Annual Report 17/18

RISING WITH AFRICA!

Ethiopian Reinsurance

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RISING WITH AFRICA!

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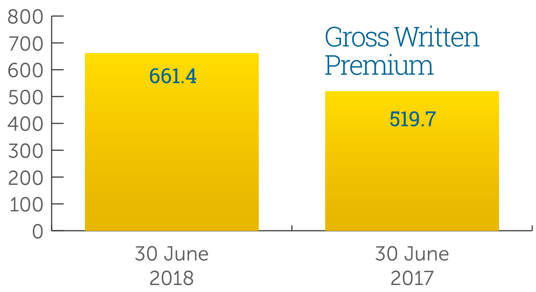
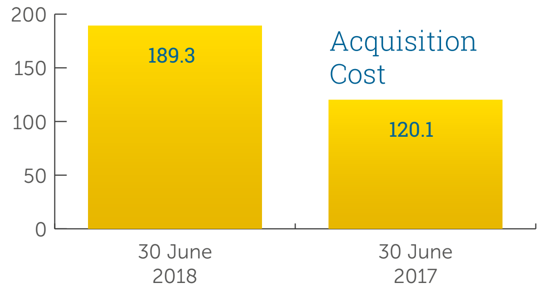
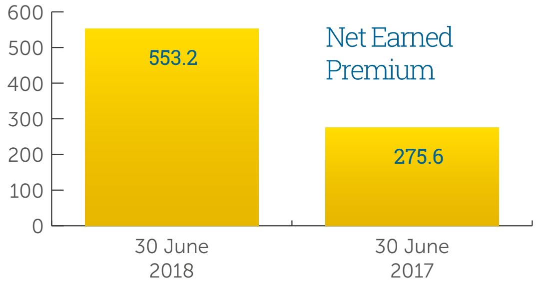
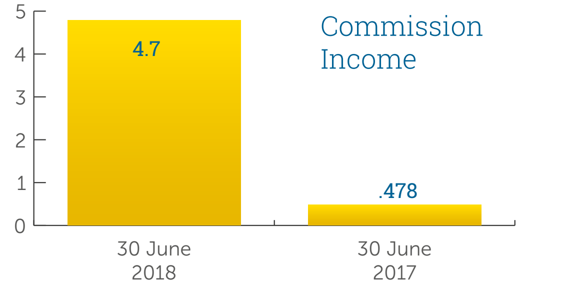
Ethiopian RE in Figures (Financial Highlights)

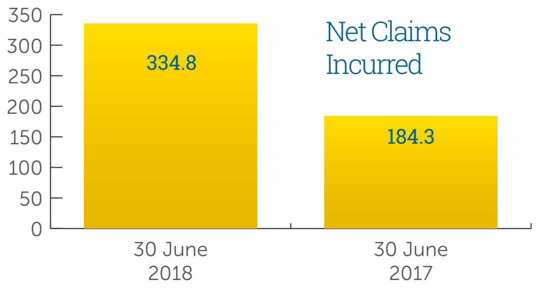
Ethiopian Birr (in millions)

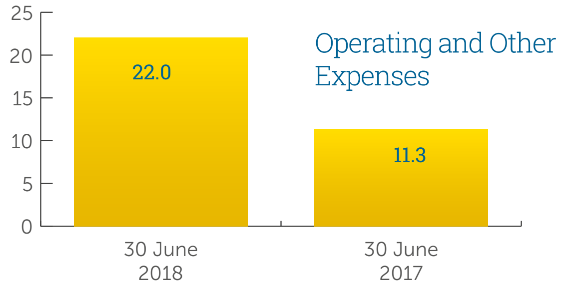


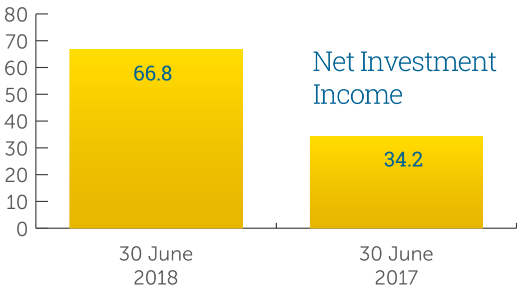


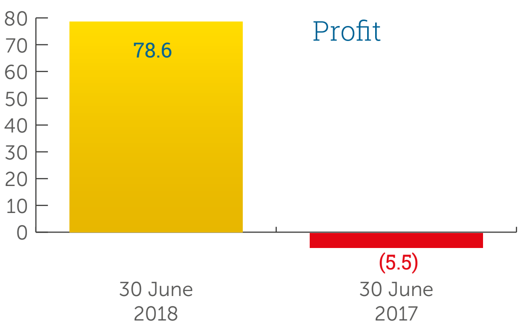




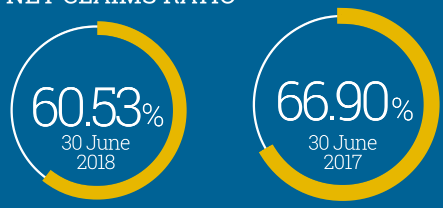








NET CLAIMS RATIO



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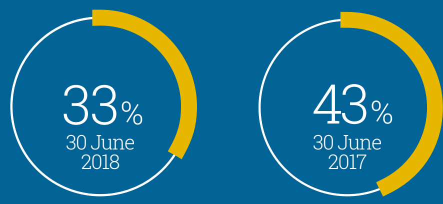

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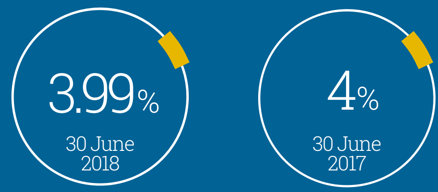

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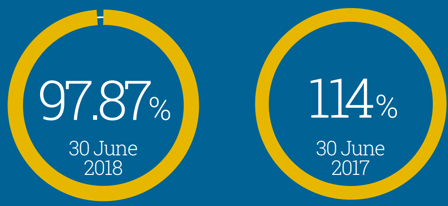

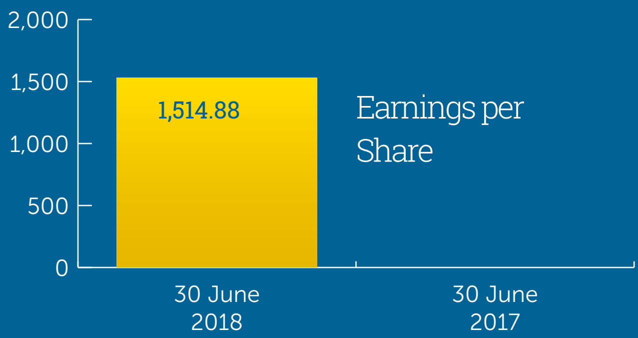

Who We Are

MISSION, VISION AND CORE VALUES

Our 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.

Our Vision

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

Our Core Values

In harmony with our corporate mission and vision, Management and staff of Ethiopian Re adhere to the following core values:

- OPERATIONAL EXCELLENCE
- TECHNOLOGY SAVVY STAFF AND BUSINESS PROCESS
- HONESTY AND INTEGRITY
- CONTINUOUS LEARNING AND INNOVATION
- HIGH PROFESSSIONALISM
- BUILDING STRONG PARTNERSHIP WITH CUSTOMERS
- OPENNESS AND TRANSPARENCY
- NATIONAL ICON

RISING WITH AFRICA!

Our Motto

Africa Rising is a term coined to describe the rapid economic growth predominated the Sub-Saharan Africa since 2000 summing up 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 which eventually will culminate to the emergence of a strong middle class. Africa was the world's fastest-growing continent since March 2013 growing 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, whereas the rest were 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.

Message from the Chairman

Dear Shareholders:

The financial year 2017/18 was a year of solid growth for Ethiopian Re. We achieved more than 27% growth in Gross Written Premium compared to last year's results and registered Birr 78.6 million profit before tax during the year.
The Company has been going through a major transformation over the past years and it is not easy to assess the impact witnessed about by such actions looking at one single year results, but in retrospect, it would be easy to see how much has changed. The Company has developed and implemented a Five Year Strategic Plan and in its second year of operation, the Company has registered respectable results which would have been unthinkable without the unreserved support of all our shareholders and other stakeholders.

During the year under discussion, the Board of Directors and the Management of the Company worked tirelessly to meet the projected targets. However, we recognize that the same factors that affected our performance at some point last year, failure to write any business from abroad, will continue to weigh on our margins in 2018. Otherwise, we are confident that the performance and profitability of the Company will significantly improve during the coming years and the strategic plan has well prioritized initiatives and projects that are required to achieve the targets.

