REX INSURANCE LIMITED

FINANCIAL CONDITION REPORT FOR NON-LIFE BUSINESS AS AT 31ST DECEMBER 2024

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, 2024, REX Insurance Limited's balance sheet solvency ratios from 2022 to 2024 reflect a strong financial position, with a solvency ratio exceeding 200%. The Capital Adequacy Ratio (CAR) is currently at 550%, significantly above regulatory requirements, indicating a robust capital position and financial stability.

- The solvency ratio currently remains well above requirements at about 200%. However, we observed a declining trend when analyzing the changes in the ratio from 2022 to 2024, and we strongly recommend that management closely monitor this trend. By actively tracking this trend, REX 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 REX'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 REX Insurance Limited's financial performance from 2023 to 2024 demonstrates fair growth, with insurance revenue increasing by 73%. However, REX experienced a 76% decrease in profit after tax rising from the 308% increase in insurance service expenses and we strongly recommend that the company monitors the trend.

- As of December 31, 2024, REX Insurance Limited'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.

- REX Insurance Limited adheres to a comprehensive Reinsurance Management Framework, ensuring all arrangements are documented and executed to guarantee claim recoverability. The company's reinsurance strategy focuses on ensuring adequate and effective protection of the company's risk portfolio to prevent and/or minimize catastrophic losses with a view to balancing risk and reward. The result of the robust framework can be noted in the significant increase in the reinsurance value for money from 17% to 174% in 2024.

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The Managing Director
REX Insurance Limited
26E Abdul-Rahman Okene Close,
Off Ligali Ayorinde Street,
Victoria Island,
Lagos.

September 2025

FINANCIAL CONDITION REPORT FOR NON-LIFE BUSINESS AS AT 31ST DECEMBER 2024

Dear Sir,

Introduction, Purpose and Limitations

1.1 We are pleased to present our Financial Condition Report ("FCR") for REX INSURANCE LIMITED ('the Company") as at 31st December 2024.

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 REX Insurance Limited for the financial year ending 31st December 2024.

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 Business

2.1 The Nigerian economy has faced considerable challenges, particularly marked by the depreciation of the Naira, which experienced a decline from N951 in January 2024 to N1,549 in December 2024. This significant drop has resulted in a subsequent increase in the prices of goods and services, adversely affecting major companies within the country and leading to the exit of several firms from the market.

The Nigerian Senate passed legislation to increase the minimum capital requirements for all insurance and reinsurance firms. The revised Minimum Capital Requirements (MCR) are detailed in the table below:

	Initial Capital (N 'billion)	New Capital (N 'billion)
General Insurance	3	15
Life Insurance	2	10
Reinsurance	10	35

Barring any further changes, these adjustments are expected to take effect upon passing through the house of representatives, accent to the bill by the Presidency, the issuance of implementation guidelines by the National Insurance Commission (NAICOM), along with the establishment of a compliance deadline.

Furthermore, the regulator in 2024 issued an exposure draft on "Risk Based Capital Regulation", which is designed to ensure that insurers and reinsurers maintain a capital adequacy level that aligns with their respective risk profiles.

2.2 The table below illustrates how REX Insurance Limited's books have developed over the year 2023 to 2024.

(NGN'000)	2024	2023	YoY Movement
Insurance Revenue	26,632,214	15,417,643	73%
Insurance Service Expense	(40,948,167)	(10,039,023)	308%
Net expenses from reinsurance contracts held	10,059,614	(6,123,556)	-264%
Insurance Service Result	(4,255,927)	(744,936)	471%
Investment Income	3,268,194	1,769,948	85%
Net insurance and Investment Result	1,673,485	5,861,297	-71%
Other Operating Income	1,967,561	23,172	8391%
Other Operating Expenses	(2,760,301)	(1,769,214)	56%
Profit before Tax	880,745	4,115,255	-79%
Income Tax	(103,823)	(924,799)	-89%
Profit after Tax	776,921	3,190,456	-76%

Despite a strong growth trajectory in insurance revenue, which increased by 73% from N15.42 billion to N 26.63 billion, the insurance service result experienced a significant decline of 471%. This downturn was primarily driven by a 308% rise in insurance service expenses.

This substantial decline ultimately led to a 76% decrease in profit after tax, despite notable increase in other components such as investment income (85%) and other operating income (8391%).

It is recommended that Rex Insurance Ltd. implements stringent cost control measures to manage and reduce insurance service expenses which would involve reviewing operational efficiencies, renegotiating contracts, and optimizing resource allocation as well as enhancing investment strategies which may involve reallocating assets or exploring alternative investment opportunities.

3. Business Overview

3.1 Company Overview

The Company started operations in Nigeria represented by Barclays Bank DCO in 1918. A branch of the then parent Company, Royal Exchange Assurance, London (REA), was established in Lagos on February 28, 1921.

REA was founded in 1720 and was one of the first two insurance companies to receive legal status by Royal Charter. Originally established for marine business, REA expanded within a year to include fire and life insurance as well, thereby becoming Britain's first composite insurer.

The establishment of the branch in Nigeria was the result of the expansion drive of REA in the early 20th century. Pursuant to Section 396 (2) of the then Companies Act of 1968 the Company was, on December 29, 1969, reconstituted and incorporated as a Private Limited Liability Company, the Royal Exchange Assurance (Nigeria) Limited. The Company went public on July 18,1989 and was duly listed on the Nigerian Stock Exchange on December 3, 1990.The Company elected to split its operations into Life and General Businesses during the 2007 recapitalization exercise.

In 2024, the company rebranded into Rex Insurance Limited.

3.2 Principal Activities

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

- Agriculture insurance
- Bond insurance
- Engineering insurance
- Fire insurance
- General Accident Insurance
- Marine Insurance
- Motor Insurance
- Oil & Gas Insurance

The company anticipates a revenue growth of an average of 25.7% in GWP by 2026, across all lines of business. It also aims to reduce OPEX and improve profitability and ROE, increase brand awareness level from a 32% to at least 55%.

3.3 Shareholding Structure

Below is the list of companies holding 5% or more ownership in REX Insurance Limited:

1. INSURESILIENCE INVESTMENT FUND SICAV-RAIF – 2,526,985,641 shares (30.39% ownership)
2. AFRICINVEST FINANCIAL INCLUSION VEHICLE LLC C/O TRIDENT TRUST COMPANY – 2,526,985,641shares (30.39 ownership)

Collectively, these companies hold 60.79% of the total shares of REX Insurance Limited.

