2018/19

Annual Report

Ethiopian Reinsurance

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Insurance Product Development Master Class Program
Organized for Ethiopian Market

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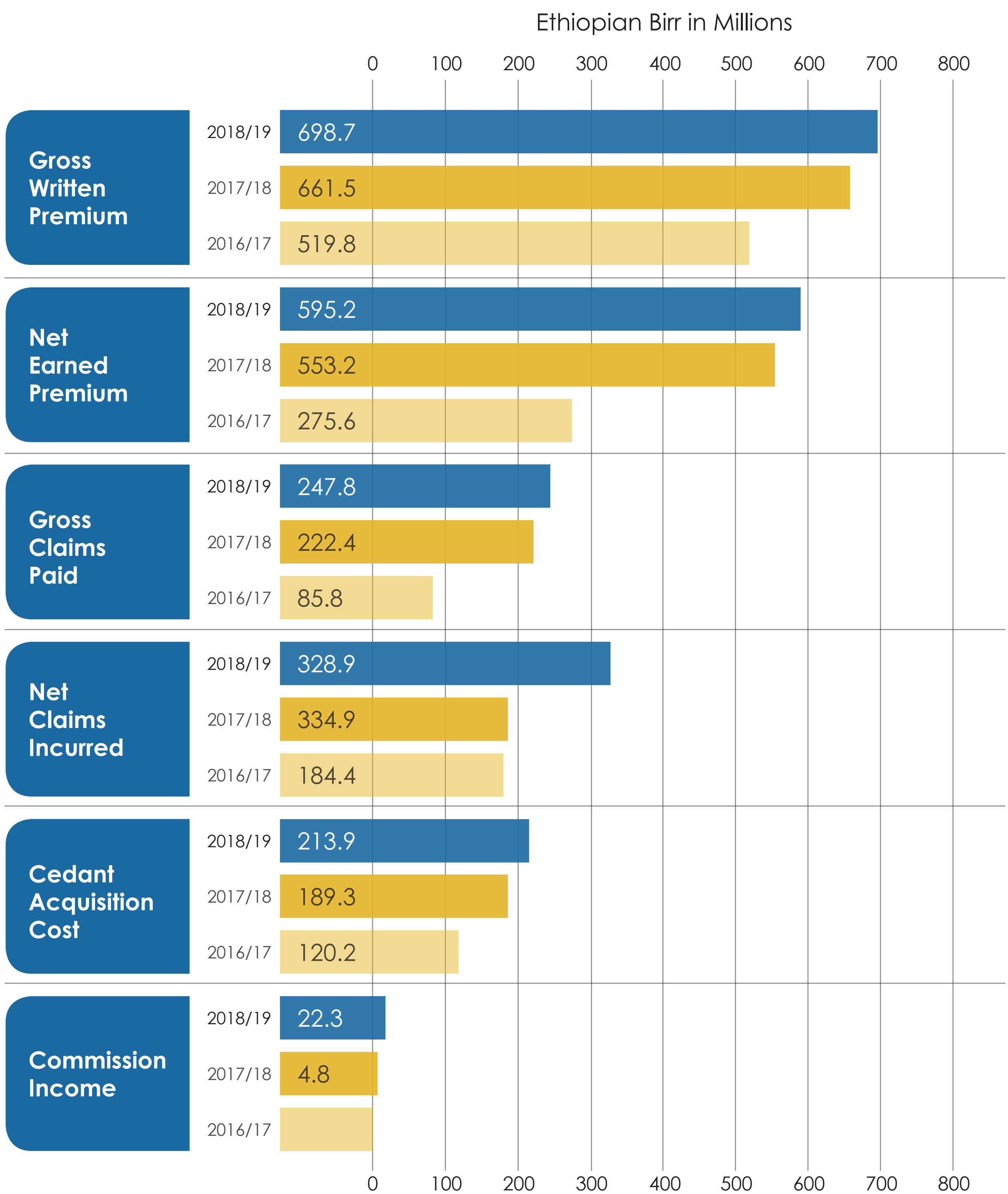

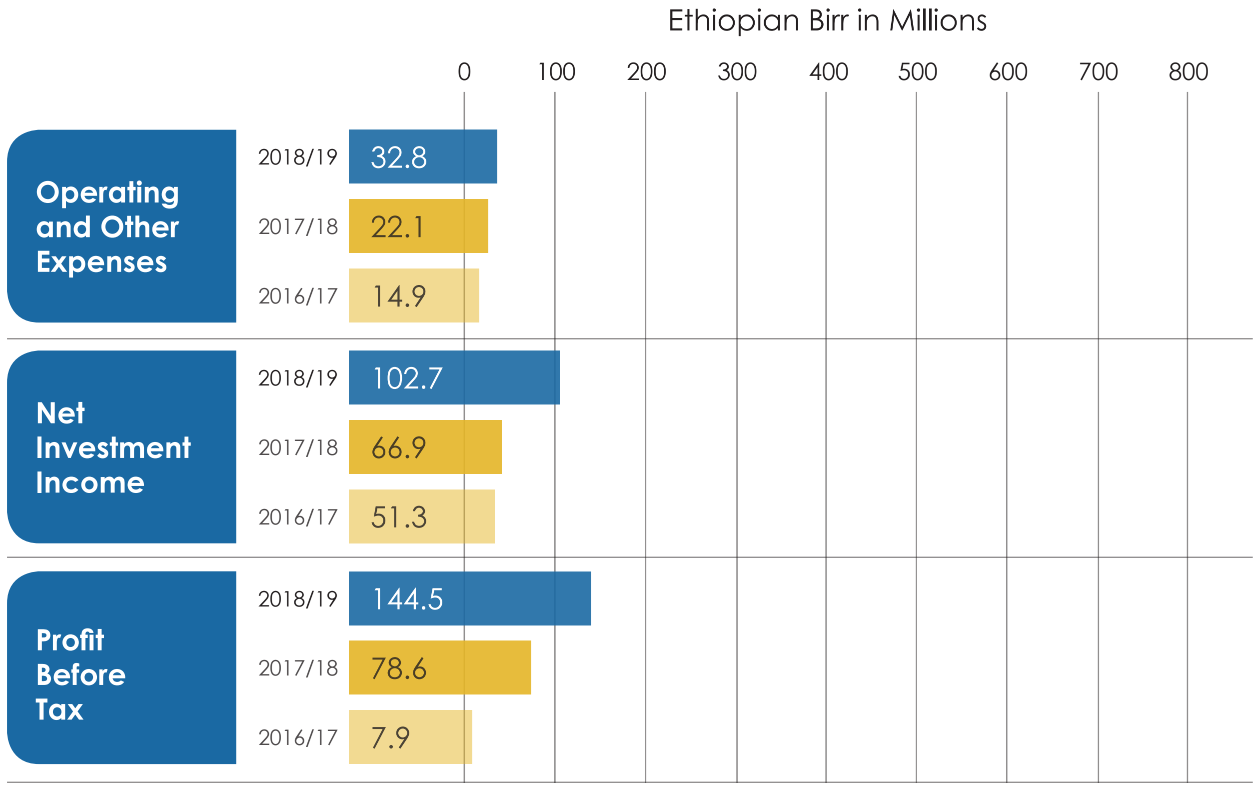

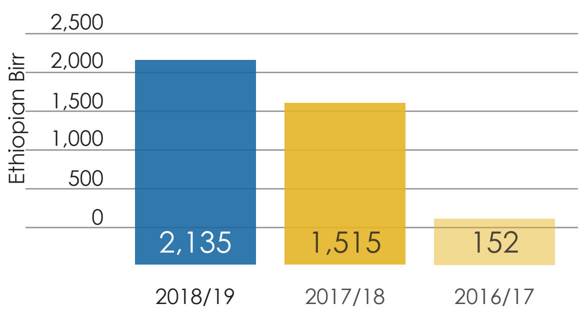

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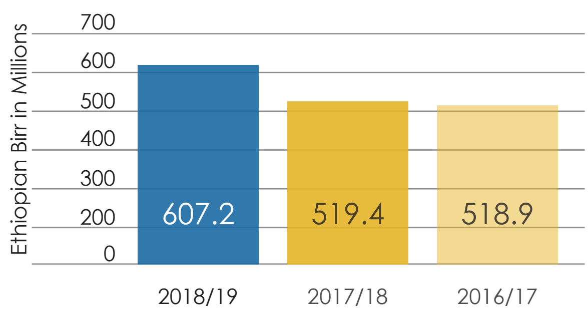

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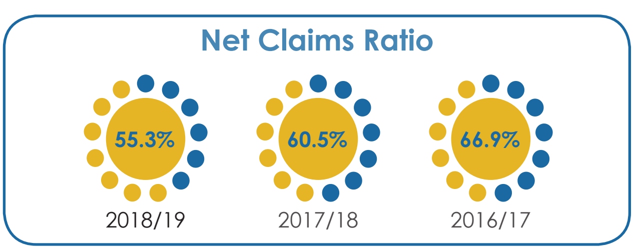
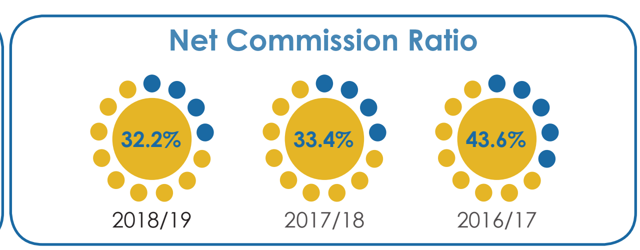
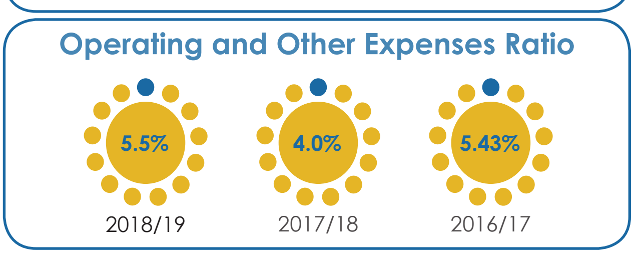
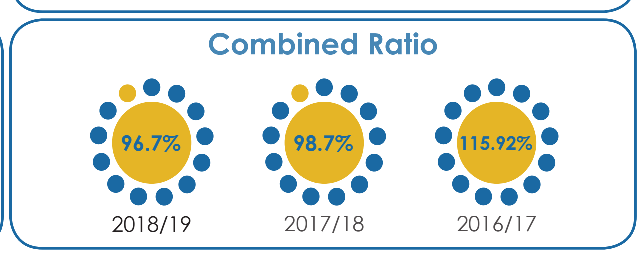








WHO WE ARE

MISSION, VISION AND CORE VALUES

Mission

Provide dependable reinsurance services both locally and internationally through nurturing adequate risk capacity and using highly trained professionals and modern Information and Communication Technology system. The Company endeavours to foster market stability, high professionalism and advancing the business of insurance paying special attention to discharging its corporate social responsibility in the process.

Vision

"To become one of the leading reinsurance companies in Africa by 2027"

Core Values

To apprehend our corporate mission and vision, Management and staff of Ethiopian Re stand for the mnemonic "ETHIOPIAN":

OUR MOTTO

“RISING WITH AFRICA!”

Africa Rising is a term coined to describe the rapid economic growth in Sub-Saharan Africa since 2000 and the belief in the inevitability of further, rapid development of the continent. The continent is almost predestined to enjoy a long period of mid-to-high economic growth, rising incomes and an emerging middle class. In March 2013, Africa was the world’s fastest-growing continent at a rate of 5.6% a year, and GDP is expected to rise by an average of over 6% a year between 2013 and 2023. Growth has been extant throughout the continent, with over one-third of Sub-Saharan African countries posting 6% or higher growth rates, and the rest growing between 4% and 6% per year. Several international business observers have also named Africa as the future economic growth engine of the world.

There are positive longer-term trends across Africa all buoyed by what appeared to be high economic growth rates sweeping the continent. Ethiopian Re, as the youngest reinsurance company stands to benefit immensely from the unprecedented business opportunities brought about by bourgeoning economic performance of Africa, and hence the motto “Rising with Africa”. Basing itself in East Africa, the Company is absolutely committed to provide apposite reinsurance cover for the ever rising and dynamic demand for protection.

CHAIRMAN'S STATEMENT

Dear Shareholders:

The financial year 2018/19 has been a great year, in which we have successfully achieved the targets planned.The Company registered 6% increase in Gross Written Premium compared againstpreceding year's results and registered Birr 144.5 million profit before tax in the reporting year.

This is my first Annual Shareholder Meeting as Chairman of the Board of Directors of Ethio-Re and I would like to take this opportunity to thank all of you for your continued trust and unwavering patronage extended to the Companyover the past three years.

The new Board took office in the third quarter of the year and has been exerting maximum effort to understand the business environment, major challenges and opportunities facing the Companyso as to contribute out part in the achievement of its mission and vision.

Throughout the period, we have focused on reinforcing the relationship with our business partners, shareholders and other stakeholders thereby cultivating and maintaining strong relationships. During the period, we have witnessed the performance of the Company has shown improvement and we have witnessed steady growth in operational as well as investment income.

The Board has worked vigorously to ensure timely execution and finalization of major strategic goals and initiatives. As a result, during 2018-19, the Company took multiple initiatives aimed at achieving its long term vision. The Company has started implementation of the long-delayed reinsurance and accounting software and hardware infrastructure, finalized the HR strategy of the Company, started to accept business fromselected African markets, meeting production and profit targets. I am quite positive that the Company can further improve its performance in the coming yearsmainly because of theimmense support that it stands to get from its stakeholders.

Hailemariam Assefa
Chairman, Board of Directors

During the year, the Board of Directors and Board Committees have conducted 17 regular meetings in the course of discharging their respective responsibilities andprovide strategic direction as per the requirements set out by the Regulator and the Company's Articles of Association. The Board has also reestablished the different Committees comprising Human Resources Affairs Committee, Risk and Compliance Committee, Strategy and Investment Committee and Audit Committee. The Board has conducted periodic performance evaluation meetings to help it track the performance of the Company against the approved Strategic Plan and appropriate actions were taken to address identified challenges.

Moreover, the Board had carefully taken note of the issues raised by Shareholders during the 3rd Annual General Meeting and tried its level best to address most of them. We can assure you that the Annual Report for the previous yearis presented taking the comments and suggestions forwarded by Shareholders.

Ethio-Re's Board of Directors will prioritize and strive to strengthen the investment base of the Company , realize the rating project, implement the human resources strategy, put in place risk assessment and management framework with the prime objective of ensuring sustainable growth , finalize the implementation of the information technology project, make the Company more visible and accessible to its national and international customers, among others.

As a final point, on behalf of the Board of Directors and myself, I solicit continued support from valued shareholders in the years ahead torealize the goal of making the Company a world class reinsurer.I also take this opportunity to express my deep sense of gratitude to the National Bank of Ethiopia for their strong support and guidance, during the past year. The Board also wishes to put on record its gratitude to the Company's shareholders and customers for their continued support and encouragement. The single most important pillar of any Institution is its personnel, it is more so in the case of a service entity like a reinsurance company. To this effect, the Board expresses its sincere appreciation to the commitment and dedication exhibited by Management and employees of the Company at all levels.

Hailemariam Assefa
Chairman, Board of Directors

MESSAGE FROM THE CEO

Dear Shareholders and esteemed partners!

It is with great pride and pleasure I present the annual report for the financial year ending 30 June 2019 to the Fourth Annual General Meeting of the Shareholders of the Ethiopian Reinsurance Share Company.

The Company has continued its remarkable journey towards the summit envisioned by its founders with superior confidence. Ehtio Re. has continued to register encouraging results compared to projections in terms of production as well as profit. Three years by no means is considered sufficient period for a new Company to pose itself as a tough player in any market. Nonetheless, it's with strong sense of belongingness and dedication that my colleagues and I took our current duties and responsibilities of laying down a resilient and strong foundation.

