CUSTODIAN AND ALLIED INSURANCE LIMITED

FINANCIAL CONDITION REPORT FOR NON-LIFE BUSINESS AS AT

31ST DECEMBER 2025

Building a better working world

Building a better working world

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EXECUTIVE SUMMARY

This report presents a comprehensive overview of the financial condition of the Company. It is important to note that this document will be included as part of the Company's submission to the National Insurance Commission (NAICOM).

The preparation of this report adheres to the guidelines set forth in the General Insurance Business Actuarial Reports Guidance Notes (GN12v5.0), as published by the Institute and Faculty of Actuaries. Additionally, it complies with Paragraph 6.5.5 of the Prudential Guidelines for Insurers and Reinsurers issued by the regulatory authority, NAICOM.

This report aims to provide stakeholders with a clear understanding of the Company's financial health and its alignment with regulatory standards.

The following are the key conclusions of the report.

- As of December 31, 2025, Custodian and Allied Insurance Ltd balance sheet solvency ratios from 2023 to 2025 reflect a strong financial position, with a solvency ratio exceeding 100%. The Capital Adequacy Ratio (CAR) is currently at 332%, significantly above regulatory requirements, indicating a robust capital position and financial stability.

- It is noted that Custodian and Allied Insurance Ltd.'s financial performance from 2024 to 2025 demonstrates substantial growth in the insurance service, with insurance revenue increasing by 52%. However, the profit after tax has seen a decrease of 23% and a major contributor to this is a decrease in investment income.

- It is noted that Custodian and Allied Insurance Ltd anticipate a growth of an average of at least 15% in GWP by 2025 across all lines of businesses.

- As of December 31, 2025, Custodian and Allied Insurance Ltd 's assets and liabilities reserves indicate a solid financial position, with incurred claims reserves and methodologies for calculating premium and claim reserves ensuring accuracy and reliability. The company maintains adequate reserves to cover claims during the reporting period.

- Custodian and Allied Insurance Ltd employs a structured approach to ensure premium adequacy, balancing competitive pricing with the need to cover expected claims and expenses. The combined ratio has improved significantly, indicating effective management of underwriting and operational costs, further supporting premium adequacy.

- Custodian and Allied Insurance Ltd adheres to a comprehensive Reinsurance Management Framework, ensuring all arrangements are documented and executed to guarantee claim recoverability. The company's reinsurance strategy focuses on implementing Board risk appetite while optimizing capacity and maintaining regulatory compliance, with positive value for money demonstrated across all lines of business.

The Managing Director
Custodian And Allied Insurance Limited
Custodian House,
16A Commercial Avenue
Sabo, Yaba
Lagos.

March 2026

FINANCIAL CONDITION REPORT FOR NON-LIFE BUSINESS AS AT 31ST DECEMBER 2025

Dear Sir,

Introduction, Purpose and Limitations

1.1 We are pleased to present our Financial Condition Report ("FCR") for CUSTODIAN AND ALLIED INSURANCE LIMITED ('the Company") as at 31st December 2025.

Purpose:

1.2 This report presents the findings of our assessment regarding the criteria established in the Guidance Note (GN12v5.0) issued by the Institute and Faculty of Actuaries, as well as the Prudential Guidelines for Insurers and Reinsurers 2022. The evaluation is conducted in relation to CUSTODIAN AND ALLIED INSURANCE LIMITED for the financial year ending 31st December 2025.

1.3 This report is prepared solely for the purpose of providing an overview of the current financial condition of the Company. We understand that this report will form part of your submission to NAICOM. This report is not to be used for any other purpose other than that described above and should not be distributed to any other parties other than NAICOM.

Limitations:

1.4 Management is solely responsible for the contents and submission of the Financial Conditions Report in accordance with Guidance Note GN12V5.0

1.5 Because our assessment does not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements (or relevant national standards or practices), we do not express any assurance on the financial statements, the financial conditions or the ability of the entity to continue as a going concern for the foreseeable future.

1.6 Had we performed additional procedures, or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on

Review Engagements (or relevant national standards or practices), other matters might have come to our attention that would have been reported to you.

1.7 Our report has been prepared based on certain assumptions and is subject to certain limitations. These have been described in Appendix 1 - Reliance and Limitations.

2. Developments in the Business

2.1 In the financial year 2025, several proposed reforms were enacted, which were all centered around the recapitalization of the insurance industry. The Nigerian Insurance Industry Reform Act (NIIRA), signed into law in August 2025, aims to strengthen the insurance sector, enhance customer protection, and improve market penetration.

As part of the recapitalization initiative, the regulatory authority mandated that all insurance companies undergo a compulsory review of their reinsurance arrangements by a qualified actuary. This review is intended to ensure the efficient structuring of reinsurance programs and compliance with solvency requirements.

Although these reforms are intended to strengthen the insurance industry and promote long-term stability, several insurance companies have struggled to meet the new capital requirements and to absorb the additional costs associated with implementing the changes.

The reforms have therefore placed significant financial pressure on insurers by increasing operational and compliance expenses.

Despite the challenges, Custodian and Allied Insurance Ltd. has successfully sustained profitability, as detailed in Section 2.2

2.2 We illustrate in the table below how Custodian and Allied Insurance Ltd.'s books have developed over the year 2024 to 2025.

(NGN'000)	2025	2024	YoY Movement
Insurance Revenue	100,893,786	66,250,057	52%
Insurance Service Expense	(33,366,069)	(29,585,585)	13%
Net expenses from reinsurance contracts held	(49,776,353)	(33,966,149)	47%
Insurance Service Result	17,751,364	2,698,323	558%
Investment Return	14,057,378	32,766,305	-57%
Net insurance finance expenses	(959,366)	1,247,740	-177%
Other Operating Expenses	(4,682,171)	(3,599,456)	30%
Profit before Tax	26,167,205	33,112,912	-21%
Income Tax	(5,490,928)	(3,397,880)	62%
Profit after Tax	20,676,277	29,715,032	-30%

Although Insurance Service Expenses and Net Expenses from Reinsurance Contracts increased by 13% and 47% respectively, the insurance service result improved significantly. This improvement was primarily driven by a proportionally higher increase in insurance revenue relative to the rise in reinsurance expenses between 2024 and 2025.

However, the reduction in the investment return largely attributable to foreign exchange loss has led to a decline in Profit Before Tax. Further driving the reduction in profit after taxation by 30% was the income tax expense borne for the year ended 2025.

3. Business Overview

3.1 Company Overview

Custodian and Allied Insurance Limited is a Nigerian company whose vision is to be Africa’s insurer of choice, with a mission to develop, package and deliver innovative insurance products that best satisfy customer needs whilst operating a highly profitable, efficient, resourceful and ethical organization that will survive well into the future and be an asset to its shareholders.

The Company was incorporated on 16 March 2007 as a private limited liability company called “Crusader General Insurance Limited”. The Company’s name was changed to Custodian and Allied Insurance Limited in March 2013 following the successful scheme of merger between Crusader Nigeria Plc and Custodian Investment Plc (formerly Custodian and Allied Plc).

The Company is a wholly owned subsidiary of Custodian Investment Plc (formerly Custodian and Allied Plc).

3.2 Principal Activities

Custodian And Allied Insurance Limited engages in a variety of insurance services, including:

- Marine insurance
- Motor insurance
- Accident insurance
- Fire insurance
- Other non-life insurance services
- Claims settlement
- Investment activities

The company anticipates a revenue growth of an average of 15% in GWP by 2026, across all lines of business. It experienced a 30% decrease in profit after tax from 2024 to 2025, driven by a greater cost of claims paid and expenses attributable.

3.3 Shareholding Structure

The ultimate beneficial shareholder of Custodian and Allied Insurance Ltd is Custodian Investment Plc, which currently holds 99.99% accounting for about 19.9 billion shares outstanding.

The Group structure has no impact on the individual financial position of Custodian and Allied Insurance Company Ltd.