4. Recent Experience and Financial Performance

4.1 Overview of Recent Experience.

- Premium: Our Gross Written Premium grew from about N16.7bn in the year 2023 to about N28.7bn in the year 2024 marking a growth of 72%, Insurance revenue grew by 73% from N15.4bn in the year 2023 to N26.6bn in the year 2024. The growth in insurance revenue was driven mainly by the Energy, Motor and Fire portfolio respectively.
- Claims experience: A significant increase in losses was observed, with a recorded loss of 1308%, resulting from a rise in gross losses from 2.04 billion in the previous year to 30.2 billion. This escalation was primarily attributed to our Energy portfolio in 2024. The net loss reflected a 380% increase, with actual losses rising from 1.29 billion in 2023 to 6.4 billion in 2024, largely due to elevated claims associated with the Energy portfolio
- Expenses: Attributable expense increased by about 58% from N2.86bn to N4.53bn
- Investment Income: The Net Investment Income decreased by 6% from 6.65bn (2023) to 6.26bn (2024).

4.2 Deviations From Expected Experience

The financial results show significant variances from the budget, with the net claims ratio surging to 113.57% to 90.9 percentage points above expectations–due to high energy-related claims. Operating income was lower than planned, reflecting cost-saving measures, while investment income exceeded projections because of foreign exchange gains. The retention ratio declined as more energy risks were ceded. Overall, the performance was mixed, with challenges in claims and retention offset by strong investment returns and cost efficiencies.

4.3 Impact of External Factors

- Inflation: Elevated inflation, staggering between 34.60% to 34.80% affected claim severity
- FX volatility: Naira depreciation impacted reinsurance costs denominated in USD
- Other: Flooding still appears to be a serious risk to our Agric portfolio.

4.4 Management and Board Response

- High Claims: The High claims payout was driven largely by the Energy portfolio. As part of our strategic shift initiative to diversify our portfolio the management has taken steps to reduce our exposure to Energy risks. Some of these steps include expanding the retail sales network, push further into the agriculture business as well as explore other non-energy sectors.

- Strategic Shifts: Product rationalization in underperforming retail lines.

These proactive measures reflect REX's dedication to improving operational efficiency while improving profitability and increasing brand awareness.

4.5 Strategic Pillars

- Cost Optimization
- Brand Visibility
- Customer Experience Improvement
- Process Improvement & Optimization
- Strong Investment Strategy
- Continued Investment in Human Capital
- Adopt best of breed technology for Sales & Services functions

5. Valuation of Liabilities

5.1 The table below illustrates REX's assets and liabilities reserves as at 31st December 2024.

Reserves	Gross Liability (₦)	Reinsurance Assets (₦)	Net Liability (₦)
Incurred Claims	27,144,918,202	(20,695,720,000)	6,449,198,201
Risk Adjustment	1,495,684,993	(1,147,913,664)	347,771,329
Total Incurred Claims	28,640,603,195	(21,843,633,664)	6,796,969,530
Remaining Coverage (Excluding Loss Component)	4,875,709,480	(3,420,884,731)	1,454,824,749
Remaining Coverage (Loss Component)	9,611,288	(6,055,112)	3,556,177
Total Remaining Coverage	4,885,320,768	(3,426,939,843)	1,458,380,926
Total (31 December 2024)	33,525,923,962	(25,270,573,507)	8,255,350,455

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

Liability Table

Portfolio	LIC (PVFCF) N	LIC (RA) N	LIC N
Agriculture	88,621,845	4,883,064	93,504,908
Bond	930,368	51,263	981,631
Engineering	784,339,426	43,217,102	827,556,528
Fire	686,011,565	37,799,237	723,810,802
General Accident	782,381,168	43,109,202	825,490,371
Marine	741,263,847	40,843,638	782,107,485
Motor	373,787,480	20,595,690	394,383,170
Oil & Gas	23,687,582,504	1,305,185,796	24,992,768,300
Total	27,144,918,202	1,495,684,993	28,640,603,195

Asset Table

Portfolio	ARIC (PVFCF) N	ARIC (RA) N	AIC N
Agriculture	53,809,320	3,059,624	56,868,944
Bond	315,557	18,384	333,941
Engineering	467,363,855	26,310,839	493,674,695
Fire	238,503,753	13,335,289	251,839,042
General Accident	82,526,453	4,636,221	87,162,674
Marine	101,869,804	5,778,503	107,648,307
Motor	27,069,155	2,054,781	29,123,936
Oil & Gas	19,724,262,102	1,092,720,022	20,816,982,125
Total	20,695,720,000	1,147,913,664	21,843,633,665

Premium Liability and Asset Table

Class of Business	LRC ₦	ARC ₦	NET ₦
Agriculture	23,045,755	(28,127,601)	(5,081,847)
Bond	7,388,772	(7,139,050)	249,721
Engineering	408,640,085	(1,006,642,386)	(598,002,301)
Fire	585,591,759	595,801,611	1,181,393,370
General Accident	260,031,854	(233,161,809)	26,870,044
Marine	561,277,082	(1,166,445,931)	(605,168,849)
Motor	1,401,861,598	(290,657,047)	1,111,204,551
Oil & Gas	1,637,483,863	(1,290,567,626)	346,916,237
Total	4,885,320,768	(3,426,939,842)	1,458,380,925

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 4.57% and a Completion Scale of 50%. The total ULAE reserves amount to N633.45 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 REX'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
Agriculture	114,942,033	3,214,968	111,727,065	3%
Bond	9,604,530	-	9,604,530	0%
Engineering	94,352,051	106,059,031	-11,706,980	112%
Fire	535,014,787	100,124,676	434,890,111	19%
General Accident	264,225,232	131,215,625	133,009,607	50%
Marine	279,673,155	120,618,029	159,055,126	43%
Motor	318,928,494	168,737,208	150,191,286	53%
Oil & Gas	1,019,209,698	29,704,271	989,505,427	3%
Total	2,635,949,979	659,673,807	1,976,276,172	25%

