KBL INSURANCE LIMITED

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

Building a better working world

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, KBL Insurance Limited's balance sheet solvency ratios from 2023 to 2025 reflect a strong financial position. The Capital Adequacy Ratio (CAR) is currently at 182%, an improvement from prior year of 144%, indicating a strong capital position and financial stability
- We observed a declining trend when analyzing the changes in the ratio from 2023 to 2025, and we strongly recommend that management closely monitor this trend. By actively tracking this trend, KBL can implement timely measures to address any emerging issues and safeguard the company's financial health.
- The projected cash flows for assets and liabilities highlight KBL's strong liquidity position and effective financial management strategy for 2025. The expected surplus in asset cash flows compared to liabilities suggests a positive financial outlook, enabling reinvestment and operational flexibility.
- It is noted that KBL's financial performance from 2023 to 2025 demonstrates substantial growth, with insurance revenue increasing by 35% and profit after tax rising by 28%.
- It is noted that KBL Insurance Limited anticipates a growth rate of 72% in GWP by 2026 across all lines of businesses.
- KBL Insurance Limited's reinsurance management strategy is well-aligned with regulatory requirements and focuses on optimizing risk transfer and capital management. The relationships with top reinsurers enhance the company's ability to manage exposure effectively, contributing to its overall financial resilience.

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The Board of Directors
KBL Insurance Limited,
Ornife Legacy Place,
Plot 8, Professor Gabriel Olusanya Street,
Lekki 1, 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 KBL 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 KBL 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

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, KBL Insurance Ltd. has successfully sustained profitability, as detailed in Section 2.1

2.1 The table below illustrates how KBL Insurance's books have developed over the year 2024 to 2025

(NGN'000)	2025	2024	YoY Movement
Insurance Revenue	8,658,451	6,415,322	35%
Insurance Service Expense	(6,624,230)	(4,518,415)	47%
Net expenses from reinsurance contracts held	38,506	(152,641)	125%
Insurance Service Result	2,072,727	1,744,266	19%
Investment Return	1,280,676	786,988	63%
Net insurance finance expenses	3,464,754	2,511,017	38%
Other Income	30,631	1,235	2380%
Other Operating Expenses	-1,986,572	-1,512,799	31%
Profit before Tax	1,508,813	999,453	51%
Income Tax	-415,636	-143,837	189%
Profit after Tax	1,093,177	855,616	28%

The Insurance Revenue increased by 35%, indicating strong growth in the company's core operations.

The significant improvement in the insurance service result is mainly driven by the net expense from reinsurance contracts held.

The rise in revenue also contributed to the 47% increase in insurance service expenses, reflecting the higher level of business activity during the year.

Furthermore, the net expense from reinsurance contracts increased by 125% from 2024 to 2025, which impacted the overall insurance service result by 19%.

The analysis also shows that the investment return increased by 63%, further supporting the company's financial performance.

Overall, the evaluation of KBL Insurance Limited's financial performance shows a 28% increase in profit after tax. This substantial growth underscores the company's resilience and its ability to successfully navigate a challenging economic environment.

3. Business Overview

3.2 Company Overview

KBL Insurance Limited is a Nigerian company with a vision to be recognized as the top provider of insurance cover for every home and business across the country, with a mission to provide innovative risk management solutions, that brings comfort.

The Company was incorporated on 16 January 1994 as a private limited company under the Companies and Allied Matters Act. The registered office is located at Block 137, Plot 8, Prof. Gabriel Olusanya Street, Off QMB Builders Mart Road, Lekki Phase 1, Lekki, Lagos.

3.3 Principal Activities

KBL Insurance Limited engages in a variety of insurance services, including:

- Marine insurance
- Motor insurance
- Accident insurance
- Fire insurance
- Claims settlement

The company anticipates a revenue growth of an average of 72% in GWP by 2025, across all lines of business. It experienced a 28% growth in profit after tax from 2024 to 2025, driven by a greater focus on improved revenue lines, enhanced market visibility, and overall profitability.

3.4 Shareholding Structure

The ultimate beneficial shareholder of KBL Insurance Limited is Keystone Bank Limited, which currently holds 95.82% of the total 3.59 billion shares. The profit after tax for 2024 of N855 million has shown an annual growth rate of 28% to N1.09 million in 2025.