4. Recent Experience and Financial Performance

	2025 Actual	2024 Actual	Y-o-Y (%)	2025 Budget	Actual vs Budget (%)
	N'm	N'm		N'm	
Insurance contract revenue	100,894	66,250	52%	98,350	3%
Insurance service expense	(33,366)	(29,586)	13%	(30,388)	10%
Net expense from reinsurance contracts held	(49,776)	(33,966)	47%	(49,997)	0%
Net Underwriting results	17,751	2,698	558%	17,965	-1%
Net Investment results	14,057	32,766	-57%	13,455	4%
Net operating expense	(4,682)	(3,599)	30%	(5,129)	-9%
Profit before income tax expense	26,167	33,113	-21%	25,085	4%

Underwriting Results

The insurance service improved significantly from a profit of N2.69 billion in 2024 to a profit of N17.75 billion in 2025, primarily due to increased premiums. The Motor and Marine business lines showed strong underwriting performance, highlighting the diversity and resilience of the portfolios despite ongoing inflation and currency devaluation.

Investment Performance

The investment market saw increased yields, particularly in short-term instruments, with T-bill rates reaching 30%. Despite the naira’s recent stability, it depreciated by about 57% in 2025. This led to net investment results of N14 billion, down from N32.8 billion in 2024. However, the recorded investment results exceeded the budget by 4%.

Other operating expenses rose by 30% in 2025, from N3.6 billion to N4.68 billion, due to inflation and rising service costs, but however remained within the budget set at 5.1 billion, reflecting effective cost management.

5. Valuation of Assets and Liabilities

5.2 The table below illustrates Custodian and Allied Insurance Ltd.'s assets and liabilities reserves as at 31st December 2025.

Reserves	Liability (N)	Assets (N)	Net (N)
Incurred Claims	26,259,797,190	(8,718,704,129)	17,541,093,061
Risk Adjustment	2,573,460,124	(2,179,676,032)	393,784,092
Remaining Coverage (Excluding Loss Component)	21,850,727,292	(14,266,983,265)	7,583,744,027
Remaining Coverage (Loss Component)	2,140,000	0	2,140,000
Total (31 December,2025)	50,686,124,606	(25,165,363,426)	25,520,761,180

The incurred claims reserves for each class of business and present a summary of the results below.

Liability Table

Portfolio	LIC (PVFCF) N	LIC (RA) N	LIC N
General Accident	4,022,447,665	394,199,871	4,416,647,536
Aviation	885,095,851	86,739,393	971,835,244
Bond	8,727,985	855,343	9,583,328
Engineering	2,751,613,848	269,658,157	3,021,272,005
Fire	5,271,943,277	516,650,441	5,788,593,718
Marine	2,361,048,412	231,382,744	2,592,431,156
Motor	3,577,741,670	350,618,684	3,928,360,354
Oil & Gas	7,381,178,482	723,355,491	8,104,533,973
TOTAL	26,259,797,190	2,573,460,124	28,833,257,314

Asset Table

Portfolio	ARIC (PVFCF) N	ARIC (RA) N	AIC N
General Accident	1,053,936,384	263,484,096	1,317,420,480
Aviation	-	-	-
Bond	1,479,998	369,999	1,849,997
Engineering	590,500,387	147,625,097	738,125,484
Fire	3,152,385,130	788,096,283	3,940,481,413
Marine	1,138,803,401	284,700,850	1,423,504,251
Motor	168,738,148	42,184,537	210,922,685
Oil & Gas	2,612,860,681	653,215,170	3,266,075,851
TOTAL	8,718,704,129	2,179,676,032	10,898,380,161

Premium Liability and Asset Table

Portfolio	LRC N	ARC N	NET N
General Accident	1,764,259,450	(1,197,578,129)	566,681,321
Aviation	68,752,407	(5,485,521)	63,266,886
Bond	166,369,750	(5,004,183)	161,365,567
Engineering	1,616,076,948	(1,189,547,093)	426,529,855
Fire	5,844,598,188	(4,680,499,334)	1,164,098,854
Marine	543,201,260	(317,745,583)	225,455,677
Motor	2,333,941,729	(20,472,946)	2,313,468,783
Oil & Gas	9,513,527,560	(6,850,650,476)	2,662,877,084
TOTAL	21,850,727,292	(14,266,983,265)	7,583,744,027

5.1 The methodologies utilized for calculating Premium and Claim Reserves, focusing on the Liability for Remaining Coverage (LRC), Risk Adjustment Margin, Unallocated Loss Adjustment Expense, and Claims Reserves have been summarized below:

5.1.1 Liability for Remaining Coverage (LRC)

- The reserves consist of Advance Premium (AP) and Deferred Acquisition Cost (DAC).
- The 365th (time apportionment) method is adopted to calculate the Unearned Premium Reserve (UPR), based on the unexpired insurance period (UP) for each policy.

5.1.2 Risk Adjustment Margin

- The Value at Risk approach is employed to compute the risk adjustment margin at 75th percentile confidence level.

5.1.3 Claims Reserves

Claims reserves are composed of Outstanding Claims Reported (OCR) and Incurred But Not Reported

(IBNR). The methodologies for calculating IBNR reserves include:

- Inflation Adjusted Basic Chain Ladder (IABCL): Adjusts historical losses for inflation and projects future claims based on historical data.
- Bornhuetter-Ferguson Method: Combines estimates from IABCL and assigns weights based on the number of claims reported, particularly useful for underdeveloped cohorts.
- Loss Ratio Method: Provides a simple estimate based on historical loss ratios, applied where data is insufficient for statistical methods.
- Expected Loss Ratio methodology was adopted in reserving for the large loss.
- Large losses are isolated and reserved separately to prevent skewing of data patterns. Parameters for defining large losses vary by business class, with specific thresholds established based on statistical analysis.

5.1.4 Unallocated Loss Adjustment Expense (ULAE)

Unallocated Loss Adjusted Expenses reserves refer to the accrued liability as of the valuation date of future claims costs that will not be allocated to individual claims files. The liability provides for both claims outstanding and IBNR claims. The costs relate to internal staff costs for claims related services.

Custodian has adopted a 360 underwriting approach and does not have a separate claims unit. Staff time is shared between marketing, underwriting and claims related activities. A portion of the time allocation between these services for the technical staff is as follows.

Category	Proportion of Time Spent
Marketing	40%
Underwriting Claims	50%
Claims	10%

From the above allocation, 10% of the Management expenses relating to technical staff was applied as a percentage of management expenses.

The percentage is applied on the sum of 50% of Outstanding Claims and 100% of Claims Paid

5.1.5 Inflation and Discounting

Official inflation indices are adopted for calculations, with future expected cash flows for claim payments discounted using the yield curve provided by the Nigeria Actuarial Society.

The methodologies presented in this report establish a comprehensive framework for the valuation of reserves, ensuring both accuracy and reliability in the context of various influencing factors. Additionally, these methodologies are fully aligned with the new IFRS 17 standard, demonstrating Custodian’s commitment to adhering to the latest regulatory requirements and best practices in financial reporting.