We are very much aware that the ownership of the Company is fairly unique, as more than 66% of the shares are owned by local insurance companies. We are particularly cognizant of the owner- client relationship could be a source of unmatched business opportunity and strength, if managed smartly. Management is committed to the principle of generating results in a responsible way in the course of fulfilling our duty as a national reinsurer.

During the period, the Company has registered slight growth in gross written premium, but the amount of profit registered was remarkableby any standards. These results achieved in a competitive environment which is more challenging than expected. Compared to last year, gross written premium income has increased by 6%, gross profit increased by 83.7%, and earnings per share increased by 40.9%. Above all, it could be seen that the achievement has been stable in view of the year on year increases witnessed.

Ethio-Re, as a new company, recognizes the competitive business landscape it is operating in,especially competing for a business without having any credit rating: a sine qua non to attract meaningful volume of business from continental markets.

Yewondwossen Eteffa
Chief Executive Officer
Ethio-Re

Taking the five-year strategic plan as a roadmap,Management has been striving to achieve the strategic objectives set out for the third year of operation. Our strategy is sketched to produce tangible results, through highly motivated professional team focused on gaining the trust of customers, culminating to creating greater value to our shareholders. Today Ethio-Re's team has a common culture, mirroring the shared goal of always striving to do things in a way that makes difference to bring the desired results. This is due to strong team spirit which further reinforces the commitment to continuously change the way of doing business. To this end, the organizational structure, which is the vehicle to realize the aspirations of the Company, has been reviewed and significantly changed. Believing in nurturing talent by developing the right mix of expertise, the Company is working on human resources strategy initiatives, with the primary objective of hiring and retaining qualified manpower.

The Company's strategic initiatives, together with carefully planned geographic diversification, will enable it achieve more predictable results in the future. For the next few years we have set ambitious targets, with the objective of increasing earnings and canvassing additional markets with the overriding objective of narrowing the income gap that the phasing out of compulsory policy cessions will create.

Dear Shareholders,

As a Company born out of a long ambition of stakeholders,our success is inextricably intertwined with the success of most of our shareholders. So, supporting the growth and sustainability of the insurance industry will remain one of the pillars of our business model. To do this, it is essential to have a clear strategy and able to deliver objective results in product innovation, development and marketing that create value to customers. While we strive to do all this, much reliance is put on the unreserved support coming from the National Bank of Ethiopia, the Board of Directors, our employees and all our business partners.

Before I conclude, I would like to assure you again that Ethio-Re's Management is striving to put in place appropriate policies and strategies that enable it achieve consistent and stable growth in future. I wish to take this opportunity to thank all our stakeholders, past and present, for supporting us and for being a part of our endeavor to build and nurture our business.

Thank you, I hope you will find the report informative.

Yewondwossen Eteffa
Chief Executive Officer
Ethio-Re

BOARD OF DIRECTORS

Mr. Hailemariam Assefa
Chairman

Mrs. Frehiwet Alemayehu
V/Chairperson

Mr. Shiferaw Bentie
Director

Mr. Shiferaw Ruffie
Director

Mr. Kassahun Begashaw
Director

Mr. Henok Tessema
Director

Mr. Binalf Mekonnen
Director

Mr. Jibat Alemneh
Director

Mr. Melika Bedri
Director

Mr. Fikru Tsegaye
Board Secretary

EXECUTIVE MANAGEMENT

Mr. Yewondwossen Eteffa
Chief Executive Officer

Mrs. Meseret Tilahun
Manager,
Operations Department

Mr. Fikru Tsegaye
Manager,
Business Development &
Corporate Affairs

Mrs. Azeb Wogayehu
Manager,
Finance & Administration
Department

Mr. Tekalign Paulos
Manager
Internal Audit

Mr. Mesfin Wolle
Manager,
IT Services

Mr. Samuel Ademe
Chief, Risk &
Compliance Officer

THE DIRECTORS REPORT

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 3O JUNE 2019

The Directors of Ethiopian Reinsurance Share Company herebypresenttheir report together with the Audited Financial Statements for the year ended 30 June 2019 in accordance with Article 418 and 419 of the Commercial Code of Ethiopia and Article 9 and 10 of the Company's Articles of Association as well asthe relevant Directives of the National Bank of Ethiopia.

1. BACKGROUND INFORMATION

Ethiopian Reinsurance Share Company (Ethio-Re) is the first reinsurance company incorporated in accordance with the provisions of Article 5(8) of Insurance Business Proclamation No.746/2012; under license number RB/01/2016 issued by the National Bank of Ethiopia. It started operation on 1 July 2016 and engages in both life and non-life businesses.

Ethio-Re is an organization born out of a long desire of seasoned professionals and policy makers to have a national reinsurance company. The concept paper for Ethio- Re was prepared in 2012 by a team of experts brought together under the auspices of the Ethiopian Insurance Corporation (EIC). The Association of Ethiopian Insurers (AEI) also took part in organizing the Company. The effort to establish Ethio- Re finally came to fruition through Directive No SRIB/1/2014 issued by the National Bank of Ethiopia. The objectives of Ethio- Re, inter alia, are to:

- Measure and retain domestic insured risks thereby increasing the capacity of national insurers to take on risks within comfortable margin;
- Assist the growth of primary insurance business in the country by way of providing technical and advisory back up both in general and long-term insurance;
- Enhance professionalism in the insurance industry;
- Mobilize investment funds by making use of collected reinsurance premium;
- Prevent undue outflow of hard currency; and
- Generate foreign currency through inward reinsurance business.

Shareholding Structure

- Ethio-Re's capital structure is composed of private and public financial institutions as well as individual investors. The Company's current shareholderscompriseof seven banks, seventeen insurance companies, seventy-eightindividual shareholders coming from different walks of life and one labor union.

Capital structure

- The subscribed share capital of the Company is Birr 997.3 million. The Company's paid up capital has reached Birr 607.2million as of June 30, 2019.

Governance structure

- The Company's Board of Directors comprise of nine members representing individual shareholders and institutional investors appointed by the Annual General Meeting of the Shareholders of the Company. The Board is responsible to provide strategic leadership and direction regarding the overall affairs of the Company.
- Relying on a relatively strong capital base, plus sound retrocession protection provided by world-renowned reinsurers, Ethio-Re aims to provide a comprehensive range of reinsurance covers to domestic insurers, in addition to accepting international business on selective basis. The Company strives to mobilize financial resources which would be invested to generate additional income, needless to mention the role it plays in reducing hard earned foreign currency outflow and also generating foreign currency in the form of cross border reinsurance transactions.
- Moreover, as the first reinsurance Company in the country, Ethio-Re aspires to enhance underwriting capacity and solvency of direct insurers through providing cover against large and complex risks including availing technical support to bolster underwriting skills. Ethio-Re strives to simplify treaty negotiations, settlement of claims and payment of premiums within the shortest time.

2. BOARD OF DIRECTORS

The roles and functions of the Board of Directors and the CEO of the Company are distinct, and their respective responsibilities have been clearly definedin the Memorandum and Articles of Association of the Company. The Board comprises of nine directors appointed to serve in their individual capacity and as representatives of institutional investors. The Board,together with executive management, defines the Company's strategies, objectives andexerciseseffective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations and decision-making process.

Corporate governance refers to a form of responsible company management and control geared to long-term creation of value. Ethio-Re strictly complies with the corporate governance Directive set by the National Bank of Ethiopia (NBE) , Insurance Corporate Governance Directive No. SIB/42/2015 and the Company's Corporate Governance Guideline prepared and approved by its Board of Directors.The Company has the following governance structure:

- General Meeting of Shareholders;
- Board of Directors;
- Chief Executive Officer;
- Senior Management; and
- External Auditors

Board Meetings: The Board holdsordinary meetings to deliberate on institutional affairs, while special meetings are called whenever deemed necessary. The Board held Seventeen regular meetings during the year under review.

Committees of the Board: The Board has set up fourcommittees, namely Human Resources Affairs Committee, Risk and Compliance Committee, Audit Committee, and Strategy and Investment Committee whichprepared and adopted their respective charters to serve as a guide in the course of discharging their responsibilities.These Committees are intended to expedite efficient handlingand decision making on matters that normally fall within the scope of the Board's responsibilities.

3. TRADING ENVIRONMENT

3.1 THE GLOBAL REINSURANCELANDSCAPE

According to African Reinsurance Pulse 2019, in the year 2018, global insurance premiums reached US$ 5,193 billion, surpassing theUS$ 5 billion mark for the first time. In line with a global market share of 1.3 %,Africa's insurance premium volume increased by 4.9 % from US$ 65.2 billion in2017 to US$ 68.4 billion in 2018. With a share of 71 %, South Africa is by farthe continent's largest market, followed by Morocco (7 % of total premiums) andKenya (3 %). Since 2016, non-life premiums outside of South Africa increasedby 3.3 % in US$ terms, which is significantly lower than the South African growthrate of 23.4 %. In life insurance, the South African market grew slower (+ 16.6 %)than the rest of the continent (+ 19.3 %) over the same period.

Africa's economies continued to strengthen in 2018. The GDP expanded by an estimated 3.5 %, roughly in line with the prior year, but trailing slightly below the global average of 3.6 % and the emerging market average of 4.8 %. Insurance premiums expanded by 4.9 %, ahead of GDP. Accordingly reinsurance will have benefitted in line with insurance

Reaching an estimated 3.5 % in 2018, which is similar to the 2017 growth rate andoutperforming the 2016 growth by 1.4 percentage points, Africa's economic growthcontinued to strengthen. According to the IMF, Africa's more diversified – and henceless resource dependent – economies are expected to sustain growth rates in excessof 5 %. Growth in these countries is supported by higher agricultural production,increasing consumer demand, and rising public investment. On a regional level, with an estimated growth rate of 5.7 % in 2018, East Africacontinues as the continent's fastest growing region, closely followed by North Africa,which was expected to achieve a growth rate of 4.9 % in 2018. With a projected rateof 1.2 %, growth in Southern Africa lags behind.

In 2018, African non-life premiums stood at US$ 22.1 billion, representing anincrease of more than US$ 400 million (+ 1.9 %). Among the major markets, growthin US$ terms was steepest in Morocco (+ 8.4 %), followed by Kenya (+ 5.5 %) andSouth Africa (+ 4.8 %). Some of the smaller markets, such as Côte d'Ivoire (+17.7 %)or Zimbabwe (+ 16.9 %), achieved remarkable double-digit growth rates.

Sub-Saharan Africa's dependence on agriculture makes the region also vulnerableto extreme weather conditions. The IMF expects that below average precipitation canreduce annual economic output by 1.5 percentage points in extreme cases.

Based on Swiss Re Institute estimates, the size of the global reinsurance marketin 2018 was US$ 260 billion, equal to 5 % of direct insurance premiums written.Cession rates in non-life insurance (8.4 %) were higher than in life insurance (2 %).As a general observation, non-life insurance cession rates are higher in emerging thanin mature markets. While motor cession rates are typically very low (approx. 4 %),special lines such as aviation, marine or engineering (approx. 30 %), property (16 %)and liability (14 %) see much higher cession rates.

Based on regulatory statistics it was estimated that the size ofthe African reinsurance market surpassed US$ 7.5 billion in 2018, equal to a cessionrate of 11.3 %, which is more than twice the global average. The average Africannon-life insurance cession rate was 27.1%, more than three times higher than theglobal average. With a cession rate of 3.2 %, the average life cession rate was onlyabout 50 % higher than the global average, reflecting the dominance of the matureSouth African life insurance market in the continent's portfolio.

Total global life reinsurance premiums amounted to an estimated US$ 60 billion in2018 (according to Swiss Re Institute). With estimated premiums of US$ 1.5 billion,African life reinsurance accounted for a global market share of 2.5 %, about 50 %higher than Africa's share of the global primary life insurance market (1.6 %). In mostmid-sized markets, ceded life insurance premiums remained more or less stable(Egypt, Morocco, Namibia, Tunisia). Kenya and Nigeria saw considerable increasesin US$ terms. Life cession rates in Kenya (7.9 %), Nigeria (6.9 %) and Egypt (6.9 %)were much higher than the African average (3.2 %), while life insurers in Moroccoceded a relatively low portion (0.9 %) of their premiums to reinsurers.

Based on a global non-life reinsurance market size of US$ 200 billion estimated bySwiss Re Institute, Africa's market size of US$ 6.1 billion translates into to a globalmarket share of 3 %, much higher than Africa's share of the global non-life insurancemarket (less than 1 %). With an estimated volume of US$ 3.2 billion, South Africaaccounted for more than 50 % of the continent's total non-life reinsurance premium in2018. Ceded premiums volumes increased significantly in Morocco (+ 10.4 %), Algeria(+ 8.8 %) and Zimbabwe (+ 9.7 %) and remained stable in many other markets.

3.2 ETHIOPIAN ECONOMIC PROFILE AND THE INSURANCE INDUSTRY

The Ethiopian economy registered 7.7 percent growth in 2017/18, slower than the 10.9 percent expansion recorded in the previous year. This growth was attributed to 12.2 percent rise in industrial output, 8.8 percent expansion in service sector and 3.5 percent growth in agriculture.

Consequently, the share of industry in GDP rose to 27 percent in 2017/18 from about 26 percent in 2016/17 while that of service increased slightly to 39.2 percent from 38.8 percent in 2016/17. In contrast, the share of agriculture fell to 34.9 percent in 2017/18 from 36.3 percent during the same period. This gradual but steady shift in the structure of the economy reflects the government's policy direction of developing manufacturing sector and promoting export-led growth while continuing to give due attention to modernizing the agriculture sector which has dominated the country's economic base for years.

The robust and sustained economic growth recorded over the last 15 years has led to improvements in reducing income inequality and poverty. Accordingly, per capita income has continuously increased and reached USD 883 in 2017/18. Poverty has declined to 22 percent from 38.7 percent in 2004/05. Investment to GDP ratio has increased to 34.1 percent while that of domestic savings rose to 22.4 percent. Despite the recent uptick, inflation has been kept within single digit level in 2017/18 largely aided by tight monetary and prudent fiscal policy stance. Yet, the annual average headline inflation rose to 13.1 percent in 2017/18 from 7.2 percent a year earlier due to the rise in both food and non-food prices. Similarly, annual headline inflation went up to 14.7 percent from 8.8 percent owing to 6.7 percentage point and 4.9 percentage point increases in food inflation and non-food inflation respectively. (National Bank of Ethiopia, Annual report, 2017/18).

