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AIICO INSURANCE PLC

Financial Condition Report as at 31 December 2024

August 2026

1. Executive Summary

This Financial Condition Report ("FCR") sets out the results of the analysis of the financial condition of the life and non-life insurance businesses of AIICO Insurance PLC ("AIICO" or "the Company") as at 31 December 2024.

The Company has contracted Zamara Consulting Actuaries Nigeria Limited to provide actuarial services. In terms of this arrangement, Nikhil Dodhia, FIA, is the appointed actuary.

1.1. Capital Management and Solvency

1.1.1. Solvency Assessment

The table below summarises the solvency position of AIICO over the past 3 years based on the capital requirements as prescribed by the National Insurance Commission of Nigeria ("NAICOM"):

Solvency Margin Assessment	2022	2023	2024
Total Net Admissible Assets**	28,682	40,026	52,550
Minimum Solvency Capital Requirement (5bn)***	10,494	13,236	18,084
Minimum Solvency Capital Requirement (18bn)***		18,000	18,084
Excess Net Admissible Assets (5bn)	18,188	26,791	34,466
Excess Net Admissible Assets (18bn)		22,026	34,466
Solvency Margin Ratio (5bn)	273%	302%	291%
Solvency Margin Ratio (18bn)		222%	291%

** Excess of the total admissible asset over and above the admissible liabilities
***Maximum of the premium based capital and minimum capital requirement

In line with the prescribed regulations, AIICO's minimum capital requirement (MCR) as at 31 December 2024 was the higher of 15% of Net written premium (NGN18billion) and NGN5bn (for both Life and Non-life business based on the current regulatory framework) and NGN18bn (for both Life and Non-life business based on the proposed capital requirements).

AIICO's Net Admissible Assets, to meet the regulatory capital requirement, rose to NGN 52.6bn as of 31 December 2024, up from NGN 40bn in 2023, driven by business growth. This resulted in Excess Admissible Assets of approx. NGN 34.5bn based on the NGN 5bn (and proposed NGN 18bn) capital requirement.

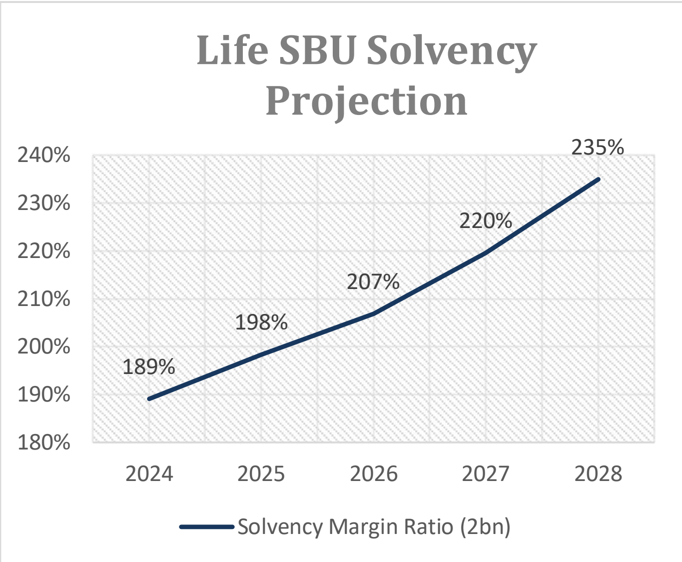
Also, the 37% growth in Solvency Capital Requirement, outpacing the 31% increase in Net Admissible Assets, led to a decline in the solvency margin ratio to 291% as of 31 December 2024, from 302% in 2023.