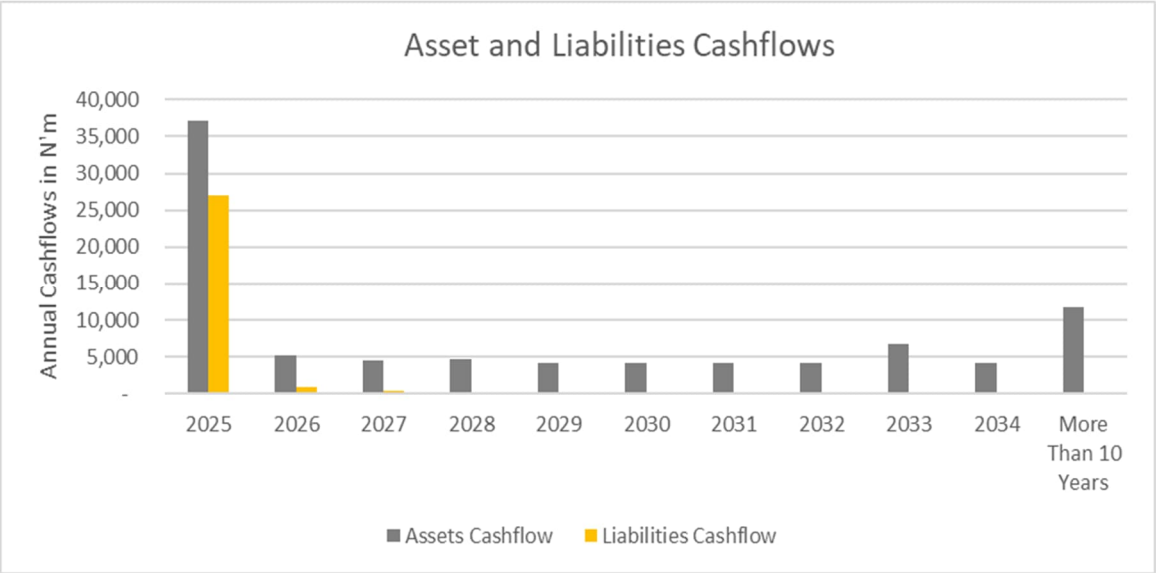
The table above presents the utilization of reserves as of December 31, 2024, on a portfolio basis.

The overall utilization percentage across all portfolios is 25%, indicating that the reserves were adequate to cover claims during the reporting period. Additionally, the existence of surplus reserves across all lines of business, except Engineering, which experienced a slight over-utilization of reserves, highlights a prudent reserving approach.

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

6. Asset and Liability Management

The illustration below presents the projected cash flows for assets and liabilities from 2025 to 2035, providing valuable insights into the financial management strategy over this period:



The asset cash flow analysis indicates a significant inflow of N37.14 billion anticipated in 2025, reflecting a robust liquidity position at the outset. Notably, about 26% of this cash flow is derived from cash and cash equivalents, underscoring the organization's strong liquidity management. The remaining portion of the cash flow is generated from a diversified portfolio, including equity investments, bonds, and reinsurance assets.

The liabilities cash flow starts at N26.9 billion in 2025 and decreases steadily over the years, reflecting a proactive approach to managing obligation and by 2031, 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 2022 to 2024, the company has a more than sufficient balance sheet solvency ratio.

Year	2022 (N'000)	2023 (N'000)	2024 (N'000)
Technical Liabilities (Net of Reinsurance)	3,261,693	4,591,013	8,255,350
Shareholders Fund (Free Assets)	14,695,301	17,709,605	19,152,677
Balance Sheet Solvency Ratio	451%	386%	232%

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	2022 (₦'000)	2023 (₦'000)	2024 (₦'000)
Technical Liabilities (Net of Reinsurance)	3,261,693	4,591,013	8,255,350
Free Assets (allowing for admissible rules)	9,538,316	12,109,118	16,509,534
Minimum Capital Requirement (MCR)	3,000,000	3,000,000	3,000,000
Risk Based Capital (RBC)	N/A	N/A	1,116,962
Maximum of RBC and MCR	3,000,000	3,000,000	3,000,000
Capital Adequacy Ratio (CAR)	318%	404%	550%

REX Insurance Limited currently maintains a Capital Adequacy Ratio (CAR) of 550%. This figure significantly exceeds the regulatory requirements, indicating a robust capital position. The high CAR suggests that REX possesses a substantial capital buffer relative to its risk exposure, thereby enhancing its financial stability. As a result, NAICOM can simply review REX Insurance Limited returns without imposing any additional financial requirements at this time.

In 2024, NAICOM introduced the Risk-Based Capital framework, which determines the minimum amount of capital that insurance companies, including the company, must hold. The RBC framework assesses various types of risks, including underwriting, credit, market, and operational risks, to establish appropriate capital requirements tailored to the specific risk profiles of each institution.

This was introduced in 2024, hence not applicable to prior years.

The table provides a comprehensive representation of how the company's Capital Adequacy Ratio may be influenced by the implementation of the new minimum capital requirements under the Risk-Based Capital Framework.

Year	2024 – New MCR (₦'000)
Technical Liabilities (Net of Reinsurance)	8,255,350
Free Assets (allowing for admissible rules)	16,509,534
Minimum Capital Requirement (MCR)	15,000,000
Risk Based Capital (RBC)	1,116,962
Maximum of RBC and MCR	15,000,000
Capital Adequacy	110%

Despite a decline in the capital adequacy ratio to 110%, REX continues to meet its obligations and can absorb potential losses.

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 2024 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 2024. Such events would typically lead to large 'unexpected' losses that could significantly affect the fortunes of the company.

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

- Value at Risk as this was applied to Market risk and Credit risk
- Stochastic approach using Bootstrapping as 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 2024 and asset information shown in section 2.3 of this report.