THE INSURANCE INDUSTRY:

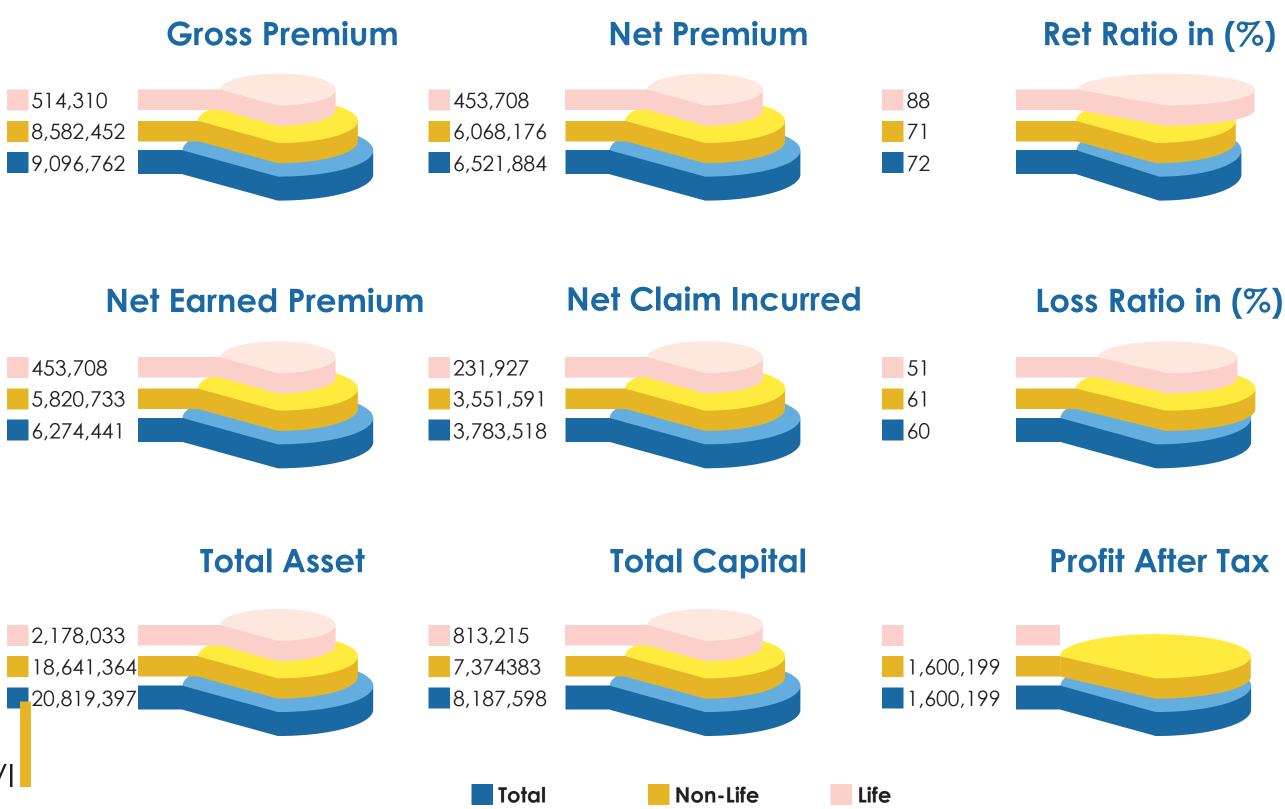
Of the 17 insurance companies operating in Ethiopia 16 were private and the total capital of all insurance companies reached Birr 8.2 billion at the end of the period under review. The industry registered a gross written premium of Birr 9.1 billionwitnessing almost 8.3% growth compared against the previous year result. General insurance (GI) continued to dominate the sector,accounting for Birr 8.6 Billion or 94.3% total premiums, with motor insurance continued to claim the largest share – constituting 50.2% of total insurance premiums and 53.2% of the gross written premiums generated under General Insurance class of business. The industrywide loss ratio in respect of general insurance has reached 61%. On the other hand, Long Term Insurance accounted for Birr 514.3 million or merely 5.7% of total premiums written but witnessed a relatively low 51% lossratio. The industry's net earned premium and net claims incurred for the period ended June 2019 reached Birr 6.3 billion and Birr 3.8 billion respectively, with an overall loss ratio of 60%. The retention ratio remained 72% while the net claims incurred has increased to Birr 3.8 billion from Birr 3.67 billioncompared to the preceding year. The total asset of insurers as at 30 June 2019 has reached Birr 20.8billionwitnessing an increase of Birr 4.8 billion compared to the figure in the preceding year.

Summary of Financial Information of Insurers as at June 30, 2019

Table1: performance of the Ethiopian insurance industry

Source: NBE: June 30, 2019

in '000 Birr



3.3 COMPULSORY POLICY CESSIONS (CPC): THE CASE FOR AND AGAINST.

Like many national reinsurance companies in developing economies, Ethio-Re is entitled to receive 5% compulsory policy and 25% treaty cessions by the virtue of the stipulation of Directive No.SIB/44/2016 of the National Bank of Ethiopia (NBE).The Directive, which governs the manner and criteria of transacting reinsurance business, requires an insurer to cede at least 25% of its treaty business and 5% of each policy issued or renewed by an insurer to the national reinsurance company. In addition, the Company also has the right of first refusal in respect of all facultative placements.

The rationale driving the establishment of national reinsurance companies, particularly in developing countries, remains valid to this date although it was first introduced almost more than half a century ago. The proliferation of indigenous private capital in the insurance sector in the late 1980s, to some extent, modulated the fear of capital flight,albeit it did not prevent a relatively significant portion of the business being ceded to foreign companies in the form of reinsurance resulting in a drain of hard-earned foreign currency. The situation was further made worse following extensive mega infrastructure developments embarked on by the country resulting in only negligible proportions of these risks and hence corresponding premiums retained by local insurers.

According to the audited financial statements for the year ended 30 June 2019, legal policy cessions accounted for 60.7% of the total premium income of the Company, whereas the underwriting result for the same period witnessed a gross loss after deducting the retrocession premium paid to protect the account. Determining the real reason behind the poor performance registered in customarily profitable classes requires further review, but the agreement which provides that commission to be paid on policy cessions to follow terms of the treaty of ceding companies has negatively impacted the result of this account.

Contrary to the fierce argument that compulsory cession would give a reinsurer huge advantage by taking away good business from direct insurers spectacularly failed to make resonance considering the poor performance of the account over the past three years. It was from different perspective that proponents of compulsory policy cession argued the positive impact the scheme would bring on to the overall performance of the Company. For one thing, policy cessions were thought to generate huge cash flow which can then be invested to generate income which, to some extent, makes marginal contribution to profit and also extenuate losses arising out of abnormal rise in the frequency and severity of claims. On the other hand, the premium income coming from policy cessions, big as it is, would have a positive impact on the size of the Company’s portfolio.

Despite the problems that resulted in the poor performance of compulsory policy cessions, it is possible to make the account profitable should the agreement regarding the manner of ceding compulsory business is reviewed and necessary amendments are introduced. Thus, it is incumbent upon executive management and insurance companies to take the necessary steps to improve the performance of this particular account.

3.4 MANNER OF ACCEPTING AND CEDING FACULTATIVE BUSINESS:

Regarding the manner of transacting reinsurance business, Directive No.SIB/44/2016 grants Ethio-Re the right of first refusal on all facultative businesses before they are offered to overseas companies. Nevertheless, this particular provision of the Directive has not been consistently and strictly adhered toresulting in forfeiture of the income that could be generated from this source. In addition to indirectly influencing the rate of premium being applied for a cover, strict enforcement of the provision would have boosted the income spawned from domestic sources.

The Company together with the Association of Ethiopian Insurers(AEI) has been lobbying to introduce certain amendments to the relevant provisions of Directive No. SIB/44/2016 with the object of ensuring consistent application of the original intent, i.e. exhausting local capacity before ceding business abroad. In this regard several discussions have been held with the National Bank of Ethiopia on the possibility of revising the provisions of the Directives following which consensus was reached in the final version of the provision. It is pertinent that all concerned parties exert the necessary efforts for issuance of the revised directivesbefore the end of the year.

3.5 TIMELY FILING OF QUARTERLY REPORTS AND SETTLEMENT OF BALANCES:

The manner of submitting the accounts in respect of compulsory policy cessionshas been agreed to operate like a quota share treaty whereby quarterly accounts on premiums and claims are submitted in a summarized form. Accordingly, insurers submit quarterly accounts by class of business after offsetting claims incurred during the period against premiums due and deducting any applicable commissions.

Whilst it is understandable that the delay observed in submitting periodic accounts largely attributed to the current state of IT prevailing in the insurance industry, the attention given to streamline the timely compilation and consolidation of data is so low that no significant improvement is on the horizon. Moreover, the time clause for submission of quarterly accounts is a condition precedent in almost all reinsurance treaties which in effect means that complying with the requirement of the clause would have serious consequences. Needless to mention that the Company could not submit quarterly accounts to the regulatory authority within the prescribed time due to the inability to obtain data from ceding companies.The Company should therefore work with the regulatory authority and the insurance industry to establish proper reporting mechanisms in the years to come.

Reinsurance business is about collecting, analyzing and interpreting data in order to significantly enhance the capacity to predict the likelihood and frequency of future occurrences accurately. Ethio-Re is uniquely positioned to serve as the aggregator of market statistics, which, in addition to managing adata base for its own needs, would also serve as a good source of information as far as insurance business is concerned. To this end, Ethio-Re. is planning to create a suitable platform that would make possible capturing, consolidating and processing of industry data with a further option of making the information available to interested external parties. In doing so, the Company is intending to serve as a center where vital information regarding the insurance industry could be stored and made available.

However, timely filing of quarterly statement of accounts and subsequent confirmation of same has remained a challenge which affected the Company's ability to compile periodic accounts and conduct timely appraisal of performance. In contrast, insurance companies have consistently complied with the deadline set by the NBE in this respect, which makes one to wonder why this proved difficult when it comes to Ethio Re. The Company wants to draw the attention of the industry on the need to file periodic statements of accounts so that subsequent confirmation and preparation of periodic accounting reports finalized within acceptable time. It is also important to mention here that the delay in submission of statements of accounts means that subsequent confirmation and settlement of premiums could be delayedwhich ultimately results in reduction of income.

3.6 COLLECTION OF PREMIUMS:

Writing reinsurance business is worthless if the Company never receives amounts due on time. The insurance industry is operating on the basis of a "no premium, no cover" policy, which requires insurers to collect premiums upfront for an insurance cover to be valid as per the stipulation of Insurance Business Proclamation No. 746/2012.

This effectively abolished the customary way of providing coveron credit as part of marketing strategy. This particular provision of the law is believed to have significantly improved the financial position of insurers; eliminating the expenses incurred in chasing debtorsand the huge provisions to be set aside to guard against bad debts. Technically, any amount due to Ethio-Re. is coming from a premium that was already collected by a direct insurer and hence any premium should be paid as soon as statements of account areconfirmed and delivered.However, collecting premiums due from insurers, including minimum and deposit premiums, remained a demanding task with some insurers unwilling or unable to settle amounts due for relatively long time. If this practice is allowed to continue unchecked, the Company would ultimately be forced to keep substantial reserve as a safeguard against possible future default. In an era when insurance companies got rid of the practice of keeping a fair share of their assets as a reserve to safeguard against possible future defaults, forcing Ethio-Re. to maintain this type of reserve is unacceptable. So, settlement of premiums as soon as statements of accounts are received should be given utmost attention before the situation deteriorates to a point where supervisory intervention becomes inevitable.

3.7 GETTING VOLUNTARY CESSIONS FROM THE LOCAL MARKET AND INWARD FOREIGN BUSINESS:

Income targets from foreign business: The Company has set targets to write inward business from overseas market (5% of the total GWP).

Following successful negotiation with retrocessionairs, the restrictions imposed has been waived, and Management conducted a risk assessment and drawn a business plan including identification of target markets with the assistance of Afro- Asian Insurance Services. During the year 2018/19, the Company was able to underwrite foreign business through Reinsurance Brokers amounting to Birr 2.5 million, for the first time.

The Company has set targets to obtain voluntary cessions from domestic market so that the impact of the cessation of compulsory cessions could possibly be minimized. The Company so far managed to secure voluntary cession from 2 local insurance companies, and many have promised to provide voluntary cession on all treaties on top of the compulsory treaty cession once any outstanding issues with their current reinsurers are settled. Management expects to write more business in the years to come and especially when compulsory policy cession ceases.

4. RESULTS

4.1 FINANCIAL PERFORMANCE

TOTAL ASSET

- During the period under review, the total asset of the Company stood at Birr 1.6 billion, showing an increase of42% than last year's similar period.

CAPITAL

- During the period under review, the total capital of the Company reached Birr758.8million, showing an increase of 23% when comparisons are made with last year's similar period.

GROSS WRITTEN PREMIUM

- During the period under review, the Company has generated a gross premium income of Birr 698.7million. The total premium generated was higher than last year's similar period by Birr 37.2million or 6%.Figures indicate that the difference in registered growth with the industry's performance were observed mainly due to increase of retention level of local ceding companies to align with regulatory requirements, local capacity promotion practice risk sharing of facultative business amongst local players before the same is availed to reinsurers and premium rebates relating to policy cancellations, 10% contribution relating to compulsory third party motor insurance premium, COMESA yellow card cover premium, travel and health insurance, and inward facultative businesses. On the other hand, the difference under life insurance class was observedbecause the company only takes yearly renewable life policies.

- From the total premium for the period under review, Birr 672.2million or 96% was generated from general reinsurance, whereas the remaining Birr 26.5 million or 4% was from life reinsurance.

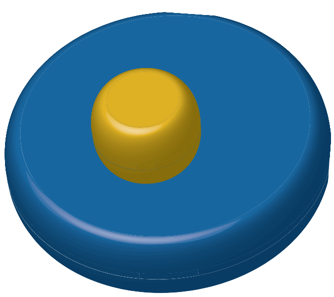


Fig: portfolio mix by class of reinsurance

- During the reporting period, the Company has written business from selected African markets amounting to Birr 2.5 million.

CLAIMS PAID

The Company has settled gross claims amounting to Birr 521million. Out of the total claims paid, Birr 466million and Birr 54.7 million were paid under policy and treaty cessions, respectively. Moreover, the Company has settled gross claims amounting to Birr 62.5 thousand for businesses written under foreign account.

NET CLAIMS INCURRED

The Company's net claims incurred reached Birr 328.8million. The amount has shown a decrease by Birr 6million or 2% as compared to last year's similar period. During the reporting period, the net claims incurred at industry level has reached Birr 3.8 billion showing an increase of Birr 104 million or 2.8%, compared to last year's similar period performance.

CEDANT ACQUISITION COST

The Company has outlaid Birr 176.9 million for acquisition cost, which is higher than last year's similar period by Birr 26million or 17%. The increment in cedant acquisition cost was mainly due to increase in written premium during the year.

COMMISSION INCOME

The company earned Birr 22.2 million as commission income which is higher than last year by Birr 17.5 million. The increase in commission income was registered mainly due to change in retrocession arrangement from non-proportional to proportional treaty.

OPERATING AND OTHER EXPENSES

The Company has outlaid Birr 32.8million as operating and other expenses which is higher than last year's similar period by Birr 10.7million. The registered increase was mainly due to recruitment of additional work force to strengthen the manpower of the company, increase in promotion and advertisement expenses as well as training and development expenses.

NET INVESTMENT INCOME

During the period under review, the Company has earned Birr 102.7 million from investment which is higher than last year's similar period income by Birr 35.8 million or 54%. The registered increase in investment income was mainly due to interest income growth from fixed time deposit.

PROFIT

During the period under review, the Company has registered Birr 144.5million profit before tax, which is higher than last year's similar period performance by Birr 65 million, or 83.7%. The share of general insurance stood at Birr 126.9million, whereas the life insurance business contributed Birr 17.6million towards the total generated. Accordingly, earnings per share (EPS) of the Company stood at 21.4% compared to 15% registered in the previous financial year.

4.2 NON-FINANCIAL PERFORMANCE

IT PROJECT

- As part of its strategy, the Company has paid special attention to acquiring state of the arttechnology in order to enhance its competitiveness and improve the quality of products and services it delivers. To this end, it has started implementation of the reinsurance and accounting software with SAP East Africa Limited and msg Global Solutions. It is believed that full-scale implementation of integrated reinsurance management and general ledger software will boost the quality of service of the Company.

- Ethiop-Re has also finalized deployment of the required network infrastructure with United System Integrators (USI). The new technology and infrastructure, as part of the overall automation strategy of the business process of the Company will help in furthering the ongoing rating efforts.

