

UNITRUST INSURANCE COMPANY 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, Unitrust Insurance Company Ltd.'s balance-sheet solvency ratios for 2023-2025 indicate a strong financial position. The solvency ratio exceeded 800% between 2023 and 2025. In addition, the Capital Adequacy Ratio (CAR) stands at 677%, which significantly exceeds the regulatory requirements, indicating a robust capital position and financial stability.
- ▶ It is noted that Unitrust Insurance Company Ltd financial performance from 2023 to 2025 demonstrates steady growth, with insurance revenue increasing by 77% and profit after tax rising by 16%.
- ▶ The projected cash flows for assets and liabilities highlight Unitrust's strong liquidity position and effective financial management strategy for 2026. The expected surplus in asset cash flows compared to liabilities suggests a positive financial outlook, enabling reinvestment and operational flexibility.
- ▶ As of December 31, 2025, Unitrust Insurance 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.
- ▶ Unitrust Insurance Company Ltd follows a robust Reinsurance Management Framework that ensures all arrangements are thoroughly documented and executed to guarantee the recoverability of claims. The company's reinsurance strategy is designed to align with the Board's risk appetite while optimizing capacity and ensuring regulatory compliance. This approach demonstrates positive value for money across all lines of business.

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APPENDICES

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Lagos.

May 2025

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 **UNITRUST INSURANCE COMPANY LTD** ("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 UNITRUST INSURANCE COMPANY LTD 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, Unitrust Insurance Company Limited has successfully sustained profitability, as detailed in Section 2.2

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

(NGN'000)	2025	2024	YoY Movement
Insurance Revenue	21,860,221	12,327,517	77%
Insurance Service Expense	(10,345,909)	(13,061,790)	-21%
Net expenses from reinsurance contracts held	(6,269,764)	2,285,491	-374%
Insurance Service Result	5,244,548	1,551,218	238%
Investment Return	2,113,065	4,452,953	-53%
Net insurance finance expenses	(328,645)	(44,925)	632%
Other Income	53,890	62,524	-14%
Other Operating Expenses	(3,624,412)	(2,158,657)	68%
Profit before Tax	2,827,917	3,357,537	-16%
Income Tax	642,463	(378,437)	-270%
Profit after Tax	3,470,379	2,979,100	16%

A significant increase was recorded in the insurance service result, primarily driven by a 77% rise in insurance revenue.

However, profit before tax declined slightly by 16%, mainly due to a 632% increase in insurance finance expenses, a 68% rise in other operating expenses, and a 53% decrease in investment return. Despite this, profit after tax grew by 16%, supported by the deferred tax credit recognized in the accounts.

Unitrust explained that the income tax credit recognised arose from the utilization of unrelieved tax losses brought forward, which were offset against the current year's taxable profits in accordance with applicable tax regulations. This led to a substantial decrease in the Company's current tax expense. Additionally, the Company recognized deferred tax assets on deductible temporary differences during the year. The recognition of these deferred tax assets further enhanced the overall tax benefit reported for the period.

3. Business Overview

3.2 Company Overview

Unitrust Insurance Company Limited is an insurance company established in 1981 and licensed in 1986 in Nigeria to operate as an insurer. Unitrust Insurance presently carries out all forms of general/non-life insurance transactions including Oil & Gas

3.3 Principal Activities

Unitrust Insurance Company Ltd. engages in a variety of insurance services, including:

- Marine insurance
- Motor insurance
- Travel insurance
- Engineering insurance
- Fire insurance etc.
- Energy Oil and Gas
- Agric Insurance
- Aviation Insurance

The company experienced a 16% 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

Below is the list of companies holding 5% or more ownership in Unitrust Insurance Company Ltd

1. **T.Y. Holding (Nig) Limited**- 3,776,074,446 shares (75% ownership)
2. **Chagoury Ronald** - 380,410,849 shares (8% ownership)
3. **Unitrust Investments Limited** - 380,410,849 shares (8% ownership)
4. **Mrs. Grace Danjuma** - 250,738,815 shares (5% ownership)

Collectively, these companies hold 96% of the total shares of Unitrust Insurance Company Ltd.