The Group structure has no impact on the individual financial position of KBL Insurance Limited.

4. Recent Experience and Financial Performance

	2025 Actual	2024 Actual	Y-o-Y (%)	2025 Budget	Actual vs Budget (%)
	N'000	N'000		N'000	
Insurance contract revenue	8,658,451	6,415,322	35%	13,950,491	-38%
Insurance service expense	(6,624,230)	(4,518,415)	47%	(8,863,037)	-25%
Net expense from reinsurance contracts held	38,506	(152,641)	125%	(2,332,832)	102%
Net Underwriting results	2,072,727	1,744,265	19%	2,754,622	-25%
Net Investment results	1,280,676	786,988	63%	1,025,310	25%
Net operating expenses	(1,986,572)	(1,512,799)	31%	(2,179,163)	-9%
Profit before income tax	1,508,813	996,696	51%	1,600,770	-6%

Underwriting Results

The underwriting result increased from N 1.74 billion in 2024 to N2.07 billion in 2025, primarily due to increased premiums. All lines of business showed strong underwriting performance, highlighting the diversity and resilience of the portfolios despite ongoing inflation and currency devaluation.

KBL actively monitors underperforming portfolios and employs various risk mitigation strategies, including client profiling, reinsurance, and rating adjustments, to manage exposure to loss-making areas.

Investment Performance

The net investment results increased from N786.98 million in 2024 to N1.28 billion in 2025. The analysis shows that KBL surpassed the budgeted investment result by 25%.

Net operating expenses increased by 31% in 2025, from N1.51 billion to N1.93 billion, due to inflation and rising service costs, but remained below the budgeted N2.18 billion, reflecting effective cost management.

5. Valuation of Assets and Liabilities

5.1 The table below illustrates KBL's assets and liabilities reserves as at 31st December 2025.

Reserves	Liability (₦)	Asset (₦)	Net (₦)
Incurred Claims – PVFCF	2,185,511,274	(1,583,540,711)	601,970,562
Incurred Claims – RA	217,569,137	-	217,569,137
Total Incurred Claims	2,403,080,411	(1,583,540,711)	819,539,700
Remaining Coverage (Excluding Loss Component)	2,722,153,664	(663,041,010)	2,059,112,654
Remaining Coverage (Loss Component)	51,895,274	(26,838,438)	25,056,836
Total Remaining Coverage	2,774,048,938	(689,879,448)	2,084,169,489
Total (31 December 2025)	5,177,129,348	(2,273,420,159)	2,903,709,189

The table below presents a summary of the incurred claims reserves for each class of business.

Liability Table

Portfolio	LIC (PVFCF) N	LIC (RA) N	LIC N
Motor	280,948,575	26,625,172	307,573,747
General Accident	192,897,666	19,698,984	212,596,650
Fire	880,797,701	86,384,933	967,182,634
Engineering	104,764,474	9,354,339	114,118,813
Marine	581,197,547	62,532,962	643,730,509
Oil & Gas	136,293,951	12,262,521	148,556,472
Bond	8,611,362	710,226	9,321,587
Total	2,185,511,276	217,569,137	2,403,080,412

Asset Table

Portfolio	ARIC (PVFCF) N	ARIC (RA) N	AIC N
Motor	34,260,521	-	34,260,521
General Accident	69,108,661	-	69,108,661
Fire	761,690,147	-	761,690,147
Engineering	75,225,998	-	75,225,998
Marine	542,492,026	-	542,492,026
Oil & Gas	99,755,906	-	99,755,906
Bond	1,007,452	-	1,007,452
Total	1,583,540,711	-	1,583,540,711

Premium Liability and Asset Table

Portfolio	LRC N	ARC N	NET N
Motor	753,502,608	18,433,298	735,069,310
General Accident	225,211,110	38,236,904	186,974,207
Fire	565,477,380	164,822,285	400,655,095
Engineering	494,810,669	227,400,657	267,410,012
Marine	273,688,527	93,789,120	179,899,407
Oil & Gas	186,979,006	126,906,320	60,072,686
Bond	274,379,637	20,290,864	254,088,773
TOTAL	2,774,048,937	689,879,448	2,084,169,490

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

5.2.1 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.