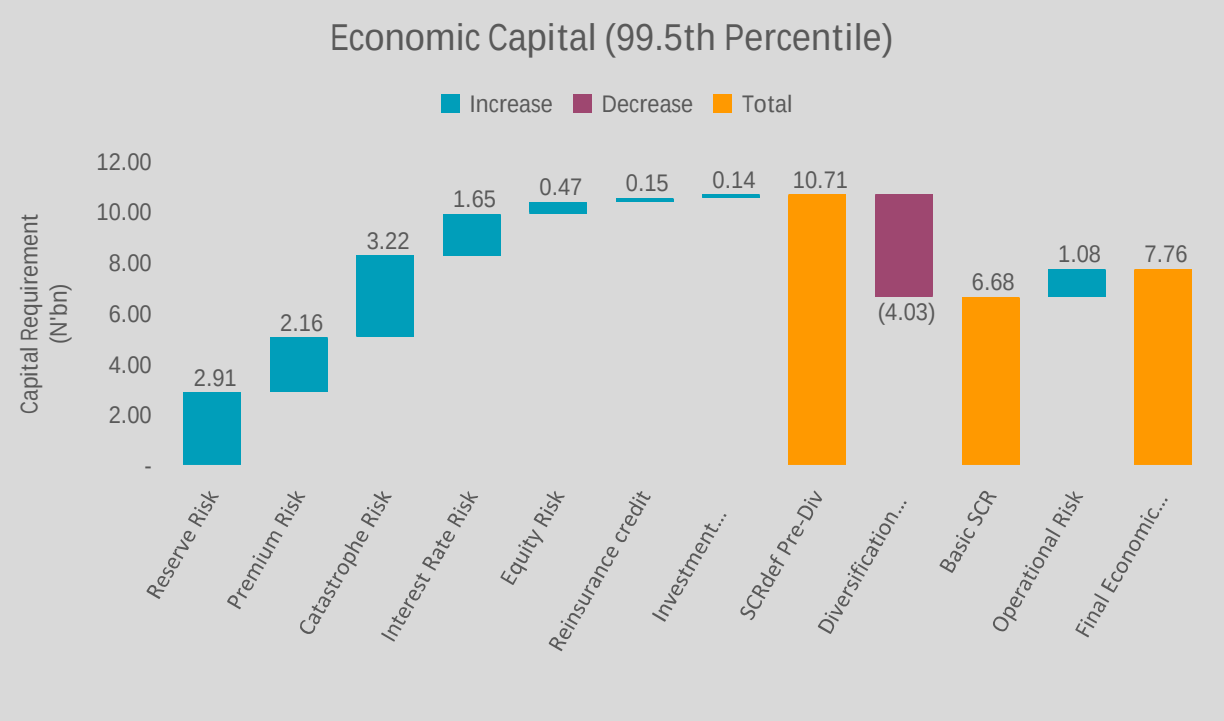
7.2.9 The following results at 99.5% confidence level were obtained.

Risk Type		Capital Requirement (N)
Non-Life Insurance Risk	Reserve Risk	2,909,885,888
	Premium Risk	2,163,294,243
	Catastrophe Risk	3,220,970,324
	Lapse Risk	-
	SCR_{nl} Pre-Div	8,294,150,455
	SCR_{nl} Div Credit	2,418,392,790
	SCR_{nl} Post Div	5,875,757,665
Market Risk	Interest Rate Risk	1,653,914,943
	Equity Risk	471,572,886
	Property Risk	-
	Spread Risk	-
	Currency Risk	-
	Concentration Risk	-
	SCR_{mkt} Pre-Div	2,125,487,829
	SCR_{mkt} Div Credit	405,657,714
	SCR_{mkt} Post Div	1,719,830,115
Counterparty Default Risk	Reinsurance credit	146,569,326
	Investment credit & Debtors	141,491,980
	SCR_{def} Pre-Div	288,061,306
	SCR_{def} Div Credit	-
	SCR_{def} Post Div	288,061,306
Undiversified BSCR		7,883,649,086
Diversification Credit		1,208,451,542
Basic SCR		6,675,197,543
Operational Risk		1,084,124,721

Final Economic capital	7,759,322,264

Shareholders' Funds	19,152,676,538

% of Economic Capital	247%



7.2.10 As shown in the table above, the total Economic Capital required in connection with the business profile at 31st December 2024 was N7.76 billion which is less than the shareholders' funds of N19.1 billion.

This suggests that REX Insurance 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 REX is a general insurance company in a highly price-sensitive market. As such, their ability to set premiums purely based on technical pricing is constrained by prevailing market rates, especially for high-volume lines such as Motor, GPA, and Fire. While they strive to ensure rates are sustainable, commercial realities often limit our capacity to cover the underwriting risk, expense loadings, and capital charges in the final premium rates.

8.1.1 Underwriting Practices

Rex's underwriting procedure ensures that, despite pricing limitations, risk assessment and acceptance remain prudent and controlled. Key elements include:

- Customer assessment (Know Your Customer, Customer Due Diligence, etc.) is carried out before the inception of the policy.
- Risk Evaluation: Policies are assessed based on exposure, historical loss experience, and market trends.
- Triggers are set and review to ensure consistency and alignment with risk appetite.
- Tiered Approval: Discounted or large risks must pass through multi-level approvals, ensuring accountability.
- Post acceptance evaluation and monitoring.

8.1.2 Expense Assumptions & Allocations

In the development of new retail products, REX's pricing model incorporates a loading for estimated operating expenses and profit margins to ensure that the premium accurately reflects the comprehensive cost of delivering the insurance service. Accordingly, Rex maintains diligent monitoring of expense shortfalls to inform future pricing reviews and profitability assessments.

Underwriting Limits for Branches

All special risks, such as Marine Hull and Bonds, must be referred to the respective Manager or Head of Department (Underwriting) for written confirmation before acceptance. This ensures that significant risks are evaluated by experienced personnel, maintaining the integrity of the underwriting process.

8.2 The table illustrates how premium income has been utilized from 2022 to 2024.

	2022 N'000	2023 N'000	2024 N'000
Net Insurance Revenue	13,860,374	7,434,813	12,287,199
Net Claims Incurred & Attributable Expenses	(4,061,681)	(4,151,570)	(10,980,257)
Acquisition Expense	(2,513,114)	(2,766,497)	(5,139,945)
Investment Income	1,670,820	1,769,948	3,268,194
Claims & Attributable Ratio	29%	56%	89%
Acquisition Expense Ratio (Net)	18%	37%	42%
Combined Ratio (Net)	47%	93%	131%
Investment Income (% NPI)	12%	24%	27%

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 downward trend from N13.86 million in 2022 to N7.43 million in 2023 and further increasing significantly to N12.29 million in 2024 indicating REX'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, increased from 47% in 2022 to 93% in 2023, and then increased to 126% in 2024. A ratio above 100% indicates that operations are not profitable, as premiums are insufficient to cover claims and expenses. The 2024 ratio highlights REX's need to implement effective management strategies for its underwriting and operational costs, thereby reinforcing the adequacy of its premium income and demonstrating the company's commitment to its financial health and operational efficiency.

The analysis also shows that the investment income as a percentage of Net Insurance Revenue has shown an upward trend, improving from 12% in 2022 to 27% in 2024.