5.2 Adequacy of Reserves

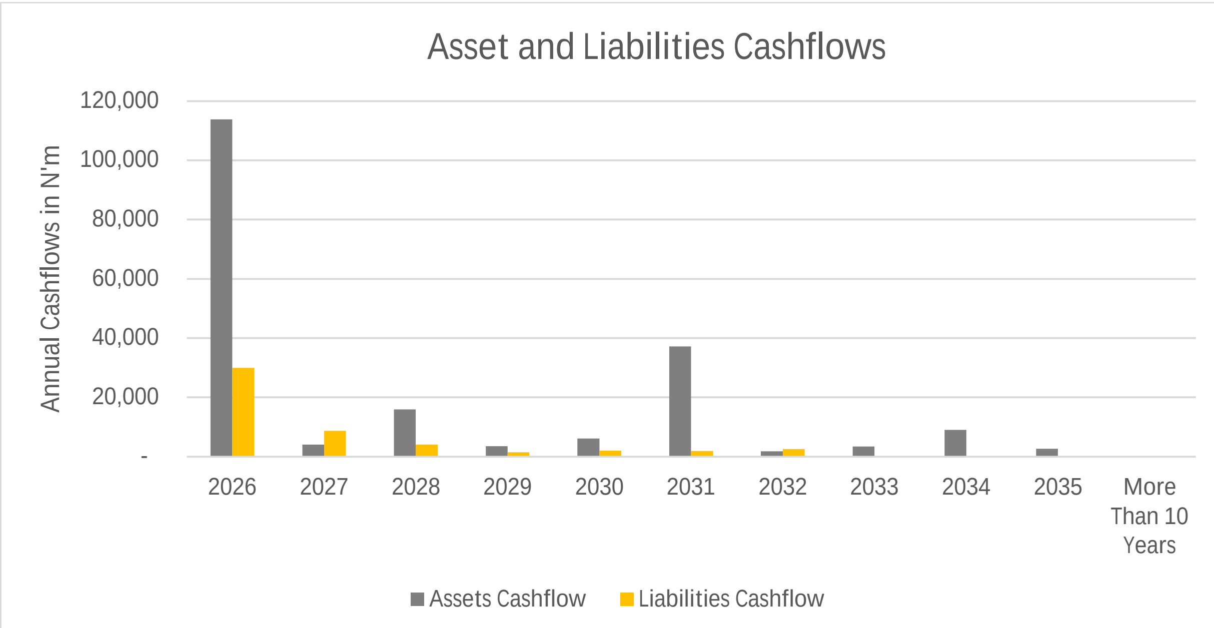
Portfolio	2024 Expected Experience A	Actual Experience B	Utilization of reserves C = A - B	Utilization Percentage
General Accident	1,717,396,208	1,000,219,472	717,176,736	58%
Aviation	67,114,163	159,148,449	(92,034,286)	237%
Bond	2,767,080	0	2,767,080	0%
Engineering	1,121,939,708	431,777,332	690,162,376	38%
Fire	2,893,361,106	1,296,501,841	1,596,859,265	45%
Marine	497,844,107	209,552,656	288,291,451	42%
Motor	1,255,945,749	516,194,880	739,750,869	41%
Oil & Gas	4,873,780,705	1,064,411,126	3,809,369,579	22%
Total	12,430,148,826	4,677,805,756	7,752,343,070	38%

The table above presents the utilization of reserves as of December 31, 2025, on a portfolio basis. The overall utilization percentage across all portfolios is 38%, indicating that only a fraction of the expected reserves has been utilized. However, the Aviation line of business has been over-utilized by over 200%. Additionally, the existence of surplus reserves across all lines of business further demonstrates a prudent reserving approach, reflecting the company's commitment to maintaining financial stability and mitigating potential risks.

This level of utilization suggests that while a significant portion of the reserves has been utilized, there remains a healthy buffer to address any potential future claims. The data reflects effective reserve management practices and provides a solid foundation for ongoing risk assessment and financial planning.

6. Asset and Liability Management

The illustration below presents the projected cash flows for assets and liabilities from 2026 to 2035, providing valuable insights into the financial management strategy over this period:



The asset cash flow analysis indicates a significant inflow of N111.76 billion anticipated in 2026. With notably, about 60% of this cash flow is derived from Equity investments The remaining portion of the cash flow is generated from a diversified portfolio, including cash and cash equivalents, treasury bills, bonds, and reinsurance assets.

The liabilities cash flow starts at N29.9 billion in 2026 and decreases steadily over the years, reflecting a proactive approach to managing obligation and by 2033, the liabilities cash flow is projected to reach zero, indicating that all obligations may be settled by that time.

Given the short to medium term nature of Custodian's insurance policies, assets are booked with a similar time frame surplus from previous are reinvested to cater for obligations in subsequent years. The cash flow from assets significantly exceeds that of liabilities, except in year 2027 which is a positive indicator of financial health and liquidity. This surplus is utilized for reinvestment, operational needs, or to bolster reserves.

7. Capital Management and Adequacy

7.1.1 Balance Sheet Solvency

We illustrate in the table below that from 2023 to 2025, the company has a more than sufficient balance sheet solvency ratio.

Year	2023 (N'000)	2024 (N'000)	2025 (N'000)
Technical Liabilities (Net of Reinsurance)	11,806,935	18,551,255	37,179,213
Shareholders Fund (Free Assets)	34,667,732	60,267,339	66,773,612
Balance Sheet Solvency Ratio	294%	325%	180%

The solvency ratios give comfort that liability obligations will be met when they fall due. We highlight the regulatory solvency position below and discuss risk-based solvency in section 8.

7.1.2 Capital Adequacy Ratio

The table below shows that the minimum capital requirement set in the NIIRA Act 2025 exceeds the Risked based capital of 2025.

Year	2023 (₦'000)	2024 (₦'000)	2025 (₦'000)
Technical Liabilities (Net of Reinsurance)	11,806,935	18,551,255	37,179,213
Free Assets (allowing for admissible rules)	35,689,909	61,259,677	49,745,934
Minimum Capital Requirement (MCR)	3,000,000	3,000,000	15,000,000
Risk Based Capital (RBC)	N/A	3,211,696	4,970,170
Maximum of RBC and MCR	3,211,696	3,211,696	15,000,000
Capital Adequacy Ratio (CAR)	1111%	1907%	332%

Custodian and Allied Insurance Ltd currently reports a Capital Adequacy Ratio (CAR) of 332%, which significantly surpasses regulatory requirements and reflects a strong capital position. This elevated CAR indicates that Custodian and Allied Insurance Ltd has a considerable capital buffer relative to its risk exposure, thereby bolstering its financial stability. As a result, the National Insurance Commission (NAICOM) can oversee Custodian and Allied Insurance Ltd without the need to impose any additional financial requirements at this time.

Despite a decline in the capital adequacy ratio to 332%, the Company will still surpass the maximum threshold of 200% for the capital adequacy ratio. Consequently, the regulator will not impose any additional financial requirements on the Company.

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DEFINITIONS

Metric	Definition
Capital Adequacy Ratio (CAR)	Free Assets/Minimum Capital Requirement
Balance Sheet Solvency Ratio	Shareholders' Funds/Technical Reserves

**Free assets include allowance for admissibility rules*

7.2 Economic Capital

7.2.1 The technical figures (technical liabilities, reinsurance assets, etc.) estimated for balance sheet purposes are our 'best' estimate and broadly reflect the 'mean' of possible outcomes. However, in the course of time these estimates may fluctuate adversely as a result of unexpected realities.

7.2.2 It is prudent and best practice to estimate the extent to which the best estimate can be exceeded due to possible adverse situations and establish the corresponding risk capital, called economic capital. This is the amount of capital that a financial company requires to stay solvent given the riskiness of its assets and operations.

7.2.3 The key risks the company is exposed to are underwriting risk, market risk, counterparty risk and operational risk, they are described and discussed in appendix 6 of the report.

7.2.4 We have calculated for each of the risks, the amount of capital required as at year end 2025 at 95%, 99% and 99.5% level of confidence.

7.2.5 This report discusses in detail capital requirements at 99.5%, which is equivalent to a 1-in-200 event. Put differently, this is the capital required to sustain the company should extreme events that are expected to occur once every 200 years, occur in 2025. Such events would typically lead to large 'unexpected' losses that could significantly affect the fortunes of the company. The results at 95% (1 in a 20year event) and 99% (1 in a 100year event) are shown in appendix 5 and 6 of the report.