4. Recent Experience and Financial Performance

From December 2024 to December 2025, several factors influenced our business and overall profit. Notably, exchange rate volatility and the dynamics between the Naira and the Dollar played a significant role. Additionally, the stricter enforcement of the National Insurance Industry Database contributed to converting "fake" policyholders into legitimate revenue, particularly enhancing the motor insurance segment. The implementation of the NIIRA Act 2025, which focused on recapitalization and compliance, also had an impact. Furthermore, there was an increase in the total amount of claims paid in December 2025 compared to December 2024, alongside a rise in revenue during the same period.

5. Valuation of Assets and Liabilities

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

Reserves	Liability (N)	Assets (N)	Net (N)
Incurred Claims	3,962,897,920	(1,955,939,365)	2,006,958,555
ULAE	106,912,250		106,912,250
Risk Adjustment	185,522,809	(113,399,899)	72,122,910
Remaining Coverage (Excluding Loss Component)	5,518,753,220	(2,898,741,158)	2,620,012,062
Remaining Coverage (Loss Component)	-	-	-
Total (31 December 2025)	9,774,086,199	(4,968,080,421)	4,806,005,778

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

Liability Table

Class of Business	LIC (PVFCF) N		ULAE N	LIC (RA) N	LIC N
	Outstanding Reported Claim N	Gross IBNR N			
General Accident	448,055,176	199,767,160	16,351,723	49,232,458	713,406,517
Engineering	242,708,004	171,999,878	11,318,784	13,121,030	439,147,696
Fire	848,631,941	432,419,548	33,056,336	77,709,668	1,391,817,493
Marine	89,520,184	247,765,645	11,286,831	12,183,848	360,756,508
Motor	358,203,365	293,444,219	18,232,740	8,769,464	678,649,788
Agriculture	1,800,000	2,105,313	115,957	145,595	4,166,865
Bond	-	2,085,276	80,458	79,417	2,245,151
Oil and Gas	395,094,054	229,298,158	16,469,421	24,281,327	665,142,960
Total	2,384,012,724	1,578,885,196	106,912,250	185,522,809	4,255,332,979

Asset Table

Class of Business	ARIC (PVFCF) N		ARIC (RA) N	ARIC N
	Outstanding Reported Reinsurance Recoveries N	Reinsurance Assets IBNR N		
General Accident	95,913,325	115,947,459	12,767,137	224,627,921
Engineering	126,094,820	125,504,301	17,814,552	269,413,673
Fire	177,681,162	239,856,782	29,247,066	446,785,011
Marine	19,819,585	511,989,065	13,150,375	544,959,025
Motor	87,390,174	131,951,459	14,150,746	233,492,379
Agriculture	1,260,000	10,262,458	188,048	11,710,506
Bond	-	820,935	61,504	882,439
Oil and Gas	282,877,730	28,570,110	26,020,471	337,468,311
Total	791,036,794	1,164,902,570	113,399,899	2,069,339,264

Premium Liability and Asset Table

Class of Business	LRC N	ARC N	NET N
General Accident	441,832,855	(165,784,950)	276,047,905
Engineering	888,086,200	(663,799,418)	224,286,781
Fire	931,826,437	(569,349,999)	362,476,438
Marine	596,531,634	(426,068,441)	170,463,194
Motor	1,178,202,026	(110,182,334)	1,068,019,693
Agriculture	21,363,297	(12,178,736)	9,184,561
Bond	30,727,785	(9,234,564)	21,493,221
Oil and Gas	1,430,182,985	(942,142,716)	488,040,270
TOTAL	5,518,753,220	(2,898,741,158)	2,620,012,062

5.2 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:

5.2.1 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 3.86% and a Completion Scale of 50%. The total ULAE reserves amount to N106.9 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 Nigerian 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 Unitrust'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	379,464,881	236,014,042	143,450,839	62%
General Accident	672,550,615	401,438,332	271,112,283	60%
Fire	957,136,636	703,908,698	253,227,938	74%
Engineering	340,700,983	244,673,626	96,027,357	72%
Marine	296,181,539	432,432,449	(136,250,910)	146%
Oil & Gas	311,209,461	46,682,588	264,526,872	15%
Bond	2,516,429	-	2,516,429	0%
Agriculture	2,705,273	4,914,025	(2,208,752)	182%
Total	2,962,465,816	2,070,063,760	892,402,056	70%