Metric	Definition
Claims Ratio	Net Claims Expense/ Net Insurance Revenue
Acquisition Expense Ratio	Acquisition Expense / Net Insurance Revenue
Combined Ratio	Sum of Claims 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:

- To avoid concentration risk, management shall determine the limits of exposure to each category of REX's reinsurance partners.
-
- The maximum percentage of the total facultative reinsurance portfolio that can be placed with all the companies in each tier shall be established.
-
- No reinsurance shall be placed with companies not in approved tiers, except when the placement arises from extraordinary business circumstances and shall be approved by the Managing Director or Executive Director (Technical) before such placement is made.
- Management shall implement a mechanism for continuous monitoring of REX's reinsurance placements to ensure that the exposure limits are adhered to and that REX optimizes its reinsurance portfolio.

9.2 The acceptance process for accepting facultative inward risk is well scrutinized to ensure that REX's exposure does not exceed its gross capacity. For certain classes of business, facultative inward acceptance is limited to 50% of REX's gross capacity. Reinsurance Treaties and Arrangement

The Management shall ensure all regulatory filings and submissions regarding the company's reinsurance treaty arrangement are done as and when due. The company maintains zero tolerance to regulatory infractions.

9.3 Requirements for Treaty Renewals

(a) Cash-Call Provision: There shall be in all treaty programs or arrangements the provision for Cash-Call to protect the company in the event of a huge or catastrophic claim. In the event of a large claim, this provision ensures the reinsurance partners make prompt claim payment without following through the usual long settlement procedures.

(b) Renewal Timelines: The reinsurance treaty renewal discussions and negotiations shall commence at least 60 days before expiry date. The renewal of all treaty arrangements shall be concluded not later than 10 days before the expiration of the existing programs. Up-to-date statistics, including outstanding loss figures as of September.

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

- Proportional / Non-Proportional Treaty: Upon receiving the debit note from the reinsurance broker, REX will raise a memo for payment to be signed and approved by management, subsequently initiate a payment request on DWS for the account to process the payment, and finally, receive the EOP from the account to send to the reinsurer(s).
- Facultative Reinsurance: REX will issue a credit note to the reinsurer, receive the debit note and guarantee policy, raise a memo for payment to be signed and approved by management, initiate a payment request on DWS for the account to process the payment, and finally, receive the EOP from the account to send to the reinsurer(s).

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

Reinsurer	Country	Proportional Treaty Premium (₦'000)	Non-Proportional Treaty Premium (₦'000)	Facultative Premium (₦'000)	% of Total Reinsurance Premiums
HEIRS	NIGERIA	-	-	544,971,924.95	37%
AFRICAN RE	UNITED KINGDOM	433,320,167.94	36,311,310.00	-	27%
SWISS RE	SWITZERLAND	349,405,680.03	42,865,900.00	-	24.03%
CONTINENTAL RE	NIGERIA	329,769,097.05	23,684,800.00	-	8.60%
WAICA RE	NIGERIA/SIERRA LEONE	119,543,491.57	6,976,065.00	-	6%

9.6 Reinsurance value for money.

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

2022

Class of Business	Motor	Accident	Bond	Marine	Agric	Fire	Engineering	Special Risk	Total
Outflow									
Cash paid to reinsurers	96,231	181,034	10,455	531,367	52,161	815,935	355,163	6,038,448	8,080,794
Inflow									
Reinsurance Contract Assets	65,886	72,851	9,158	172,582	70,440	479,916	130,704	758,342	1,759,878
Value for Money Ratio	**68%**	**40%**	**88%**	**32%**	**135%**	**59%**	**37%**	**13%**	**22%**

2023

Class of Business	Motor	Accident	Bond	Marine	Agric	Fire	Engineering	Special Risk	Total
Outflow									
Cash paid to reinsurers	197,305	240,887	3,955	693,231	19,848	905,902	644,830	6,595,790	9,301,748
Inflow									
Reinsurance Contract Assets	78,778	99,588	6,303	120,238	50,705	488,944	292,538	406,413	1,543,508
Value for Money Ratio	**40%**	**41%**	**159%**	**17%**	**255%**	**54%**	**45%**	**6%**	**17%**

2024

Class of Business	Motor	Accident	Bond	Marine	Agric	Fire	Engineering	Special Risk	Total
Outflow									
Cash paid to reinsurers	170,309	194,202	1,844	1,105,396	26,425	999,580	450,020	11,567,528	14,515,304
Inflow									
Reinsurance Contract Assets	319,781	320,324	7,473	1,274,094	84,997	(343,963)	1,500,317	22,107,550	25,270,574
Value for Money Ratio	**188%**	**165%**	**405%**	**115%**	**322%**	**-34%**	**333%**	**191%**	**174%**

The data presented in the tables above indicate that REX'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, with the exception of the Fire portfolio, which saw a 34% decrease in 2024 due to a decrease in the reinsurance assets.

On an aggregate basis, there was a significant increase in the value for money ratio from 17% in 2023 to 174% in 2024, largely driven by a substantial rise in reinsurance contract assets, which grew from 1.54 billion (2023) to 25.27 billion (2024).

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

10. Risk Management

10.1 Risk Governance

REX's overall responsibility for the management of operations risk resides with the Board of Directors through its Board Risk Committee, Management team, Management Risk Committee and Chief Risk and Compliance Officer. To ensure consistency and prudent management of operational risks, this responsibility shall be divided as follows:

10.1.1 The Board of Directors

The Board of Directors is responsible for setting and reviewing the company's risk appetite and the tone or attitude towards risk-taking. The risk appetite is defined by a series of risk criteria for the different types of risks faced by the Company. By establishing the risk appetite, the Board determines the nature and extent of the risks it is willing to take in its desire to achieve the strategic objectives of the company. The Board shall periodically review compliance with the risk appetite through the Board Risk Committee. The risk appetite statements serve as a main guide for strategy development and implementation. As well as other tactical or operational activities across the functions and units of the company.

10.1.2 The Board Risk Committee

The Board Strategy Risk & Compliance Committee shall be responsible for the following:

- Providing oversight functions on the risk management, compliance and internal control functions of the Company.
- Receiving and reviewing periodic reports of the Chief Risk Officer
- Making recommendations to the Board of Directors on major compliance breaches, outcomes of investigations and on the
- Company's overall compliance effectiveness.

10.1.3 The Management Team

The management shall operate within the constraints established by the risk appetite statements. Management must ensure employees abide all rules guiding risk acceptance and risk retention and operate within the limits by the risk appetite statement. Management is also responsible for setting up A system of risk escalation when any specific risk exposure approaches the limit of tolerance.