7.2.6 We have adopted the following methods in calculating the Economic capital:

- Value at Risk → this was applied to Market risk and Credit risk
- Stochastic approach using Bootstrapping → this was applied to non-Life reserving and premium risks.
- Solvency II standard formula approach was adopted for operational risk

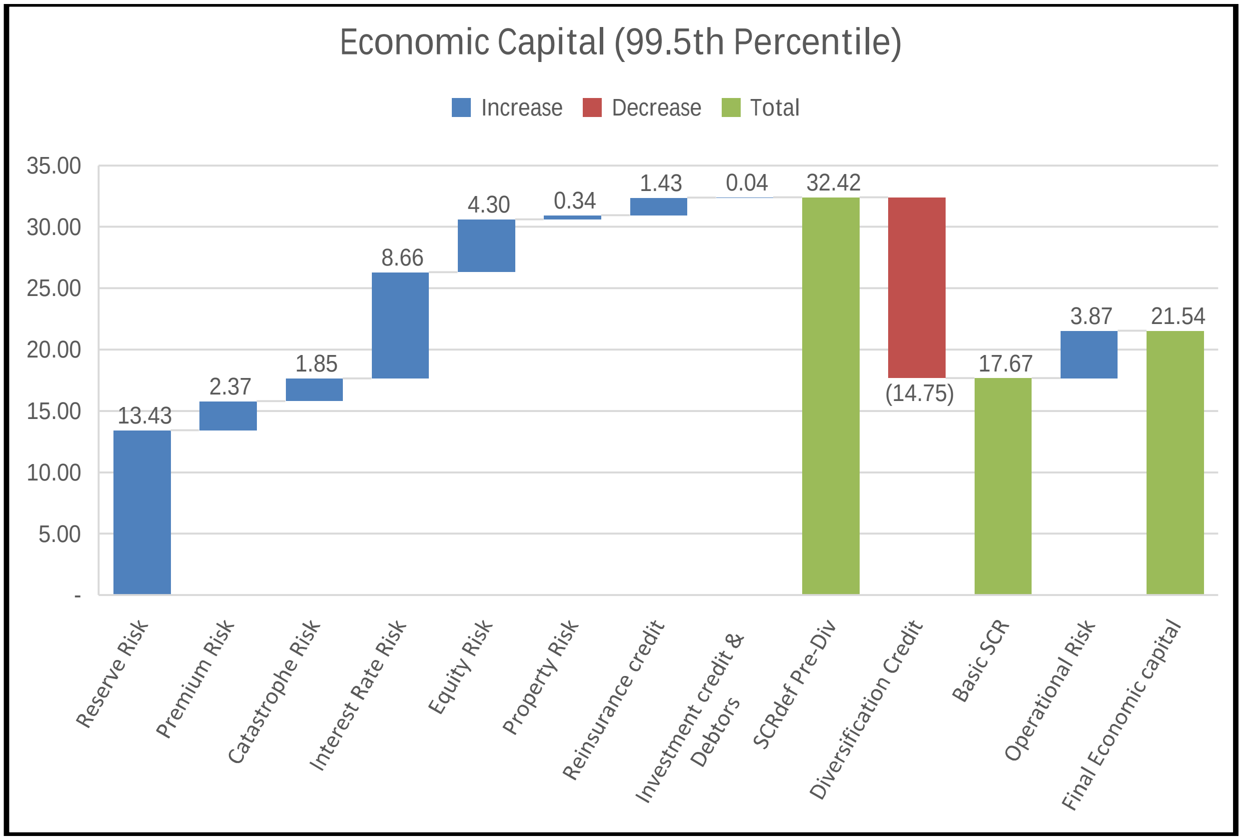
Detailed explanation of each of the risks including derivation of the stresses applied are given in appendix 6 of the report.

7.2.7 In order to recognize that each individual risk event is unlikely to occur in the same year, aggregation of capital requirements was done. This has the effect of reducing the total required capital – technically called a diversification. The assumed correlation matrix is shown in appendix 7.

7.2.8 The calculations were based on same data used to prepare the IFRS valuation as at 31 December 2025 and asset information shown in section 2.3 of this report.

7.2.9 The following results at 99.5% confidence level were obtained.

Risk Type		Capital Requirement (N)
Non-Life Insurance Risk	Reserve Risk	13,426,862,728
	Premium Risk	2,369,271,129
	Catastrophe Risk	1,846,889,472
	Lapse Risk	-
	SCR_{nl} Pre-Div	17,643,023,329
	SCR_{nl} Div Credit	6,026,784,462
	SCR_{nl} Post Div	11,616,238,868
Market Risk	Interest Rate Risk	8,663,672,508
	Equity Risk	4,302,439,701
	Property Risk	338,743,680
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR_{mkt} Pre-Div	13,304,855,889
	SCR_{mkt} Div Credit	3,588,186,289
	SCR_{mkt} Post Div	9,716,669,600
Counterparty Default Risk	Reinsurance credit	1,431,732,248
	Investment credit & Debtors	40,850,997
	SCR_{def} Pre-Div	1,472,583,245
	SCR_{def} Div Credit	-
	SCR_{def} Post Div	1,472,583,245
Undiversified BSCR		22,805,491,712
Diversification Credit		5,135,886,917
Basic SCR		17,669,604,796
Operational Risk		3,867,406,566
Final Economic capital		21,537,011,362
Shareholders' Funds		66,773,612,000
% of Economic Capital		310%



7.2.10 As shown in the table above, the total Economic Capital required in connection with the business profile at 31st December 2025 was N21.5 billion which is less than the shareholders' funds of N66.8 billion.

This suggests that Custodian and Allied Insurance Ltd has an excess of capital, providing management with the flexibility to implement its business plan over the forward-looking period. This flexibility is crucial given the inherent material risks, such as catastrophes, and in anticipation of continued challenging operating conditions in the insurance, credit, and financial markets.

8. Pricing & Premium Adequacy

8.1 Custodian And Allied Insurance Limited (Custodian) adopts a structured and data-driven approach to ensure premium adequacy, effectively balancing competitive pricing with the necessity to cover expected claims, expenses, and risk capital while maintaining profitability. The Company's pricing strategy is based on the following key components:

8.1.1 Underwriting Practices

Custodian and Allied Insurance Ltd employs stringent underwriting guidelines tailored to each line of business, conducting thorough assessments of risk profiles, historical claims experience, and exposure levels to determine appropriate pricing. The underwriting process begins with a Know Your Customer (KYC) procedure and risk profiling for customers and brokers, allowing underwriters to evaluate risks and set policy terms and premiums. The primary goal is to balance risk and profitability while ensuring regulatory compliance.

Key components of the underwriting process include:

- Risk Assessment: Evaluating factors such as property type, location, claims history, and applicable regulatory rates.
- Application Review: Analyzing relevant documents to assess risk levels.
- Policy Terms and Conditions: Defining coverage terms, exclusions, and limits.
- Reinsurance Consideration: Collaborating with reinsurance companies for high-risk cases.

Ongoing Monitoring: Adjusting premiums and terms based on changes in risk throughout the policy term.

8.1.2 Actuarial Pricing Models and Data Utilization

The internal actuarial team analyzes historical claims and exposure data to project ultimate losses, considering marketing goals, competition, and regulatory restrictions. Costs are categorized into incurred losses, allocated loss adjustment expenses, and unallocated loss adjustment expenses.
This process involves several considerations, including marketing objectives, competitive dynamics, and regulatory restrictions, all of which impact the estimation of future costs associated with the transfer of risk.

8.1.3 Exposure and Assumptions in Pricing Models

The Company utilizes risk exposure data and specific assumptions to set rates for various portfolios. Key assumptions include:

- Management Expenses: Consideration of administrative costs and operational efficiency.
- Risk Exposure: Evaluation of expected loss ratios and claims volatility.
- Profit Margin Targets: Establishment of targets for capital growth and financial stability.
- Commission Expenses: Accounting for brokerage and intermediary costs.
- Inflation Adjustments: Assessment of economic impacts on claims and expenses.

- Contingency Buffers: Inclusion of buffers for unforeseen fluctuations in loss experience.
- Regulatory Compliance: Adherence to costs mandated by the National Insurance Commission (NAICOM).
- Unit of Exposure: Varies by class, with specific coverage amounts determined (e.g., vehicle price for motor policies, property value for buildings).
- Considerations: Effects of salvage, subrogation, coinsurance, coverage limits, and deductibles.
- Additional Factors: Inflation, historical loss ratios, and loss trends.
- Reinsurance Consultations: Important for high-severity risk classes like Engineering, Oil and Gas, and Fire.

Overall, these assumptions and considerations guide the Company's rate-setting process to ensure financial stability and effective risk management.

8.1.4 Profit Margin and Capital Growth Targets

Premiums are strategically priced to ensure sustainable profit margins and adequate capital retention for business growth. The pricing models take into account solvency requirements, capital adequacy, and return-on-equity (ROE) targets to support the company's financial sustainability. Profit margins are maintained at levels that adequately compensate capital providers for the associated risks, influenced by the competitive landscape and historical loss experience. Custodian effectively manages costs within acceptable thresholds and aims to retain a significant portion of the profits declared each year.