During the year, the Board of Directors and Board Committees have conducted more than 15 regular meetings to fulfill the stewardship role bestowed in it by the shareholders and the requirements set by the Regulator. The Board has also reorganized different Committees as per the NBE's Directive consisting of: the Human Resources Affairs Committee, Risk and Compliance Committee, Strategy and Investment Committee and Audit Committee. The Committees have subsequently crafted their charters and work plans for the year, which were then approved by the full Board of Directors. The performance of the Company against the approved Strategic Plan, the financial and non-financial targets of the Company were also reviewed on quarterly basis and appropriate actions were taken to address critical issues encountered in the process.

Moreover, the Board had carefully taken note of the issues raised by Shareholders during the Second Annual General Meeting which was held at the Hilton Addis on 19 December 2017. Accordingly, the Board of Directors of the Company together with Management has designed and implemented an action plan aimed at addressing all the issues raised by the shareholders, including the divergence observed in profitability compared with the assertion in the feasibility study, the case of developing comprehensive Human Resource policy that permits nurturing and maintaining a competent and highly motivated workforce, the manner of investing the funds of the Company including funds held by the Commercial Bank of Ethiopia and getting the Company rated by international rating companies.

This year's Annual Report is presented taking the comments and suggestions forwarded by Shareholders and have addressed the financial and non-financial performance of the Company during the period under review.

The Board believes that managing risks effectively remains a central focus in the process of creating value for our shareholders. We continuously review and implement comprehensive risk management framework to institute good governance and ensure compliance in line with applicable laws and regulatory requirements.

Ethiopian Re's Board of Directors will continue to work towards realizing the Company's mission and goals with the objective of creating superior value through its shareholders through profitable growth; financial security; enhanced safety and risk management services; and exceptional customer service.

Finally, on behalf of the Board of Directors and myself, I would like to seize this opportunity to express admiration to the National Bank of Ethiopia for its unreserved guidance, our shareholders for trust they put on us, our esteemed customers for their confidence to place their business with us. My most sincere thanks also go to my fellow members of the Board of Directors, Executive Management and employees of Ethiopian RE for their unwavering dedication and commitment that has helped us to realize this notable accomplishment and irrepressible drive to improve the performance of the Company. We look forward to continued success together in the years ahead.

Haile Michael Kumsa
Chairman, Board of Directors

Message From The CEO

Dear shareholders and partners!

On behalf of the Management of Ethiopian Re. and on my own behalf, it is my privilege to present the Annual Report of the Company for the second year of operation 2017/18. I am humbled and honored to work alongside with highly experienced Directors and dedicated management team to help with the realization of the dreams of the founders and other stakeholders of the Company.

No year has ever passed without posturing its own challenges, and this one certainly had not been different. It is obvious that the global, regional and national economic and political landscape has impacted on the Company's performance registered during the year. Nonetheless, the resolve to remain vigilant in the face of adverse business and economic challenges prevailed over the past year, had never been stronger. Ethiopian Re., as a new entrant in the market is facing variety of challenges in terms of meeting the expectations of its customers, realization of its strategic initiatives and to compete for business without having any credit rating; a sin qua non to enter into regional and continental markets.

It is my deepest conviction that Management has worked selflessly to realize major strategic initiatives that the Company delineated in its first five years Strategic Plan. This year's report covers the performance of the Company during the second year of operation. Amidst all the challenges facing the Company at a startup level, it was believed that we strive to improve our performance through providing our customers the services that they expect. Management has exerted maximum effort to lay down the building blocks necessary to position the Company as a respectable competitor in its chosen market. In this regard, the adoption of the International Financial Reporting Standards (IFRS) could be cited as one of the accomplishments during the year exemplified by successful preparation of the financial reports of the year in compliance with the IFRS. Arranging sound and adequate retro programs, selecting and appointing a consultant to undertake comprehensive human resource strategy, starting serious negotiations to get the Company credit rated, successful designation and finalization of a new website and works done to acquire reinsurance and financial management software, constitute major works done, so to speak. We have also witnessed a steady growth in terms of performance driven by strong employee engagement, teamwork, commitment to operational excellence and accountability.

Overall, 2017/18 was a solid year for Ethiopian Re, in which the Company managed to record encouraging results and generate a profit albeit the conspicuous failure to write business from foreign markets contrary to the established expectations and projections made. Taking into account ongoing macro-economic headwinds and the overall performance of the Ethiopian insurance industry, there is a strong reason to remain optimistic about attaining significant improvements in the years ahead.

I am pleased to be a part of an organization that places such high value on relationships with its partners and owners, excellence in operation, discharging its obligations with integrity, and responsibility. We will continue to strive to learn more about our customers business expectations, their reinsurance service demands so that we can design and implement comprehensive reinsurance programs aligned with their short-term and long-term requirements.

That being said, I would like to extend my appreciation to the Board of Directors, our employees and all our business partners and shareholders for their unreserved support towards making our business a success.
I trust that you will find the information contained in the report useful and informative.

Yewondwossen Eteffa
Chief Executive Officer
Ethiopian Reinsurance Share Company

Board of Directors

MEMBERS OF THE BOARD OF DIRECTORS:

Mr. Haile Michael Kumsa
Chairman
Representing: Self

Mrs. Frehiwete Alemayehu
V/Chairperson
Representing: Self

Mr. Mulugeta Alemayehu
Director
Representing: Commercial Bank of Ethiopia

Mr. Shiferaw Ruffie
Director
Representing: Ethiopian Insurance Corporation

Mr. Getachew Yisma
Director
Representing: Nib Insurance Company (S.Co.)

Mr. Henok Tessema
Director
Representing: Awash Bank

Mr. Binalf Mekonnen
Director
Representing: Nile Insurance Company SC

Mr. Astatkie Lulseged
Director
Representing: Nyala Insurance S.C.

Mr. Tsehome Beyene
Director
Representing: Self

Mr Fikru Tsegaye
Board Secretary

Executive Management

Mr. Yewondwossen Eteffa
Chief Executive Officer

Mr. Shiferaw Bentie
Manager, Operations Department

Mrs. Azeb Wegayehu
Manager, Finance and Administration Department

Mr. Fikru Tsegaye
Manager, Business Development and Corporate Affairs

Mr. Mesfin Wolle
Manager, IT Services

Mr. Samuel Ademe
Chief Audit, Risk and Compliance Officer

Directors Report

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 3O JUNE 2018

The Directors of Ethiopian Reinsurance Share Company hereby present their report together with the audited Financial Statements for the year ended 30 June 2018 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 as the relevant Directives of the National Bank of Ethiopia.

BACKGROUND INFORMATION

Establishment of the Company Ethiopian Reinsurance S.C (Ethiopian 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 authorized to carry on both life and non-life businesses.

Shareholding Structure

Ethiopian Re's capital structure is composed of a concoction of private and public financial institutions as well as individual investors. The Company's current shareholders comprise of seven banks, seventeen insurance companies, eighty individual 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 at the end of the period under discussion has reached Birr 519.4 million.

Governance structure

The Company's Board of Directors comprise of nine members representing individual shareholders and institutional investors appointed by the Founders of the Company. The Board is responsible for providing strategic leadership and direction on the overall affairs of the Company.

Relying on a relatively strong capital base, plus sound retrocession protection provided by world renowned reinsurers, Ethiopian 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 in earning foreign currency from other countries in the form of cross border reinsurance transactions.

Moreover, as the first reinsurance Company in the country, Ethiopian Re aspires to enhance underwriting capacity and solvency of direct insurers through providing cover against large and complex risks and availing technical support to bolster underwriting skills. It also strives to simplify treaty negotiations, settlement of claims and payment of premiums within the shortest time.

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 defined in 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 the executive management, defines the Company's strategies, objectives and exercises effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority to run the Company's day-to-day business to the Chief Executive Officer.

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

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

TRADING ENVIRONMENT

3.1 THE GLOBAL REINSURANCE SECTOR

Global demand for reinsurance protection increased modestly during 2017/18. The principal drivers were improved economies, the growing prevalence of risk-based capital regimes and emerging areas of risk transfer. The last two, at least, will continue to apply in 2018, alongside heightened risk awareness following recent major catastrophe losses. Fitch is of the view that global demand for reinsurance will increase as a result of the catastrophe events that occurred in the recent past. Insurers may seek to purchase more aggregate reinsurance cover, given the nature of the losses in 2017, or manage specific exposures through per-risk or facultative cover. This increase in demand combined with a potential constraint in supply is likely to contribute towards an improvement in rates across catastrophe-exposed lines of businesses. According to SWISS Re sigma, Global insurance review 2016 and outlook 2017/18, non-life reinsurance premium growth will be modest, but likely to improve by 2018.