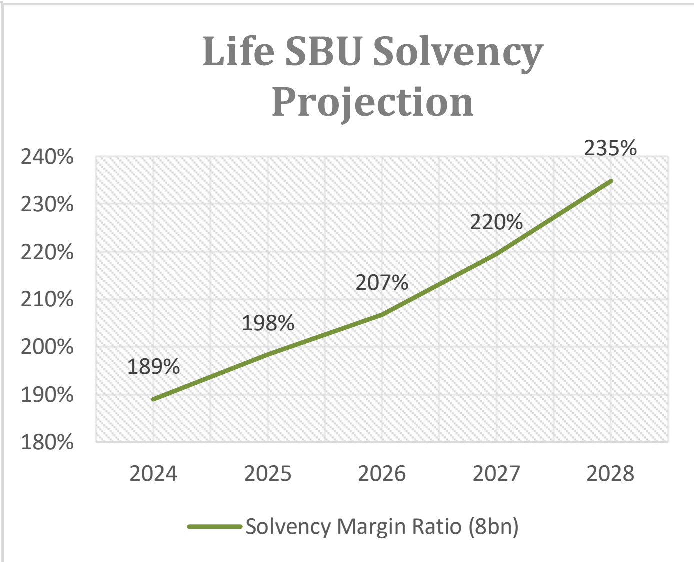
The increase in Solvency Capital is due to a 45% growth in business volumes, from NGN 109.4bn to NGN 158.1bn, driven by aggressive business plans for Endowments and Deferred Annuities in the Life business, as well as higher net retention limits for Fire (500m to 750m) and Marine Cargo (400m to 600m) within Non-Life SBU reinsurance arrangements.

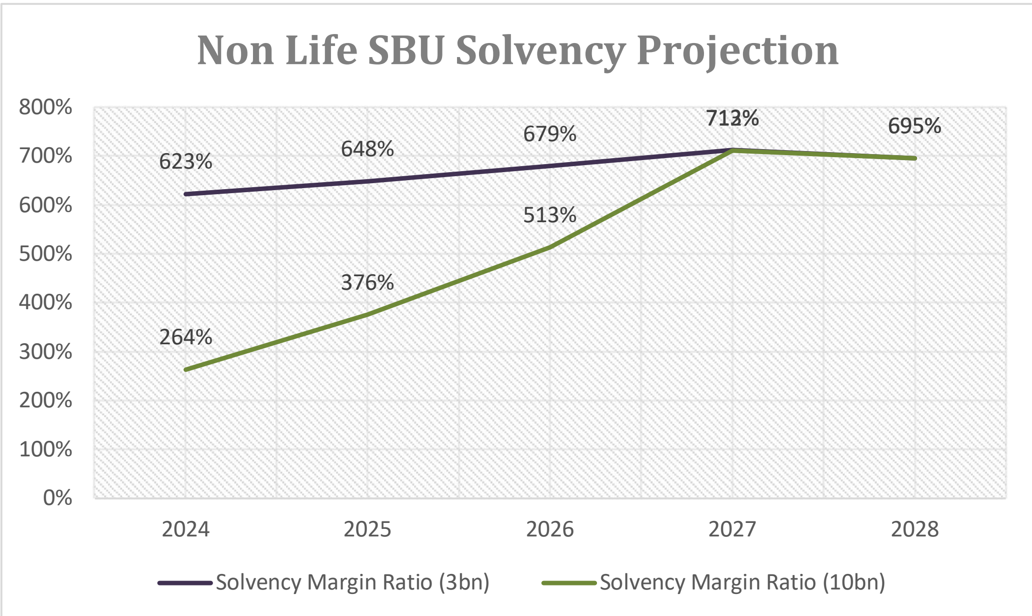
Hence, these business changes place an increased demand on the required capital held for the respective businesses AIICO Insurance Plc participates

1.1.2. Solvency Projections

Based on the Company's business projections, AIICO is expected to be solvent on a regulatory basis over the Company's 4 -year business planning horizon. The graphs below summarise the projected solvency ratios for the life and non-life businesses of AIICO:







The growth of the Net Admissible Assets over the projection period is largely driven by the projected profitable growth of the insurance businesses where reward for risk is expected to exceed the risk taken. For the Life business, the regulatory capital requirement changes over the projection period under both the current and the proposed minimum capital requirements. At the minimum capital base, the volume-based solvency capital requirement of 15% of net written premiums dominates for

AIICO, given the volume of business written. It should also be noted that the volume-based solvency capital requirement of 15% of net written premiums dominates for all projection periods.

