio	1.7%	4.3%
Management Expense ratio	24.8%	29.3%
Net combined ratio	105.5%	95.5%
Investment return	13.4%	11.6%

The above statistics indicate that the overall mix of exposure for the Company results in a profit (combined ratio less than 100%). Additionally, the investment return has been stable.

However, the Net Claims ratio is considerably high and this contributes to high combined ratio observed.

In order to effectively assess the premium adequacy of Mutual Benefits, a profit test analysis of the business in force has to be carried out. The exercise involves projecting to maturity future cash flows in respect to the business in force based on the actual expected experience. The cash flows include all contractual outgo and income as well as the increase in statutory reserves for every period of projection. As the reserves held include risk margins, we expect that the margins are released as profits through the term of the policy. The discounted profits are then expressed as a proportion of the present value of future expected premiums in order to arrive at a profit margin of the business.

A positive profit margin indicates that the premiums are sufficient to cater for expenses and claims. The profit test exercise may be extended to assess the profitability of all policies in force as well expected new business in an appraisal value calculation. This would serve as a granular check on the profitability of each type of product sold by the company, together with the actual drivers of the same.

An explicit analysis of surplus would further determine the parameters that are contributing to the profits, e.g. lapses being lower than expected could release profits.

6. Asset and Liability Management

6.1. Assets

6.1.1. Asset classes

The table below shows the composition of the Company's assets between the various asset classes as at 31 December 2018. Corresponding statistics for the previous financial year are shown for comparative purposes.

Asset Class	2018	%	2017	%
Fixed interest	25,751,517	66%	23,237,024	58%
Property	1,420,000	4%	8,510,000	21%
Equity	604,740	2%	796,472	2%
Cash deposits	7,724,284	20%	4,151,584	10%
Statutory Deposit	200,000	1%	200,000	1%
Invested assets	35,700,541	91%	36,895,080	93%
Reinsurance recoveries	1,635,300	4%	1,070,170	3%
Other balance sheet assets	1,919,798	5%	1,886,955	5%
Total Assets	39,255,639	100%	39,852,205	100%
Insurance and Investment Liabilities	(31,968,579)		(31,708,029)	
Current Liabilities	(1,323,959)		(2,538,228)	
Net Assets	5,963,101		5,605,948	

6.1.2. Valuation of Assets

For the purposes of this FCR, the assets have been taken into account at 100% of fair (or market) value. The value of assets as at 31 December 2018 was N 39.3 billion.

6.2. Liabilities

The Company underwrites life insurance products for the individual and business markets. Please see Section 3.2 for further details.

The life assurance liabilities held by the Company are primarily long term and are all denominated in Naira.

The Company has a significant book of long term investment individual life policies whose sums assured comprise the full amount of policy holder contributions accumulated with accrued interest standing to the credit of the policyholder. Investment contract actuarial liabilities made up 85% of the total liabilities held.

Insurance risk liabilities form the remaining 21% of the Company's liabilities, which mainly comprise short term group life insurance liabilities. The proportion of long term insurance liabilities relative to the Company's total liabilities is 1.7%. Long term liabilities constitute actuarial reserves of annuities and assurances, a large proportion of which are guaranteed in monetary terms. A small portion of the long-term liabilities includes discretionary liabilities in respect to reversionary bonuses declared under the individual life anticipated endowment assurance.

6.3. Asset Liability Matching

The currency, nature and term of the liabilities impact the assets that the Company should be investing in so as to reduce the risk of a mismatch between assets and liabilities.

Given that the Company's liabilities are primarily investment linked with investment guarantees, it is important that management adopts an investment strategy that provides a stable return that meets the minimum guarantee. 66% of the Company's invested assets comprises fixed interest securities that provide an average return of about 4% which is higher than the investment guarantee rate of 5%.

The Company also has as part of its assets, equity and property that make up 6% of invested assets. Investment income from the two asset classes is characterised by high volatility and cannot be relied upon to always meet investment guarantees. However, Equity and Property provide real returns which are expected to increase in the long term. The assets therefore serve to provide higher returns compared to fixed interest securities that will allow the Company to make competitive interest additions to funds under administration and better claims experience being better than the benefits assumed.

Cash deposits that make up the remaining proportion 20% of assets provide sufficient liquidity to match the short-term pay-outs expected due to claims and expenses.

An overall view of the balance sheet of Mutual Benefits shows that the company's assets give an acceptable level of matching to the expected liabilities.

7. Reinsurance Arrangements

7.1. Reinsurance Strategy

The following sections are summarised from the Mutual Benefits Life Assurance Limited Reassurance Management Strategy.

7.1.1. Current Reinsurance Arrangements

- The retention is limited to maximum of N 10 million on individual Life and 15 million for Group Life Policies
- The medical limit on Individual and Group Life is N 20 million
- The treaty capacity per individual Life Assured is N 400 million

7.1.2. Changes in Reinsurance arrangements from 2016

- Increase of retention on individual from N 5 million to N 10 million
- Increase of retention on group from N 10 million to N 15 million
- Increase in treaty arrangement per life from N250m to N 400 million

In management of liquidity regarding mismatches between reinsurance recoveries and payment, no gap is allowed between the time of claim settlement and recovery.

7.2. Reinsurance Impact

The impact of reinsurance has been assessed by the difference between the gross and net loss ratios. A positive difference indicates reinsurance savings while a negative difference indicates that reinsurance arrangements in place may not be optimal. Between the years 2017 and 2018. In 2018, the reinsurance impact was 10% and that grew to 29% in 2018.

The table overleaf provides the analysis for the year ending 31 December 2018 and the previous year.