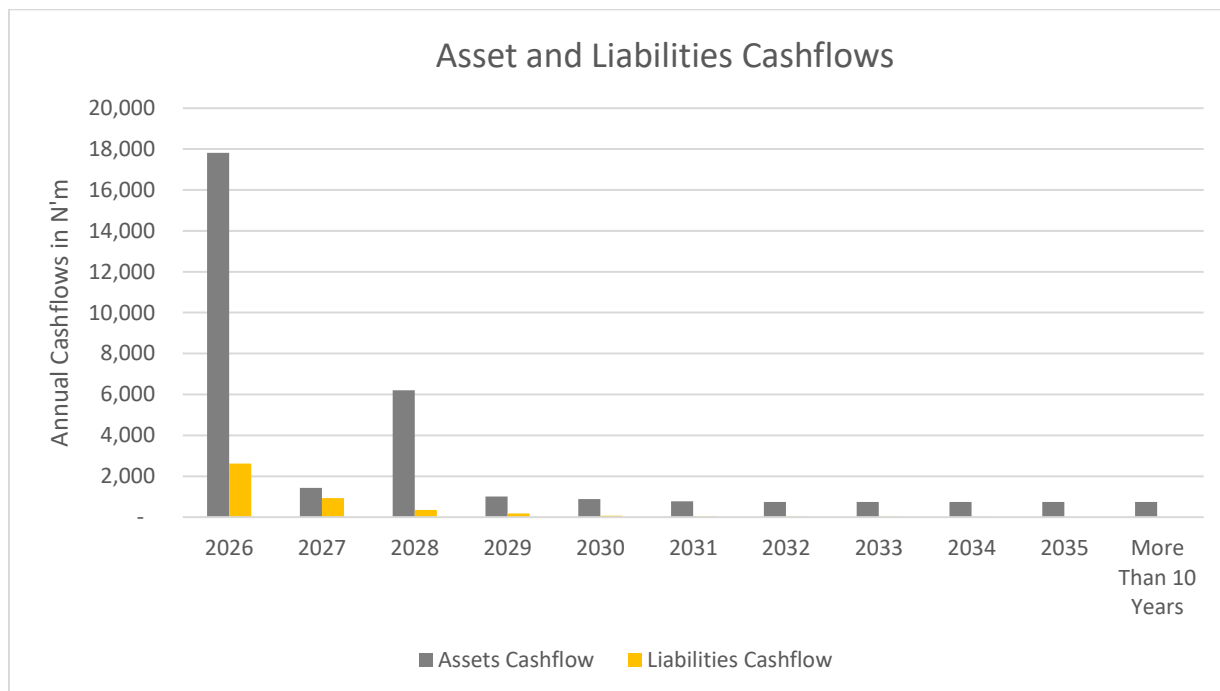
The table above presents the utilization of reserves as of December 31, 2025, on a portfolio basis.

The overall utilization percentage across all portfolios is 70%, indicating that the reserves were adequate to cover claims during the reporting period. Additionally, the existence of surplus reserves across all lines of business highlights a prudent reserving approach.

However, the Marine and Agriculture lines of business were overutilized. This has been addressed in the current reserves, and these classes should be closely monitored in subsequent reserve reviews.

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 flows show a significant peak in 2026 at N17.8 billion, followed by a sharp decline in 2027 and a secondary rise in 2028. After this, the asset cash flows stabilize and gradually decrease, maintaining a steady range from 2032 onward. This pattern suggests an initial large inflow contributed mainly by cash and cash equivalent followed by consistent, stable returns in the long term.

In contrast, liabilities cash flows start much lower than assets at N2.6 billion in 2026 and steadily decline each year. By 2034, liabilities cash flows reach zero, indicating that all liabilities are fully paid off or settled by that time. Beyond 2034, there are no further liabilities cash flows, which points to a clean long-term liability position.

Overall, the data reflects a strong financial position with assets consistently exceeding liabilities throughout the period. The early peak in asset cash flows combined with the steady reduction of liabilities suggests effective asset management and debt repayment strategies. The stable asset cash flows in later years provide a reliable income stream, supporting ongoing financial stability.

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)	1,127,213	3,172,435	4,806,006
Shareholders Fund (Free Assets)	23,616,668	30,731,296	41,891,360
Balance Sheet Solvency Ratio	2095%	969%	872%

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 N3 bn throughout the 3 years under review.