8.2 The table illustrates how premium income has been utilized from 2023 to 2025.

	2023 N'000	2024 N'000	2025 N'000
Net Insurance Revenue	17,951,490	24,170,342	40,716,837
Net Claims Incurred & Benefits Costs	11,588,315	12,065,441	12,408,217
Acquisition Expense	4,495,176	8,314,312	7,796,693
Investment Income	19,752,912	32,766,305	14,057,378
Claims Ratio	65%	50%	30%
Acquisition Expense Ratio	25%	34%	19%
Combined Ratio	90%	84%	50%
Investment Income (% NPI)	110%	136%	69%

Net Insurance Revenue = Insurance Revenue less net expenses from reinsurance contracts held

Net Claims & Attributable Expenses = Incurred claims and other incurred insurance service expenses less recoveries of incurred claims and other insurance service expense.

The analysis of net insurance revenue reveals a consistent upward trend, increasing from N17.9 million in 2023 to N24.1 million in 2024, and further to N40.7 million in 2025 indicating Custodian's effectiveness in generating adequate premium income. This growth contributed to the decrease in the claims ratio and acquisition expense ratio from 50% (2024) to 30% (2025) and 34% (2024) to

19%(2025 respectively, resulting in a 34% decrease in the combined ratio.
The combined ratio, an essential indicator of premium adequacy, improved from 90% in 2023 to 84% in 2024, and then declined to 50% in 2025. A ratio below 100% signifies profitable operations, with premiums sufficiently covering claims and expenses. The 2025 ratio highlights Custodian's effective management of underwriting and operational costs, reinforcing the adequacy of its premium income and demonstrating the Company's commitment to financial health and operational efficiency.

The investment income as a percentage of Net Insurance Revenue has shown decrease in 2025, moving from 136% in 2024 to 69%.

Metric	Definition
Claims Ratio	Net Claims Expenses/ Net Insurance Revenue
Management Expense Ratio	Management Expenses / Net Insurance Revenue
Acquisition Expense Ratio	Acquisition Expenses / Net Insurance Revenue
Combined Ratio	Sum of Claims, Management Expense and Acquisition expense ratio
Investment Income (%NPI)	Investment Income / Net Insurance Revenue

8.3 Custodian has a laid-out process designed to ensure that premiums are competitive while adequately covering expected claims, expenses, and supporting the Company's profitability objectives. The premium determination process encompasses several key components, including underwriting practices, expense assumptions, and profit margins.

8.3.1 Underwriting Practices

Custodian employs a risk-based underwriting approach that utilizes actuarial models and historical claims data to set premium base rates. Underwriters evaluate several critical factors, including the policyholder's risk profile, industry loss trends, geographic exposure, and the sum insured along with coverage limits, to ensure appropriate pricing and risk assessment.

8.3.2 Expense Assumptions

Premium calculations at Custodian include a comprehensive breakdown of various expense components, such as acquisition costs (commissions and distribution expenses for new business), claims handling costs (expenses for processing and managing claims), administrative and operational expenses (overhead costs for daily operations), and reinsurance costs (expenses for transferring risk to reinsurance companies). This detailed approach ensures that all relevant costs are accounted for in the premium calculations.

8.3.3 Profit Margins

Custodian's pricing models are structured to ensure adequate profit margins that support key objectives, including alignment with return-on-investment targets, capital growth and regulatory solvency requirements, and recovery of reinsurance costs to maintain financial health.

9. Reinsurance Management Strategy

9.1 Adequacy, Rigor, and Discipline of Reinsurance Documentation and Placement

Custodian And Allied Insurance Limited (Custodian) follows a comprehensive Reinsurance Management Framework to ensure that all reinsurance arrangements are thoroughly documented, placed, and executed for claim recoverability. The governance structure includes oversight from the Board of Directors, the Board Audit and Risk Committee, and the Management Risk Committee to ensure alignment with the company's risk appetite and regulatory compliance. The Reinsurance department's documentation process involves receiving requests for quotes from underwriters, advising on terms within reinsurance agreements, assisting in negotiations for reinsurance support, and providing guidance on risk management measures, including surveys and special terms for policy documents.

9.2 Reinsurance Management Strategy and Related Issues

Custodian's reinsurance management strategy emphasizes key areas such as reducing risk exposure through risk transfer, increasing capacity to write new and existing business, improving capital efficiency by minimizing the need for excessive capital reserves, enhancing financial stability with protection against catastrophic losses, and supporting business growth by enabling risk transfer for expansion opportunities.

Primary Objectives When Placing Reinsurance:

Custodian's primary objective in reinsurance placement is to optimize capacity while providing adequate protection against catastrophic losses. The company aims to establish clear guidelines for transactions, ensure compliance with regulatory and industry standards, promote effective risk management, enhance transparency and accountability, protect profitability from severe claims, and maintain compliance with the National Insurance Commission (NAICOM) solvency and capital adequacy requirements.

9.2.1 Process for Selecting Reinsurance Partners:

Custodian utilizes a structured process for selecting reinsurers, focusing on the reinsurer's technical and underwriting capacity, a minimum rating of B+, reputation, experience, and claims payment history to ensure reliability, as well as compliance with NAICOM's regulatory standards.

Establishing the Type and Level of Reinsurance Required:

Custodian establishes the appropriate reinsurance structure by evaluating its risk appetite and capital base, the nature and volatility of the risks involved (noting that motor risks tend to be more predictable while oil and gas risks necessitate lower retention), historical claims experience, profitability analysis, and the availability and cost-effectiveness of reinsurance treaties in the market.

9.2.2 Methodology for Calculating Maximum Loss Per Risk and Per Event:

Custodian assesses risk exposure utilizing a combination of:

- Historical claims data and loss modeling techniques.
- Stress testing to evaluate potential loss scenarios.
- Actuarial calculations to define limits for both proportional and non-proportional reinsurance.
- Market intelligence to benchmark retention levels against industry standards.

9.3 Ensuring the Continuing Appropriateness of the Reinsurance Strategy

Custodian's reinsurance strategy is focused on protecting the shareholder's fund through a robust treaty program and careful consideration of our maximum retention per class.

- Board and management conduct internal risk assessment and reviews to validate strategic alignment.
- Performance monitoring of reinsurance partners.
- Adjustments based on regulatory changes, emerging risks, and business growth.

9.4 Impact of the Reinsurance Strategy on the Overall Capital Model

The company's reinsurance strategy enhances capital efficiency by:

- Reducing capital strain through effective risk transfer mechanisms.
- Ensuring compliance with NAICOM's solvency requirements.
- Improving financial resilience by mitigating the impact of large claims on retained earnings.

9.5 Use of Facultative Reinsurance

Custodian employs facultative reinsurance in instances where:

- Risks exceed treaty capacity or fall outside treaty scope.
- High-value risks (e.g., large engineering or oil and gas projects) necessitate specialized coverage.
- The underwriting team identifies risks that warrant individual reinsurance negotiation.

The decision to procure facultative reinsurance as a risk management strategy is to reduce or increase exposure to any particular risk, sector or incident.

Facultative Reinsurance arrangements are made either with reinsurance companies or with other insurance companies.

9.6 Changes in Reinsurance Strategy Over the Prior Reporting Period

No changes from last year, However, future changes will depend on the growth of the company and capacity to underwrite more risks.

9.6.1 Type of Reinsurance Cover Purchased:

Custodian reinsurance cover purchased borders on the underlisted.

(a) Treaty Reinsurance: A treaty is a contractual agreement between the cedent and reinsurer that outlines the terms and conditions of the reinsurance arrangement.

- Proportional Surplus
- Quota Share
- Excess of Loss
- Catastrophe Excess of Loss (Fire and Marine)

(b) Facultative Reinsurance: Facultative reinsurance is a type of reinsurance where the cedent and reinsurer negotiate the terms of each individual risk transfer.

9.6.2 Net Retention Levels:

- A strategic review led to revised retention levels in select business lines, ensuring a balance between profitability and risk exposure.