10.1.4 The Management Risk Committee

The Management Risk & Compliance Committee is responsible for the following:

- Receiving and reviewing reports from the Chief Risk/Compliance Officer or the Enterprise Risk Management Department
- Making recommendations to the Management Executive Committee (EXCO) on threats or process breaches identified or reported by the Chief Risk/Compliance Officer that could increase the Company's risk exposures.
- Making recommendations to the Executive Management Committee (EXCO) as may be appropriate in improving the Company's overall risk exposures.

10.1.5 The Chief Risk and Compliance Officer

The Chief Risk Officer (CRO) is also the Head of the Company's Enterprise Risk Management Department. The CRO shall be responsible for overseeing the Risk Management and Internal Control functions of the Company. Specifically, the Chief Risk Officer is responsible for:

- Managing the entire risk exposures of the company in conjunction with Heads of all Departments/Units of the company to ensure effectiveness and efficiency
- Developing and reviewing and implement risk management and governance structures necessary to identify, evaluate, and manage the company's operational and business risks and to ensure they are adequate to meet the dynamics and realities of the ever-changing business environment.
- Ensuring the company's risk management policies and strategies are in compliance with applicable regulations, rating agency standards, and strategic imperatives of the organization.
- Making recommendations as may be appropriate in improving the Company's risk exposures.

10.1.6 The Lines of Defense

- First Line of Defense: Board of Directors, Board Risk & Strategy Committee and Heads of Business Units
- Second Line of Defense: Management Risk Committee (MRC), Chief Risk Officer/ Enterprise Risk Management Department and Chief Compliance Officer/ Compliance Department
- Third Line of Defense: Internal Audit
- Fourth Line of Defense: This line has a more flexible structure that combines personnel support from other lines of defense.

Key Risk	First line of defense	Second line of defense	Third line of defense	Fourth line of defense
Underwriting Risk	Head Underwriting	Head Technical	CRO; Mgt Risk Committee	Board Risk Committee
Reinsurance Risks	Head Reinsurance Head Underwriting	Head Technical	CRO; Mgt Risk Committee	Board Risk Committee
Claim Settlement Risks	Head Claim Settlement	Head Technical	CRO; Mgt Risk Committee	Nil
Reserving Risks	Head, Claims (Case) Internal Actuary (IBNR, UPR)	Internal Actuary Chief Risk Officer	Mgt Risk Committee HSE Committee	EXCO
Climate Risk	Head Underwriting Head Facilities Mgt	Head Technical Manager ESG	Chief Risk Officer, MRC HSE Committee	Board Risk Committee
Political Risk	Head Strategy & Transformation Chief Risk Officer Head Legal & Compliance	Managing Director EXCO	Board Risk Committee	Board of Directors
Liquidity Risk	Chief Finance Officer	Chief Risk Officer	Mgt Risk Committee Mgt investment Committee	Board Risk Committee

Credit Risk	ED, Business Development Chief Investment Officer	Chief Finance Officer Head Technical	CRO; Mgt Risk Committee Chief Compliance Officer	Board Risk Committee
Market Risk	Chief Investment Officer	Chief Finance Officer	CRO; Mgt Risk Committee	Board Risk Committee
FX Risk	Chief Investment Officer	Chief Finance Officer	Chief Risk Officer	Board Risk Committee
Ops Risks - ICT	Chief Digital & Information Office	Chief Risk Officer	Chief Audit & Investigations Officer	EXCO
Ops Risks - Fraud	Chief Finance Officer Chief Digital & Information Office	Head Internal Control Unit	Chief Risk Officer	Chief Audit & Investigations Officer
Ops Risks - HSE	Head, Human Resources Head, Facilities Mgt	ESG Manager	Chief Risk Officer	EXCO
Legal & Litigation Risk	Head, Legal & Com Sec	EXCO	Nil	Nil
Compliance Risk	All Heads of Departments	Chief Compliance Officer Head Internal Control Unit	CRO; Mgt Risk Committee	Chief Audit & Investigations Officer
Keyman Risk	All Heads of Departments	Head, Human Resources	Chief Risk Officer	EXCO
Reputational Risk	Head Brands & Corporate Communications	Chief Risk Officer	Head, Legal & Company Secretary	EXCO
Low Brand/Product Awareness	Head Brands & Corporate Communications	ED, Business Development	Head Strategy & Transformation	EXCO
Loss of Market Share/ Loss of Key Customers	ED, Business Development Business Directors	Managing Director	EXCO	Nil
Strategic Risk	ED, Business Development Head Strategy & Transformation	Managing Director	EXCO	Board of Directors
ML/FT/PL Risk	ED, Business Development Regional Directors, Business Development	Head Technical Head Underwriting	Head, Customers Service Chief Compliance Officer	Chief Risk Officer Head, Internal Audit

The Company shall continuously promote a culture consistent with the risk management philosophy and strategy in the day-to-day activities of all stakeholders within the Company. Adequate resources shall be allocated annually for training and capacity building for staff, management and Board Committee members.

10.2 Risk Management Department

REX has established several Enterprise Risk Management operational structures comprising of four (4) key functional units. Each functional unit shall be headed by a well-trained or experience officers who together with the Chief Risk Officer provide risk oversights and support to the other business functions of the company, they include:

- Risk Management Unit (RMU)
- Internal Control Unit (ICU)
- Internal Actuary & Business Analytics Unit
- E & S unit

10.3 Risk Management Process

Our risk management framework adopts 5-Step Process for the actions that need to be taken in managing the company's risk exposures. These steps are referred to as the risk management process and are;

- Risk Identification
- Risk Analysis
- Risk Evaluation (Ranking, Prioritization)
- Risk Control (Treatment, solution implementation)
- Risk Monitoring & Review

The company shall deploy appropriate Risk Management Solution in order to move aware from the manual systems where each of the above steps involves a lot of documentation and administration which slows down the process and subject to errors.

10.4 Key Personnel

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

- Chief Risk Officer
- Chief Finance Officer
- Head of Business units
- Head, Audit & Investigations
- Head, Internal Control Unit
- Management Risk Committee

10.5 Review and Compliance Mechanisms

The risk management framework undergoes annual reviews by the internal audit team, management risk committee and Heads of Business Units in collaboration with the Chief Risk Officer.

The implementation of this Enterprise Risk Management can likewise be reviewed at any time by the Chief Risk Officer in collaboration with the Heads of Business Units as well as the Management Risk Committee.

The internal audit department shall also conduct a review of the company's risk management framework on an annual basis not later than Three (3) months after the end of each financial year.