	31 December 2018	31 December 2017
Gross Written Premium	5,914,190	4,963,517
Gross Earned Premium	6,192,652	4,637,470
Reinsurance Premium	(537,713)	(761,363)
Net Premium	5,654,939	3,876,107
Gross incurred Claims	5,963,726	3,830,607
Reinsurance Recoveries	(1,875,260)	(1,238,118)
Net incurred Claims	4,088,466	2,592,489
Commissions income	96,536	166,109
Gross Loss Ratio A	101%	77%
Net Loss Ratio B	72%	67%
Reinsurance Impact (A-B)	29%	10%
Commissions income Ratio	2%	4%

The above statistics indicate that overall, reinsurance arrangements have improved the claims ratio position from 2016 by 19%. In addition, the commission income adds to the benefits of the reinsurance in place.

8. Risk Management

8.1. Risk Management Strategy

Mutual Benefits has adopted a formal Enterprise Risk Management Framework. We have summarised below the key points from the strategy:

- Empower all staff to proactively identify, control, monitor, and regularly report risk issues to management
- Strengthen the risk management framework to fully support the strategic business units and the overall business strategy. The strategy is to develop an integrated approach to risk assessments, measurement, monitoring and control that captures all risks in every area of the business activities.
- Drive overall corporate objective with emphasis on protecting the organization from risks while increasing its market share.
- Ensure the existence and appropriate implementation of a risk management process that is well articulated to identify, assess, measure, monitor and control all the identified risks elements.
- Develop detailed policies and guidelines to guide the management of claims risk, operational risks, market risks, investment risks, liquidity risks, and other identified risk types

8.2. Material risks

The following summarises the key risks faced by Mutual Benefits, as well as their impact and implications, based on our reviews as the Appointed Actuary:

8.2.1 Insurance Risk

Mutual Benefits is exposed to the following elements of insurance risk, with varying levels of exposure.

- Mortality Risk – The Company is exposed to the risk of actual mortality rates being higher than the assumed rates in the pricing of products. This would represent higher death pay-outs than expected.
- Longevity Risk – The Company has an annuity book that is exposed to the risk of the annuitants living longer than expected as per the pricing basis of the annuities, representing higher pay-outs than expected. It should be noted that the Company stopped adding to its annuity business in 2017 pending a complete review of its annuity business model.
- Expense Risk – The Company is exposed to the risk of the actual expenses incurred exceeding the assumed expenses in the valuation of the liabilities. This is especially crucial given that the expense (including commissions) ratio as at 31 December 2017 was 33.6%.

- Lapse Risk – The Company's valuation basis does not make allowance for lapses. There is a risk of under estimating the reserves of assurance policies resulting from not adequately allowing for the effect of lapses.

8.2.2 Data Risk

- The Company's valuation data includes matured and terminated policies relating to policyholders whose benefits are yet to be settled. This renders the data difficult to reconcile from year to year. There is therefore a risk of under reserving or over reserving in which case profits are misstated.

8.2.3 Investment Risk

The Company's product offering includes policies with significant guaranteed rates of return. This exposes the Company to the risk that the actual investment return achieved is insufficient to meet guaranteed interest rates.

8.2.4 Solvency Risk /Regulatory Risk

The Company is exposed to regulatory risk relating to the admissibility of assets held in demonstrating solvency. We note that the Company holds as part of its assets a commercial loan of N 10.2 billion to Prime Exploration and Production Limited which is of the total assets. Commercial loans are inadmissible in demonstrating Solvency. The Company was however permitted by the regulator (National Insurance Commission "NAICOM"), to hold as an admissible asset this commercial loan. The loan expires in 2019, and Company will therefore be looking to reinvest proceeds thereof. It is important that the Company selects admissible assets that will still provide an appropriate level of investment returns.

8.3. Recommendations

8.3.1 Addressing Insurance Risk

We recommend that the Company undertakes experience analysis investigations in order to assess the appropriateness of the valuation assumptions adopted and hence the sufficiency of the reserves held. Experience should be continuously monitored to effectively manage insurance and investment risks.

It is worth noting that proper data management is key in facilitating the investigations mentioned above. The company should aim at collecting and maintaining accurate data records. In growing the ordinary individual life business, it is important that policyholder movements can be reconciled from year to year to properly assess the profitability of new business.

8.3.2 Investment Risk

Management should consider setting up bonus stabilisation and cost of guarantee reserves in order to manage investment risk. A bonus stabilisation reserve will allow the company to smooth bonuses (interest additions) declared over time and manage policy holder expectations. An asset liability matching exercise should also be undertaken in order to reduce investment risks associated with mismatching assets and liabilities.

8.3.3 Addressing Solvency /Regulatory Risk

The Company should ensure that the proceeds from the maturity of the loan to Prime Exploration and Product Limited are reinvested in admissible assets that earn an appropriate rate of return.

Conclusion

I, Seth Chengo, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2017, this Financial Condition Report for Mutual Benefits Life Assurance Limited has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Chengo

Seth Chengo FIA
Mutual Benefits Assurance Company Limited
Appointed Actuary

FRC No: FRC/2017/NAS/00000016912

FCR Dec 2017 Final Signed - Actuarial - N103 - Valuation - 201808 (ID 352308)

Appendix 1: Data Reconciliation

The following data was received from Mutual Benefits in order to complete the FCR:

- Audited financial statements as at 31 December 2018 for the 2018 financial year.
- Audited financial statements as at 31 December 2017 for the 2017 financial year.
- Actuarial valuation of the Life Fund report as at 31 December 2018 prepared by Zamara
- Various documents relating to company governance structure and business plans for Mutual Benefits, including:
    - Mutual Benefits Assurance Life Limited's Reassurance Management Strategy
    - Mutual Benefits Investment Strategy
    - Mutual Benefits Assurance Company's Strategic Plan

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