World premiums in traditional life reinsurance are expected to increase only marginally over the next two years, driven by the emerging markets, especially China. Premiums in the advanced markets will be roughly flat, with modest growth in Australia, Canada, Japan and some Western European countries offsetting declines in the US and the UK. In the US, the long-term trend of declining cession rates and modest growth of protection business in primary insurance underpin the muted growth outlook. In advanced markets outside of the US and the UK where cession rates are usually much lower, traditional reinsurance will continue to grow by low, single-digit rates, in line with the direct protection business. In emerging markets, where life reinsurers' main value proposition is to support primary insurance in product development, underwriting and claims management, premiums are expected to increase by 8% to 9% annually in the next two years.

Africa's Gross Domestic Product (GDP) grew by 2.4% in 2017 as against 1.6% in 2016. As expected, the larger economies and other commodity exporters like Nigeria, saw a modest increase in GDP growth as commodity prices continue to stabilize with economic activity expanding at a robust pace elsewhere in the region, supported in part by infrastructure investments. The current account deficits of oil and metals exporters narrowed, but remained elevated in the non-resource-intensive countries due to strong import growth. Fiscal deficits narrowed slightly in 2017, reflecting large expenditure cuts in some oil exporting countries.

3.2 Ethiopian Economic Profile and the insurance industry

Ethiopia is steadily recovering from the 2015/16 and 2017 droughts, with continued expansion of services and industry and a rebound in agriculture. At country level services accounted for the largest share of GDP in 2016/17, 39.3%, driven by trade, transport, and communications, although this share decreased from 47.3% in 2015/16. Industry's share in GDP increased from 16.7% in 2015/16 to 25.6% in 2016/17, driven by construction, electricity, and manufacturing. Implementation of the export-led industrialization strategy supported growth in industry. Although agriculture's share of GDP stagnated at 35.1%, the sector's growth rate increased from 2.3% in 2015/16 to 6.7% in 2016/17 due to rising commodity prices, notably for coffee. Growth continues to be led by investment in line with stable public infrastructure spending and higher foreign direct investment (FDI). Real GDP growth during 2017/18–2018/19 will be led by greater agricultural productivity and strong industrial growth.

The Ethiopian insurance industry remained relatively undeveloped which is exemplified by the sector's low insurance penetration (percentage of insurance premium to GDP), manifested by extremely low insurance density (average per capita spending on insurance) which was Birr 62.4, as at 2015/16. Identical conventional products, low level of public awareness, price-based competition, urban centered service, lack of innovation and scarce man power are some of the major culprits for the dismal growth.

Of the 17 insurance companies operating in Ethiopia 16 were private. The total number of branches operated by insurers increased to 518 from 465 a year ago and about 53.9 percent were situated in Addis Ababa. Total capital of insurance companies reached Birr 5.5 billion witnessing an increase of Birr 1.2 billion compared to the same period last year. Gross written premiums of the insurance industry reached Birr 8.4 billion witnessing almost 12% growth compared to the previous year result. General insurance (GI) continued to dominate the sector, accounting for Birr 7.9 Billion or 94.5% total premiums, with motor vehicle insurance continued to claim the largest share – constituting 51.8% of total insurance premiums and 54.8% of the Gross Written Premiums under General Insurance class of business. The industry wide loss ratio in respect of general insurance has reached 63%. On the other hand, Long Term insurance accounted for Birr 460 million or merely 5.5% of total premiums written but witnessed a relatively low 50% loss ratio.

The industry's net earned premium and net claims incurred for the period ended June 2018 reached Birr 6 billion and Birr 3.7 billion respectively, with an overall loss ratio of 62%. The retention ratio remained 72% which has shown marginal reduction from last year's similar period i.e. 74.9% while the net claims incurred has increased to Birr 3.6 billion from Birr 3.3 billion compared to the preceding year. The total asset of insurers as at 30 June 2018 has reached Birr 16 billion witnessing an increase of Birr 2.4 billion compared to the figure in the preceding year.

SUMMARY OF FINANCIAL INFORMATION OF INSURERS AS AT JUNE 30, 2018

Table 1: Performance of the insurance industry ETB '000

ITEM	NON-LIFE	LIFE	TOTAL
Gross Premium	7,919,516	460,780	8,380,296
Net Premium	5,588,724	410,919	5,999,643
Ret Ratio (%)	71	89	72
Net Earned Premium	5,491,044	410,919	5,901,963
Net Claims Incurred	3,474,061	205,429	3,679,490
Loss Ratio (%)	63	50	62
Total Assets	14,080,979	1,923,879	16,004,858
Total Capital	4,885,918	589,934	5,475,852
Profit after Tax	1,332,473	-	1,332,473

Source: NBE: June 30, 2018

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

Like many national reinsurance companies in developing economies, Ethiopian Re is entitled to a 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. 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 relevant to this date although it was first introduced almost more than half a century ago. Although proliferation of private capital in the insurance sector in the late 1980s, to some extent, modulated the fear of capital flight, 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 exchange resources. The situation was further made worse since the emergence of mega risks as a result of extensive infrastructure projects embarked on by the country meant that 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 2018, legal policy cessions accounted for a gross premium income of over 62% of the total premiums of the Company, whereas the underwriting result for the same period witnessed a gross loss excluding the retrocession premium paid to protect the account.

All classes of business incurred underwriting loss during the period under discussion. Determining the real reason behind the poor performance in respect of commonly profitable classes requires further investigation, but the blanket agreement made with the Association of Ethiopian Insurers on the rate of ceding commission to be paid could be singled out the likely culprit for the undesired results.

Generally speaking, in reality contrary to the fierce argument that compulsory cession would give the reinsurer huge advantage by taking away good business failed to make resonance considering the performance of the account during over the past two years. It was from different perspective that proponents of compulsory policy cessions looked the positive impact that 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 thereby extenuating the loss arising from the deterioration of the performance of the account. On the other hand, the premium income coming from policy cessions, as big as it is, would have a positive impact on the size of the Company's portfolio.

Despite the problems that cast doubt on the future contribution of compulsory policy cessions, there is sufficient room to improve the results should the necessary measures were taken on time. Thus, it is incumbent upon executive management of insurance companies and other institutional shareholders 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 Ethiopian Reinsurance Share Company the right of first refusal on all facultative businesses transacted by direct insurers before they are being offered to overseas companies. Nevertheless, this particular provision of the Directive has been inconsistently implemented in the first year of operation which resulted in forfeiture of the income generated from this source. In addition to indirectly influencing the rate of premium being applied for a particular cover, strict enforcement of the provision would have contributed a lot in enhancing income spawned from domestic sources.

The Company together with the Association of Ethiopian Insurers 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 provisions of the Directives that require changes and preliminary consensus was reached in the final version. It is expected that the Bank will issue the Directive early next year.

Generally speaking, in reality contrary to the fierce argument that compulsory cession would give the reinsurer huge advantage by taking away good business failed to make resonance, considering the performance of the account during one and half years. It was from different perspective that proponents of compulsory policy cessions have looked the positive impact that 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 converted to time deposits to generate interest income thereby mitigating the loss caused by the deterioration of the performance of an account. On the other hand, the premium income coming from policy cessions, as big as it is, would have a positive impact on the size of the Company's portfolio.

Despite the problems that cast doubt on the future contribution of compulsory policy cessions, there is sufficient room to improve the results should the necessary measures were taken on time. Thus, it is incumbent upon executive management of insurance companies and other institutions to take the necessary steps to improve the performance of this particular account.