Year	2023 (N'000)	2024 (N'000)	2025 (N'000)
Technical Liabilities (Net of Reinsurance)	1,127,213	3,172,435	4,806,006
Free Assets (allowing for admissible rules)	11,238,373	13,686,729	20,307,655
Minimum Capital Requirement (MCR)	3,000,000	3,000,000	3,000,000
Risk Based Capital (RBC)	N/A	934,808	1,262,771
Maximum of RBC and MCR	3,000,000	3,000,000	3,000,000
Capital Adequacy Ratio (CAR)	375%	456%	677%

Unitrust Insurance Company Ltd.'s currently maintains a Capital Adequacy Ratio (CAR) of 677%. This figure significantly exceeds the regulatory requirements, indicating a robust capital position. The high CAR suggests that Unitrust Insurance Company Ltd possesses a substantial capital buffer relative to its risk exposure, thereby enhancing its financial stability.

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*

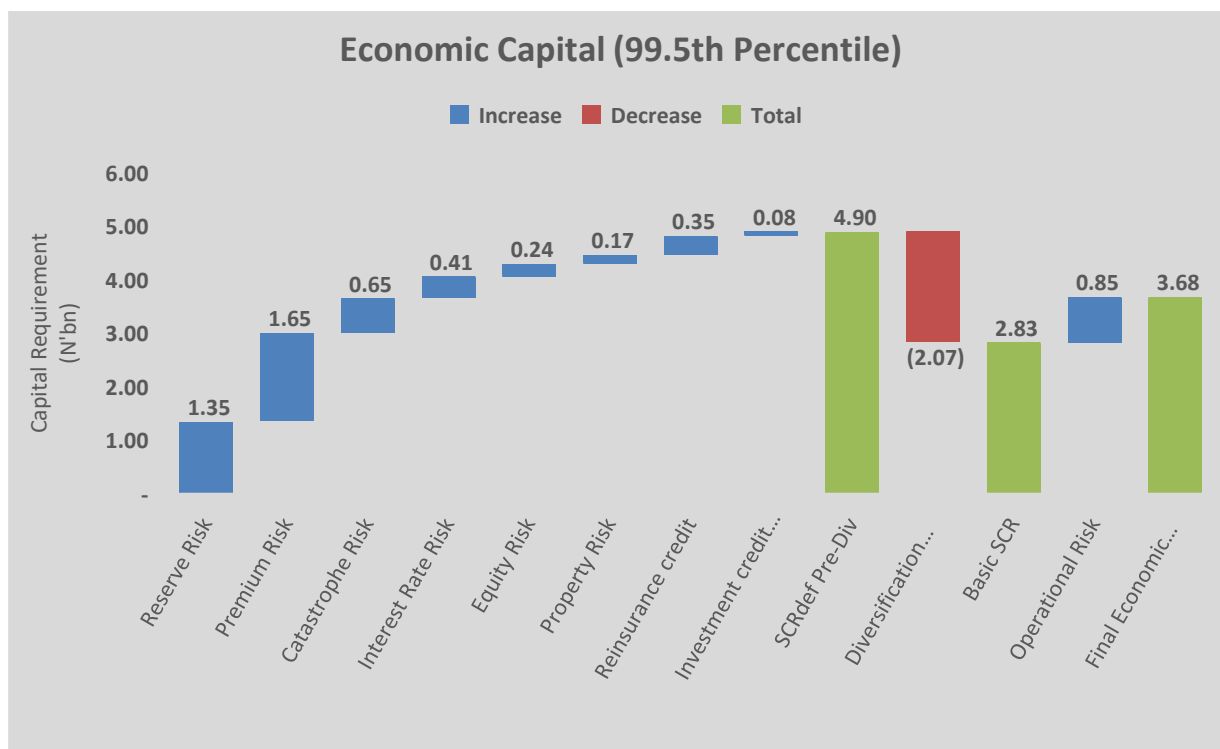
7.2 Economic Capital

- 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 2026. 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 20-year event) and 99% (1 in a 100-year 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 à this was applied to Market risk and Credit risk
 - ▶ Stochastic approach using Bootstrapping à 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	1,351,320,538
	Premium Risk	1,651,449,388
	Catastrophe Risk	645,062,536
	Lapse Risk	-
	SCR _{nl} Pre-Div	3,647,832,463
	SCR _{nl} Div Credit	1,313,976,023
	SCR_{nl} Post Div	2,333,856,440
Market Risk	Interest Rate Risk	412,383,804
	Equity Risk	241,332,535
	Property Risk	165,612,000
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR _{mkt} Pre-Div	819,328,339
	SCR _{mkt} Div Credit	153,347,674
	SCR_{mkt} Post Div	665,980,665
Counterparty Default Risk	Reinsurance credit	347,765,629
	Investment credit & Debtors	82,596,375
	SCR _{def} Pre-Div	430,362,004
	SCR _{def} Div Credit	-
	SCR_{def} Post Div	430,362,004
Undiversified BSCR		3,430,199,108
Diversification Credit		601,685,588
Basic SCR		2,828,513,520
Operational Risk		848,554,056
Final Economic capital		3,677,067,576
Shareholders' Funds		41,891,360,107
% of Economic Capital		1139%



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 N3.68 billion which is less than the shareholders' funds of N41.89 billion.