5.2.2 Risk Adjustment Margin

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

5.2.3 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.

5.2.4 Unallocated Loss Adjustment Expense (ULAE)

ULAE on outstanding claims is calculated in accordance with IFRS 17 standards, with a Volume Factor of 3.37% and a Completion Scale of 50%. The total ULAE reserves amount to N45.95 million across various classes of business.

5.2.5 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 KBL's commitment to adhering to the latest regulatory requirements and best practices in financial reporting.

5.3 Adequacy of Reserves

Portfolio	2024 Expected Experience A	Actual Experience B	Utilization of reserves C = A - B	Utilization Percentage
Motor	142,144,885	80,821,581	61,323,304	57%
General Accident	205,918,395	145,248,328	60,670,066	71%
Fire	212,904,024	1,180,554,522	(967,650,498)	555%
Engineering	201,939,212	213,855,638	(11,916,426)	106%
Marine	220,698,257	119,168,575	101,529,682	54%
Oil & Gas	1,439,539,728	815,760,452	623,779,276	57%
Bond	21,532,136	-	21,532,136	0%
Total	2,444,676,638	2,555,409,097	(110,732,459)	105%

The table above presents the utilization of reserves as of December 31, 2025, on a portfolio basis. The total expected experience was N2.44 billion, while the actual experience amounted to N2.55 billion, resulting in a negative difference of N110.73 million. This indicates that the actual utilization exceeded expectations by 5%, suggesting that the company faced higher claims or expenses than anticipated across its portfolios.

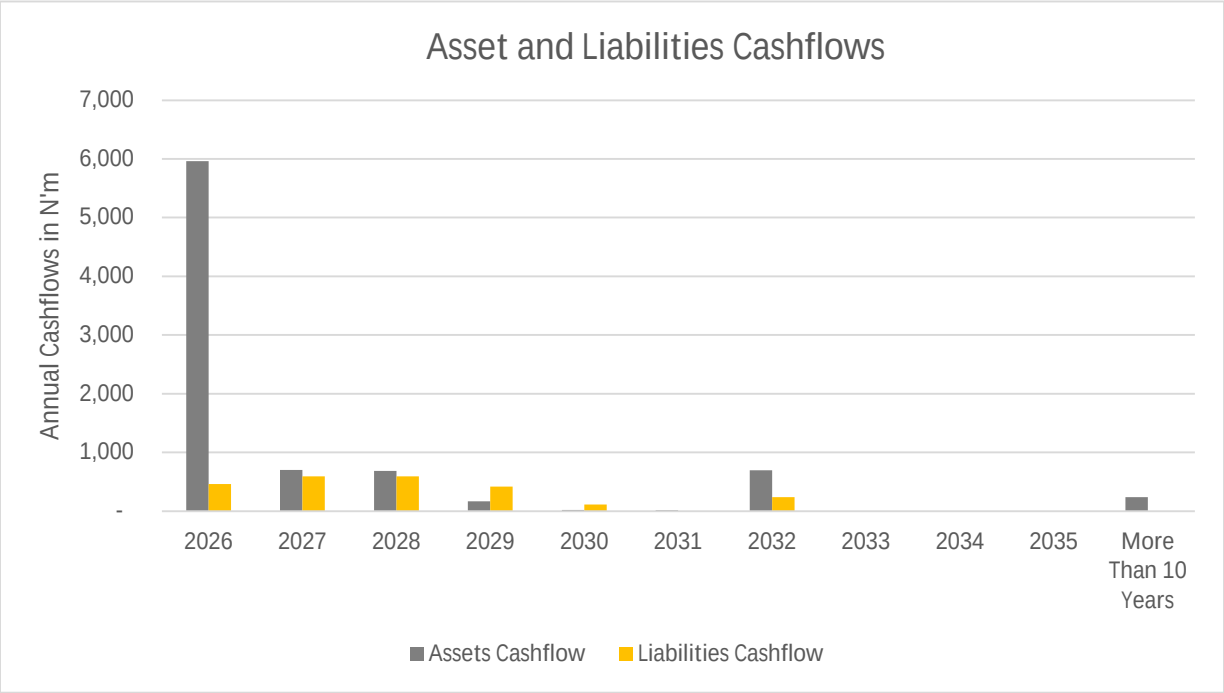
The significant discrepancies observed between expected and actual experiences is attributed to the Fire portfolio can be attributed to substantial losses incurred in 2024.