3.5 TIMELY FILING OF QUARTERLY REPORTS AND SETTLMENT OF BALANCES:

The manner of submitting the accounts pertaining to compulsory policy cessions has been agreed to operate like a quota share treaty whereby quarterly accounts in respect of 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 emanated from the current state of automation of data processing in the insurance industry, the attention given to streamline the compilation and consolidation of data in a timely manner should be a matter of serious concern. Moreover, the terms of the reinsurance treaties clearly set out the timeframe for submission of quarterly accounts as a condition precedent, which in effect means that complying with the requirement of the clause is not an option. Needless to mention, the Company's repeated failure to submit its quarterly accounts to the regulatory authority within the prescribed time due to failure to obtain relevant 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 that significantly improve the ability to predict the likelihood of future occurrences fairly accurately. Ethiopian Re is uniquely positioned to serve as the aggregator of market statistics, which in addition to catering for a data base for its own need, would also serve as a prime source of information as far as insurance business is concerned. To this end, Ethiopian 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 submit to the relevant bodies on time. In contrast, insurance companies have consistently complied with the deadline set by the NBE in this respect, so far Ethio Re. could not receive the information necessary for the review of periodic performance and take remedial actions timely. 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 a reasonable 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 not be carried out in time which inevitably results in loss 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 way of doing business through granting cover on credit as an integral 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 payment for credit sales and the huge provisions to be set aside to guard against bad debts. Technically, any amount due to Ethiopian Re. is coming from a premium that was already collected by a direct insurer and hence any outstanding amount should be paid as soon as the statements of accounts are received by the company. In reality, however, collecting premiums due from insurers, including minimum and deposit premiums, has proved a demanding task with some insurers unwilling or unable to settle amounts due for a 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 default. In an era when insurance companies got rid of the practice of keeping a fair share of their assets as a reserve on account of possible future defaults, forcing Ethiopian Re. to maintain this type of reserve is absolutely 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:

The Company has set targets to obtain voluntary cessions from domestic market during the year. Accordingly, Management has organized a forum with insurance executives to discuss on key issues and engage local insurers to explore ways on how voluntary cessions from insurers could be obtained so that the impact of the cessation of compulsory cessions could possibly be minimized.

3.8 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). However, due to restrictions in its retrocession treaty, the Company did not write any overseas business during the year under discussion.

Management has started to develop business plan on entering in to foreign markets and market visit to COMESA region has been scheduled to solicit reciprocal business with regional insurers and reinsurers, review regulatory landscape and conducting risk assessment and modalities to enter foreign markets targeting East African market as a takeoff point. However, the target in this respect should be reconsidered and the requirements to enter foreign markets including credit rating combined with aggressive promotion should be the main focus during the remaining strategic periods.

Results

FINANCIAL PERFORMANCE

GROSS WRITTEN PREMIUM

During the year under review, the Company has generated a gross premium income of Birr 661.5 million. The total premium generated was higher than last year's similar period by Birr 141.7 million or 27%.

From the total premium for the period under review, Birr 638.4 million or 97% was generated from general reinsurance business, whereas the remaining Birr 23.1 million or 3% was generated from life reinsurance.

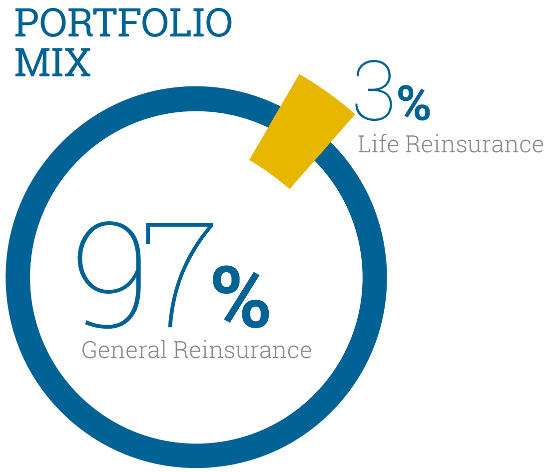

Fig: portfolio mix by class of reinsurance

CLAIMS PAID

The Company has settled gross claims amounting to Birr 222.4 million. This amount was greater than last year's similar period by Birr 136.6 million or 159%. Out of the total claims paid, Birr 176.9 million and Birr 45.5 million were paid under policy and treaty cessions, respectively.

NET CLAIMS INCURRED

The Company's net claims incurred reached Birr 334.8 million. The amount has shown increment of Birr 150.5 million or 82% from last year's same period experience.

ACQUISITION COST

The Company has outlaid Birr 189 million for acquisition cost which is higher than last year's similar period by Birr 69 million or 58%, respectively.

COMMISSION INCOME

The company earned birr 4.8m commission income which is higer than last year by Birr 4.3m.

OPERATING AND OTHER EXPENSES

The Company has outlaid Birr 22 million as operating and other expenses which is higher than last year's similar period by Birr 10.7 million or 94%.

NET INVESTMENT INCOME

During the period under review, the Company has earned Birr 66.8 million from investment which is higher than last year's similar period income by Birr 33 million or 95%.

PROFIT

During the period under review, the Company has registered Birr 78.6 million profit before tax which is a great achievement from last year's similar period performance, i.e. Birr 5.5 million loss . Accordingly, the share of profit from general insurance amounted to Birr 63.9 million whereas the share from life insurance amounted to Birr 14.7 million.

NON-FINANCIAL PERFORMANCE

IT PROJECT

As part of its strategy, the Company has paid a special attention to adoption of technology in order to enhance its competitiveness and improve the quality of products and services to be delivered to its customers. To this end, it has finalized the bidding process and selected qualified IT software consultant during the year under consideration. Ethiopian Re signed a license and support agreement with SAP East Africa Limited and msg Global Solutions for the acquisition and implementation of integrated reinsurance management and general ledger software. The software license for general ledger has been supplied by SAP East Africa limited and the implementation of the software has been awarded to a German company named msg Global Solutions.

Ethiopian RE has also signed a contract agreement with United System Integrators (USI) to implement network infrastructure project. The new infrastructure, as part of the overall automation strategy of the business process of the Company, will lay down the foundation for the implementation of state of the art reinsurance and financial management solutions that greatly enhance the quality and time of service delivery. The implementation is also expected to commence soon.

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, Management has floated an international bid to conduct comprehensive review of the Company's Human Resource (HR) strategy aimed at developing a blue print on how to build a competent and highly motivated workforce. Accordingly, the Company has engaged HST consultants to develop its HR strategy and it is expected that limitations in developing highly skilled and proficient human capital capable of delivering efficient and quality service will be addressed by this comprehensive study.

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

Recruitment of three permanent employees has been made during the year. The Company currently has 17 permanent and 3 contract employees which brought the total number of the workforce to 20 as compared to the total number of 17 employees the previous year. Out of the total work force, female staffs constitute 10 or 50% while the rest are male.

ADOPTION OF 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 passed the IFRS proclamation and regulation in 2014. Accordingly, banks, insurance companies and public enterprises are ordered to comply with IFRS within the deadline starting from 2018. In line with this, during the period under review, Ethiopian Re established a project office responsible for the implementation of IFRS and launched the project by contracting KPMG East Africa Ltd. as a consultant. Seizing this opportunity, it is the Company's pleasure to announce that the financial statements for the year 2016/17 and 2017/18 have been prepared in line with IFRS.

APPROVAL OF STRATEGIES, WORKING MANUALS, PROCEDURES AND GUIDELINES

The working manuals, procedures and guidelines of the Company have been approved and implementation of same commenced, the HR and Admin Manual of the Company has been revised, draft Internal Audit Policy and Procedure Manual has been prepared, the revised Risk Management Program preparation is in progress, draft Customer Social Responsibility (CSR) policy has been prepared and draft marketing and Customer Relationship Management (CRM) strategy policy are in the process of preparation.

RETRO- PROGRAM ARRANGEMENT

Retro program arrangement for the year 2018/19 has been finalized during the reporting period. Comprehensive retro program with wider geographical coverage, including the sub-Saharan African markets has been agreed.

BUSINESS DEVELOPMENT, PROMOTION AND COMMUNICATION

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 selected design companies as per the specification prepared by Ethiopian Re.

Participation

In the African Insurance Organization (AIO) Annual Conference and General Assembly: The conference and General Assembly of the AIO 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. The events presented unmatched platform to introduce our newly formed Company on the continental reinsurance arena.

Organizing market trainings on topical industry issues:

Ethiopian 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).

Development and inauguration of Company website:

The Company has finalized and inaugurated its brand-new website during the year under discussion. The design and development works were performed by a reputed website designing Company. Accordingly, up-to-date information about the Company's activities continue to be posted which promotes the visibility of the Company locally as well as internationally.

Consultation forum with insurance companies and the regulator, National Bank of Ethiopia (NBE):

During the period under review, Ethiopian Re. has organized consultative forum to discuss the implications of cessation of compulsory policy cessions and other strategic issues with all insurers in Ethiopia. In an effort to create lasting business relationship with stakeholders, Ethiopian Re. believes in arranging regular discussion platforms with its key stakeholders to facilitate wide consultations and catching up with new developments affecting the insurance industry and beyond. Accordingly, the aim of the consultation forum was 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.