This suggests that Unitrust Insurance Company 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 The table illustrates how premium income has been utilized from 2024 to 2025.

	2024 N'000	2025 N'000
Net Insurance Revenue	6,053,667	9,745,617
Net Claims Incurred	3,066,853	4,623,643
Acquisition Expense	601,609	1,431,295
Investment Income	1,577,660	2,536,982
Claims Ratio	51%	47%
Acquisition Expense Ratio	10%	15%
Combined Ratio (Net)	61%	62%
Investment Income (% NPI)	26%	26%

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 6.1 million in 2024 to N9.7 million in 2025 indicating Unitrust's effectiveness in generating adequate premium income. This growth reflects the Company's success in attracting and retaining policyholders, enhancing its market position and financial stability.

The combined ratio, an essential indicator of premium adequacy, increase slightly from 61% in 2024 to 62% in 2025. A ratio below 100% signifies profitable operations, with premiums sufficiently covering claims and expenses. The 2025 ratio highlights Unitrust'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 stable trend of 26% in both years.

Metric	Definition
Claims Ratio	Net Claims Expenses/ Net Insurance Revenue
Management Expense Ratio	Management Expense / Net Insurance Revenue
Acquisition Expense Ratio	Acquisition Expense / 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 Four Largest Reinsurance Partners

The following is an overview of Unitrust's top four reinsurance partners:

Reinsurer	Country	Proportional Treaty Premium (₦'000)	Non-Proportional Treaty Premium (₦'000)	Facultative Premium (₦'000)	% of Total Reinsurance Premiums
African Reinsurance Corporation	NIGERIA	2,266,125	26,544	3,254,363	42.50%
Continental Reinsurance Plc	NIGERIA	2,132,822	24,983	3,062,930	40%
FBS Reinsurance Co. Ltd Nigeria	NIGERIA	533,206	6,246	765,733	10%
Nigeria Reinsurance	NIGERIA	399,904	4,684	574,299	7.50%

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 & Gas	Agriculture	Total
Outflow									
Reinsurance Cost	30,726	326,400	5,636	105,469	1,300,784	245,094	1,021,739	9,061	3,044,908
Inflow									
Reinsurance Contract Assets(AIC)	11,483	231,564	2,255	65,925	1,970,689	128,100	64,662	2,474	2,347,828
Value for Money Ratio	37%	71%	40%	63%	152%	52%	-6%	27%	77%

2024									
Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Gas	Agriculture	Total
Outflow									
Reinsurance Cost	341,873	575,851	9,752	617,088	2,284,680	498,163	1,935,300	11,143	6,273,850
Inflow									
Reinsurance Contract Assets(AIC)	30,034	200,442	638	159,968	572,004	187,028	1,153,315	1,908	2,305,337
Value for Money Ratio	9%	35%	7%	26%	25%	38%	60%	17%	37%

2025									
Class of Business	Motor	Accident	Bond	Marine	Fire	Engineering	Oil & Gas	Agriculture	Total
Outflow									
Reinsurance Cost	777,331	1,212,434	30,830	1,456,555	3,624,809	1,644,975	3,333,122	34,549	12,114,604
Inflow									
Reinsurance Contract Assets	343,675	390,413	10,117	971,027	1,016,135	933,213	1,279,611	23,889	4,968,080
Value for Money Ratio	44%	32%	33%	67%	28%	57%	38%	69%	41%

The data presented in the tables above indicate that Unitrust's reinsurance arrangements are optimal, as the reinsurance value for money ratio across all lines of business has consistently remained positive throughout the three-year review period.

These findings further reinforce the robustness of Unitrust's reinsurance strategy, which effectively facilitates risk transfer, capital optimization, and financial resilience.

10. Risk Management

10.1 Risk Governance

Unitrust's describes risk governance structure and the roles and responsibilities of staff in risk management.