For the Non-life business, the regulatory capital requirement remains constant throughout most of the projection, based on the proposed minimum paid-up capital of NGN 10bn. However, the volume-based solvency capital requirement of 15% of net written premiums will begin to dominate the paid-up capital for AIICO in 2028, as the volume of business written increases. On the other hand, under the current minimum paid-up capital of NGN3bn, the regulatory capital requirement changes over the projection period as the volume-based solvency capital requirements of 15% of net written premiums dominates.

Based on the solvency projections, AIICO's insurance businesses are expected to remain solvent over its business planning period

1.2. Pricing and Premium Adequacy

A comparison of AIICO's premium rates to the corresponding to industry average rates in respect of the Company's short-term businesses (i.e. both group-life and non-life), shows that the applicable AIICO premium rates are largely not under-priced. However, an assessment of AIICO's premium rates for some sub-classes/products under non-life business, and some schemes under the group life business, fall below the technically recommended rate. This is mainly due to the competition and cross subsidization of insurance products. Overall, historical experience has shown AIICO remains profitable at the net of reinsurance level for these businesses.

On the Libe business, AIICO's premium rate is also largely not overpriced; this is evidenced in the value for new business analysis, where we have a positive VNB margin of over 10%. The breakdown of VNB per product showed a handful of AIICO's life business product returning negative VNB, this is also largely due to the allowance of cross subsidization of life insurance products, which implies that more profitable products tend to offset the losses of other products (regarded as loss leaders), this keeping the overall book still profitable and unaffected by the losses coming through on these products.

1.3. Financial Performance

From AIICO's historical technical analysis (based on audited financial statement for 5 years), we note that AIICO's Non-life and Group-life business performance improved significantly over the year 2024, relative to the average of the preceding 4 years period. The improved financial performance was driven by AIICO's implemented strategies to improve its underwriting margin at both net and gross of reinsurance. This is evidenced and observed in the year-on-year improvement in the net operating ratio (allowing for investment margin). AIICO's assessment shows that the operating ratio for non-life increased significantly from 31% as at 31 December 2023 to 40% as at 31 December 2024. However, the operating ratio for group life business remained stable at 37% over the same period.

On the retail life business, an abridged income statement for the past 5 years was analysed; AIICO's profit before tax (PBT) declined to N4.1bn in 2024 under the IFRS17 measurement relative to N5bn as at 31 December 2023 following a prior average increase by about 73% between 31 December 2020 and 31 December in 2023.

The decline in profitability in 2024 compared to 2023 is driven by a lower investment result arising from lower fair value gains in 2024. Additionally, the product mix of AIICO is changing with the Company writing more immediate and deferred annuities and endowments compared to savings products to drive profitability. This has also contributed to the improved profits in 2023 and 2024, compared to previous years.

1.4. Asset Liability Management (ALM)

AIICO's ALM approach is robust with a strong governance framework and controls to ensure the overarching ALM objectives are achieved. The primary objective of AIICO's ALM process is the management of Market risk to maximize the market-consistent balance sheet (mark-to-market value of assets less market consistent value of the liabilities) over a three-to-five-year period (i.e. medium-to long-term target).

AIICO's liabilities are largely backed by fixed income assets such as federal government bonds since the value of the liabilities are dependent on the movement of the FGN Bonds yields. It can be observed that the life business mainly invests in fixed income asses (majorly the Nigerian government securities) with the asset class constituting above 88% of the total assets in the financial period (i.e., 2022 – 2024). The asset composition is consistent with the company's strategy of investing in assets the match the term, nature, and duration of the liabilities.