Furthermore, KBL Insurance's historical patterns of claims lag have adversely affected the claims experience, resulting in the current overutilization of reserves.

To address these challenges, it may be necessary to conduct a comprehensive review of underwriting standards, pricing strategies, and claims management processes to effectively mitigate future risks.

6. Asset and Liability Management

The illustration below presents the projected cash flows for assets and liabilities from 2026 to 2036, providing valuable insights into the financial management strategy over this period:



The asset cash flow analysis indicates a significant inflow of N5.96 billion anticipated in 2026, reflecting a robust liquidity position at the outset. Notably, about 19% of this cash flow is derived from cash and cash equivalents, underscoring KBL Insurance Limited's strong liquidity management. The remaining portion of the cash flow is generated from a diversified portfolio, including equity investments, properties, treasury bills, bonds, and reinsurance assets. This balanced approach to asset allocation not only enhances liquidity but also supports KBL's financial stability and growth potential.

The liabilities cash flow starts at N459.08 million in 2026 and decreases steadily over the years, reflecting a proactive approach to managing obligation and by 2032, the liabilities cash flow is projected to reach zero, indicating that all obligations may be settled by that time.

The cash flow from assets significantly exceeds that of liabilities, 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)	1,230,004	1,868,754	2,903,709
Shareholders Fund (Free Assets)	4,884,374	5,739,246	6,835,524
Balance Sheet Solvency Ratio	397%	307%	235%

There is a decreasing trend in the balance sheet solvency ratios from 2023 – 2025.

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

We show in the table below that the company's admissible assets exceeded the regulatory capital requirement of N3bn throughout the 3 years under review.

Year	2023 (₦'000)	2024 (₦'000)	2025 (₦'000)
Technical Liabilities (Net of Reinsurance)	1,230,004	1,868,754	2,903,709
Free Assets (allowing for admissible rules)	3,306,990	5,739,246	5,459,050
Minimum Capital Requirement (MCR)	3,000,000	3,000,000	3,000,000
Risk Based Capital (RBC)	N/A	541,238	673,932
Maximum of RBC and MCR	3,000,000	3,000,000	3,000,000
Capital Adequacy Ratio (CAR)	110%	144%	182%

KBL Insurance Limited currently reports a Capital Adequacy Ratio (CAR) of 182%, which significantly surpasses regulatory requirements and reflects a strong capital position. This elevated CAR indicates that KBL Insurance Limited 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 KBL Insurance Limited without the need to impose any additional financial requirements at this time.