INVESTMENT

- Within the limits set by the National Bank of Ethiopia (NBE) directives, Ethio Re needs to look at how to get high return by investing its excess funds in other areas of investment other than fixed time deposits. Accordingly, investment plan has been prepared and approved by the board of Directors to diversity investment options. To this end, the Company has purchased shares from United Bank with a total amount of Birr 50 million. Moreover, equity shares have also been purchased from 'Addis – Africa International Convention and Exhibition Center (AAICEC) with a total amount of Birr 20 million;

HUMAN RESOURCE STRATEGY AND PROFILE

- Management has duly recognized the importance of building the capacity of staff in order to be able to deliver competitive reinsurance service. Accordingly, the Company has engaged consultants to conduct comprehensive review of the Company's Human Resource (HR)strategy aimed at developing a blueprint on how to build a competent and highly motivated workforce. Accordingly, the Company has at the final stage of the implementation of the HR Strategy following the approval granted by the Board.

Human Resources Strategy appraisal workshop

- As a short-term intervention, various trainings were givento employees and management, on topics including strategic planning, communication skills and customer handling, enterprise risk management and governance, and technical accounting on job training.

- Recruitment of two permanent employees was made during the year. At Ethio Re we believe that highly qualified and motivated staff is key to the success of our business. Our corporate and leadership culture strongly geared to performance and business requirements that shapes the way our staff approach change, performance and training. There are currently 20 people working at Ethio-Re of which 50% are female (figures from 30 June 2019). All of them contribute to our success through their skill, performance and dedication. We are committed to investing in their development and provide all staff with equal opportunities and top-quality working conditions. We strive to recruit the best staff we can and equip them to deal with the global business of opportunities and risks.

PRODUCING REPORTS IN LINE WITH INTERNATIONAL REPORTING STANDARDS (IFRS)

- IFRS, constitutes standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that a company's accounts are transparent and comparable across international boundaries. The government of Ethiopia also enacted the IFRS proclamation and regulation in 2014. Accordingly, banks, insurance companies and public enterprises are obliged to comply with IFRS within the deadline starting from 2018.In line with this, Ethio-Re has been producing its financial statements from first year of establishment i.e. for the financial years 2016/17 ,2017/18 and 2018/19 in compliance with IFRS standards. The Board has also reviewed the performance of the Company on quarterly basis to track performance and take timely corrective measures.

APPROVAL OF STRATEGIES, WORKING MANUALS, PROCEDURES AND GUIDELINES

- The Board has approved the working manuals, procedures and guidelines of the Company and implementation of same commenced. These includes the Hunan Resources Strategy and related documents, Internal Audit Policy and Procedure Manual, Risk Management Policy and Procedure, Customer Social Responsibility (CSR) Policy, Marketing and Customer Relationship Management (CRM) strategy, revised Finance Manual prepared as per the International Finance Reporting Standard (IFRS) requirements, among others.

RETRO- PROGRAM ARRANGEMENT

- Retro program arrangement for the year 2019/20has been finalized during the reporting period. Comprehensive retro program with wider geographical coverage, including sub-Saharan African markets has been concluded.

BUSINESS DEVELOPMENT, PROMOTION AND COMMUNICATION

- **Participation in the** African Insurance Organization (AIO)**Annual Conference and General Assembly, Federation of Afro-Asian Insurers and Reinsurers (FAIR), and Organization of African Insurers and Reinsurers(OESAI).** These conferences and general assemblies are annual events which bring together insurance professionals from all over the continent and beyond to discuss insurance issues in addition to creating a forum to establish and/or reinforce business relationships. Throughout the year, representatives and delegates of Ethio-Re have attended all the forums and the events which presented unmatched platform to introduce our newly formed Company on the continental reinsurance arena.

- **Promotion and branding:** As regards adoption of Company logo and brand identity, so far, the Company has selected and adopted the Company logo and brand identity materials. The designs of Company logo and brand manuals are prepared by international design companies as per the specifications prepared by Ethio-Re. Taking the customary practices of reinsurers, Ethio-Re has been providing corporate gifts to its customers and has sponsored events organized by the AEI and others.

Organizing market trainings on topical industry issues: So far, Ethio-Re. has organized and conducted local trainings in collaboration with Afro-Asian Insurance Brokers and APEX Insurance. The first training was conducted in collaboration with Afro-Asian Insurance Brokers under the theme "Optimizing Renewal Negotiation" in which participants drawn from all local insurance companies took part. The second training designed to focus on "Life Reinsurance: Life Treaties and Facultative Placement" which was carried out in collaboration with APEX Insurance. The training was particularly designed to enhance the technical knowledge of staff of insurance companies whose primary duty involve the negotiation and placement of life reinsurance (treaty or facultative). The company has also organized workshop on Political Violence and Terrorism (PVT) Insurance, with professionals from Beazley Syndicate at Lloyds and Afro Asian Insurance Services, Business Partners Seminar conducted in collaboration with OMAN RE for participants drown from South and East Africa and local market and with Association of Ethiopian Insurers (AEI) on product development;Moreover, Ethio-Re has organized market training on the topic of "Insurance Product Development Master class- Program 2019,with the Association of Ethiopian insurers (AEI).Ethio-Re would continue to organize similar trainings on topical industry issues in the future to develop the capacity of cedants in the future.

Master class training on Product Development

Business Partners Seminar (BPS):
Training for regional customers and partners

Training on Political Violence and Terrorism (PVT)

Consultation forum with insurance companies and the regulator, National Bank of Ethiopia (NBE): Ethio-Re believes that consultative forums with stakeholders serve asa spring board for creating and maintaining strong link. At the center of this endeavor is the discussion on the implications of cessation of compulsory policy cessions and what possible actions could be taken to mitigate the negative impact .As part of the effort to create sustainable business relationship with stakeholders, arranging regular discussion platforms with key partners lies at the heart of the communication strategy. To this end, the aim of the consultation forum will be to bring together stakeholders (insurance companies and the regulator) to kick start dialogues on key issues and build consensus on the possible courses of action to be adopted to overcome identified challenges.

MARKET VISITS

Domestic: A senior management team led by the CEO has visited all local insurance companies with the purpose of establishing smooth business relationships and to explore ways on how to boost business opportunities. Moreover, Finance and Admin manager together with Financial Accounting Unit Head has visited all insurance companies to expedite collection performance and create smooth business relationship.

Recognition for voluntary cession.

International/Regional: as a new Company, Ethio-Re. has to conduct market visits to promote its brand and solicit business from specific target markets. Business travelswould certainly help to boost understanding of the behavior of markets that the Company is planning to accept business from and also gather information on regulatory regimes. The market visits have definitely helped to build preliminary relationships with insurance companies and more importantly to introduce Ethio-Re. to players that presumably are potential sources of business.

Moreover, delegates have collected primary and secondary data from the respective regulatory bodies, government offices, and insurance and reinsurance companies in addition to having discussions on the modalities and requirements of entering foreign markets. Accordingly, the Company has started to write businesses from overseas market although the lack of credit rating has had huge impact on its ability to write more business. During the first and second year of the Company's operation, the Company was not able to write a single business from overseas market due to absence of credit rating and branding, limited geographic scope /restriction on its retro-program, which was subsequently improved to cover sub-Saharan African market. In the years ahead, the company would strengthen its relationship with customers and conducting rigorous markets visits would continue in target markets

Corporate Social Responsibility (CSR): ETHIO-RE as a corporate social responsibility has started supporting acutely vulnerable children to access basic education each year through engaging itself in national school feeding programs organized by government. The children who benefit from the Programme are disabled children structured by Ethiopian National Association of the Deaf (ENAD) Co-action school- Under the auspices of City Government of Addis Ababa Education Bureau. The children are drawn from extremely impoverished, broken families who would be unable to send them to school without support from outside sources.

Corporate Social Responsibility- participation in Green Legacy Project

School feeding program for Ethiopian Deaf Children

Training The Board of Directors of Ethio- Re: The Company has organized training for Board of Directors of Ethiopian Re in line with requirements of National Bank of Ethiopia's Insurance Corporate Governance Directive No.SIB/42/2015, and Directive No. SIB/32/2012.The training, among others, covered Risk management, Corporate governance, Basic reinsurance concepts and practices and Rating requirements for reinsurance companies.The training was arranged with the support of knowledgeable professionals from APEX insurance, in Dubai.

Membership of continental and local institutions: During the year under review, Ethio-Re has become an institutional member of Organization for Eastern and Southern African Insurers (OESAI), in addition to its membership of African Insurance Organization (AIO), Federation of Afro-Asian Insurers and Reinsurers (FAIR) and Association of Ethiopian Insurers (AEI).

APPOINTMENT OF ACTUARY AND CONTACTING RATING AGENCIES

- Credit rating: The Company has communicatedselected rating agencies, AM BEST and Global Credit Rating (GCR) as per the decision of the Board of Directors. Accordingly,information regarding rating time table(schedule), rating fees, and rating criteria were obtained. Discussions were held with rating companies (AM Best representatives) about rating methodology, procedures, time frame and rating fees. The company is also working with APEX insurance to enable it fulfill rating requirements and finalize the project within the action plan set.
- Actuarial services: Ethio-Re. envisages developing its own internal actuarial expertise in the long run. However, in the short run, the Company has selected and engaged ACTSERV, a Kenyan based actuarial firm, to perform the required actuarial services.

5. FUTURE PLAN

Ethio-Re has developed and approved its first strategic plan covering the years 2016/17-2021/22. Accordingly, the Board of Directors and Senior Management have reviewed and approved the strategic plan which was later presented to the National Bank of Ethiopia. The strategic plan is in its third year of implementation.

During the subject year, the Company has been contributing its part for the macro-economic as well as sectoral development as mandated in its establishment objectives. So, it has been allocating its resources efficiently and effectively to implement the strategic initiatives envisioned for the period.

In the coming fiscal year, the Company will also gear up all its efforts towards the successful implementation of all prioritized strategic initiatives to significantly sharpen its competitive edge in view of the changing business environment. In order to bear a leading role in offering reinsurance services as stated in its mission and vision statements, the Company will step up its efforts at developing the capacity of its work force, work on Company Rating, strengthen relationship with cedants and implement state of the art informationtech-nology system. In the year 2019/20, the Company , among others, would focus on the following strategic initiatives:

- Developing the skill, knowledge and capacity of the workforce, through establishing strategic partnership with renowned companies and professionals;
- Employing experienced expatriate consultants to support the Management and build the capacity of employees;
- Finalizing the implementation of reinsurance and financial accounting software to ensure the competitiveness of the Company;
- Building the brand image of the Company and consolidating its income by promoting its services on continental and regional markets;
- Focus on investment diversification to consolidate the asset and earnings of the Company and engage resources in various equity shares from banks, mining industry, government privatization projects, real-estate and building headquarters of the Company, and other available investment options;
- Increase the market share of the Company and implement comprehensive risk management program;
- Collect the outstanding capital subscription and working on the credit rating project;
- Consolidate the business relationship of the Company with ceding companies and other stakeholders;
- Working to strengthening the institutional capacity of the Company.

The implementation of these strategic initiatives are also expected to bring about a paradigm shift in the Company's overall business and operating models, which ultimately enable it to realize the desired goals by enhancingits competitive advantage.

6. RECOMMENDATION ON THE APPROPRIATION OF PROFIT

- During the financial year 2018/19, the Company has obtained an after tax profit of Birr 133.8million.
- The Board of Directors, therefore, recommends to the General Assembly of shareholders that Birr 119 million be distributed to shareholders in proportion to their respective shares after deducting legal reserve and the remuneration of the Board of Directors.

7. AUDITORS

- The Audit Services Corporation is responsible for auditing the Company's books of accounts in accordance with the resolution of the Founder's Meeting that sanctioned the Corporation as External Auditors for the year ended 30 June 2019.

8. VOTE OF THANKS

The Board of Directors, the Executive Management and employees would like to express their deepest gratitude to all insurers carrying on insurance business in Ethiopia and other stakeholders for their unreserved support and willingness to continue to do business with the Company.

Hailemariam Assefa
Chairman of the Board of Directors

Yewendwossen Eteffa Kumssa
Chief Executive Officer

FINANCIAL STATEMENTS

Ethiopian
Reinsurance

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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
ETHIOPIAN REINSURANCE SHARE COMPANY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ethiopian Reinsurance Share Company (the Company), which comprise the statement of financial position as at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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The Federal Democratic Republic of Ethiopia Audit Services Corporation

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
ETHIOPIAN REINSURANCE SHARE COMPANY (continued)

Financial performance of the Company

The profit before tax increased by approximately Birr 65.9 million from Birr 78.6 in the prior year to Birr 144.5million in the current year (an increase of 83.7%). This significant increase in the profit figure has made this year's financial performance a key audit matter.

Our audit procedures to address this key audit matter included enquiring management as to the reasons for this significant increase and verifying management's explanation against relevant supporting evidences; verifying the changes in the technical provisions against actuarial reports and other relevant data; checking the computation and proper recording of gross premiums; verifying commission income as well as investment income against relevant documents; checking and verifying the proper recording of expenses. Our procedures did not identify significant errors in the recording of income and expenses and therefore in the current year's financial performance of the Company.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual report, but does not include the financial statements, our auditor's report thereon and the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
ETHIOPIAN REINSURANCE SHARE COMPANY (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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The Federal Democratic Republic of Ethiopia
★ Audit Services Corporation ★

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
ETHIOPIAN REINSURANCE SHARE COMPANY (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on Other Legal and Regulatory Requirements

As required by the Commercial Code of Ethiopia of 1960, we must report to you in accordance with

Article 375 (1) that we have no comments to make on the report of the Board of Directors; and
Article 375 (2) that we recommend approval of the financial statements.

The engagement director on the audit resulting in this independent auditor's report is Woizero Banchiayehu Tamrat.

audit Services Corporation

Audit Services Corporation
Auditors of
Ethiopian Reinsurance Share Company

Addis Ababa
3 December 2019

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

ETHIOPIAN REINSURANCE SHARE COMPANY

Statement of Financial Position

AS AT JUNE 30,2019

	Note	Gen.Ins	Long Term Ins	Total	Total
		2018-19	2018-19	2018-19	2017-18
		ETB	ETB	ETB	ETB
Assets					
Cash	5	109,122,304	10,197	109,132,501	236,998,391
Other Receivables	6	6,514,283	64,139	6,578,422	6,043,492
Due from retrocessionaires	7	215,302,382		215,302,382	-
Due from ceding companies	8	120,520,675	14,961,395	135,482,070	123,803,101
Deferred acquisition costs	9	65,201,426	1,965,978	67,167,404	66,443,894
Time deposits	10	883,493,022	86,437,409	969,930,431	603,624,670
Grand Renaissance Dam Bonds	11	79,840,675	14,089,531	93,930,206	80,828,317
Right of use asset	12	4,802,744		4,802,744	5,707,685
Property Plant & Equipment	13	13,555,638		13,555,638	15,842,400
Intangible Asset	13	5,460,476	-	5,460,476	-
Total assets		**1,503,813,625**	**117,528,649**	**1,621,342,274**	**1,139,291,949**
Liabilities					
Provision for unearned premiums	14	222,401,065	12,828,659	235,229,724	242,342,488
Interbranch Business		(5,469,331)	5,469,331	-	-
Other payables	15	3,301,036	56,039	3,357,075	1,846,752
Due to ceding companies	16	303,972,657		303,972,657	30,278,170
Due to retrocessionaires		19,420,926		19,420,926	28,667,109
Employee benefits liability	17	100,618	4,192	104,810	61,399
Lease Liability	12	3,981,876		3,981,876	4,830,175
Provision for incurred but not reported claims		65,143,095	2,207,951	67,351,046	60,507,388
Outstanding claims reserve	18	218,400,942		218,400,942	154,833,256
Provision for income tax		6,200,503	4,476,843	10,677,346	-
Total Liabilities		**837,453,387**	**25,043,015**	**862,496,402**	**523,366,737**
Equity					
Capital: Paid up	19	529,250,854	77,917,500	607,168,354	519,450,000
Formation fund	19	9,973,000		9,973,000	9,973,000
Retained earnings		108,650,764	11,788,909	120,439,673	78,628,720
Legal reserve	19	18,467,082	2,779,225	21,246,307	7,864,121
Other Comprehensive Income		18,538	-	18,538	9,372
Total equity		**666,360,238**	**92,485,634**	**758,845,872**	**615,925,212**
Total liabilities and equity		**1,503,813,625**	**117,528,649**	**1,621,342,274**	**1,139,291,949**

The accompanying notes on pages 10-67 are an integral part of these financial statements.