The management of the Company shall ensure this Enterprise Risk Management is reviewed every Two (2) years by an independent Consultant to ensure its relevance and effectiveness to the ever-changing risk environment.
This independent review will also serve to ensure full compliance with paragraph 6.2(h) of NAICOM 2015 Prudential Guidelines for Insurers and Reinsurers Companies, which requires (Re)insurers to "ensure that their risk management framework is subject to effective and comprehensive review by operationally independent, appropriately trained and competent person."

The Chief Risk Officer (CRO) of the Company shall ensure immediate and full implementation of the recommendations of independent reviewer as may be necessary to ensure the company's risk management framework stands the test of time.

Additional processes and controls include regular risk communication and reporting, internal audits, independent review and a clear segregation of responsibilities and authorization levels.

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, 2024, REX Insurance Limited's balance sheet solvency ratios from 2022 to 2024 reflect a strong financial position. The Capital Adequacy Ratio (CAR) is currently at 550%, an improvement from prior year of 404%, indicating a strong capital position and financial stability.

11.3 The solvency ratio for Rex Insurance currently remains well above requirements at about 200%. However, we observed a declining trend when analyzing the changes in the ratio from 2022 to 2024, and we strongly recommend that management closely monitor this trend. By actively tracking this trend, REX can implement timely measures to address any emerging issues and safeguard the company's financial health.

11.1 It is noted that REX Insurance Limited's financial performance from 2023 to 2024 demonstrates fair growth, with insurance revenue increasing by 73%. However, REX experienced a 76% decrease in profit after tax rising from the 308% increase in insurance service expense and we strongly recommend that the company monitors the trend.

11.2 The valuation of assets and liabilities indicates a solid financial foundation for REX Insurance, with substantial reserves and a robust methodology for calculating premium and claim reserves.

11.3 The projected cash flows for assets and liabilities demonstrate REX's strong liquidity position and effective financial management strategy. The anticipated surplus in asset cash flows relative to liabilities indicates a healthy financial outlook, allowing for reinvestment and operational flexibility

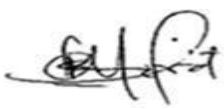
11.4 REX employs a structured approach to ensure premium adequacy, balancing competitive pricing with the need to cover expected claims and expenses. The combined ratio has improved significantly, indicating effective management of underwriting and operational costs, further supporting premium adequacy.

11.5 REX'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.

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

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

Yours sincerely,



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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 REX Insurance Limited 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 2024.

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 REX 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

ROYAL EXCHANGE GENERAL INSURANCE COMPANY. LTD

SUMMARY OF TREATY CAPACITY FOR 2024 SECURITY YEAR

CLASS OF BUSINESS	TYPE OF TREATY	NET RETENTION	NOS OF LINES	TREATY LIMITS	GROSS CAPACITY
		NGN		NGN	NGN
FIRE & ALLIED PERILS	Surplus	1,000,000,000.00	22	22,000,000,000.00	23,000,000,000.00
MARINE CARGO	Surplus	400,000,000.00	15	6,000,000,000.00	6,400,000,000.00
MARINE HULL	Surplus	50,000,000.00	10	500,000,000.00	550,000,000.00
MBD/BPV/EAR/CAR/PAR/EEI	Surplus	500,000,000.00	20	10,000,000,000.00	10,500,000,000.00
BONDS	Quota Share	120,000,000.00	50/50	120,000,000.00	240,000,000.00
GENERAL ACCIDENTS					
BURGLARY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
MONEY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
GOODS IN TRANSIT	Surplus	200,000,000.00	7	1,400,000,000.00	1,600,000,000.00
ALL RISKS	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
FIDELITY GUARANTEE	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
PUBLIC LIABILITY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
PRODUCTS LIABILITY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
PROFESSIONAL INDEMNITY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
WORKMEN COMPENSATION	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
WC/GPA COMBINED	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
PA/GPA	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
DIRECTORS AND OFFICERS LIABILITY	Surplus	600,000,000.00	7	4,200,000,000.00	4,800,000,000.00
AGRICULTURAL PRODUCTS					
LOCAL GOVT	Quota Share	122,500,000.00		227,500,000.00	350,000,000.00
STATE	Quota Share	350,000,000.00		650,000,000.00	1,000,000,000.00
NON PROPORTIONAL TREATIES					
PROPERTY & ENGINEERING WORKING XOL	Excess of Loss	**200,000,000.00**	**1st Layer**	**300,000,000.00**	**500,000,000.00**
PROPERTY WORKING EXCESS OF LOSS	Excess of Loss	500,000,000.00	2nd Layer	500,000,000.00	1,000,000,000.00
PROPERTY CATASTROPHE EXCESS OF LOSS	CAT. XS of Loss	1,000,000,000.00	**3rd Layer**	2,000,000,000.00	3,000,000,000.00
MARINE CARGO WORKING XOL	Excess of Loss	100,000,000.00	**1st Layer**	300,000,000.00	400,000,000.00
MARINE CARGO WORKING XOL	Excess of Loss	400,000,000.00	2nd Layer	400,000,000.00	800,000,000.00
AVIATION CLASS					
AVIATION - HULL	Excess of Loss	$250,000		$2,750,000	$3,000,000
AVIATION - LIABILITY RISK	Excess of Loss	$250,000		$14,750,000	$15,000,000
OIL AND GAS - UPSTREAM (OPERATIONAL)	Excess of Loss	$1,500,000.00			VMLP
OIL AND GAS - UPSTREAM (C.A.R)	Excess of Loss	$750,000.00			VMLP

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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:

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

I. MARKET RISKS

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

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

II. Non-Life Insurance risks

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

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

III. CREDIT RISK

Schedule 3- Credit Risk

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

IV. OPERATIONAL RISK

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

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

APPENDIX 4 – Capital Adequacy Ratio Range and Implication

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

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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 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} = 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.