The Non-life business, however, has its assets majorly invests in fixed income asses (majorly the Nigerian government securities), Other assets (majorly RI assets, receivables, etc.), Cash and Cash equivalents (CACE) with these asset classes constituting approximately 55%, 32% and 8% respectively of its total invested assets as of 31 December 2024.

AIICO measures and monitors its net exposure to market risk using immunization approaches such as money duration, convexity, and sensitivity analysis to maintain a high level of matching of assets and liabilities. For a 1 in 10-year event i.e. an increase in yields of 600bps, we expect the net loss to AIICO to be about NGN260m which is less than 5% of net assets as at 31 December 2024. This buttresses AIICO's robust ALM practice which has resulted in mitigating the impact of interest rate risk on its insurance portfolio.

1.5. Reinsurance Management Strategy

Overall, AIICO's reinsurance strategies have been profitably adequate for its Group Life and General Insurance business.

A significant recommendation arising from the analysis is the adjustment of retention limits for the fire and Marine Cargo businesses. It is proposed to raise these limits from NGN750 million and NGN600 million to NGN900 million and NGN650 million, respectively. This adjustment is aimed at enhancing risk distribution within the portfolio while concurrently fostering improved profitability.

Regarding Special risks, particularly the Energy business, a potential solution under consideration by AIICO is the establishment of a local Liability pool akin to the existing Nigeria Liability Insurance Pool for the Motor line of business. Additionally, surplus reinsurance coverage facilitated by the Commission is being explored by AIICO to bolster risk management in this sector.

Furthermore, for Fire and Engineering risks, a strategic decision has been made to increase the retention limit from NGN750 million to NGN900 million. This initiative is geared towards enhancing risk retention capabilities and fortifying AIICO's position in these segments.

1.6. Development since the previous year

AIICO's last financial condition report was as at 31 December 2023. The report was based on financial analyses under IFRS 17. Furthermore, the capital regulatory framework at the time required the higher of 15% of Net Written Premium of NGN 5bn (NGN 2bn for Life and NGN 3bn for Non-Life). However, this report includes a proposed capital regulatory framework which requires the higher of 15% of Net Written Premium or NGN 18bn (NGN 8bn for life and NGN 10bn for Non-Life).

Overall, the Company's profitability has improved from 2023 to 2024 by about 32%, driven by the implementation of improved pricing and reinsurance strategy for Non-Life and Group Life business units. However, Retail Life profitability declined by about 18%, mainly due to lower fair value gains. Despite this, AIICO's overall profits improved in 2024, driven by investment profits and the adoption of a more profitable product mix. Also, the growth in Solvency Capital Requirement (37%) which outpaced growth in Net Admissible Assets (31%) led to a decline in the solvency margin ratio to 291% based on the NGN 5bn capital requirement (and also the proposed NGN 18bn capital requirement) as at 31 December 2024 from 302% solvency ratio reported in 31 December 2023 based on the NGN 5bn capital requirement.

The growth in Solvency Capital Requirement is driven by the increase in business volumes which grew by 45% from NGN 109.4bn to NGN 158.1bn between 2023 and 2024. This stems from the business plan for each SBU which expresses an aggressive growth in business volumes in Endowments and Deferred Annuities for the Life business as well as increases in net retention limits for Fire (from 500m to 750m, and Marine Cargo (from 400m to 600m) under its reinsurance arrangements with the Non-Life SBU.

1.7. Conclusion

I, Nikhil Dodhia, acting in my capacity as the Appointed Actuary, certify that, as at 31 December 2024, this Financial Condition Report for AIICO Insurance PLC has been prepared in accordance with the guidelines issued by the National Insurance Commission ("NAICOM") and generally acceptable actuarial principles.

Nikhil Dodhia FIA
AIICO Insurance PLC
Appointed Actuary

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