Haile Mariam Assefa
Chairman, Board of Directors

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation ★

Yewondwossen Eteffa
Chief Executive Officer

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	Gen.Ins 2019	Long Term Ins 2019	Total 2019	Total 2018
Income					
Gross premiums written	20	672,236,477	26,495,412	698,731,889	**661,492,036**
Retrocession Premium		(110,653,853)		(110,653,853)	(72,904,864)
Change in net unearned premium		8,905,338	(1,792,574)	7,112,764	(35,371,667)
Net Earned premium		**570,487,962**	**24,702,838**	**595,190,800**	**553,215,505**
Reinsurance commission income		22,254,953		**22,254,953**	4,786,581
Total Income		**592,742,915**	**24,702,838**	**617,445,753**	**558,002,086**
RE-INSURANCE EXPENSES					
Net claims incurred	21	317,918,828	10,952,842	328,871,670	334,861,527
Cedant Acquisition Cost	22	173,081,146	3,840,792	176,921,938	150,858,664
profit commission Exp.		35,796,305	1,237,689	37,033,994	38,445,506
Total outgo		**526,796,279**	**16,031,323**	**542,827,602**	**524,165,697**
Undewriting profit (loss)		**65,946,636**	**8,671,515**	**74,618,151**	**33,836,389**
Net Investment Income	23	93,023,432	9,691,211	102,714,643	66,855,862
Other Income		1,503		1,503	4,500
Operating and other expenses	24	(32,047,997)	(787,095)	(32,835,092)	(22,064,915)
Profit before tax		**126,923,574**	**17,575,631**	**144,499,205**	**78,631,836**
Profit Tax	25	6,200,503	4,476,843	10,677,346	-
Profit for the year after tax		**120,723,071**	**13,098,788**	**133,821,859**	**78,631,836**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Acturial Gain		9,166	-	9,166	9,372
Total comprehensive income for the year		**120,732,237**	**13,098,788**	**133,831,025**	**78,641,208**

The accompanying notes on pages 10-67 are an integral part of these financial statement

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation ★

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Capital	Formation fund	Retained Earnings	Legal Reserve	Other comprehensive Income	Total Equity
Balance at 1 July 2017	**518,900,000**	**9,973,000**	**7,861,004**	**-**	**-**	**536,734,004**
Profit for the year	-	-	78,631,836	-	9,372	78,641,208
Transfer to legal reserve	-	-	(7,864,121)	7,864,121	-	-
capital contributed during the year	550,000	-	-	-	-	550,000
Balance at 30 June 2018	**519,450,000**	**9,973,000**	**78,628,720**	**7,864,121**	**9,372**	**615,925,212**
Balance at 1 July 2018	**519,450,000**	**9,973,000**	**78,628,720**	**7,864,121**	**9,372**	**615,925,212**
Profit for the year	-	-	133,821,859	-	9,166	133,831,025
Dividend paid			(77,278,720)			(77,278,720)
Directors compensation			(1,350,000)			(1,350,000)
Transfer to legal reserve	-	-	(13,382,186)	13,382,186	-	-
capital contributed during the year	87,718,354	-	-	-	-	87,718,354
Balance at 30 June 2019	**607,168,354**	**9,973,000**	**120,439,673**	**21,246,307**	**18,538**	**758,845,871**

The accompanying notes on pages 10-67 are an integral part of these financial statements.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

Ethiopian Reinsurance Share Company
Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019	2018
		ETB	**ETB**
Cash flows from operating activities:			
Profit for the year		**144,499,205**	**78,641,208**
Depreciation and Amortization	12,13	4,151,634	3,830,045
Interest on employer liability			7,740
Interest on lease liability	12	563,502	582,656
Acturial Gain		(9,166)	(9,372)
Interest income	23	(103,309,846)	(67,472,110)
		45,895,329	**15,580,167**
Movement in Working Capital			
Increase in receivables and prepayments		(534,929)	(3,555,236)
Increase in amounts due from ceding companies and retrocessionaires		(227,704,862)	(20,129,875)
Insurance provisions		63,298,580	148,175,503
Other provision	17	41,696	34,244
Increase in payables	15	1,510,324	281,416
Increase in amounts due to ceding companies	16	264,448,304	33,981,147
Net cash flows from operating activities		**146,954,442**	**174,367,366**
Cash flows from investing activities			
Payment for investment in the Grand Renaissance	11	(13,019,275)	(82,500)
Payment for time deposits	10	(341,500,692)	(253,190,586)
Interest received		78,422,165	55,442,615
Acquisition of property, plant and equipment	13	(5,570,316)	(3,368,272)
Payment of finance lease liablity		(2,261,894)	-
Dividend paid		(1,020,793)	-
Payment for directors		(1,287,500)	-
Net cash used in investing activities		**(286,238,305)**	**(201,198,743)**
Cash flows from financing activities:			
Capital received		11,417,973.00	550,000
Net cash from financing activities		**11,417,973**	**550,000**
Increase in cash and cash equivalents		**(127,865,890)**	**(26,281,377)**
Cash and cash equivalents:			
At beginning of the period		236,998,391	263,279,768
At end of the period	5	**109,132,501**	**236,998,391**

The accompanying notes on pages 10-67 are an integral part of these financial statements.

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation ★

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Notes to Financial Statements
For the year ended 30 June 2019

Ethiopian Reinsurance

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1. Reporting entity

Ethiopian Reinsurance Share Company ("The Company") is a reinsurance company established on 7 July 2016 with the objective of engaging in the business of rendering general and long-term re-insurance services. The Company's registered office is located in the Federal Democratic Republic of Ethiopia, Addis Ababa City, Kirkos Sub City, Woreda 9, and House No. New.

The registered office is the same as the principal place of business.

2. Basis of accounting

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(Continue)

(b) Functional and presentation currency

These financial statements are presented in Ethiopian Birr, which is the Company's functional and presentation currency. Except when otherwise stated, all amounts have been rounded to the nearest unit.

(c) Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively in the financial statements.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following note.

Note 3 (f) – Leases: whether an arrangement contains a lease

Assumptions and estimation uncertainties

Information on assumptions and uncertainty of estimates posing a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the year ending 30 June 2019 is included in the following notes

Note 3 (b) – measurement of insurance liabilities: Key actuarial assumptions

Note 17 (c) – measurement of employee benefits liability: Key actuarial assumptions

Note 3 (c) (viii) – identification and measurement of impairment for financial instruments;

Note 3 (e) (iii) – useful lives and salvage value of tangible assets;

Note 3 (i) (n),

Note 3 (m), Note 25 – recognition of deferred taxes: availability of future profits against which tax losses carried forward can be used

(Continue)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the period presented in these financial statements.

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Company at the exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Reinsurance contract

Reinsurance contracts are those contracts that transfer significant reinsurance risk. Ethiopian Re defines reinsurance risk as the risk that it has to settle claims arising from reinsurance contracts held with cedant companies either from treaty reinsurance or facultative reinsurance.

The reinsurance contracts are classified into two main categories:

(i) General reinsurance business - This is for contract durations typically running for one year. The main classes covered in general insurance business are accident, aviation, burglary, engineering, employer liability, fire, goods in transit, liability, marine, medical, motor, and pecuniary.

(Continue)

3. Significant accounting policies (Continued)
(b). Reinsurance contract (Continued)

(ii) Long term business - This is for other business not considered as non-life business. The main classes covered in long term insurance business are term, endowment, whole life, permanent health and others.

Recognition and measurement

The results of the reinsurance business are determined on an annual basis as follows:

Premium income

Premiums and related expenses are accounted for in profit or loss when earned or incurred. Gross earned premiums comprise gross premiums relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Unearned premiums represent the proportion of the premiums written in the year that are attributable to the subsequent accounting period and are calculated using the one-over-eight method. Gross written premiums are recognized based upon reports from ceding companies. Statements of account are received on a quarterly basis where the statements of account are not received by the year-end, the estimates will be computed through the pipeline method.

Claims incurred

Claims incurred comprise claims paid in the period and changes in the provision for outstanding claims. Claims paid represent all payments made during the period. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of preliminary loss advice from ceding companies and outstanding claims reports sent by cedants. They are also determined on the basis of historical expenses and actuarial analysis.

Cedant acquisition costs and deferred acquisition costs

A proportion of cedant acquisition costs is deferred and amortized over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of cedant acquisition costs and other acquisition costs that relate to the unexpired term of the policies that are in force at the year end.

(Continue)

3. Significant accounting policies (Continued)
(b). Reinsurance contract (Continued)

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Long-term reassurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Retrocession contracts held

Contracts entered into by the Company with retrocessionaires under which it is compensated for losses on one or more contracts issued by it and that meet the classification requirements for retrocession contracts are classified as retrocession contracts held. Retrocession premiums payable are recognized in the period in which the related premium income and claims are earned /incurred, respectively.

The benefits to which Ethiopian Re is entitled under its retrocession contracts held are recognized as retrocession assets. These assets consist of short-term balances due from retrocessionaires, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related retrocession contracts. Amounts recoverable from or due to retrocessionaires are measured consistently with the amounts associated with the retrocession contracts and in accordance with the terms of each retrocession contract.

Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognized as an expense when due.

Ethiopian Re assesses its retrocession assets for impairment annually. If there is objective evidence that the retrocession assets are impaired, the Company reduces the carrying amounts of the retrocession assets to its recoverable amount and recognizes that impairment loss in profit or loss.

Receivable and payables related to reinsurance contracts

Receivables and payables are recognized when due. These include amounts due to and from cedants and brokers.

(Continue)

3. Significant accounting policies (Continued)
(b). Reinsurance contract (Continued)

Receivable and payables related to reinsurance contracts - Continued

If there is objective evidence that the reinsurance receivable is impaired, Ethiopian Re reduces the carrying amount of the reinsurance receivable accordingly and recognizes the impairment loss in profit or loss. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due.

Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

(c) Financial assets and financial liabilities

(i) Classification

Financial assets

The Company classifies its financial assets into one of the following categories:

- Amortized cost;
- Fair value through comprehensive income; and
- At fair value through profit or loss.

Amortized cost

A financial asset is classified as subsequently measured at amortized cost if it:

- meets the SPPI criterion (whether the contractual terms of the financial assets give rise, on specified dates, to cash flows that are Solely for Payment of Principal and Interest); and
- is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

Fair value through Other Comprehensive Income (FVOCI)

A financial asset is classified as subsequently measured at FVOCI if it:

- meets the SPPI criterion (whether the contractual terms of the financial assets give rise, on specified dates, to cash flows that are Solely for Payment of Principal and Interest); and
- is held within a business model in which assets are managed both in order to collect contractual cash flows and for sale.

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(i) Classification - continued

Fair value through profit or loss

All other financial assets i.e. financial assets that do not meet the criteria for classification as subsequently measured at amortized cost or FVOCI are subsequently measured at fair value through profit or loss, with changes in fair value recognized in profit or loss.

Financial liabilities

The Company classifies its financial liabilities as measured at amortized cost or fair value through profit or loss. Financial liabilities can be designated at FVTPL if managed on a fair value basis or it is eliminated or reduced if an accounting mismatch.

(ii) Recognition

The Company recognizes financial instruments when the Company becomes a party to the contractual provisions of the instrument

All financial instruments are initially measured at fair value plus or minus transaction costs, in the case of a financial asset or financial liability not at fair value through profit or loss,.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(viii) Derecognition - Continued

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of:

a) the consideration received (including any new asset obtained less any new liability assumed) and

b) any cumulative gain or loss that had been recognized in OCI

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(viii) Modifications of financial assets and financial liabilities - Continued

Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

(vi) Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(viii) Fair value measurement - Continued

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

If there is no active market or no observable prices to measure the Company's financial assets or financial liabilities at fair value, the fair value of financial assets and financial liabilities is determined at each reporting date for disclosure in the financial statement purposes only.

(viii) Impairment

The Company recognizes loss allowances for Expected Credit Losses (ECLs) on

- Financial assets measured at amortized cost;

Lifetime expected credit losses are the losses that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that results from default events that are possible within the 12 months after the reporting date.

In all cases, the maximum period considered when estimating expected credit loss is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighed estimate of credit losses and are measures as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls- i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive; and
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(viii) Impairment - Continued

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets measured at amortized cost and debt investments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past-due date;
- The restructuring of an amount due to the Company on terms that the Company would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In assessing whether an investment in sovereign debt is credit-impaired, the Company considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt insurance;
- The probability of debt being restricted, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and

(Continue)

3. Significant accounting policies (Continued)
(c). Financial assets and financial liabilities (Continued)
(viii) Impairment - Continued

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms, including an assessment of the depth of those mechanisms and; irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of loss allowances in the statement of financial position

Loss allowances for expected credit losses are presented as follows:

- Financial assets measured at amortized cost: the loss allowance is deducted from the gross carrying amount of the assets; and
- Debt investments measured at FVOCI: the loss allowance is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedure for recovery of amounts due.

(Continue)

3. Significant accounting policies (Continued)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current and deposit accounts and short term, highly liquid investments with maturity periods of three months or less.

According to IAS 1 – Presentation of Financial Statements, cash funds, that for some reason are restricted and may not be exchanged or used to settle a liability for a period of at least twelve months are excluded from the balance of cash and cash equivalents and classified as restricted cash in the separate statements of financial position for each of the periods presented.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(e) Property, plant and equipment (PPE)

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and cumulative impairment losses.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within operating and administrative expenses in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

(Continue)

3. Significant accounting policies (Continued)

(e) Property, plant and equipment (Continued)

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment are as follows:

PPE Class	Depreciation rates	Residual values (% on cost)
Building	5%	25%
Computer equipment	25%	1%
Office equipment	20%	1%
Office furniture	10%	1%
Motor vehicles	14%	25%
Office partitions	20%	1%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Since all property and equipment of the Company are new and in good conditions, the assets carrying amount is assumed to be equivalent to the recoverable amount, thus the items are not impaired during the year.

Minor repairs and maintenance costs are expensed as incurred.

(f) Leases

(i) Company acting as a lessee

At inception, the Company determines whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, the Company recognizes a right-of-use asset at cost and a lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company uses the incremental borrowing rate.

(Continue)

3. Significant accounting policies (Continued)

(f) Leases (Continued)

(i) Company acting as a lessee - Continued

After the commencement date, the Company measures the right-of-use asset applying the cost model (cost less any cumulative depreciation and any cumulative impairment). In the case of the lease liability, the Company measures it by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made, and re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

(ii) Company acting as a lessor – Finance leases

Where the Company is the lessor, the Company classifies each of its leases as either an operating lease or a finance lease.

Finance lease

If a lease agreement transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within receivable.

At the commencement date, the Company recognizes assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease. After the initial measurement, the Company recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Operating lease

The Company recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Company applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

(Continue)

3. Significant accounting policies (Continued)

(g) Intangible assets

(i) Software

Software acquired by the Company is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is 10 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Amortization of intangible Asset is 10%

(h) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets namely Cash Generating Units (CGU's).