International/Regional: as a new entrant, Ethiopian Re. has to conduct market visits to promote its brand and solicit business from target markets. This could help to boost understanding of the behavior of markets that the Company is planning to accept business from and also gather information on the regulatory regime. The market visits have definitely helped to build preliminary relationships with insurance companies and more importantly to introduce Ethiopian 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 conducting discussions on the modalities and requirements of entering foreign markets.

Membership of continental and local institutions:

Ethiopian Re has become an institutional member 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 communicated with selected rating agencies, AM BEST and Standard and Poor's 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.

Actuarial services

Ethiopian Re. envisages developing its own actuarial knowledge 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.

Future Plan

Ethiopian 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 second 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.

Unstinted efforts will also be exerted during this period to work on HR strategy implementation, finalizing the rating project, implementing the reinsurance IT software and infrastructure and suitable marketing strategy to meet the needs and expectations of our customers aimed at achieving sustainable growth and profitability.

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. Furthermore, in order to ensure leading role in offering reinsurance services as stated in its mission and vision statements; the Company will step up the efforts directed at developing the capacity of its work force, work on Company Rating, strengthen relationship with cedants and implement state of the art information technology.

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 enhancing its competitive advantage.

Appropriation Of Retained Earning

During the financial year 2017/18, the Company has obtained an after tax profit of Birr 78.6 million. Moreover, Birr 7.9 million retained earning has been brought forward from previous years.

The Board of Directors, therefore, recommends that Birr 78.6 Million be distributed to shareholders in proportion to their respective shares after deducting Directors' remuneration.

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 to carry out the audit for the year ended 30 June 2018.

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.

Haile Michael Kumsa
Chairman of the Board of Directors

Yewondwossen Eteffa Kumssa
Chief Executive Officer

RISING WITH AFRICA!

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 2018, 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 2018 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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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
ETHIOPIAN REINSURANCE SHARE COMPANY (continued)

Gross premiums written

There is a risk that gross premiums written are understated. In our response to this risk, we verified that the correct periodical reports had been received and recorded in the correct accounting period; we ascertained that confirmation reports had been received from customers; we verified that gross premiums had been computed based on the agreements, the periods covered and on other covenants; and we reviewed annual audit reports of customers. Overall, our assessment is that the basis for incorporating gross premiums written was appropriate.

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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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

Addis Ababa
7 December 2018

Audit Services Corporation
Auditors of
Ethiopian Reinsurance Share Company

The Federal Democratic Republic of Ethiopia • Audit Services Corporation

Ethiopian Reinsurance Share Company

Statement of Financial Position

As at 30 June 2018

	Note	Gen.Ins 2017-18 ETB	Long Term Ins 2017-18 ETB	Total 2017-18 ETB	Total 2016-17 ETB
Assets					
Cash	5	234,184,237	2,814,154	236,998,391	263,279,768
Other Receivables	6	6,023,514	19,978	6,043,492	2,488,256
Due from retrocessionaires	7	-	-	-	2,184,053
Due from ceding companies	8	111,596,118	12,206,983	123,803,101	114,986,795
Deferred acquisition costs	9	64,532,759	1,911,135	66,443,894	52,946,272
Time deposits	10	530,220,592	73,404,078	603,624,670	339,244,285
Grand Renaissance Dam Bonds	11	68,704,069	12,124,247	80,828,317	79,906,121
Right of use asset	12	5,707,685	-	5,707,685	7,423,967
Property Plant & Equipment	13	15,842,400	-	15,842,400	14,676,632
Total assets		**1,036,811,374**	**102,480,575**	**1,139,291,949**	**877,136,149**
Liabilities					
Provision for unearned premiums	14	231,306,403	11,036,085	242,342,488	206,970,821
Interbranch Business		8,459,247	(8,459,247)	0	-
Other payables	15	1,846,752	-	1,846,752	1,565,336
Due to ceding companies	16	30,154,631	123,539	30,278,170	24,964,132
Due to retrocessionaires		28,667,109	-	28,667,109	-
Employee benefits liability	17	58,943	2,456	61,399	27,155
Lease Liability	12	4,830,175	-	4,830,175	4,337,893
Provision for incurred but not reported claims	31	58,580,478	1,926,910	60,507,388	30,627,667
Outstanding claims reserve	18	154,833,256	-	154,833,256	71,909,141
Total Liabilities		**518,736,994**	**4,629,743**	**523,366,737**	**340,402,145**
Equity					
Capital: Paid up	19	441,532,500	77,917,500	519,450,000	518,900,000
Formation fund	19	9,973,000	-	9,973,000	9,973,000
Retained earnings		60,688,721	17,939,999	78,628,720	7,861,004
Legal reserve		5,870,787	1,993,333	7,864,121	-
Other Comprehensive Income		9,372	-	9,372	-
Total equity		**518,074,380**	**97,850,832**	**615,925,212**	**536,734,004**
Total liabilities and equity		**1,036,811,374**	**102,480,575**	**1,139,291,949**	**877,136,149**

The accompanying notes on pages 9 to 62 are an integral part of these financial statements

Haile Michael Kumsa
Chairman, Board of Directors

Yewondwossen Eteffa Kumssa
Chief Executive Officer

Ethiopian Reinsurance Share Company

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

		Gen.Ins	Long Term Ins	Total	Total
	Note	2018	2018	2018	2017
Income					
Gross premiums written	20	**638,369,115**	**23,122,921**	**661,492,036**	**519,787,502**
Retrocession Premium		(72,904,864)	-	(72,904,864)	(37,213,563)
Change in net unearned premium	14	(32,978,356)	(2,393,311)	(35,371,667)	(206,970,821)
Net Earned premium		**532,485,895**	**20,729,610**	**553,215,505**	**275,603,118**
Reinsurance commission income		4,786,581	-	4,786,581	478,020
Total Income		**537,272,476**	**20,729,610**	**558,002,086**	**276,081,138**
RE-INSURANCE EXPENSES					
Net claims incurred	21	325,453,877	9,407,650	334,861,527	184,370,954
Cedant Acquisition Cost	22	147,114,691	3,743,973	150,858,664	72,560,459
profit commission Exp.		38,144,958	300,548	38,445,506	47,591,426
Total outgo		**510,713,526**	**13,452,171**	**524,165,697**	**304,522,839**
Undewriting profit (loss)		**26,558,950**	**7,277,439**	**33,836,389**	**(28,441,701)**
Net Investment Income	23	58,977,315	7,878,547	66,855,862	34,275,736
Other Income		4,500	-	4,500	-
Operating and other expenses	24	(21,602,387)	(462,528)	(22,064,915)	(11,383,482)
Profit before tax		**63,938,378**	**14,693,458**	**78,631,836**	**(5,549,447)**
Profit Tax		-	-	-	-
Profit for the year		**63,938,378**	**14,693,458**	**78,631,836**	**(5,549,447)**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Acturial Gain		9,372	-	9,372	-
Total comprehensive income for the year		**63,947,750**	**14,693,458**	**78,641,208**	**(5,549,447)**

The accompanying notes on pages 9 to 62 are an integral part of these financial statements.

Ethiopian Reinsurance Share Company

Statement of Changes in Equity

For the year ended 30 June 2018

	Capital	Formation fund	Excess Fund	Retained Earnings	Legal Reserve	Other comprehensive Income	Total Equity
Balance at 1 July 2016	**516,150,000**	**9,973,000**	**13,410,451**	**-**	**-**	**-**	**539,533,451**
Transfer of fund to Retained earnings	-	-	(13,410,451)	13,410,451	-	-	-
Loss for the year	-	-	-	(5,549,447)	-	-	(5,549,447)
Transfer to legal reserve	-	-	-	-	-	-	-
capital contributed during the year	2,750,000	-	-	-	-	-	2,750,000
Balance at 30 June 2017	**518,900,000**	**9,973,000**	**-**	**7,861,004**	**-**	**-**	**536,734,004**
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**

The accompanying notes on pages 9 to 62 are an integral part of these financial statements.