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

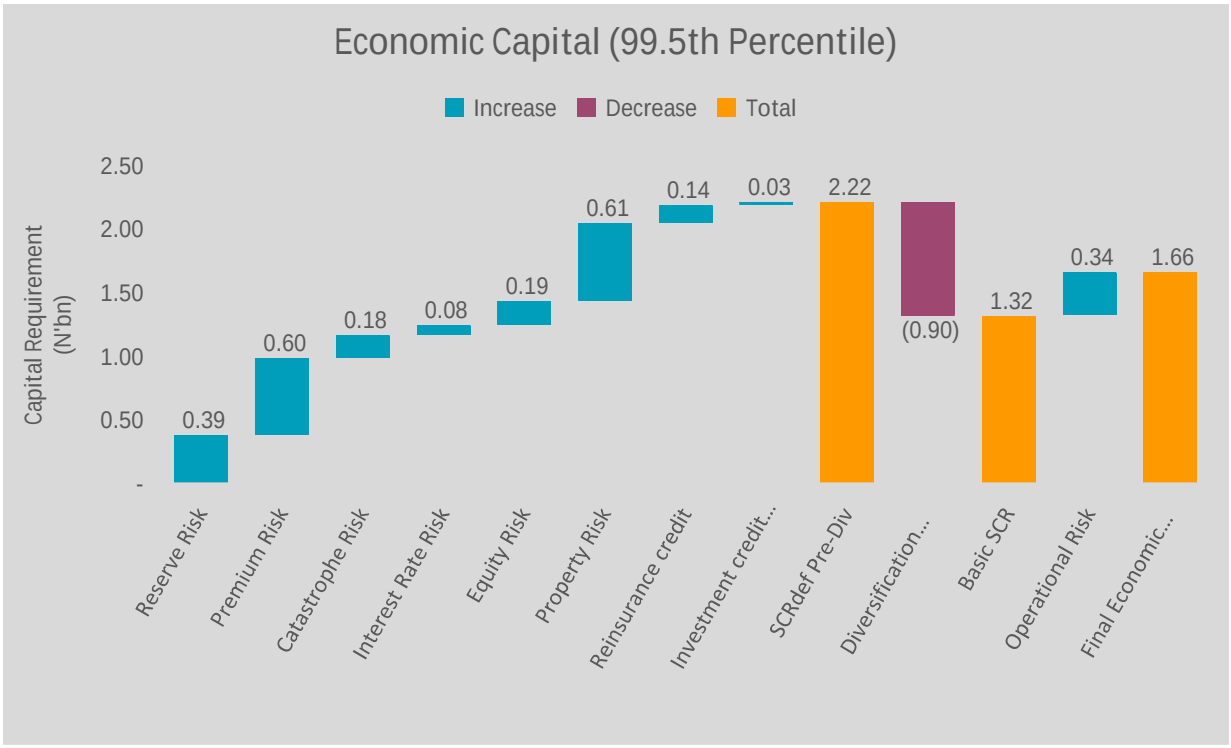
Detailed explanation of each of the risks including derivation of the stresses applied are given in appendix 6 of the report.

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	385,249,024
	Premium Risk	601,694,010
	Catastrophe Risk	180,432,094
	Lapse Risk	-
	SCR_{nl} Pre-Div	1,167,375,128
	SCR_{nl} Div Credit	303,685,215
	SCR_{nl} Post Div	863,689,914
Market Risk	Interest Rate Risk	81,651,839
	Equity Risk	191,372,718
	Property Risk	610,125,000
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR_{mkt} Pre-Div	883,149,557
	SCR_{mkt} Div Credit	194,728,396
	SCR_{mkt} Post Div	688,421,161
Counterparty Default Risk	Reinsurance credit	141,601,598
	Investment credit & Debtors	25,235,530
	SCR_{def} Pre-Div	166,837,129
	SCR_{def} Div Credit	-
	SCR_{def} Post Div	166,837,129
Undiversified BSCR		1,718,948,204
Diversification Credit		397,383,810
Basic SCR		1,321,564,394
Operational Risk		340,124,347
Final Economic capital		1,661,688,741
Shareholders' Funds		6,835,524,000
% of Economic Capital		411%



7.2.10 As shown in the table above, the total Economic Capital required in connection with the business profile at 31st December 2025 is N1.66 billion which is less than the shareholders' funds of N6.83 billion.

This suggests that KBL Insurance Limited 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 KBL Insurance Limited 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

KBL Insurance Limited 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 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.

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

8.1.3 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 considers 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. KBL 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	3,442,121	4,728,346	6,661,284
Net Claims Incurred	1,384,026	1,655,420	2,863,969
Acquisition Expense	820,094	888,140	1,572,004
Investment Income	337,346	786,988	1,280,676
Claims Ratio	40%	35%	43%
Acquisition Expense Ratio	24%	19%	24%
Combined Ratio (Net)	64%	54%	67%
Investment Income (% NIR)	10%	17%	19%

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 N3.44 billion in 2023 to N4.73 billion in 2024 and further to N6.70 billion in 2025 indicating KBL's effectiveness in generating adequate premium income. This growth reflects KBL's success in attracting and retaining policyholders, enhancing its market position and financial stability.