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

(Continue)

3. Significant accounting policies (Continued)

(h) Impairment of non-financial assets

The Company's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of other assets in the CGU on a pro rata basis.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation

(j) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan at the termination of the employment relationship, other than a defined contribution plan. The Company accounts not only for its legal obligation under the formal term describe above, but also for any constructive obligation that arise from the Company´s customary practices. A customary practice give arise to a constructive obligation where the Company has no realistic alternatives but to pay employee benefits.

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets is deducted. The discount rate to be used is normally based on the yield on long-term corporate bonds, or in the absence of that, the yield on long-term Government bonds. Due to lack of a liquid market for long term bonds in Ethiopia, including government bonds, the discount rate used in the current year was based on the rate of return of one-year fixed term deposits as determined by an independent actuary.

(Continue)

3. Significant accounting policies (Continued)

(j) Employee benefits - Continued

(i) Defined benefit plans - Continued

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the period in which they arise.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related services is provided. Prepaid contributions are regarded as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided, considering current wages.

Liability is recognized for the amount expected to be paid under short-term cash and include mainly wages and salaries, bonuses, leave benefits and other allowances to pay this amount as a result of past services provided by the employees, and the obligation can be estimated reliably.

(iv) Other long-term benefits

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

The Company’s net obligation in terms of long term benefits employee benefits is the amount of future benefits that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognized in the profit or loss in the period in which they arise.

(Continue)

3. Significant accounting policies (Continued)

(j) Employee benefits - Continued

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

(k) Legal reserve

According to the Proclamation No.746/2012, any insurer shall, at the end of the financial year, transfer to its legal reserve an amount not less than 10% of its net profit until such reserves equals it's paid up capital. The Company's policy is to transfer 10% of its net profit to the legal reserve.

(l) Statutory deposit

A statutory deposit amounting to 15% of the paid up capital must be maintained with the National Bank of Ethiopia. This deposit or part thereof may not be withdrawn or be used as a pledge or security for any loan except with the written permission of the National Bank of Ethiopia.

The National Bank of Ethiopia allows a re-insurer to maintain statutory deposits either in cash or in the form of government securities. (Article 21 of Insurance Business Proclamation 746/2012). The bond certificates are held by the National Bank of Ethiopia.

Ethiopian Re has classified the statutory deposit as a financial asset at amortised cost.

(m) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(i) Current tax

The current income tax is the expected tax payable on the taxable income for the year. The amount of current tax payable is the best estimate of tax expected to be paid and that reflects the uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

(Continue)

3. Significant accounting policies (Continued)

(m) Income tax - Continued

(ii) Deferred tax

Deferred tax is measured under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between such values. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to temporary differences when recovered or settled based on laws enacted or substantially enacted as of the reporting date

No deferred taxes are recognized for the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither accounting nor taxable income.

Deferred tax assets and liabilities are offset if there is legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority and to the same fiscal entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which such can be reversed. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

(Continue)

3. Significant accounting policies (Continued)

(o) Finance income and finance costs

The Company's financial income and finance cost include interest income, interest expense, dividend income, foreign exchange gains or losses and impairment losses on investments. Interest income or expense is recognised using the effective interest rate method. Dividend income is recognised in profit or loss on the date on which the Company's right to receive payment is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are complete. Other costs are expensed when incurred. The Company did not have any borrowings as at 30 June 2019.

(q) Share based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The Company did not have any share-based payments as at 30 June 2019.

(Continue)

(r) New Standards, amendments and interpretations

(i) Early adopted standards and interpretations

The company has decided to early adoption of the under listed standards and has applied them in preparing this financial statement:

New standard or amendments
IFRS 9 – Financial Instruments
IFRS 16 – Leases
IAS 7– Disclosure Initiative (Amendments to IAS 7)
IAS 12– Recognition of Deferred Tax Assets for unrealized losses (Amendments to IAS 12)

(ii) New and amended standards and interpretations adopted during the year ended 30 June 2019

IFRIC 22 Foreign currency Transaction and Advance Consideration

The interpretation, Applicable to annual periods beginning on or after 1st January 2018, addresses foreign currency transactions or parts of transaction where there is consideration that is dominated or priced in a foreign currency. It provides guidance for when a single payment/receipt is made as well as for situation where multiple payment /receipt are made.

(Continue)

3. Significant accounting policies (Continued)

(r) New Standards, amendments and interpretations (Continued)

(iii) New and amended standards and interpretations adopted during the year ended 30 June 2019 - Continued

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2019, and have not been applied in preparing these financial statements. These are summarized as follows:

New standards or amendments	Effective for annual periods beginning on or after
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Prepayment Features with Negative Compensation Amendments to IFRS 9	1 January 2019
AIP IFRS 3 Business Combinations - Previously held Interests in a joint operation	1 January 2019
AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation 14	1 January 2019
AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
Insurance Contracts – IFRS 17	1 January 2021
AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization	1 January 2019
Plan Amendment, Curtailment or Settlement Amendments to IAS 19	1 January 2019

(Continue)

3. Significant accounting policies (Continued)

(r) New Standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations adopted during the year ended 30 June 2019 - Continued

The above standards and interpretations, with the exception of IFRS 17 amendments for IFRS 9 are not applicable to the business of the Company and will, therefore, have no impact on future financial statements. The Directors are of the opinion that the impact of the applicable standards and interpretations will be as follows:

Insurance Contracts (IFRS 17)

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

(a) discounted probability-weighted cash flows;

(b) an explicit risk adjustment, and

(c) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the Company's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

(Continue)

3. Significant accounting policies (Continued)

(o) New Standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations adopted during the year ended 30 June 2019 - Continued

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is effective for annual period beginning on or after 1 January 2021 with retrospective application, early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 17.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2019.

(Continue)

3. Significant accounting policies (Continued)
(o) New Standards, amendments and interpretations (Continued)
(ii) New and amended standards and interpretations adopted during the year ended 30 June 2019 - Continued

Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2019. Predominance is only reassessed if there is a change in the entity's activities.

The Company has adopted IFRS 9 early and therefore the above amendment has no impact.

Amendments to IFRS 'financial Instruments 'on prepayment Features with Negative Compensation Effective for annual Periods Beginning on or after 1st January 2019.The amendment covers two issues.

What financial assets may be measured at amortized cost. The amendment permits more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some repayable financial assets. It is likely to have the biggest impact on banks and other financial services entities and be broadly welcomed by companies.

How to account for the modification of financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. tis is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowing.

4. Financial risk review

Reinsurance contracts expose the Company to underwriting risk, which comprises insurance risk, policyholder behavior risk and expense risk.

In addition, the Company is exposed to financial and operational risks from insurance and reinsurance contracts and financial instruments. Financial risks include credit risk, liquidity risk and market risk. Market risk comprises currency risk, interest rate risk and another price risk.

4. Financial risk review - (Continued)

Financial risk review - (Continued)

This note presents information about the Company's risk exposure, and the Company's objectives, policies and processes for measuring and managing risk and managing capital.

Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors oversees that the risk management process is designed and implemented in line with the Company's corporate strategy. The Board Risk and Compliance Committee (BRCC) is responsible for developing and monitoring the Company's risk management policies and reports regularly to the board of directors on its activities.

The BRCC has direct access to all the Company's information and receives regular reports from management.

The company has also an independent unit called Risk and Compliance service ,which is accountable to the Board of Directors BRCC .There is also risk Management committee of the management who develops and monitors the enterprise wide risk management practice on corporate level.

Key risks arising from reinsurance contracts and financial instruments include:

- Underwriting risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

(Continue)

4. Financial risk review - (Continued)

Underwriting risk

Underwriting risk comprises; insurance risk, retro-cession risk and technical reserve risk.

Insurance risk is the risk of loss on underwriting activities that may arise from acceptance of business that is not in the scope of Ethiopian-Re acceptable business.

Retrocession risk: Retrocession risk is a risk of loss that emanates from failure to arrange an appropriate retrocession program.

Technical reserves risk is the risk of insufficient technical reserves being held by the Company.

Management of underwriting risk

The Company reinsures all classes of insurance business including: Accident and Health, Engineering, Guarantee, Liability, Motor, Fire, Marine, Energy, Aviation, Disability and Life. The bulk of the business written is short term in nature.

The risk under any one insurance contract is two-fold: underwriting – the possibility that the insured event occurs, and reserving – the uncertainty of the amount of the resulting claim.

The Company has developed a detailed underwriting manual covering risk acceptance criteria, pricing, accumulation control, authority levels, and reinsurance protection, among others. It guides the underwriters in their acceptances, on the principles of prudence and professionalism within the overall objective of diversifying the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The priority is to ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise among the underwriting staff.

An independent department, Audit, Risk and Compliance Management, ensures adherence to these guidelines through periodic review of the activities of operations. The reports of the review are submitted to management and the Audit and Risks Committee of the Board.

(Continue)

4. Financial risk review (Continued)
(a) Underwriting risk (Continued)

The Company enters into retrocession arrangements with reputable retrocession Aires to diversify its risks and reduce the risk of catastrophic loss on reinsurance assumed. The retrocession does not relieve the Company of its obligations to the ceding companies. As part of its annual renewals, the financial condition of retrocession Aires is reviewed. As a result, retrocession is placed with a select group of financially secure and experienced companies in the business.

The retrocession arrangements existing as at 30 June 2019 are as follows:

Class of Business	Gross exposure (ETB)	Net exposure (ETB)
Fire and engineering risk gross account excess of loss	400,000,000	25,000,000
Fire and engineering catastrophe gross account excess of loss treaty	1,800,000,000	25,000,000
Marine cargo and hull gross excess of loss treaty	90,000,000	15,000,000
Motor, Liability, General TPL, Product liability Professional indemnity, Workmen's compensation, Accident (PA/GPA),Travel accident / Fidelity guarantee/Burglary/Money/Plate glass /All risk and Bonds gross account excess of loss retro treaty	35,000,000	5,000,000
Aviation Quota share retro treaty.	USD 1,500,000	USD 450,000

Concentration of underwriting risk

The Company's concentration of reinsurance risk is determined by class of business. The shared characteristic that identifies each concentration is the insured event and the key indicator which is the gross premium as disclosed in note 20.

As can be observed from the above table the share of motor class of business is reduced by 2% to 38% from its last year position, which is a good sign to balance undue concentration among class of business.

(Continue)

4. Financial risk review (Continued)

(a) Market risk

Market risk is the risk that changes in the market prices – e.g. foreign exchange rates and equity prices will affect the fulfilment of cash flows of insurance and reinsurance contracts as well as the fair value of future cash flows of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on risk.

Market risk principally arises on the Company's interest-bearing financial assets and financial liabilities denoted in foreign currencies. The nature of the Company's reinsurance contracts and financial instruments means that it is exposed to market risk in the form of interest rate risk and currency rate risk. The Company is not exposed to equity risk because it does not have any equity investments.

Management of market risk

Ethiopian Re manages market risk based on the diversification of investments within the framework of Proclamation No. 746/2012 article 25 and subject to the future issuance of directives, prescribing investments of insurers, by National Bank of Ethiopia.

The Company's investment plan is devised on a yearly basis based on the strategic investment direction given by the Board of directors and NBE's investment directives which specifies investment in treasury bills, fixed time deposits, shares etc.

(i) Interest rate risk

The Company's exposure to interest rate changes is primarily concentrated in the actively managed fixed income portfolio, which is reported at fair value. Changes in interest rate will have an immediate impact on the Company's reported net income and consequently the shareholders' funds.

4. Financial risk review (Continued)

(b) Market risk (Continued)

(i) Interest rate risk - Continued

	Gen. Ins	Long Term Ins	Total
	2019	2019	2019
Abyssinia Bank	164,808,015	27,861,256	192,669,271
Addis Internat	12,435,980		12,435,980
Awash Internat	196,240,813	18,156,102	214,396,915
Buna Internati			-
Coop. Bank Of	42,727,498		42,727,498
Dashen Bank	125,916,419	23,925,729	149,842,148
Nib Internatio	108,612,631	10,869,445	119,482,076
Oromia Interna	165,797,533		165,797,533
United Bank	16,697,162		16,697,162
Wegagen Bank	50,256,970	5,624,877	55,881,847
	883,493,022	86,437,409	969,930,431

Bond Description	Bond Principal amount 30-Jun-19		
	General Ins	Life Ins	Total
Government Bond	79,249,150.00	11,687,625.00	90,936,775.00
Total	79,249,150.00	11,687,625.00	90,936,775.00

(Continue)

4. Financial risk review (Continued)

(b) Market risk (Continued)

(i) Interest rate risk - Continued

An analysis of the Company's sensitivity to a 0.5% parallel increase or decrease in market interest rates at the reporting date, assuming all other variables remain constant is shown below:

Financial Instruments	Effect on Profit/Loss		Effect on Equity	
	0.5% increase	**0.5% decrease**	**0.5% increase**	**0.5% decrease**
Time deposits	4,849,652	(4,849,652)	4,849,652	(4,849,652)
Government Bond	454,683.88	(454,683.88)	454,683.88	(454,683.88)
Total	5,304,336	(5,304,336)	5,304,336	(5,304,336)

(ii) Equity price risk

Equity price risk refers to the potential loss in fair value resulting from adverse changes in the fair value of stocks that the Corporation has invested in. The Company did not have investments in equity as at 30 June 2019.

(iii) Currency risk

The Company is exposed to currency risk to the extent that currencies in which reinsurance contracts are denominated differ from functional currency of the Company. These contracts are primarily denominated in US Dollars.

The summary quantitative information about the Company's exposure to currency risk arising from reinsurance contracts at the reporting date was as follows:

(Continue)

4. Financial risk review (Continued)

(b) Market risk (Continued)

(i) Currency risk- Continued

Reinsurance contracts	**2019**
	USD
Reinsurance assets (receivables)	51,694.24
Reinsurance liability (payables)	819,073.33

A reasonably possible strengthening or weakening of the Ethiopian Birr against the US Dollar at the reporting date would have affected the measurement of insurance and reinsurance contracts and financial instruments and affected the profit or loss and equity by the amounts shown below: The analysis assumes that all other variables remain constant.

Reinsurance contracts	Effect on Profit/Loss		Effect on Equity	
	10% Strengthening	10% Weakening	10% Strengthening	10% Weakening
Payables	(151,875.09)	151,875.09	(151,875.09)	151,875.09
Receivables	2,349,143.26	(2,349,143.26)	2,349,143.26	(2,349,143.26)
Total (ETB)	2,197,268.17	(2,197,268.17)	2,197,268.17	(2,197,268.17)

The following exchange rate has been applied

	2019
	Closing rate
USD 1 = Buying Br 28.6805	Selling 29.3795

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk through its financial assets, which include bank deposits, fixed time deposits and receivables.

(Continue)

4. Financial risk review (Continued)
(c) Credit risk (Continued)

Management of credit risk

Ethiopian-Re's credit risk philosophy considers ceding companies adhere to the reinsurance terms and conditions and submit statements of account and settle premiums due on time. Any investment undertaken by Ethiopian-Re shall be undertaken in a manner that seeks to ensure the preservation of the principal investment.

Bank deposits are placed within local Ethiopian banks and are spread over several banks to avoid undue concentration.

Credit risk relating to receivables is mitigated by the large number of cedants and limited only in Ethiopia. A significant number of the companies from whom receivables are due are equally shareholders of the Company. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties. Receivables are presented at present value net of impairment provision. A periodic evaluation of cedants and retrocessionaires is carried out to minimize exposure to significant losses from insolvencies.