The retention levels per portfolio are;

Portfolio	Net Retention Level (N'000)
Fire	5,000,000
Marine Cargo	3,000,000
Marine Hull	1,500,000
Engineering	2,000,000
Bond	1,000,000
Accident	1,250,000
Motor	750,000

GENERAL BUSINESS

S/N	CLASS OF INSURANCE	TREATY TYPE	RETENTION	LINES	TREATY LIMIT	GROSS CAPACITY
1A	**FIRE & ALLIED PERILS**	PROPORTIONAL (SURPLUS)	N1,250,000,000	20	N25,000,000,000.00	N26,250,000,000
1B	FIRE WORKING XLS	NON-PROPORTIONAL	N750,000,000 XLS N500,000,000			N1,250,000,000
1C	FIRE CAT. EXCESS OF LOSS	NON-PROPORTIONAL	N3,100,000,000 XLS N1,250,000,000			N4,350,000,000
2A	**MARINE CARGO**	PROPORTIONAL (SURPLUS)	N300,000,000.00	15	N4,500,000,000	N4,800,000,000.00
2B1	MARINE CARGO CAT. EXCESS OF LOSS	NON-PROPORTIONAL	N1,200,000,000 xls N300,000,000			N1,500,000,000
3	**ENGINEERING - CAR/EAR/PAR/MBD/BOILER/EEI**	PROPORTIONAL	N200,000,000	40	N8,000,000,000.00	N8,200,000,000.00
4	**MARINE HULL (PROPOSED)**	PROPORTIONAL (SURPLUS)	N150,000,000	30	N4,500,000,000	N4,650,000,000
5	**BOND (PROPOSED)**		N100,000,000		N150,000,000 .00	N250,000,000.00
A	BID/TENDER/ADVICE PAYMENT/PERFORMANCE/	PROPORTIONAL (40/60 QUOTA SHARE)	,,	,,	,,	,,
B	MAINTENANCE/CUSTOM/EXCISE/ COURT/SUPPLY		,,	,,	,,	,,
6	**GENERAL ACCIDENT (PROPOSED)**	NON-PROPORTIONAL	1ST LAYER	2ND LAYER	3RD LAYER	
A	BURGLARY (BUSINESS PREMISES)		N175M XS N125M	N450M XS N300M	N500M XS N750M	N1,250,000,000.00
B	BURGLARY (PRIVATE PREMISES)	,,	,,	,,	,,	,,
C	CASH-IN-TRANSIT	,,	,,	,,	,,	,,
D	CASH-IN- SAFE	,,	,,	,,	,,	,,
E	GOODS-IN-TRANSIT (OWN GOODS)	,,	,,	,,	,,	,,
F	GOODS-IN-TRANSIT (GENERAL GOODS)	,,	,,	,,	,,	,,
G	ALL RISKS	,,	,,	,,	,,	,,
H	FIDELITY GUARANTEE (PER PERSON)	,,	,,	,,	,,	,,
I	FIDELITY GUARANTEE (PER FIRM)	,,	,,	,,	,,	,,
J	PERSONAL ACCIDENT (PER PERSON)	,,	,,	,,	,,	,,
K	PERSONAL ACCIDENT (KNOWN ACCU.)	,,	,,	,,	,,	,,
L	PROFESSIONAL INDEMNITY (PER PERSON)	,,	,,	,,	,,	,,
M	PROFESSIONAL INDEMNITY (PER FIRM)	,,	,,	,,	,,	,,
N	PUBLIC/PRODUCT LIABILITY	,,	,,	,,	,,	,,
O	DIRECTORS AND OFFICERS LIABILITY	,,	,,	,,	,,	,,
7	**MOTOR/GTPL/EL (PROPOSED)**	NON-PROPORTIONAL	N75M (DEDUCTIBLE)		N125m xls N75m	N200,000,000.00
	MOTOR, TPBI &/OR DEATH PLUS EL	,,	N200M (DEDUCTIBLE)		N200m xls N200m	N400,000,000 .00

9.6.3 Lead Reinsurer on Major Contracts:

Changes in lead reinsurers for certain treaties were made based on performance evaluations and market conditions.

9.7 Exposure to the Five Largest Reinsurance Partners

The following is an overview of Custodian's top five reinsurance partners:

Reinsurer	Country	Credit Ratings	Recoverable Amount (N)	% of Total Reinsurance Premiums
AFRICA REINSURANCE CORP.	Nigeria	A	1,392,770,612	32%
SWISS REINSURANCE PLC	Switzerland	A+	1,239,908,815	28%
CONTINENTAL REINSURANCE PLC	Nigeria	B+	637,751,202	15%
FBS REINSURANCE	Nigeria	Unrated	555,209,179	13%
MARKEL INT'L INSURANCE CO. LTD	London	A	122,524,247	3%

- Total Recoverable Amount: The total recoverable amount from the top five reinsurers is reinsurers is N3.95 billion with Africa Reinsurance Corporation having the highest recoverable amount and the largest share of total reinsurance premiums at 32%.
- Credit Ratings: The credit ratings vary from A+ (highest) to B+ (lower), with one reinsurer (FBS Reinsurance Ltd) not having a specified rating.

9.8 Reinsurance value for money.

For each line of business, we illustrate the ‘value for money’ being the ratio of total reinsurance inflow (i.e., commission income, reinsurance recoveries) to total reinsurance outflow/cost.

2023

Class of Business	Motor	Accident	Bond	Marine	Aviation	Fire	Engineering	Oil & Energy	Total
Outflow									
Cash paid to reinsurers	76,524	2,872,496	6,522	891,960	48,402	9,804,172	544,756	14,118,902	**28,363,736**
Inflow									
Reinsurance Contract Assets	**316,999**	**612,967**	**2,828**	**630,077**	**19,012**	**5,277,579**	**1,085,588**	**4,329,538**	**12,274,588**
Value for Money Ratio	**414%**	**21%**	**43%**	**71%**	**39%**	**54%**	**199%**	**31%**	**43%**

2024

Class of Business	Motor	Accident	Bond	Marine	Aviation	Fire	Engineering	Oil & Energy	Total
Outflow									
Cash paid to reinsurers	216,139	4,587,923	13,143	2,022,610	26,930	17,149,216	967,814	20,662,358	**45,646,133**
Inflow									
Reinsurance Contract Assets	**147,825**	**1,771,098**	**4,940**	**728,844**	**3,720**	**6,747,202**	**2,151,045**	**6,782,544**	**18,337,218**
Value for Money Ratio	**68%**	**39%**	**38%**	**36%**	**14%**	**39%**	**222%**	**33%**	**40%**

2025

Class of Business	Motor	Accident	Bond	Marine	Aviation	Fire	Engineering	Oil & Energy	Total
Outflow									
Cash paid to reinsurers	308,480	(5,957,499)	65,748	3,125,949	62,457	20,304,240	1,597,085	33,445,374	**52,951,833**
Inflow									
Reinsurance Contract Assets	**231,396**	**2,514,999**	**6,854**	**1,741,250**	**5,486**	**8,620,981**	**1,927,673**	**10,116,726**	**25,165,363**
Value for Money Ratio	**75%**	**-42%**	**10%**	**56%**	**9%**	**42%**	**121%**	**30%**	**48%**

The data presented in the tables above demonstrate that Custodian’s reinsurance arrangements are optimal, as the reinsurance value for money across all lines of business has consistently remained positive over the three-year review period.

This finding further reinforces the robustness of Custodian’s reinsurance strategy, which effectively facilitates risk transfer, capital optimization, and financial resilience.

10. Risk Management

10.1 Risk Governance

Custodian Board Committees

Custodian And Allied Insurance Limited (Custodian) operates under a structured governance framework supported by key Board Committees, each with defined responsibilities and compositions:

- Board of Directors sets the Company's enterprise risk strategy and direction in line with the Company's corporate strategy; gives final approval for the Company's enterprise risk management framework, policies and procedures; periodically reviews the framework to ensure its relevance and effectiveness; and ensures that senior management is performing its risk management responsibilities; and sets risk appetite levels

- Board Audit & Risk Committee ensures that the enterprise risk management framework is comprehensive and in line with the Company's strategy; approves the enterprise risk management framework and oversees its implementation; establishes a management structure capable of implementing the framework with clear lines of responsibility, accountability and reporting; and reports significant risk issues to the Board of Directors.