The overall responsibility for managing operational risk resides with the Enterprise Risk Management and Governance Committee. To ensure consistent and prudent management of operational risks, this responsibility is divided as follows:

- ▶ **First line of defence** - Risk management and ownership
The Business units, including executive management and staff, manage daily operations. Their key responsibilities include:
 - ▶ Identifying emerging risks and conducting annual risk assessments.
 - ▶ Implementing controls to mitigate risks.
- ▶ **Second line of defence** - Risk Oversight
This line provides independent oversight of key risks (e.g., counterparty default, market, operational, and underwriting risks). Led by the Chief Risk Officer, it establishes policies, coordinates monitoring activities, and identifies trends.
- ▶ **Third line of defence** - Assurance Functions
This line evaluates the effectiveness, adequacy, and consistency of the organization's risk management, internal controls, and governance processes. Internal Audit provides independent assurance to the Board and senior management on the overall effectiveness of the risk management framework.

10.2 Risk Governance Committees

Unitrust has established several management-level committees to oversee various activities, including:

- ▶ Board of Directors
- ▶ Board Enterprise Risk Management Committee
- ▶ Management Enterprise Risk committee
- ▶ Chief Risk Officer
- ▶ Risk identification through:
 - ▶ Business units support area liaison
 - ▶ Project teams

10.3 Risk Management Process

Risk management is embedded in the Company's business strategy and planning cycle and is one of the strategic priorities of the organisation. The Company's business and risk strategy are as follows:

- ▶ Maintaining documented policies and procedures of the control of risk and provision of suitable information, training, and supervision
- ▶ Clearly defining the roles, responsibilities, and reporting lines within the company for Enterprise Risk Management
- ▶ Maintaining risks register linked to the company's business, strategic and operational objectives.
- ▶ Performing an effective review of management's risk assessments and the internal control
- ▶ Including ERM issues when writing reports and considering decision.

10.4 **Key Personnel**

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

- ▶ Chief Risk Officer
- ▶ Internal Auditor

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 is responsible for conducting comprehensive risk assessments, including identification, analysis, and evaluation of risks, as well as designing effective control measures to manage those risks. Key duties include maintaining risk registers, preparing bi-monthly risk dashboard reports for the Management Enterprise Risk Committee, analyzing control failures, and ensuring compliance with applicable laws and regulations while providing access to internal audit functions.

The Internal Auditor is responsible for auditing risk control measures to ensure their effectiveness and implementation, complementing the risk management function. Key duties include conducting risk-based audits, performing pre-disbursement audits, verifying quarterly management accounts, reporting internal control weaknesses to the Board Audit Committee, and collaborating with external auditors.

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, Unitrust Insurance Company Ltd.'s balance-sheet solvency ratios for 2023-2025 indicate a strong financial position. The solvency ratio exceeded 800% between 2023 and 2025. In addition, the Capital Adequacy Ratio (CAR) stands at 677%, which significantly exceeds the regulatory requirements, indicating a robust capital position and financial stability.
- 11.3 It is noted that Unitrust Insurance Company Ltd financial performance from 2023 to 2025 demonstrates substantial growth, with insurance revenue increasing by 77% and profit after tax rising by 16%.
- 11.4 The projected cash flows for assets and liabilities highlight Unitrust's strong liquidity position and effective financial management strategy for 2026. The expected surplus in asset cash flows compared to liabilities suggests a positive financial outlook, enabling reinvestment and operational flexibility.
- 11.5 As of December 31, 2025, Unitrust Insurance 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 Unitrust employs a structured approach to ensure premium adequacy, balancing competitive pricing with the need to cover expected claims and expenses. The combined ratio is stable, indicating effective management of underwriting and operational costs, further supporting premium adequacy.
- 11.7 Unitrust Insurance Company Ltd follows a robust Reinsurance Management Framework that ensures all arrangements are thoroughly documented and executed to guarantee the recoverability of claims. The company's reinsurance strategy is designed to align with the Board's risk appetite while optimizing capacity and ensuring regulatory compliance. This approach demonstrates positive value for money across all lines of business.
- 11.8 We are delighted to have conducted this Financial Conditioning Report for Unitrust Insurance Company Ltd. 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 Unitrust 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 UNITRUST INSURANCE COMPANY LTD 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