The combined ratio, an essential indicator of premium adequacy, moved from 64% in 2023 to 54% in 2024, and then increased to 67% in 2025. A ratio below 100% signifies profitable operations, with premiums sufficiently covering claims and expenses. The 2025 ratio highlights KBL'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 a consistent upward trend, rising from 10% in 2023, to 17% in 2024 and further increased to 19% in 2025

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

9. Reinsurance Management Strategy

9.1 Reinsurance Arrangement and Exposure Limits

All reinsurance treaties must meet the following requirements:

- Insurance and reinsurance business must be domesticated.
- Foreign placements are permitted only through reinsurance, subject to NAICOM's prior approval.
- Reinsurers must have a good reputation, at least three years of claims handling experience, and an acceptable Financial Strength Rating (FSR) from a recognized agency.
- The company shall not accept risks without the necessary financial capacity or reinsurance support to cover potential claims.
- Reinsurance premiums must be paid according to the contract terms when support is obtained.

9.2 Reinsurance Treaties and Arrangement

- Treaty slips must be fully signed by all participating reinsurers.
- Reinsurance treaty cover notes and addenda for the upcoming year must be submitted to NAICOM by December 31 of the preceding year, along with:

    - Signed slips of all reinsurance arrangements.
    - Evidence of premium remittance for the last four quarters.
    - Proof of payment of Minimum and Deposit (M&D) premiums for the upcoming year.
    - Financial Strength Ratings of foreign reinsurers.

9.3 Requirements for Treaty Renewals

- Up-to-date statistics, including outstanding loss figures as of September.
- Comments on treaty performance progress.
- Expected Premium Income (E.P.I) for the coming year by class of business.
- Details of major losses affecting the treaty.
- Risk profiles and natural hazard accumulation figures for each zone.
- Measures to control flood exposure.
- Payments must be made on all accounts up to the 3rd quarter.
- Advance payment of Minimum and Deposit premiums for the renewal year.
- Information on large claims and portfolio profiles to assess the appropriateness of the current reinsurance program.

9.4 General Requirements for Foreign Facultative Reinsurance Arrangements

- All foreign facultative placements must comply with Section 72 (4) of the Insurance Act 2003, requiring prior approval from the Commission.
- An Approval-in-Principle (AIP) must be obtained for facultative reinsurance abroad, followed by Post Placement Reports for a Certificate for Offshore Reinsurance (COR).
- If using a reinsurance broker, a letter of authority must be issued to appoint them for that specific risk, ensuring compliance with local content requirements as mandated by NAICOM.

9.5 Premium Remittance Process

- Treaty Surplus: Upon receiving a demand note from reinsurers, the company will issue a cheque or transfer the amount due promptly.
- Treaty Excess of Loss: After pricing negotiations, the company will pay a Minimum & Deposit premium upon receiving a demand note, with adjustments made at year-end for any additional premiums.
- Facultative Outwards: After signing the offer slip, the company will forward its closings to obtain the reinsurance guarantee policy and remit the amount due accordingly.

9.6 Exposure to the Five Largest Reinsurance Partners

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

Top 5 Reinsurer	Country	Proportional Treaty Premium (₦'000)	Non-Proportional Treaty Premium (₦'000)	Facultative Premium (₦'000)	% of Total Reinsurance Premiums
Swiss Re	Switzerland	440,223	9,581	-	18.52%
African Re	Nigeria	250,879	79,872	-	13.62%
Continental Re	Nigeria	127,806	37,231	-	6.79%
Waica Re	Nigeria	56,802	21,906	-	3.24%
FBS Re	Nigeria	28,401	6,130	-	1.42%

9.7 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	Fire	Engineering	Oil & Energy	Total
Outflow								
Cash Paid to Reinsurers	101,919	162,949	5,710	212,472	525,247	173,372	94,387	**1,276,056**
Inflow								
Reinsurance Contract Assets	98,432	113,103	4,382	303,106	262,790	40,652	1,225	**823,690**
Value for Money Ratio	**97%**	**69%**	**77%**	**143%**	**50%**	**23%**	**1%**	**65%**

2024

Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Energy	Total
Outflow								
Cash Paid to Reinsurers	66,625	216,985	913	592,344	837,776	423,973	290,520	**2,429,136**
Inflow								
Reinsurance Contract Assets	99,975	118,325	309	139,612	192,049	149,222	1,089,595	**1,789,088**
Value for Money Ratio	**150%**	**55%**	**34%**	**24%**	**23%**	**35%**	**375%**	**74%**

2025

Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Energy	Total
Outflow								
Cash Paid to Reinsurers	68,847	219,069	37,001	791,569	974,277	570,864	409,142	**3,070,769**
Inflow								
Reinsurance Contract Assets	36,824	109,742	20,045	702,516	676,118	440,807	11,115	**1,997,167**
Value for Money Ratio	**53%**	**50%**	**54%**	**89%**	**69%**	**77%**	**3%**	**65%**

The data presented in the tables above demonstrate that KBL'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 KBL's reinsurance strategy, which effectively facilitates risk transfer, capital optimization, and financial resilience.