APPENDIX 7 – COMBINED RATIO TABLE

	Year	Motor	Accident	Bond	Marine	Agric	Fire	Engineering	Special Risk	Total
Gross Written Premiums	2020	1,295,423	634,481	853	705,021	183,442	993,298	270,301	7,785,421	11,868,240
	2021	1,533,147	814,078	7,555	898,593	255,669	1,085,100	419,298	7,721,670	12,735,110
	2022	1,865,206	894,316	10,878	940,166	107,914	1,413,281	517,972	8,459,557	14,209,292
	2023	3,032,427	941,102	12,218	1,078,180	31,248	1,680,794	827,593	9,123,242	16,726,805
	2024	4,145,832	1,224,329	13,129	2,251,175	67,210	2,492,123	1,172,043	17,401,122	28,766,963
Reinsurance Cost	2020	(179,896)	-	(1,017)	(188,833)	(99,964)	(475,178)	(254,157)	(5,065,360)	(6,264,404)
	2021	(82,119)	(190,465)	(3,719)	(220,160)	(149,253)	(547,915)	(271,714)	(5,015,559)	(6,480,904)
	2022	(91,591)	(199,066)	(4,549)	(508,224)	(52,026)	(772,177)	(328,004)	(6,036,215)	(7,991,852)
	2023	(137,149)	(234,301)	(9,826)	(717,337)	(20,359)	(880,153)	(588,967)	(6,346,728)	(8,934,820)
	2024	(253,371)	(285,611)	(2,634)	(1,258,179)	(34,484)	(1,295,813)	(587,825)	(11,719,021)	(15,436,939)
Gross Earned Premium	2020	1,870,180	-	2,009	598,069	175,134	1,002,389	218,517	7,705,771	11,572,069
	2021	1,386,643	729,571	7,028	841,839	258,414	909,920	331,797	7,509,181	11,974,393
	2022	1,753,300	874,982	7,715	942,314	110,549	1,381,242	488,293	8,435,485	13,993,881
	2023	2,496,958	971,230	15,310	1,017,129	31,769	1,654,473	702,472	8,681,517	15,570,857
	2024	3,789,410	1,143,834	4,817	1,946,062	54,007	2,263,021	987,792	16,443,775	26,632,717
Net Earned Premium	2020	1,692,373	-	992	408,736	76,554	513,335	(24,096)	2,607,896	5,275,790
	2021	1,304,524	539,106	3,309	621,679	109,161	362,006	60,082	2,493,621	5,493,489
	2022	1,661,709	675,915	3,167	434,090	58,523	609,065	160,289	2,399,270	6,002,028
	2023	2,359,808	736,929	5,485	299,792	11,409	774,320	113,505	2,334,789	6,636,036
	2024	3,536,038	858,223	2,183	687,883	19,523	967,208	399,967	4,724,754	11,195,777
Incurred Claims (Gross)	2020	(250,759)	-	-	(81,381)	(39,268)	(112,903)	(81,665)	(617,404)	(1,183,379)
	2021	(341,997)	(135,303)	1,809	(235,321)	(122,738)	(388,377)	(55,814)	(287,452)	(1,565,194)
	2022	(538,903)	(250,978)	365	(173,262)	(68,180)	(854,780)	(21,338)	(919,218)	(2,826,293)
	2023	(631,972)	(306,769)	(38,094)	(147,001)	(57,903)	(677,117)	(410,090)	(2,039,763)	(4,308,709)
	2024	(778,019)	(273,038)	0	(127,272)	(10,370)	(369,580)	(159,805)	(4,257,745)	(5,975,829)
Incurred Claims (Net)	2020	(264,248)	-	173	(49,132)	(32,092)	(246,238)	(51,420)	(46,576)	(689,532)
	2021	(298,068)	(125,529)	904	(166,189)	(71,322)	(325,190)	59,179	(203,813)	(1,130,028)
	2022	(475,485)	(184,769)	183	(141,082)	(22,483)	(281,328)	(9,204)	(858,747)	(1,972,916)
	2023	(557,054)	(264,838)	(38,094)	(128,690)	(25,925)	(316,048)	(43,335)	(818,558)	(2,192,542)
	2024	(653,347)	(212,208)	0	(124,163)	(1,920)	(146,082)	(104,013)	(1,105,278)	(2,347,012)
Commission Received	2020	56,680	-	286	46,845	18,469	119,118	73,329	247,661	562,390
	2021	27,903	84,457	1,113	59,266	33,649	129,554	78,507	164,483	578,932
	2022	39,125	66,091	1,365	97,754	11,721	185,261	88,921	243,243	733,482
	2023	301,115	165,926	2,323	130,487	4,766	288,777	146,223	1,819,523	2,859,139
	2024	91,170	92,673	1,868	193,600	9,975	336,329	147,195	339,594	1,212,405
Underwriting expenses	2020	(402,956)	-	(436)	(179,272)	(38,816)	(329,947)	(46,364)	(2,613,928)	(3,611,719)
	2021	(247,191)	(175,824)	(981)	(183,963)	(51,672)	(212,146)	(69,194)	(2,408,047)	(3,349,018)
	2022	(271,251)	(218,464)	(1,305)	(195,958)	(18,311)	(361,784)	(96,830)	(1,787,946)	(2,951,849)
	2023	(736,696)	(365,446)	(2,129)	(239,443)	(35,087)	(535,128)	(191,071)	(1,309,246)	(3,414,244)
	2024	(1,119,477)	(480,812)	(3,374)	(494,569)	(86,095)	(768,491)	(333,646)	(2,223,442)	(5,509,906)
Management expenses	2020	-	-	-	-	-	-	-	-	(1,198,343)
	2021	-	-	-	-	-	-	-	-	(2,304,325)
	2022	-	-	-	-	-	-	-	-	(3,069,969)
	2023	-	-	-	-	-	-	-	-	(1,769,322)
	2024	-	-	-	-	-	-	-	-	(2,719,703)
Claims Ratio (Net)	2020	16%	0%	17%	12%	42%	48%	213%	2%	13%
	2021	23%	23%	27%	27%	65%	90%	98%	8%	21%
	2022	29%	27%	6%	33%	38%	46%	6%	36%	33%
	2023	24%	36%	-695%	43%	227%	41%	38%	35%	33%
	2024	18%	25%	0%	18%	10%	15%	26%	23%	21%
Expense Ratio	2020	20%	0%	15%	32%	27%	40%	76%	90%	80%
	2021	17%	17%	4%	20%	17%	23%	16%	90%	92%
	2022	14%	23%	41%	23%	11%	29%	5%	64%	88%
	2023	18%	27%	39%	36%	266%	32%	40%	-22%	35%
	2024	29%	45%	155%	44%	390%	45%	47%	40%	38%
Combined Ratio	2020	36%	0%	2%	44%	69%	88%	289%	91%	93%
	2021	40%	40%	31%	47%	82%	113%	114%	98%	113%
	2022	43%	50%	47%	55%	50%	75%	11%	100%	121%
	2023	42%	63%	-656%	79%	493%	73%	78%	13%	68%
	2024	48%	70%	155%	62%	400%	60%	73%	63%	59%

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