- Management Risk Committee ensures that the framework is implemented consistently across the Company; ensures policies and procedures are developed for managing risk in the Company's products and activities, systems and processes ensures that all levels of staff understand their responsibilities with respect to enterprise risk management; reviews the Company's risk dashboard and assesses potential impact on the activities of the Company or business unit; ensures the Company's risk profile is within established risk parameters; ensures that staff are adequately trained and have access to the necessary resources; obtains and reviews periodic reports on loss events, risk profiling, control failures enterprise-wide and monitors that corrective measures are being implemented; ensures that the outputs from the enterprise risk management process are factored into the day-to-day management decisions of the Company; and ensures that the Company's enterprise risk management policies and procedures promote the desired risk culture.

10.2 Risk Governance Committees

Custodian has established three management-level committees to oversee various activities, including:

- Board of Directors
- Board Audit & Risk Committee
- Risk Management Committee

10.3 Risk Appetite/Risk Tolerance

For Custodian, it is also poor risk management practice to accept risks which create unnecessary exposure for the company. As a result, the company will not accept risks which could expose her to:

- Unacceptable levels of financial loss relative to strategic and operational targets
- Breaches of legislation or regulatory non-compliance
- Damage to its reputation
- Unacceptable interruption to the provision of services to customers
- Damage to relationships with its customers and key stakeholders

The Company's risk tolerance statement is defined below which guides strategic decision making; "The Company shall hold capital at the 99.6% Value-at-risk level. No risk driver for example, line of business or asset class must consume more than 5% of shareholder's equity when looking at the 95% Value at Risk. No extreme scenario with a probability of higher or equal to a 1 in 250 years must result in a loss which exceeds 15% of the shareholder's equity"

10.4 Risk Management and Controls

The risk control measures the enterprise employs to mitigate against risks

- Risk Avoidance
- Risk Reduction
- Risk Transfer
- Risk Acceptance

10.5 Key Personnel

Chief Risk Officer is the key personnel in charge of managerial responsibility for the risk management framework at Custodian and Allied Insurance Limited and he/she reports to the risk management committees.

10.6 Review and Compliance Mechanisms

The Board is committed to managing risk in accordance with established risk management standards and has overall responsibility for the establishment and oversight of the enterprise risk management framework. There is an established Board Risk Committee, which is responsible for developing and monitoring the enterprise risk management policies. It meets quarterly to receive reports from the Management Risk Committee. The Management Risk Committee in turn meets every month to review risk reports from the Chief Risk Officer.

11. Conclusion and Recommendations

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

11.2 As of December 31, 2025, Custodian and Allied Insurance Ltd Company Ltd.'s balance sheet solvency ratios from 2023 to 2025 reflect a strong financial position, with a solvency ratio exceeding 100%. The Capital Adequacy Ratio (CAR) is currently at 332%, significantly above regulatory requirements, indicating a robust capital position and financial stability.

11.3 It is noted that Custodian and Allied Insurance Ltd.'s financial performance from 2024 to 2025 demonstrates substantial growth in the insurance service, with insurance revenue increasing by 52%. However, the profit after tax has seen a decrease of 23% and a major contributor to this is a decrease in investment income.

11.4 It is noted that Custodian and Allied Insurance Ltd anticipates a growth of an average of 15% in GWP by 2026 across all lines of businesses.

11.5 As of December 31, 2025, Custodian and Allied Insurance Ltd Company Ltd.'s assets and liabilities reserves indicate a solid financial position, with incurred claims reserves and methodologies for calculating premium and claim reserves ensuring accuracy and reliability. The company maintains adequate reserves to cover claims during the reporting period.

11.6 Custodian and Allied Insurance Ltd employs a structured approach to ensure premium adequacy, balancing competitive pricing with the need to cover expected claims and expenses. The combined ratio has improved significantly, indicating effective management of underwriting and operational costs, further supporting premium adequacy.

11.7 Custodian adheres to a comprehensive Reinsurance Management Framework, ensuring all arrangements are documented and executed to guarantee claim recoverability. The company's reinsurance strategy focuses on optimize capacity and maintaining regulatory compliance, with positive value for money demonstrated across all lines of business.

11.8 We are delighted to have conducted this Financial Conditioning Report for Custodian and Allied Insurance Limited. We hope you find this helpful for preparing and submitting a report to NAICOM.

11.9 We will naturally be delighted to discuss it with you and make necessary presentations.

Yours sincerely,

....

Miller Kingsley, FNAS, FSA
Fellow, Nigerian Actuarial Society
Fellow, Society of Actuaries, USA
FRC/2012/NAS/00000002392

APPENDICES

APPENDIX 1- RELIANCE & LIMITATIONS

Reliance

In carrying out this work we have relied upon the financial statements, business plans and other information (including discussions with the Management) provided by Custodian and Allied Insurance Ltd Company Ltd. The liability information used was the same as that used in the IFRS actuarial valuations. Where stated in this report we have reviewed this data for reasonableness, but we have not verified the accuracy of the information provided to us.

This report takes into account data made available as at 31 December 2025.

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

Limitations

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

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

Except with the consent of EY, the report and any written or oral information or advice provided by EY must not be reproduced, distributed or communicated in whole or in part to any other person or relied upon by any other person other than NAICOM.

The report may be distributed to the Senior Management of Custodian and Allied Insurance Limited for the purpose of discussing its contents.

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

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

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Appendix 2 - Reinsurance Arrangement

	CUSTODIAN AND ALLIED SECURITY LIST				
YEAR 2025 BUS LINES	REINSURER		RETENTION (%)		
NON OIL		**RATINGS**	**FIRE**	**ENG & M/CARGO**	**MOTOR, BONDS M/HULL & ACCIDENT**
	SWISS REINSURANCE PLC	A+ (AM BEST)	20.00%	30.00%	-
	AFRICA REINSURANCE CORP.	A (AM BEST)	45.00%	40.00%	45.00%
	CONTINENTAL REINSURANCE PLC	B+ (AM BEST)	22.50%	15.00%	35.00%
	FBS REINSURANCE LIMITED	-	12.50%	15.00%	20.00%
			100.00%	**100.00%**	**100.00%**
OIL & ENERGY			**EXCESS OF LOSS**	**MULTILINE**	
	CHUBB EUROPEAN GROUP	A++ (AM BEST)		7.50%	
	BARENTS REINS. SA	A (AM BEST)		7.50%	
	AXIS SPECIALTY - A9505	A (AM BEST)		10.00%	
	AFRICA REINSURANCE CORP.	A (AM BEST)		2.50%	
	INTERNATIONAL GENERAL INS CO. (UK) LTD	A (AM BEST)		5.00%	
	AMERICAN INTERNATIONAL GRP UK LTD	A (AM BEST)		10.00%	
	KILN SYNDICATE & TOKIO MARINE KLIN - TAMESIS 743	A (AM BEST)		13.00%	
	IQUW SYNDICATE 1856	A (AM BEST)		7.25%	
	FBS REINSURANCE LTD	-	1.50%	1.25%	
	WR BERKLEY	A (AM BEST)		20.00%	
	CHAUCER, SYNDICATE 1084	A (AM BEST)		16.00%	
	SWISS RE	A+ (AMBEST)	40.00%		
	AXA XL Reinsurance	A+ (AMBEST)	10.00%		
	HANNOVER RE	A (AM BEST)	5.00%		
	DALE UNDERWRITING PARTNERS - DUW 1729	A (AM BEST)	3.00%		
	CONTINENTAL RE	B+ (AM BEST)	1.00%		
	TRIGLAV RE	A (AM BEST)	2.50%		
	REASEGURADORA PATRIA SA	A (AM BEST)	10.00%		
	TAIPING RE	A (AM BEST)	7.00%		
	MARKEL INT'L INSURANCE CO. LTD	A (AM BEST)	12.50%		
	Capital Reinsurance Ltd	A (AM BEST)	7.50%		
			100.00%	**100.00%**	

APPENDIX 3 – Risk Based Capital (RBC)

A. The Risk based capital was computed in line with the exposure draft on the Risk Based Capital Regulation 2024.

The risk-based capital requirement includes capital for the insurance risk, market risk, credit risk and operational risk and shall be calculated in accordance with the following formula:

RBC=$\sqrt{((Insurance\ Risk\ Capital)^2 + ((Market\ Risk\ Capital)^2 + (Credit\ Risk)^2} + Operational\ Risk\ Capital$