10. Risk Management

10.1 Risk Governance

KBL Insurance Limited's overall responsibility for the management of operations risk resides with the Board through its Board Enterprise Risk Management Committee. To ensure consistency and prudent management of operational risks, this responsibility shall be divided as follows:

KBL's risk management governance structure is founded on the "three lines of defense" model, which delineates risk management responsibilities and accountabilities across all organizational levels, from the Board of Directors to the operational staff. This framework ensures that risk management is integrated into the fabric of the organization, promoting a culture of accountability and proactive risk oversight at every tier

- First line of defence – Risk Ownership
  The first line of defense in KBL's risk management framework consists of business units and functions that are directly responsible for managing and controlling risks. The process for assessing, evaluating and measuring risk is integrated into their day-to-day activities.

- Second line of defence – Risk Oversight
  The second line of defense in our risk management framework consists of functions directly responsible for independent risk oversight, coordination, facilitation, monitoring, and challenging the effectiveness of our risk management processes. This line provides support, training, and guidance to business units and reports on risk management activities to the Board and executive management.

- Third line of defence – Assurance Functions
  The third line of defense in our risk management framework is responsible for assessing and providing independent assurance regarding the adequacy, appropriateness, effectiveness, and integrity of the Company's overall risk management framework, policies, and actions. This line performs key functions, including:
  - Assessing the adequacy and effectiveness of the risk management and control framework.
  - Monitoring compliance with risk policies and procedures.

10.2 Risk Governance Committees

KBL Insurance Limited has established several Board and management-level committees to oversee various activities, including:

- Board Enterprise Risk Management Committee
- Board Audit & Compliance Committee
- Board Establishment, Human Resources & Governance Committee
- Board Finance, Investment & General-Purpose Committee
- Management Enterprise Risk Committee
- Management Investment Committee
- IT Steering Committee
- Strategy Implementation Committee
- General Management Committee

10.3 Risk Management Process

KBL's risk management strategy is centered on the establishment and maintenance of a robust Enterprise Risk Management (ERM) framework that is technology-driven and seamlessly integrated into all operational processes. This framework is designed to structure and coordinate all direct and indirect risk management activities within the organization, thereby eliminating redundancies and ensuring consistency across our risk management practices.

Key components of our risk management strategy include:

- Continuous Position Monitoring: Implementing ongoing oversight of our daily positions to proactively identify and manage market-based risks.
- Volatility Mitigation: Initiatives aimed at reducing volatility in our product offerings to enhance stability.
- Emerging Risk Assessment: Constant research, identification, assessment, mitigation, and reporting of emerging risks that may impact our business operations and strategy.
- Talent Acquisition and Retention: Fostering efforts to attract and retain high-caliber personnel to strengthen our risk management capabilities
- Embed Enterprise Risk Management: ERM is entrenched in key areas of the business, Underwriting, Claims, Reinsurance, Investment amongst others.

10.4 Key Personnel

The following individuals hold managerial responsibility for the risk management framework:

- Chief Risk Officer
- Head of Internal Audit

10.5 Review and Compliance Mechanisms

The risk management framework undergoes annual reviews by Management, with primary responsibility resting on the CRO. The Chief Risk Officer reviews and updates the risk register.

Periodic review of regulatory guidelines is conducted to mitigate compliance/regulatory risks.

Additional processes and controls include regular training, sensitizations, and reporting to Management and the Board, internal audit review of the effectiveness of the enterprise risk management framework.

11. Conclusion and Recommendations

11.1 Overall, this report demonstrates that the Company remains 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, KBL Insurance Limited's balance sheet solvency ratios from 2023 to 2025 reflect a strong financial position. The Capital Adequacy Ratio (CAR) is currently at 182%, an improvement from prior year of 144%, indicating a strong capital position and financial stability.