SURPLUS TREATY				
CLASS SURPLUS	RETENTION	LINE NO.	TREATY CAPACITY	UNDERWRITING CAPACITY
FIRE	350,000,000.00	40	14,000,000,000.00	14,350,000,000.00
PVT Standalone	240,000,000.00	20/80	960,000,000.00	1,200,000,000.00
Local Facultative acceptance	50.00% OF TREATY CAPACITY FOR FIRE ONLY			
	NIL - PVT			
MARINE CARGO	250,000,000.00	15	3,750,000,000.00	4,000,000,000.00
Local Facultative acceptance	50.00% OF TREATY CAPACITY			
MARINE HULL	100,000,000.00	30	3,000,000,000.00	3,100,000,000.00
Local Facultative acceptance	50.00% OF TREATY CAPACITY			
CAR / EAR	250,000,000.00	30	7,500,000,000.00	7,750,000,000.00
MB/PAR	170,000,000.00	30	5,100,000,000.00	5,270,000,000.00
EE	150,000,000.00	30	4,500,000,000.00	4,650,000,000.00
BPV	100,000,000.00	30	3,000,000,000.00	3,100,000,000.00
	10 LINES ADDITIONAL CAPACITY SUBJECT TO SPECIAL ACCEPTANCE			
Local Facultative acceptance	50.00% OF TREATY CAPACITY			
MISC. ACCIDENT.				
Burglary / Housebreaking	75,000,000.00	50	3,750,000,000.00	3,825,000,000.00
Personal Accident				
Per Person	75,000,000.00	40	3,000,000,000.00	3,075,000,000.00
Per Known Accumulation	75,000,000.00	50	3,750,000,000.00	3,825,000,000.00
Cash-In-Transit/Safe	75,000,000.00	50	3,750,000,000.00	3,825,000,000.00
All Risks	75,000,000.00	50	3,750,000,000.00	3,825,000,000.00
Fidelity Guarantee				
Per Person	50,000,000.00	40	2,000,000,000.00	2,050,000,000.00
Per Firm	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Goods-In-Transit				
Own Goods	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
General Goods	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Professional Indemnity	50,000,000.00	40	2,000,000,000.00	2,050,000,000.00
Builder's Liability	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Occupier's Liability	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Property Damage	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Public Liability	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Employer's Liability	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Product Liability	50,000,000.00	50	2,500,000,000.00	2,550,000,000.00
Director's & Officers Liability	40,000,000.00	20	800,000,000.00	840,000,000.00
GTPL (Bodily Injury / Death)	25,000,000.00	50	1,250,000,000.00	1,275,000,000.00
Local Facultative acceptance	50.00% OF TREATY CAPACITY			
	NO FAC. ACCEPTANCE FOR D & O			

QUOTA SHARE				
BONDS	300,000,000.00	60/40	200,000,000.00	500,000,000.00
NO FAC ACCEPTANCE EXCEPT ON REFERRAL				
AGRIC	150,000,000.00	30/70	350,000,000.00	500,000,000.00
	75,000,000.00		175,000,000.00	250,000,000.00
	50.00% OF TREATY CAPACITY			
EXCESS OF LOSS.	DEDUCTIBLES.		TREATY CAPACITY	U/W CAPACITY
Fire Catastrophe Xol	200,000,000.00		1,000,000,000.00	1,200,000,000.00
Marine Cargo Xol - 1st Layer	100,000,000.00		150,000,000.00	250,000,000.00
Marine Hull	50,000,000.00	-	50,000,000.00	100,000,000.00
Motor/EL/WC/GTPL - 1st Layer	20,000,000.00	-	20,000,000.00	40,000,000.00
Motor/EL/WC/GTPL - 2nd Layer	40,000,000.00	-	30,000,000.00	70,000,000.00
Motor TPBI Only - 3rd Layer				
Motor GTPL/PL/EL/WC Only - 3rd Layer	70,000,000.00	-	250,000,000.00	320,000,000.00
Oil & Gas				
Operational Risks	USD750,000.00	-	USD318,250,000.00	USD319,000,000.00
Construction Risks.	USD375,000.00	-	USD318,250,000.00	USD318,625,000.00
Deductible Buy Back on Oil & Gas.				
Oil & Gas	N/A		N/A	N/A

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	$x \leq 100\%$	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 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: $\text{current yield} \times (1 + \text{Upward stress})$ 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.

$$C_{Mkt} = \sqrt{\sum \text{CorrMkt}_{ij} * C_{Mkt_i} * C_{Mkt_j}}$$

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:

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

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

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

Where

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

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

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

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

TP_{nl} are the technical provisions

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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