Exposure to credit risk

The carrying amount of financial assets and insurance contracts represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	**2019**
	ETB
Time deposits	969,930,431
Government Bond	93,930,206.
Staff loans	469,542.
Insurance Receivables(ceding)	137,653,410
Insurance Receivable Retrocession	215,302,382
Cash and cash equivalents (bank balances)	109,122,501
Balances at 30 June 2019	**1,526,408,472**

(Continue)

4. Financial risk review (Continued)
(c) Credit risk (Continued)

Impairment losses

The ageing of insurance debtors at the reporting date was as follows:

	Gross Amount ETB	Impairment ETB
Not past due (0-29 days)	71,479,660	-
Past due (30-90 days)	28,918,611	-
Past due (91-180 days)	23,309,134	-
Past due (181-360 days)	56,743,069	-
Past due More than 360 days	53,426,547	-
	233,876,021	-

Receivables from Retrocesionnaires

Description	Gross Amount ETB
Current (0-29 days)	267,615,325
Past due (30-90 days)	-
Past due (91 – 180 days)	194,743
Past due 181 – 360 days	-
Past due more than 360 days	332,456
Total	**268,142,524**

The allowance account in respect of insurance receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible. At that point the amount is considered irrecoverable and is written off against the financial asset directly.

4. Financial risk review (Continued)
(c) Credit risk (Continued)

As at 30 June 2019 the Company was satisfied that all receivables will be collected and no allowance for credit losses relating to insurance receivables were recognised.

Amount arising from Expected Credit Losses (ECL)

For inputs, assumptions and techniques used for estimating impairment see accounting note 3c(viii). The following amounts were subject to ECL as they were classified at amortised cost:

	2019 ETB
Staff loans	469,542.5
Cash at bank	109,122,501
Time deposits	969,930,431
Government Bond	93,930,206
Total	**1,173,452,680**

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both the qualitative and quantitative information and analysis based on the Company's experience, expert credit assessment and forward looking information.

Whenever available the Company monitors changes in credit risk by tracking published external credit ratings. Where external credit ratings are not available, the Company allocates each exposure to a credit risk graded based on data that is determined to be predictive of the risk of default, including, but not limited to, audited financial statements, management account and cash flow projections and available regulatory and press information about borrowers.

The Company has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has a low credit risk at the reporting date.

Key inputs into the measurement of expected credit losses are performance default rates (PD), loss given default (LGD) and exposure at default (EAD).PD estimates the likelihood of a default happening over a specified period. LGD is the magnitude of the likely loss if there is default. EAD represents the expected exposure in the event of default. The Company measures ECL considering the risk of default over the maximum contractual period.

(Continue)

4. Financial risk review (Continued)

(c) Credit risk (Continued)

The Company assumed a zero percent rate of default on its time deposit and cash at bank. This was based on the following factors and circumstances:

- The Company considers time deposits to be in default when a financial asset is more than 90 days past due; all its time deposits were paid on the date of maturity.
- In assessing whether a borrower is in default, the Company considers indicators such as breaches of covenant and other indicators of financial distress, overdue status of another obligation of the same issuer; none of these conditions were applicable.
- Subsequent to 30 June 2019 the Company had already collected all its dues from the financial institutions it held financial assets with.
- Based on enquiries made with other external sources there was no history of default on time deposits with the financial institutions invested.

The Statutory deposit was considered as sovereign debt and recoverable in full, a zero percent default rate was applied in calculating expected credit losses.

(Continue)

4. Financial risk review (Continued)

(c) Credit risk (Continued)

Staff loans were considered recoverable in full as the amounts are deducted from salaries and in the event of employees leaving before settling their debts, outstanding amounts are deducted from their severance pay.

(c) Liquidity risk

The table below analyses the Company's key financial and insurance assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2019 to the earlier of the re-pricing or contractual maturity date.

Description	Below 1 year	1 – 5 years	> 5 years	Total
1 Assets				
Cash and cash equivalent	10,000			10,000
Reinsurance Premium Receivables - Ceding	135,482,070			135,482,070
Reinsurance Premium Receivables - Retro	215,302,382			215,302,382
Investments	2,993,430	90,936,775		93,930,205
Bank Deposits (current and saving)	109,122,501			109,122,501
Fixed time deposit at amortized cost	969,930,431			969,930,431
Staff loans	54,607	414,936		469,543
Total Assets 'A'	1,432,895,421	91,351,711		1,524,247,132
2. Liabilities				
Due to ceding companies	303,972,657			303,972,657
Due to Retrocessionaires	19,420,926			19,420,926
Provision for unearned premiums	235,229,724			235,229,724
Provision for incurred but not reported claims (IBNR)	67,351,047			67,351,047
Outstanding Claims Reserve	216,093,223			216,093,223
Other payables	2,884,292			2,884,292
Lease Liability	1,388,265	2,593,610		3,981,875
Employees Benefit Liability	104,810			104,810
Provision for Income Tax	10,574,780			10,574,780
Total Liability 'B'	857,019,724	2,593,610	-	859,613,334
Liquidity gap A - B	575,875,697	88,758,101	-	664,633,798
Liquidity Ratio	1.67: 1	35.22: 1		1.77: 1

(Continue)

4. Financial risk review (Continued)

(d) Liquidity risk (Continued)

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with reinsurance contracts and other obligations as and when due. Cash instruments include cash in chequing accounts, saving accounts and time deposits.

Management of Liquidity risk

The Company manages its liquidity risk by holding an adequate liquidity buffer to pay out unexpected claims. Investment in short term securities, like Treasury Bills, and Certificates of Deposit, shall be evenly distributed over 12 months to enable the Company to meet its unexpected liquidity problem without forfeiting interest accrued on Certificate of Deposits.

The Company also prepares a one-year projected cash flow broken down into four quarters and this cash flow performance is monitored and evaluated.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as non-compliance with legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all the Company operations.

Generally Ethiopian Re follows the Emerging Risk Initiative (ERI) risk radar updates. Moreover, it uses the following techniques to identify possible risk events in each respective work unit and centrally:

- Brainstorming sessions among appropriate staff members of respective Departments and Services and with all Senior Management members;
- Monthly reports received from different units of the Company;
- Discussions with the Company's internal and external auditors;
- Analysis of key processes and systems at corporate level;
- Different local and international media reports/ news;
- Technical conferences and workshops;
- Industry, Trade and Professional journals;
- Assessing past experience of the Company (for example, using internal databases) and from experience in the local and international markets.
- Establishing Administrative Organization and Internal Control Systems to control risks during the operational process.

(Continue)

4. Financial risk review (Continued)

(e) Operational risk (Continued)

- To mitigate risks like fraud and errors, the Company has established internal control systems whereby approval limits for underwriting, reinsurance, claims handling, payment authorization for major capital expenditures and general expenses, investment/divestment, cheque signatories are authorized for different levels of executive management aligned with the hierarchy of Ethiopian Re structure.

(e) Capital management

Capital requirements are set and regulated by the National Bank of Ethiopia (NBE). These requirements are put in place to ensure solvency margins are maintained in the insurance industry. Further, objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

Regulatory Capital

The Company currently has Birr 607,168,354 paid up capital which is above the statutory requirement of Birr 500,000,000 set by the National Bank of Ethiopia.

5. Cash and cash equivalents

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Saving accounts				
Commercial Bank of Eth.	83,351,690		83,351,690	215,277,893
Current accounts				
Abyssinia Bank	6,511,740		6,511,740	1,612
Addis International Bank	1,825		1,825	1,947
Awash International Bank	6,150,782		6,150,782	14,940,171
Buna International Bank	990		990	
Commercial Bank of Eth.	2,017,065		2,017,065	3,746,485
Coop. Bank Of Oromia S.C	8,760,916		8,760,916	155,880
Dashen Bank	395,427		395,427	1,020
Nib International Bank	1,790,579		1,790,579	48,615
Oromia International Bank	131,289		131,289	614
Wegagen Bank	-	10,197	10,197	2,814,154
Cash on Hand	10,000		10,000	10,003
Total	109,122,304	10,197	109,132,501	236,998,394

(Continue)

6. Other receivables

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Staff loans	469,543	-	469,543	556,523
Prepayment	3,077,245	-	3,077,245	21,150
Advance tax	2,967,495	64,139	3,031,634	5,465,819
Total	6,514,283	64,139	6,578,421	6,043,492

7. Due from Retrocessionaires

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Due from retrocessionaires	215,302,382	-	215,302,382	
	215,302,382	-	215,302,382	-

8. Due from ceding companies

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Due from ceding	120,520,675	14,961,395	135,482,070	123,803,101
	120,520,675	14,961,395	135,482,070	123,803,101

(Continue)

9. Deferred acquisition costs

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2019	2019	2019	2018
Accident	2,028,953		2,028,953	2,089,687
Aviation	46		46	75,814
Burglary	182,044		182,044	143,667
Engineering	9,960,162		9,960,162	15,328,738
Employers Liability	1,332,056		1,332,056	1,287,960
Fire	6,509,038		6,509,038	5,439,744
Goods in transit	159,211		159,211	285,085
Liability	3,003,616		3,003,616	3,037,923
Marine	14,579,595		14,579,595	13,065,747
Medical	9,739		9,739	-
Motor	12,345,285		12,345,285	11,664,379
Pecuiniary	10,760,785		10,760,785	8,639,886
Others	4,330,896		4,330,896	3,474,128
Life	-	1,965,978	1,965,978	1,911,135
Total	65,201,426	1,965,978	67,167,405	66,443,894

A proportion of cedant acquisition costs is deferred and amortized over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of cedant acquisition costs and other acquisition costs that relate to the unexpired term of the policies that are in force at year end.

10. Time deposits

	Gen.Ins	Long Term Ins	Total	Total
Name of Bank	2019	2019	2019	2018
Bank of Abysinia	164,808,015	27,861,256	192,669,271	104,529,708
Addis International Bank	12,435,980	-	12,435,980	11,122,166
Awash International Bank	196,240,813	18,156,102	214,396,915	142,196,719
Bunna International Bank	-	-	-	18,533,659
Co operative Bank Of Oromia	42,727,498	-	42,727,498	22,283,241
Dashen Bank	125,916,419	23,925,729	149,842,148	134,299,513
NIB International bank	108,612,631	10,869,445	119,482,076	74,584,619
Oromia International Bank	165,797,533	-	165,797,533	36,146,608
United Bank	16,697,162	-	16,697,162	14,940,768
Wegagen Bank	50,256,970	5,624,877	55,881,847	44,987,669
	883,493,022	86,437,409	969,930,431	603,624,670

(Continue)

10. Time deposits (Continued)

Time deposits have been recognized as financial assets at amortized cost. The effective interest rate on time deposits ranges from 12% to 13% per annum. The time deposits have a maturity of one year from the date of investment.

The interest receivable related to time deposits is calculated using the effective interest rate method and is shown as follows;

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Interest Receivable	49,007,877	6,454,818	55,462,696	30,657,627

11. Grand Renaissance Dam Bonds

A statutory deposit amounting to 15% of the paid-up capital must be maintained with the National Bank of Ethiopia. This deposit or any part thereof may not be withdrawn except with the written permission of the National Bank of Ethiopia, or be used as a pledge or security for any loan.

The statutory requirement has been fulfilled by the deposit of Grand Renaissance Dam Bonds.

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Statutory deposit	77,296,259	13,640,516	90,936,775	77,917,500
Interest Receivable	2,544,416	449,014	2,993,431	2,910,817
	79,840,675	14,089,531	93,930,206	80,828,317

The bond has been recognized as a financial asset at amortized cost. The effective biannual interest rate on the bond has changed from 2.75% to 3.75% effective from October 2019.

(Continue)

12. Leases

Right of use

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Cost				
Balance at beginning of the year	8,117,946	-	8,117,946	8,208,318
Addition	-	-	-	-
FV adjustments	850,089	-	850,089	(90,373)
Balance at end of the year	8,968,035	-	8,968,035	8,117,945
Depreciation				
Balance at beginning of the year	(2,410,260)	-	(2,410,260)	(784,350)
Additions	(1,755,032)	-	(1,755,032)	(1,625,910)
Balance at end of the year	(4,165,292)	-	(4,165,292)	(2,410,260)
Net carrying value	4,802,744	-	4,802,744	5,707,685

The right of use asset has been depreciated over 5 years which is equivalent to the lease term.

	Gen.Ins	Long Term Ins	Total	Total
Lease liability	2019	2019	2019	2018
Balance at beginning of the year	4,830,175		4,830,175	4,337,893
Lease liability Addition (Adjustment)	850,091		850,091	(90,373)
Interest expense on Lease	563,502		563,502	582,656
settlement	(2,261,893)		(2,261,893)	
Balance at end of the year	3,981,876	-	3,981,876	4,830,175
			Total	Total
Maturity Analysis			2019	2018
Less than 1 year			1,388,265.00	582,655.75
1-5 years			2,593,611.00	4,247,519.64
More than 5 years			-	-
Total			3,981,876.00	4,830,175.39

The Company recognizes a lease liability at the present value of the lease payments that are not paid at that date. The Company uses an incremental borrowing rate that is based on the interest rate that the Company would have to pay on the commencement date of the lease for a loan of a similar term, and with a similar security, to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The rate used to compute the present value of this lease liability was 13.5%.

(Continue)

13. Property, plant and equipment

	Balance		Balance	Total
COST	01/07/18	Additions	30/06/19	2018
Partition work	2,489,846	-	2,489,846	2,489,846
Motor Vehicles	14,343,506	-	14,343,506	14,343,506
Office Equipment, furniture	1,757,895	1,013	1,758,908	1,757,895
Computers & accessories	592,452	108,827	701,279	592,452
Sub total	19,183,700	109,840	19,293,540	19,183,700
	Balance		Balance	Total
DEPRECIATION	01/07/18	Additions	30/06/19	2018
Partition work	657,769	492,989	1,150,759	657,769
Motor Vehicles	2,246,615	1,537,265	3,783,881	2,246,615
Office Equipment, furniture	276,087	205,324	481,411	276,087
Computers & accessories	160,828	161,023	321,851	160,828
Sub total	3,341,300	2,396,602	5,737,902	3,341,300
NET BOOK VALUE	15,842,400	(2,286,762)	13,555,638	15,842,400
Intangible asset	Balance		Balance	Total
COST	01/07/18	Additions	30/06/19	2018
Computer Software		5,460,476	5,460,476	

14. Unearned premium

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Provision for Unearned Premium	260,239,974	12,828,659	273,068,633	250,617,822
Less: Retrocess. Share of Provision	37,838,909	-	37,838,909	8,275,334
Net Provision for Unearned P	222,401,065	12,828,659	235,229,724	242,342,488

The Unearned Premium Reserve (UPR) was determined by an independent actuary using the 8ths method which assumes quarterly reserving and is internationally accepted for reinsurers.

(Continue)

15. Other payables

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Employees Income tax payable	206,080	-	206,080	132,944
Withholding tax payable	7,789	-	7,789	11,400
Pension Payable	79,481	-	79,481	63,340
Sundry creditors	1,188,614	-	1,188,614	963,754
Accrued staff bonus and leave	993,740	-	993,740	429,763
Provision for audit fee	281,750	-	281,750	207,000
Other accruals	126,839	-	126,839	38,550
Differed Tax payable	416,745	56,039	472,784	
Total	3,301,037	56,039	3,357,076	1,846,752

16. Due to Ceding Companies

	Gen. Ins	Long Term In	Total	Total
	2019	2019	2019	2018
Due to ceding Companies	303,972,657	-	303,972,657	30,278,170

(Continue)

17. Employee benefits

17.1 Defined benefit plans

The Company employees are entitled to a Severance Benefit. The Severance Benefit Entitlement is provided for under the Proclamation No. 377/2003. This benefit is required by law for employees who serve the Company for more than five years and who resign on their own initiation, or, where their employment contract is terminated by the Company. An employee whose contract of employment is terminated on his own initiative is entitled to normal severance pay. An employee whose contract of employment is terminated without notice by the Company shall be entitled, in addition to the normal severance pay, to two months' latest basic salary. The severance pay obligation highlighted below relates to its first year of operation from 1 July 2016.