Ethiopian Reinsurance Share Company

Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018	2017
		ETB	ETB
Cash flows from operating activities:			
Profit for the year		**78,641,208**	**(5,549,447)**
Depreciation and Amortization	12,13	3,830,045	1,923,146
Interest on employer liability	17	7,740	1,416
Interest on lease liability	12	582,656	242,108
Acturial Gain		(9,372)	-
Interest income	23	(67,472,110)	(34,430,752)
		15,580,167	**(37,813,529)**
Movement in Working Capital			
Increase in receivables and prepayments		(3,555,236)	(6,593,441)
Increase in amounts due from ceding companies and retrocessionaires		(20,129,875)	(170,117,120)
Insurance provisions		148,175,503	309,507,629
Other provision	17	34,244	25,739
Increase in payables	15	281,416	(1,426,537)
Increase in amounts due to ceding companies	16	33,981,147	24,964,132
Net cash flows from operating activities		**174,367,366**	**118,546,873**
Cash flows from investing activities			
Payment for investment in the Grand Renaissance Dam Bond	11	(82,500)	(77,835,000)
Payment for time deposits	10	(253,190,586)	(321,847,578)
Interest received		55,442,615	14,958,577
Acquisition of property, plant and equipment	13	(3,368,272)	(14,870,305)
Net cash used in investing activities		**(201,198,743)**	**(399,394,306)**
Cash flows from financing activities:			
Capital received	19	550,000	2,750,000
Net cash from financing activities		**550,000**	**2,750,000**
Increase in cash and cash equivalents		**(26,281,377)**	**(278,297,433)**
Cash and cash equivalents:			
At beginning of the period		263,279,768	541,577,201
At end of the period	5	**236,998,391**	**263,279,768**

The accompanying notes on pages 9 to 62 are an integral part of these financial statements.

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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

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").

On 7 December 2018, the Board of Directors authorized the issuance of the accompanying financial statements.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

c. 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.

d. 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 2018 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 28 – recognition and measurement of provisions and contingencies;
Note 3 (m), Note 25 – recognition of deferred taxes: availability of future profits against which tax losses carried forward can be used

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)

b. Reinsurance contracts (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 amortised 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 reducedif 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)

c. Financial assets and financial liabilities (Continued)

iii. 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 aredischarged or cancelled 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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

iv. 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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

vii. 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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.

The Company did not have assets that fulfill the criteria to be classified as intangible assets as at 30 June 2018.

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)

h. Impairment of non-financial assets (Continued)

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)
j. Employee benefits (Continued)

i. Defined benefit plans
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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 reinsurer 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)

m. Income tax (continued)

i. 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

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 2018

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

r. New Standards, amendments and interpretations

i. New and amended standards and interpretations not effective but adopted during the year ended 30 June 2018

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2017; the Company has decided to early adoption of some of these standards and has applied them in preparing these financial statements:

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)

New and amended standards and interpretations in issue but not yet effective during the year ended 30 June 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2018, and have not been applied in preparing these financial statements. These are summarised as follows:

NEW STANDARDS OR AMENDMENTS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
Classification and Measurement of Share-based payment Transactions (Amendments to IFRS 2)	1 January 2018
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	To be determined
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Insurance Contracts – IFRS 17	1 January 2021
IFRS 4 amendments	1 January 2018
IAS 40 amendment	1 January 2018

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)
r. New Standards, amendments and interpretations (continued)

ii. New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2018 – continued

The above standards and interpretations, with the exception of IFRS 17 and IFRS 4 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)

o. New Standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective during the period ended 30 June 2018 – 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 2018.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. Significant accounting policies (Continued)
(o) New Standards, amendments and interpretations (continued)

ii. New and amended standards and interpretations in issue but not yet effectiveduring the period ended 30 June 2018 – 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 2018. 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.

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 other price risk.

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 Risk and Compliance Committee (RCC) is responsible for developing and monitoring the Company's risk management policies and reports regularly to the board of directors on its activities.

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

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. Financial risk review (Continued)

Risk management framework (continued)

Key risks arising from reinsurance contracts and financial instruments include:

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

a. 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

Ethiopian – Re's risk appetite and Solvency Required Capital (SRC) are the foundations for underwriting.

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.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4 Financial risk review (Continued)

a. Underwriting risk (continued)

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.

The Company enters into retrocession arrangements with reputable retrocessionaires 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 retrocessionaires 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 2018 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 1,050,000	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.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. Financial risk review (Continued)

b. 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.

Fixed Time Deposit Principal Amount	June 2018
United Bank	13,802,671
Nib International Bank	70,675,000
Oromia International Bank	33,806,250
Dashen Bank S.C	127,345,474
Bunna International Bank S.C	17,171,424
Abyssinia Bank	97,430,223
oromia Cooperative Bank,22 mazoria	21,756,000
Awash International Bank	136,200,000
wegagen Bank S.C	44,560,000
Addis Int.Bank-Main	**10,220,000**
Total	572,967,043

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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	(2,864,835)	2,864,835	(2,864,835)	2,864,835
Total	**(2,864,835)**	**2,864,835**	**(2,864,835)**	**2,864,835**

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 2018.

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. Financial risk review (Continued)

b. Market risk (continued)

i. Currency risk - continued

REINSURANCE CONTRACTS	2018 USD
Reinsurance assets (receivables)	169,877
Reinsurance liability (payables)	56,513

A reasonably possible strengthening or weakening of the US Dollar against the Ethiopian Birr 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	157,417	(157,417)	157,417	(157,417)
Receivables	472,383	(472,383)	472,383	(472,383)
Total (ETB)	**629,530**	**(629,530)**	**629,530**	**(629,530)**

The following exchange rate has been applied

	2018 Closing rate
USD 1	27.81

c. 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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	2018, ETB
Time deposits	603,624,670
Government Bond	80,828,317
Staff loans	556,523
Insurance Receivables	123,803,101
Cash and cash equivalents (bank balances)	236,998,391
Balances at 30 June 2018	**1,045,811,002**

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 (0-30 days)	17,931,598.68	-
Past due (31-120 days)	70,231,611.98	-
More than 120 days	35,568,764.63	-
	123,803,100.98	-

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. As at 30 June 2018 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:

	2017 ETB
Staff loans	556,523
Cash at bank	236,988,391
Time deposits	603,624,670
Government Bond	80,828,317
Total	921,997,901

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. Financial risk review (Continued)

c. Credit risk (continued)

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.

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 2018 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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.

d. 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 2018 to the earlier of the re-pricing or contractual maturity date.

	Up to I Year	1 – 5 Years	Above 5 years	Total
				ETB
1. Assets				
Cash and cash equivalent	10,000	-	-	10,000
Reinsurance premiums receivables	123,803,101	-	-	123,803,101
Investments	2,910,816	77,917,500	-	80,828,316
Bank Deposits(current/saving)	236,988,391	-	-	236,988,391
Fixed time deposit at amortized cost	603,624,670	-	-	603,624,670
Staff loans	176,766	379,757	-	556,523
Total assets (A)	**967,513,744**	**78,297,257**	**-**	**1,045,811,001**
2. Liabilities				
Due to ceding companies	(58,945,279)	-	-	(58,945,279)
Other payables	(1,846,752)	-	-	(1,846,752)
Lease liability	(824,763)	(4,005,412)	-	(4,830,175)
Total liabilities (B)	**(61,616,794)**	**(4,005,412)**	**-**	**(65,622,206)**
Liquidity gap (A -B)	**905,896,950**	**74,291,845**	**-**	**980,188,795**

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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. The Company's investment guidelines prescribe minimum levels (50% and above) of total assets to be held in cash and cash instruments. 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.

e.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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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.

f. 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 519,450,000paid 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
	2018	2018	2018	2017
Saving accounts				
Commercial Bank of Eth.	215,277,893	-	215,277,893	238,656,623
Wegagen Bank	-	-	-	3,462,154
Current accounts				
Abyssinia Bank	1,612	-	1,612	597
Addis International Bank	1,947	-	1,947	-
Awash International Bank	14,940,171	-	14,940,171	8,105,737
Commercial Bank of Eth.	3,746,485	-	3,746,485	2,991,616
Coop. Bank Of Oromia S.C	155,880	-	155,880	-
Dashen Bank	1,020	-	1,020	231
Nib International Bank	48,615	-	48,615	1,000
Oromia International Bank	614	-	614	1,000
Wegagen Bank	-	2,814,154	2,814,154	979,554
Cash on Hand	10,000	-	10,000	9,081,256
Total	234,184,237	2,814,154	236,998,391	263,279,768

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

6. Other receivables

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Staff loans	556,523	-	556,523	202,538
Prepayment	21,150	19,978	41,128	119,306
Advance tax	5,445,841	-	5,445,841	2,166,412
Total	6,023,514	19,978	6,043,492	2,488,256

7. Due from Retrocessionaires

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Due from ceding companies	111,596,118	12,206,983	123,803,101	114,986,795
	0	0	0	2,184,053

8. Due from ceding companies

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Due from ceding companies	111,596,118	12,206,983	123,803,101	114,986,795
	111,596,118	12,206,983	123,803,101	114,986,795