I. MARKET RISKS

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

Equity Risk	**Asset**	**Capital Charge**
	Shares in Listed Companies	30.00%
	Shares in Unlisted Companies	40.00%
Property Risk		
	Investment Property	25.00%
	Owner Occupied Property	25.00%
	Leasehold Property	35.00%
Foreign Currency Risk		
	USD	4.50%
	Euro/Pound	6.00%
	Other Foreign Currency	8.00%

II. Non-Life Insurance risks

Schedule 1 (a) – Insurance Risk – Non-Life

Class of Business	Premium Reserve— Risk Charge	Claims Reserve— Risk Charge
Aviation Insurance	39.00%	29.00%
Engineering Insurance	8.00%	4.00%
Marine Insurance	7.00%	8.00%
Energy Insurance	8.00%	4.00%
Liability Insurance	9.00%	9.00%
Motor Insurance	8.00%	9.50%
Personal Accident	6.00%	9.00%
Workmen's Compensation	18.00%	19.00%
Health and Medical	15.00%	13.00%
Theft Insurance	5.00%	4.00%
Fire Insurance	8.00%	7.00%
Agricultural Insurance	7.00%	7.00%
Bond Insurance	9.00%	27.00%
Miscellaneous Insurance	8.00%	7.00%
Catastrophic Risk	2.00%	2.00%

III. CREDIT RISK

Schedule 3- Credit Risk

Asset Type	**Capital Charge**
Government Securities	0.00%
Corporate Bonds	12.00%
Commercial Paper	12.00%
Loans to Policyholders	0.00%
Secured Loans	10.00%
Loans to Directors, Employees and Agents	30.00%
Mortgaged loans	5.00%
Term Deposits	0.00%
Cash and Cash Equivalents	0.00%
Outstanding Premiums	
Less than 30days	30.00%
More than 30days	100.00%
Receivables from unrelated parties	
Less than 30days	10.00%
More than 30days but less than 90days	25.00%
More than 90 days	100.00%
Receivables from related parties	100.00%

IV. OPERATIONAL RISK

The operational risk capital shall be used by an insurer as the cushion against losses that may arise from failed processes, systems and people.

The operational risk capital shall be computed as thirty percent of the square root of the sum of the squares of the capital required for insurance risk, market risk and credit risk.

APPENDIX 4 – Capital Adequacy Ratio Range and Implication

Level	Solvency	Description	NAICOM Intervention
Level 1	x = > 200%	Solvency margin (x) is at least 100% above the regulatory minimum solvency requirement of 100%	No action required, normal review of returns continues
Level 2	x = 150% -<200%	Solvency margin (x) is between 50% and 99% above the regulatory minimum solvency requirement of 100%	Normal review and intensive monitoring until the Company returns to Level 1
Level 3	x = 100% - < 150%	Solvency margin (x) is between 0% and 40% above the regulatory minimum solvency requirement of 100%	Query the management and Board regarding the issues raised by analysts and examiners as well as intensive monitoring as determined by the regulator
Level 4	x =< 100%	Solvency margin (x) is less than the regulatory minimum solvency requirement of 100%	Require the insurer to immediately inject additional funds/capital as well as intensive monitoring as determined by the regulator

Appendix 5: Economic Capital Methodology & Stress Level Derivation.

We present below, detailed explanation on how each of the risk were modelled including stress levels derivation.

a. MARKET RISKS

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

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

iii. The market risk capital requirement $\boldsymbol{C_{Mkt}}$ for each risk was calculated using the following formula:

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

Where C_{Mkt} – capital calculation for market risk

A_{Mkt} – stressed assets value

A_0 – base market value of assets

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

Asset class	Stress level @ 95%	Stress level @ 99%	Stress level @ 99.5%
Equity	24.06%	35.90%	37.38%
Property	15.72%	21.64%	22.38%
Interest rate	29.1%	40.12%	41.5%

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

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

b. Equity risk

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

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

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

IV. We fitted the NSE historical index values from January 1985 to December 2020. The normal distribution was a good fit for the data. Using the normal distribution, we determined stress levels of 29%, 40% and 41% for confidence levels of 95%,99% and 99.5% respectively.

V. We also checked how frequently historical annual returns have fallen or been close to the 29.1%, 40.12% and 41.5% levels. In 2008, the stock index fell by about 46% and in 2011 also fell by about 23%.

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

c. Interest Rate risk

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

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

Federal Government Bonds.

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

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

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

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

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

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

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

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

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

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

e. The correlation matrix used is shown in Appendix 7

d. Non-Life Insurance risks

The non-life insurance risks modelled were:

- Reserving risk
- Premium risk
- Catastrophe risk

I. Reserving risk

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

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

The reserve risk methodology was as follows:

- We used the bootstrap approach to calculate the mean and standard deviation of losses.
- We then used the mean and standard deviation to derive the parameters of the lognormal distribution which was used to estimate the 95th, 99th and 99.5th percentiles of the reserve distribution.
- Reserve capital is the difference between each of the following percentiles; 95th-percentile, 99th-percentile or 99.5th-percentile of the distribution and the 50th -percentile (Best estimate).

II. Premium risk

This is another source of underwriting risk for general insurance.

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

The premium risk methodology was as follows:

- Average loss ratios were derived from the expected loss ratio in the business plan (pricing)
- Historical loss ratios were investigated and deviations from the mean studied.
- The lognormal distribution was fit (which was the best fit) to the deviations

III. Catastrophe risk

This is Catastrophe for the general insurance business.

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

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

The catastrophe risk methodology was therefore as follows:

- The 2024 loss ratios were increased by 1000% for all lines of business to resemble a catastrophic-like event
- A 1% probability of occurrence was applied to determine the final capital requirement.

e. CREDIT RISK

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

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

III. The following exposures to counterparties were used:

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

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

Table 5

Rating Scale	Default Probability
AAA	0.00%
AA+	0.00%
AA	0.02%
AA-	0.03%
A+	0.05%
A	0.05%
A-	0.06%
BBB+	0.09%
BBB	0.15%
BBB-	0.24%
BB+	0.32%
BB	0.48%
BB-	0.96%
B+	1.98%
B	3.13%
B-	6.52%
Unrated	26.53%

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

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

VII. We assumed a 100% loss given default, which is a conservative assumption.

f. OPERATIONAL RISK

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

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

III. There are several approaches used to assess Operational risk namely;

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

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

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

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

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

$BSCR$ is the preliminary capital required before allowing operational risk and, for the risk requirements it is defined as:

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

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

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

Where

$$Op_{premiums} = 0.03 \times Earn_{nl} + Max\{0, 0.03 \times [Earn_{nl} - 1.1 \times pEarn_{nl}]\}$$

and $Op_{provisions} = 0.03 \times Max\{0, Tp_{nl}\}$

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

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

TP_{nl} are the technical provisions

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

- Frequency of occurrence of all risk scenarios captured in the Risk Heat Map
- Identification of new exposures and new likelihood percentages after mitigation efforts have been applied.

This would improve how operational risk is quantified.

APPENDIX 6 – CORRELATION MATRICES

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

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

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

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

The correlation matrices used for diversification are shown below.

Market risk correlations

Parameters						
$Corr_{ij}$	Mkt_{int}	Mkt_{eq}	Mkt_{prop}	Mkt_{sp}	Mkt_{conc}	Mkt_{fx}
Mkt_{int}	100%	0%	0%	0%	0%	25%
Mkt_{eq}	0%	100%	25%	75%	0%	25%
Mkt_{prop}	0%	25%	100%	50%	0%	25%
Mkt_{sp}	0%	75%	50%	100%	0%	25%
Mkt_{conc}	0%	0%	0%	0%	100%	0%
Mkt_{fx}	25%	25%	25%	25%	0%	100%

Comments:

- Equity vs Property – the local stock and property markets have seen low correlations.
- The drop in equity values seem not to affect the property values, hence a weak correlation assumption.
- Interest rate vs Equity/Property – no correlation was assumed if under the interest rate stress an increase in interest rates triggered a capital requirement (as opposed to a decrease in interest rates). 50% correlation was assumed if the decrease in interest rates would trigger a capital requirement under the interest rate stress.
- Spread, concentration and foreign exchange risks were not modelled.

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