11.3 We observed a declining trend when analyzing the changes in the ratio from 2023 to 2025 and strongly recommend that management closely monitor this trend. By actively tracking this trend, KBL can implement timely measures to address any emerging issues and safeguard the company's financial health.

11.4 The projected cash flows for assets and liabilities highlight KBL's strong liquidity position and effective financial management strategy for 2025. The expected surplus in asset cash flows compared to liabilities suggests a positive financial outlook, enabling reinvestment and operational flexibility.

11.5 It is noted that KBL's financial performance from 2023 to 2025 demonstrates substantial growth, with insurance revenue increasing by 35% and profit after tax rising by 28%.

11.6 It is noted that KBL Insurance Limited anticipates a growth rate of 72% in GWP by 2026 across all lines of businesses.

11.7 KBL's reinsurance management strategy is well-aligned with regulatory requirements and focuses on optimizing risk transfer and capital management. The relationships with top reinsurers enhance the company's ability to manage exposure effectively, contributing to its overall financial resilience.

11.8 We are delighted to have conducted this Financial Conditioning Report for KBL 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

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 KBL Insurance 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 KBL 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.

Appendix 2 - Reinsurance Arrangement

SUMMARY OF 2025 REINSURANCE TREATY/UNDERWRITING CAPACITY

CLASS OF BUSINESS	TYPE OF TREATY	NET RETENTION	LINES	TREATY LIMIT	GROSS CAPACITY	COMM.	FAC%
PROPORTIONAL							
Fire/Con Loss	Surplus	500,000,000.00	20	10,000,000,000.00	10,500,000,000.00	30.00%	25%
Marine Cargo	Surplus	150,000,000.00	15	2,250,000,000.00	2,400,000,000.00	31.00%	50%
Marine Hull	Surplus	25,000,000.00	15	375,000,000.00	400,000,000.00	25.00%	
Engineering	Surplus	100,000,000.00	25	2,500,000,000.00	2,600,000,000.00	30.00%	25%
Bond	Quota Share	6,000,000.00 max.	30/70	14,000,000.00 max.	20,000,000.00	25.00%	
GENERAL ACCIDENT							
Business Premises	Surplus	100,000,000.00	20	2,000,000,000.00	2,100,000,000.00	32.50%	25%
Private Premises	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
MONEY INSURANCE							
Cash-In-Transit	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
Cash-In-Safe	Surplus	80,000,000.00	15	1,200,000,000.00	1,280,000,000.00	32.50%	25%
Goods-In-Transit	Surplus	50,000,000.00	20	1,000,000,000.00	1,050,000,000.00	32.50%	25%
All Risks	Surplus	50,000,000.00	20	1,000,000,000.00	1,050,000,000.00	32.50%	25%
FIDELITY GUARANTEE							25%
Per Person	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
Per Firm	Surplus	80,000,000.00	15	1,200,000,000.00	1,280,000,000.00	32.50%	25%
PERSONAL ACCIDENT							25%
Any One Person	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
Known Accumulation	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
PROFESSIONAL INDEMNITY							
Per Person	Surplus	50,000,000.00	20	1,000,000,000.00	1,050,000,000.00	32.50%	25%
Per Firm	Surplus	80,000,000.00	20	1,600,000,000.00	1,680,000,000.00	32.50%	25%
Director's and Officers Liability	Surplus	50,000,000.00	15	750,000,000.00	800,000,000.00	32.50%	25%
NON PROPORTIONAL EXCESS OF LOSS							
Fire/Con Loss & Allied Perils:	Working XOL	250,000,000.00		250,000,000.00	500,000,000.00		
Fire/Con Loss & Allied Perils:	Catastrophe	500,000,000.00		250,000,000.00	750,000,000.00		
Liabilities	Working	10,000,000.00		2,000,000.00	12,000,000.00		
		40,000,000.00		12,000,000.00	52,000,000.00		
		48,000,000.00		52,000,000.00	100,000,000.00		
Marine Cargo	Catastrophe	150,000,000.00		400,000,000.00	550,000,000.00		

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.

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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

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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 2025 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} = Min {0.3 $*$ $BSCR$, BOp} + 0.25 × 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:

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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