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

9. Deferred acquisition costs

	Gen. Ins	Long Term Ins	Total	Total
Class of Business	2018	2018	2018	2017
Accident	2,089,687		2,089,687	1,007,432
Aviation	75,814		75,814	74,655
Burglary	143,667		143,667	7,338,985
Engineering	15,328,738		15,328,738	709,312
Employers Liability	1,287,960		1,287,960	2,420,242
Fire	5,439,744		5,439,744	187,822
Goods in transit	285,085		285,085	1,802,018
Liability	3,037,923		3,037,923	10,110,151
Marine	13,065,747		13,065,747	
Medical	-		-	20,261,875
Motor	11,664,379		11,664,379	6,985,661
Pecuniary	8,639,886		8,639,886	525,419
Others	3,474,128		3,474,128	
Life	-	1,911,135	1,911,135	1,522,700
Total	64,532,759	1,911,135	66,443,894	52,946,272

A proportion of cedant acquisition costs is deferred and amortised 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	2018	2018	2018	2017
Abyssinia Bank	79,669,000	24,860,708	104,529,708	48,676,793
Addis Internat	11,122,166	-	11,122,166	
Awash Internat	125,945,842	16,250,877	142,196,719	94,335,242
Buna Internati	18,533,659	-	18,533,659	16,673,753
Coop. Bank of Oromia	22,283,241	-	22,283,241	
Dashen Bank	112,825,321	21,474,192	134,299,513	37,545,219
Nib Internatio	63,766,318	10,818,301	74,584,619	42,421,328
Oromia Interna	36,146,608	-	36,146,608	13,380,377
United Bank	14,940,768	-	14,940,768	13,441,216
Wegagen Bank	44,987,669	-	44,987,669	72,770,357
	530,220,592	73,404,078	603,624,670	339,244,285

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

10. Time deposits (Continued)

Time deposits have been recognised as financial assets at amortised 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
	2018	2018	2018	2017
Interest Receivable	25,227,149	5,430,478	30,657,627	19,467,828

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
	2018	2018	2018	2017
Statutory deposit	66,229,875	11,687,625	77,917,500	77,835,000
Interest Receivable	2,474,194	436,622	2,910,817	2,071,121
	68,704,069	12,124,247	80,828,317	79,906,121

The bond has been recognized as a financial asset at amortized cost. The effective biannual interest rate on the bondhas changed from2.75% to 3.75% effective from October 2018.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

12. Leases

Right of use

	Gen.Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Cost				
Balance at beginning of the year	8,208,318	-	8,208,318	-
Addition	-	-	-	8,208,317
FV adjustments	(90,373)	-	(90,373)	-
Balance at end of the year	8,117,945	-	8,117,945	8,208,317
Depreciation				
Balance at beginning of the year	(784,350)	-	(784,350)	-
Additions	(1,625,910)	-	(1,625,910)	(784,350)
Balance at end of the year	(2,410,260)	-	(2,410,260)	(784,350)
Net carrying value	5,707,685	-	5,707,685	7,423,967

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	2018	2018	2018	2017
Balance at beginning of the year	4,337,893		4,337,893	-
Lease liability Addition (Adjustment)	(90,373)		(90,373)	4,095,785
Interest expense on Lease	582,656		582,656	242,108
Balance at end of the year	4,830,175	-	4,830,175	4,337,893

			Total	Total
Maturity Analysis			2018	2017
Less than 1 year			824,763	242,108
1-5 years			4,005,412	4,095,785
More than 5 years			-	-
Total			4,830,175	4,337,893

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

13. Property, plant and equipment

	General Insurance Business			
	Balance		Balance	Total
COST	01-07-17	Additions	30-06-18	2017
Partition work	2,489,846	-	2,489,846	2,489,846
Motor Vehicles	11,298,636	3,044,870	14,343,506	11,298,636
Office Equipment, furniture and fittings	1,664,300	93,595	1,757,895	1,664,300
Computers & accessories	362,646	229,806	592,452	362,646
Sub total	**15,815,428**	**3,368,272**	**19,183,700**	**15,815,428**
	Balance		Balance	Total
DEPRECIATION	01-07-17	Additions	30-06-18	2017
Partition work	163,429	494,340	657,769	163,429
Motor Vehicles	873,223	1,373,392	2,246,615	873,223
Office Equipment, furniture and fittings	163,429	202,913	276,087	73,174
Computers & accessories	28,970	131,858	160,828	28,970
Sub total	**1,138,796**	**2,202,504**	**3,341,300**	**1,138,796**
NET BOOK VALUE	14,676,632		15,842,400	14,676,632

14. Unearned premium

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Provision for Unearned Premium	239,581,737	11,036,085	250,617,822	206,970,821
Less: Retrocess. Share of Provision for UPR	8,275,334	-	8,275,334	-
Net Provision for Unearned Premium	231,306,403	11,036,085	242,342,488	206,970,821

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)

ETHIOPIAN REINSURANCE SHARE COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

15. Other payables

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Employees Income tax payable	132,944	-	132,944	226,245
Withholding tax payable	11,400	-	11,400	5,117
Pension Payable	63,340	-	63,340	48,178
Sundry creditors	963,754	-	963,754	606,838
Accrued staff bonus and leave	429,763	-	429,763	485,190
Provision for audit fee	207,000	-	207,000	172,500
Other accruals	38,550	-	38,550	21,268
Total	1,846,752	-	1,846,752	1,565,336

16. Due to Ceding Companies

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Due to Insurance Companies	30,154,631	123,539	30,278,170	24,964,132

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

17. Employee benefits

17.1 Defined benefit plans

The Company employees are entitled to a Severance Benefit. The Severance Benefit Entitlement is provided forunder 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 obligation is determined by an independent actuarial valuation carried out on an annual basis.

a. Present value of funded obligations

	Gen. Ins	Long Term Ins	Total	Total
a) Present value of funded obligation	2018	2018	2018	2017
Active Members	58,943	2,456	61,399	27,155
Outstanding Members	-	-	-	-
Net Liability on Statement of Financial Position	58,943	2,456	61,399	27,155

b. Reconciliation of benefit obligations

			Total	Total
			2018	2017
Opening benefit obligation			27,155	-
Current service cost net of employees' contributions			38,510	25,739
Interest cost			5,106	1,416
Actuarial Gain			(9,372)	-
Benefits and expenses paid			-	-
Closing benefit obligation			61,399	27,155

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 11.00%
Salary increase rate 6.67%

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 increase 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, 2018 by the amounts shown below:

YEAR ENDED: 30 JUNE 2018					
	SCENARIO 1, BASE	SCENARIO 2, DISCOUNT RATE INCREASED BY 1%	SCENARIO 3, SALARY RATE INCREASED BY 1%	SCENARIO 4, DISCOUNT RATE DECREASED BY 1%	SCENARIO 5, SALARY RATE DECREASED BY 1%
Discount Rate Salary Increases	11.00% 6.67%	12.00% 6.67%	11.00% 7.67%	10.00% 6.67%	11.00% 5.67%
Net Liability at start of period	27,155	27,155	27,155	27,155	27,155
Total net expense recognized in income statement/	43,615	43,615	43,615	43,615	43,615
Net finance costs recognized in profit or loss.	(9,372)	(12,702)	(5,480)	(5,614)	(12,802)
Employer contributions	-				
Net Liability at end of period	61,398	58,068	65,290	65,156	59,900

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 417,917.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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
	2018	2018	2018	2017
Oustanding Claims Reserve	160,872,514	-	160,872,514	71,909,141
Less: Retro cess. Share of Oustanding Claims Reserve	6,039,258	-	6,039,258	-
Net Oustanding Claims Reserve	154,833,256	-	154,833,256	71,909,141

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 2018, the Company's capital was as follows:

	2018
AUTHORIZED: SHARE CAPITAL	
99,730 shares of Birr 10,000 each	ETB 997,300,000

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Issued and Fully paid	441,532,500	77,917,500	519,450,000	518,900,000

b. Nature and purpose of reserves

In accordance with Proclamation No. 746/2012any 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 10% of the authorized share capital. This fund was intended to finance the pre-establishment costs.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 2018 is analyzed as below:

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2018	2018	2018	2017
Motor	256,835,900	-	256,835,900	227,597,270
Fire	91,322,727	-	91,322,727	66,860,191
Marine	65,709,341	-	65,709,341	60,650,363
Engineering	66,955,714	-	66,955,714	48,082,582
Pecuniary	52,299,552	-	52,299,552	19,602,728
Accident	20,282,465	-	20,282,465	44,018,545
Liability	20,556,999	-	20,556,999	13,685,763
Employer liability	9,401,983	-	9,401,983	7,152,803
Aviation	24,674,156	-	24,674,156	4,188,602
Burglary	1,961,616	-	1,961,616	1,282,339
Goods in transit	1,366,401	-	1,366,401	1,018,296
Others	27,002,261	-	27,002,261	8,267,211
Group term life assurance	-	15,182,648	15,182,648	11,670,880
Health insurance	-	7,913,592	7,913,592	5,697,562
Funeral expense insurance	-	26,680	26,680	12,367
Total	638,369,115	23,122,921	661,492,036	519,787,502

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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	2018	2018	2018	2017
Motor	214,514,963	-	214,514,963	122,554,547
Fire	17,160,084	-	17,160,084	8,194,111
Marine	33,639,258	-	33,639,258	3,272,694
Engineering	8,171,332	-	8,171,332	3,738,129
Pecuniary	4,559,668	-	4,559,668	807,707
Accident	5,129,132	-	5,129,132	3,034,220
Liability	7,126,277	-	7,126,277	2,940,011
Employer Liability	2,768,491	-	2,768,491	1,410,289
Aviation	209,995	-	209,995	-
Burglary	(315,391)	-	(315,391)	384,373
Good In Transit	478,472	-	478,472	134,126
Others	2,610,386	-	2,610,386	3,609,781
Group Term Life Assurance	-	3,255,298	3,255,298	1,047,659
Health Insurance	-	5,664,326	5,664,326	2,615,140
Funeral Expense Insurance	-	9,517	9,517	500
Total	296,052,667	8,929,141	304,981,809	153,743,287
Change in Provision for incurred but not reported claims	29,401,211	478,509	29,879,720	30,627,667
Net Claims Incurred	325,453,878	9,407,650	334,861,529	184,370,954

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

22. Cedant acquisition costs

	Gen. Ins	Long Term Ins	Total	Total
Class of Business	2018	2018	2018	2017
Accident	5,580,292		5,580,292	5,734,125
Aviation	1,051,436		1,051,436	304,433
Burglary	711,028		711,028	507,649
Engineering	22,473,630		22,473,630	9,719,648
Employers Liability	2,713,968		2,713,968	1,796,144
Fire	29,096,589		29,096,589	22,686,922
Goods in Transit	413,594		413,594	184,069
Liability	6,410,786		6,410,786	3,193,016
Marine	23,056,960		23,056,960	13,789,014
Medical	-		-	-
Motor	34,490,746		34,490,746	2,741,057
Pecuniary	17,665,797		17,665,797	8,737,817
Others	3,449,865		3,449,865	1,742,037
Life	-	3,743,973	3,743,973	1,424,528
Total	147,114,691	3,743,973	150,858,664	72,560,459

22. Net Finance Costs

	Gen. Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Investment and finance Income	59,570,053	7,902,057	67,472,110	34,521,380
Interest on Saving Accounts	14,113,916	-	14,113,916	13,213,800
Interest on Fixed timed deposits	41,086,239	7,141,553	48,227,792	17,396,708
Interest on Grand Ren. Dam Bond	4,309,107	760,504	5,069,611	3,123,635
Interest on current account	129	-	129	692,262
Interest on staff loan	60,662	-	60,662	6,534
Unrealized exchange gains	-	-	-	88,441
Investment and finance Costs	592,737	23,510	616,248	245,644
Interest on lease liability	559,350	23,306	582,656	242,108
Interest on staff loan benefit	-	-	-	2,120
Interest on employee benefits liability	33,388	204	33,592	1,416
Net Investment Income	58,977,315	7,878,547	66,855,862	34,275,736

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

24. Operating and other expenses

	Gen.Ins	Long Term Ins	Total	Total
	2018	2018	2018	2017
Administrative and general	11,728,553	278,524	12,007,077	4,493,113
Staff costs	7,115,808	127,394	7,243,202	4,362,723
Depreciation	2,147,526	56,609	2,204,136	1,923,146
Directors allowance	392,000	-	392,000	432,000
Audit fees	218,500	-	218,500	172,500
Total expenses	21,602,387	462,528	22,064,915	11,383,482

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 taxable income or loss for the year ended 30 June 2018 is as follows

			Total
	Gen.Ins	Long Term Ins	2018
PROFIT PER ACCOUNTS	63,938,378	14,693,457	78,631,835
Add:			
Amortization of Right Of Use (ROU)	1,560,873	65,036	1,625,909
Interest on least liability	559,350	23,306	582,656
Depreciation of fixed assets per IFRS	2,147,526	56,609	2,204,136
Less:			
Depreciation of fixed assets per I.Tax Proc.	(2,659,528)	(110,814)	(2,770,342)
Rent Expenses for the year 2017-18	(1,974,016)	(82,251)	(2,056,266)
Amort. of Deferred Establishment costs	(685,200)	(28,550)	(713,750)
Disallowed expenses:			
Loss on exchange unrealized	427,061	-	427,061
Entertainment	142,762	5,948	148,710
Penality	62	-	62
Tax exempt Income			
Interest Income	(59,509,390)	(7,902,057)	(67,411,447)
Taxable Profit Current year	3,947,878	6,720,686	10,668,564
Taxable Loss BBF	(40,828,867)	(193,014)	(41,021,881)
Total TAXABLE INCOME/(LOSS)	(36,880,990)	6,527,672	(30,353,318)
CURRENT INCOME TAX @ 30%	-	-	-
Less: Advance profit tax paid in 2017-18	3,294,586	4,822	3,299,407
Income Tax payable (Refundable)	(3,294,586)	(4,822)	(3,299,407)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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.

	2018 ETB
Profit attributable to Shareholders	78,641,207
Weighted average number of ordinaryshares issued	51,912
Basic and diluted earnings per share	1,515

There were no potentially dilutive shares outstanding at 30 June 2018. 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 shareholdingscomprise various insurance companies, banking institutions and individuals in Ethiopia. The shareholding is as follows:

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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	79 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 at 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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

27. Related parties (Continued)

a. Other related party transactions

Ethiopian Insurance Corporation (*EIC is a major shareholder-20.05% and is one of the cedant companies for Ethiopian Re)

	2018	2017
	ETB	ETB
BBF	9,138,384	-
Premiums written	215,380,307	146,660,039
Claims incurred	(56,866,692)	(34,895,955)
Treaty Commission	(58,782,548)	(40,217,432)
Profit commission	(17,157,964)	(13,758,083)
Net amount	91,711,486	57,788,569
Amounts paid by EIC	(78,644,295)	(48,650,185)
Amounts outstanding from EIC	**13,067,191**	**9,138,384**

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

	2018	2017
	ETB	ETB
Savings account	215,277,893	238,656,622
Current account	3,746,485	2,991,616
Total Balance	**219,024,378**	**241,648,238**

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

	2018	2017
	ETB	ETB
Savings account	-	3,462,154
Current account	17,805,572	8,107,566
Time Deposits	493,382,122	296,847,578
Total balance	511,187,694	308,417,298

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)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 2018:

	2018
	ETB
Directors allowances	392.000

Key management members received the following remuneration during the financial year ended 30 June, 2018:

			2018	2017
			ETB	ETB
Short-term benefits			4,499,188	3,293,203
Post-employment benefits			27,048	21,933

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.

(Continue)

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

28. Contingent liability

Ethiopian Re is currently a defendant in a court case against the organizing committee responsible for the establishment of the Company. The committee is demanding payment of ETB 1, 600,000 as payment to four of its members for their services during the establishment of the Company. The payment was approved by the Annual General Meeting (AGM) but the regulator, National Bank of Ethiopia did not approve. The approval of the regulator is a pre-requisite for the implementation of the decision of the AGM.

Management could not precisely predict the outcome of the court case and ascertain whether an outflow of resources embodying economic benefits will be required to settle the obligation, hence, a contingent liability was being disclosed.


Teshome Beyene
Director

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Ethiopian
Reinsurance

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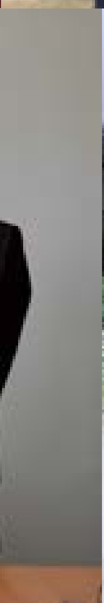

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Events In Pictures

1. Second AGM
2. BOD – training Dubai, DFIC
3. Training Munich Re, Joburg
4. Training with Afro Asian
5. Forum with CEOs of Insurers
6. Software signing-contract
7. Training with Apex
8. Ethiopian Re employees

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Ethiopian Reinsurance S.C.

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