The obligation is determined by an independent actuarial valuation carried out on an annual basis.

(a) Present value of funded obligations

	Gen.Ins	ong Term In	Total	Total
a) Present value of funded obligation	2019	2019	2019	2018
Active Members	100,618	4,192	104,810	61,399
Outstanding Members	-	-	-	-
Net Liability on Statement of Financial Position	100,618	4,192	104,810	61,399

(b) Reconciliation of benefit obligations

			Total	Total
			2019	2018
Opening benefit obligation			61,398	27,155
Current service cost net of employees' contributions			43,435	38,510
Interest cost			9,142	5,105
Actuarial Gain			(9,166)	(9,372)
Benefits and expenses paid			-	-
Closing benefit obligation			104,810	61,398

(c) Actuarial assumptions

The principal actuarial assumptions at the reporting date used for the purpose of the severance benefit actuarial valuation are detailed below:

Discount rate	13.5%
Rate of salary increase	10%

(Continue)

17. Employee benefits (Continued)
(c) Actuarial assumptions (Continued)

The discount rate was based on the rate of return of fixed term deposit due to lack of a deep and liquid market for long-term bonds in Ethiopia. The salary increases assumption rate of 6.67% per annum is the weighted average rate based on the job grades as provided by management.

(d) Sensitivity analysis

Reasonably possible changes at the reporting date, in any of the actuarial assumptions and assuming that all the other variables remain constant, would have affected the funded obligations as of 30 June, 2019 by the amounts shown below:

YEAR ENDED 30 JUNE 2019					
	SENARIO 1, BASE	SENARIO 2, DISCOUNT RATE INCREASE BY 1%	SENARIO 3, SALARY RATE INCREASED BY 1%	SENARIO 4, DISCOUNT RATE DECREASED BY 1%	SENARIO 5 SALARY RATE DECREASE BY 1%
Discount rate salary increase	13.5% 10%	14.5% 10%	13.5% 11%	12.5% 10%	13.5% 9%
net liability at start of period	61,398	61,398	61,398	61,398	61,398
Total net expense recognized in income statement	52577	52577	52577	52577	52577
Net finance costs recognized in profit and loss	(9,166)	(15,060)	(2,319)	(2,504)	(15,310)
Employer contribution	-	-	-	-	-
Net liability at end of period	104,809	98,915	111,656	111,471	98,665

17.2 Defined contribution plan

Pensions are provided for employees by a separate pension fund to which both the company and employees contribute in accordance with Proclamation No. 715/2011. Under the arrangement, both the company and employees contribute defined percentages of employees' salaries. This pension fund is a defined contribution plan under which retirement benefits are determined by reference to the contributions to the fund. The Company's contributions for the schemes for the year amounted to ETB 572,494.44.

(Continue)

18. Outstanding Claims Reserve

Outstanding claims are computed on the basis of preliminary loss advice from ceding companies and outstanding claims reports sent by cedants. They are also determined on the basis of historical expenses and actuarial analysis.

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Oustanding Claims Reserve	241,490,199	-	241,490,199	160,872,514
Less: Retro cess. Share of Oustanding Claims Reserve	23,089,257	-	23,089,257	6,039,258
Net Oustanding Claims F	218,400,942	-	218,400,942	154,833,256

19. Capital

(a) Structure of capital

The Company is wholly owned by Ethiopian nationals and/or organizations wholly owned by Ethiopian nationals. All shares rank equally with regard to the Company's residual assets and shareholders are entitled to one vote per share. As of 30 June 2019, the Company's capital was as follows:

		2019
Authorized: Share Capital		
99,730 shares of Birr 10,000 each	ETB	997,300,000

	Gen.Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Issued and Fully paid	529,250,854	77,917,500	607,168,354	519,450,000

(b) Nature and purpose of reserves

In accordance with Proclamation No. 746/2012 any reinsurer, at the end of each year, is required to transfer to its legal reserve an amount not less than 10% of its net profit until such reserve equals it's paid up capital.

The Company had set aside Formation fund amounting to ETB 9,973,000 equivalent to 1% of the authorized share capital. This fund was intended to finance the pre-establishment costs.

20. Gross premium

Premiums and related expenses are accounted for in profit or loss when earned or incurred. Gross earned premiums comprise gross premiums relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Unearned premiums represent the proportion of the premiums written in the year that are attributable to the subsequent accounting period.

The Company has two main divisions, General reinsurance and Long-term business. General reinsurance business is for contract durations typically running for one year, while Long- term business is for other business not considered as non-life business.

The gross premiums for the financial year 2019 is analyzed as below:

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Accident	16,671,580	-	16,671,580	20,282,465
Aviation	33,417,749	-	33,417,749	24,674,156
Burglary	2,463,272	-	2,463,272	1,961,616
Eng.	74,352,399	-	74,352,399	66,955,714
Emp. Liability	9,015,297	-	9,015,297	9,401,983
Fire	99,369,717	-	99,369,717	91,322,727
Goods in Transit	1,153,991	-	1,153,991	1,366,401
Liability	18,471,574	-	18,471,574	20,556,999
Marine	88,657,085	-	88,657,085	65,709,341
Medical	47,946	-	47,946	
Motor	254,468,174	-	254,468,174	256,835,900
Pecuniary	44,524,267	-	44,524,267	52,299,552
Others	29,623,426		29,623,426	27,002,261
Group Term Life Assurance	-	16,757,344	16,757,344	15,182,648
Health Insurance	-	9,684,349	9,684,349	7,913,592
Funeral Expense Insurance	-	53,719	53,719	26,680
Total	672,236,477	26,495,412	698,731,889	661,492,036

(Continue)

21. Claims incurred

The expected loss ratio method was used to determine the provision for incurred but not reported (IBNR) claims for General business. An equivalent of one month of the annual gross premium was used to calculate the IBNR for long-term business. The valuation was performed by an independent actuary.

	Gen. Ins	Long Term Ins	Total	Total
Class of Business	2019	2019	2019	2018
Accident	6,573,861		6,573,861	5,129,132
Aviation	1,559,333	-	1,559,333	209,995
Burglary	93,890	-	93,890	(315,391)
Eng.	11,416,072	-	11,416,072	8,171,332
Emp. Liability	2,987,417	-	2,987,417	2,768,491
Fire	13,366,795	-	13,366,795	17,160,084
Goods in Transit	(43,605)	-	(43,605)	478,472
Liability	7,975,475	-	7,975,475	7,126,277
Marine	29,972,251	-	29,972,251	33,639,258
Medical	773	-	773	-
Motor	205,978,436	-	205,978,436	214,514,963
Pecuniary	21,795,651	-	21,795,651	4,559,668
Others	9,679,861	-	9,679,861	2,610,386
Group Term Life Assurance	-	2,974,085	2,974,085	3,255,298
Health Insurance	-	7,633,717	7,633,717	5,664,326
Funeral Expense Insurance	-	64,000	64,000	9,517
Total	311,356,210	10,671,801	322,028,011	304,981,808
Change in Provision for incurred but not reported claims	6,562,618	281,041	6,843,659	29,879,720
Net Claims Incurred	317,918,828	10,952,842	328,871,670	334,861,528

(Continue)

22. Cedant acquisition costs

Cedant acquisition costs				
	Gen. Ins	Long Term Ins	Total	Total
Class of Business	2019	2019	2019	2018
Accident	6,844,236		6,844,236	5,580,292
Aviation	1,243,781		1,243,781	1,051,436
Burglary	900,716		900,716	711,028
Engineering	30,367,161		30,367,161	22,473,630
Employers Liability	3,163,069		3,163,069	2,713,968
Fire	37,025,880		37,025,880	29,096,589
Goods in Transit	561,012		561,012	413,594
Liability	6,384,320		6,384,320	6,410,786
Marine	34,628,546		34,628,546	23,056,960
Medical	5,843		5,843	-
Motor	26,373,730		26,373,730	34,490,746
Pecuniary	20,994,743		20,994,743	17,665,797
Others	4,588,110		4,588,110	3,449,865
Life	-	3,840,792	3,840,792	3,743,973
Total	173,081,146	3,840,792	176,921,938	150,858,664

23. Net Finance Costs

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Investment and finance Income	93,594,827	9,715,019	103,309,846	67,472,110
Interest on Saving Accounts	5,160,317	-	5,160,317	14,113,916
Interest on Fixed timed deposits	82,772,334	8,773,331	91,545,665	48,227,792
Interest on Grand Ren. Dam Bond	5,331,622	941,689	6,273,311	5,069,611
Interest on current account	95,996	-	95,996	129
Interest on staff loan	50,243	-	50,243	60,662
Realized/Unrealized exchange gains	184,315	-	184,315	-
Investment and finance Costs	571,395	23,808	595,203	616,248
Interest on lease liability	540,962	22,540	563,502	582,656
Interest on staff loan benefit	-	-	-	-
Interest on employee benefits liability	30,433	1,268	31,701	33,592
Net Investment Income	93,023,432	9,691,211	102,714,643	66,855,862

(Continue)

24. Operating and other expenses

	Gen. Ins	Long Term Ins	Total	Total
	2019	2019	2019	2018
Administrative and general	18,731,172	572,543	19,303,715	12,007,077
Staff costs	9,261,185	153,790	9,414,975	7,243,202
Depreciation	2,335,839	60,763	2,396,602	2,204,136
Directors allowance	1,361,000	-	1,361,000	392,000
Audit fees	358,800	-	358,800	218,500
Total expenses	32,047,997	787,095	32,835,092	22,064,915

25. Income taxes

The Company is subject to income taxes in Ethiopia. The rate of business income tax applicable to a Company is 30%. In accordance with tax legislation, the taxpayer is allowed a number of deductible expenditures in determining taxable income.

(a) Income tax expense

Total income tax expense for the year ended 30 June 2019 is as follows:

	2019
	ETB
Current tax expense	10,677,345-
Deferred tax liability	472,784-
Income tax expense	**11,150,129**

(Continue)

(b) **Income tax expense**

Total taxable income or loss for the year ended 30 June 2019 is as follows

INCOME TAX COMPUTATION			
For the year ended June 30th, 2019			
Adjusted tax calculation			
			Total
	Gen.Ins	Long Term Ins	2019
PROFIT PER ACCOUNTS	126,923,573	17,575,632	144,499,205
Add:			
Amortization of Right Of Use (ROU)	1,684,831	70,201	1,755,032
Interest on least liability	540,962	22,540	563,502
Depreciation of fixed assets per IFRS	2,335,839	60,763	2,396,602
Differed tax expense	416,745	56,039	472,784
Less:			
Depreciation of fixed assets per I.Tax Proc.	(2,802,252)	(116,760)	(2,919,012)
Rent Expenses for the year 2018-19	(2,065,818)	(86,076)	(2,151,894)
Disallowed expenses:			
Loss on exchange unrealized	700,989	-	700,989
Entertainment	566,678	23,612	590,289
unrealized exchange gain	(184,315)	-	(184,315)
Severance pay provision	41,698	1,737	43,435
Provision for annual leave	698,273	16,477	714,749
Over IBNR provision	2,762,413	(116,282)	2,646,131
Employee Benefit	140,360		140,360
Tax exempt Income			-
Interest Income	(93,360,269)	(9,715,019)	(103,075,288)
Taxable Profit Current year	38,399,706	7,792,863	46,192,570
Taxable Loss BBF	(17,731,364)	7,129,945	(10,601,418)
Total TAXABLE INCOME/(LOSS)	20,668,342	14,922,809	35,591,151
CURRENT INCOME TAX @30%	6,200,503	4,476,843	10,677,345
Less: Advance profit tax paid in 2018-19	2,967,495	64,139	3,031,634
Income Tax payable (Refundable)	3,233,008	4,412,704	7,645,711

(Continue)

26. Earnings per Share (EPS)

Earnings per share is calculated by dividing the profit/loss for the year by the weighted average number of ordinary shares in issue during the year.

			2019	2018
			ETB	ETB
Profit attributable to Shareholders			120,439,673	78,631,836
Weighted average number of ordinary shares issued			56,410	51,912
Basic and diluted earnings per share			2,135.06	1,514.70

Basic and diluted earnings per share

There were no potentially dilutive shares outstanding at 30 June 2019. The diluted earnings per share is therefore the same as the basic earnings per share.

27. Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

- The party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company;
- The Company and the party are subject to common control; and
- The party is a member of key management personnel of the Company or the Company's parent, or close family member of such an individual.

Ultimate parent company

The entity has no ultimate parent company. The Company's shareholdings comprise various insurance companies, banking institutions and individuals in Ethiopia. The shareholding is as follows:

(Continue)

27. Related parties (Continued)

Shareholder Category	Composition	Percentage Shareholding
Insurance companies	17 insurance companies. Ethiopian insurance Corporation (EIC) is a major shareholder in this category with 20.05%	66.90%
Banks	7 banks in Ethiopia. Commercial Bank of Ethiopia (CBE) is a major shareholder with 20.05%	30.76%
Individuals	78 individuals. Includes the CEO with 0.02 %	2.33%
Trade unions	1 trade union	0.01%
Total %		100%

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions with the exception of loans provided to staff at below market rates. These transactions include loans, deposits and foreign currency transactions. The volumes of the related party transactions, outstanding balances at the end of the year and the related expenses and incomes for the year are as follows:

(Continue)

27. Related parties (Continued)

(a) Other related party transactions

			20 19	20 18
			ETB	ETB
BBF			13,067,191	9,138,384
Premiums written			244,479,919.10	215,380,307
Claims paid			(49,052,421.00)	(56,866,692)
Commission			(68,789,502)	(58,782,548)
Profit commission			(13,868,446)	(17,157,964)
Net amount			125,836,742	91,711,486
Amounts paid by EIC			(95,331,449)	(78,644,295)
Amounts outstanding from EIC			30,505,292	13,067,191

Commercial Bank of Ethiopia (*CBE is a major shareholder with 20.05% shareholding and holds saving and current bank accounts for Ethiopian Re)

			20 19	20 18
			ETB	ETB
Savings account			83,351,690	215,277,893
Current account			2,017,065	3,746,485
Total Balance			85,368,755	219,024,378

Other shareholder banks (Other six shareholder banks hold saving and current accounts and Time Deposits for Ethiopian Re)

			2,019	2,018
			ETB	ETB
Savings account			-	-
Current account			23,753,548.64	17,805,572.38
Time Deposits			691,169,399.10	493,382,121.55
Total balance			714,922,947.74	511,187,693.93

Other shareholder insurance companies are cedants for Ethiopian Re. All business related to gross premiums written (both for General and Life business) is attributable to the shareholder insurance companies.

(Continue)

27. Related parties (Continued)

(b) Remuneration of directors and key management personnel

Ethiopian Re directors received the following payments during the financial year ended 30 June 2019:

			2019	2018
			ETB	ETB
Directors Allowance			1,361,000	392,000

Key management members received the following remuneration during the financial year ended 30 June, 2019:

			2019	2018
Key Management Members			ETB	ETB
Short term benefits			5,871,767	4,499,188
Post -Employement benefit			42,923	27,048

Compensation of the Company's key management personnel includes salaries, medical benefit, pension contribution, executive allowance, transport allowance, bonus payment, annual leave expense and life insurance. These amounts are also included in staff costs (see note 24). Apart from the employee benefits provided above, there were no other transactions between the Company and its key management personnel.

Ethiopian Reinsurance
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Ethiopian Reinsurance Share Company
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Director
Shiferaw Rufe
Director
Yewendwossen Eteffa
CEO
HaileMichael Kumsa
B/Chairman
Frehiwot Alemayehu
V/Chair Person
Getachew Yisma
Director
Astatkie Lulseged
Director
Teshome Beyene
Director
Henok Tessema
Director


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