Annual Report

2016/17

Ethiopian Reinsurance

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Rising with Africa

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;*
- *Openness and transparency*
- *High professsionalism;*
- *Building strong partnership with customers;*
- *National Icon*

OUR MOTTO:

RISING WITH AFRICA!

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

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

Annual Report 2016/17

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II / MESSAGE FROM THE CHAIRMAN

Dear Valued Shareholders:

One full year has passed since the Ethiopian Reinsurance Share Company has started operation, which, indeed was marked by several challenges that underpinned the extraordinary commitment required to overcome such challenges. We are in the risk assuming business and we understand that expecting profit in the first year of operation would naturally seem unfeasible.

Despite a tough year, the Board of Directors and the Management of the Company worked tirelessly and in unison to lay down the founding blocks of the new Company which in fact is believed to have profound implications in positively swaying the relative position of the Company in the regional as well as continental reinsurance arena.

During the year, the Board of Directors completed key assignments aimed at consolidating the initial ground work, including, inter alia, drawing vision 2027 of Ethiopian Re by putting quantifiable and pragmatic objectives based on which the Five Year Strategic Plan was formulated, approved the delegation of authority manual, developed codes of conduct and governance manual and other Manuals prepared by Consultants, reviewed the performance report of the Company on quarterly basis, and attended induction training program designed to bolster governance skills of members of the Board of Directors.

As the maiden journey in uncharted waters was characterized by enormous challenges, it would have easily allowed short-term objectives to distract long-term vision. In a vibrant demonstration of unparalleled determination to shape the Company's future, the Board of directors had conducted 47 regular meetings during the year. The Board has also organized different Committees as per the NBE's Directive consisting of: the Human Resources Affairs Committee, Risk and Compliance Committee and Audit Committee. The Committees have subsequently crafted their charters and work plans for the year, which were approved by the full Board of Directors.

Although the Company registered underwriting loss in its first year of operation, the Board and the Management had extensively deliberated on how to do things better through designing five years strategic plan underpinning the opportunities and challenges in a broader context of the workings of the reinsurance industry and the economic outlook by clearly identifying initiatives that, I am sure, will herald the Company's success into the future.

Managing risk and volatility remains a central focus in the process of creating value for our shareholders and other stakeholders. We continuously work to evolve the Company's risk management framework and analysis to better manage the risks assumed by the Company. The Board also continues to spend time refining the governance process in response to the need to institute good governance as well as ensuring compliance with the law and regulatory requirements.

I look forward to serving my second year as Ethiopian Re's Chairman and on behalf of the entire Board, I would like to seize this opportunity to thank our shareholders, the National Bank of Ethiopia and other stakeholders for their confidence in the Board, which helps fuel the momentum towards an ever brighter future for Ethiopia's first reinsurance Company.

Thank you for your continued support.

Hailemichael Kumsa
Chairman, Board of Directors

III / BOARD OF DIRECTORS

Hailemichael Kumsa
Chairman

Tewodros Tilahun
V/Chairman

Dereje Zebene
Director

Hailu Mekonnen
Director

Frehiwot Alemayehu
Director

Shiferaw Ruffie
Director

Getachew Yisma
Director

Habtamu Debela
Director

Mulugeta Alemayehu
Director

Fikru Tsegaye
Board Secretary

IV / SENIOR MANAGEMENT

Yewondwessen Eteffa
Chief Executive Officer

Shiferaw Bentie
Manager,
Operations Department

Mesfin Wolle
Manager, IT Services

Azeb Wegayehu
Manager, Finance and
Administration Department

Fikru Tsegaye
Manager, Business
Development and Corporate
Communications

V / MESSAGE FROM THE CEO

Dear Shareholders!

Laying the foundation: Seeding growth for the long term!

On behalf of the Management and employees of Ethiopian Reinsurance Company S.C, I am proud to present the first annual performance report of the Company for the year 2016/17. It is particularly a delightful experience to have had the chance of playing a part in the first ever Company licensed to carry on reinsurance business in Ethiopia. This annual report is prepared to inform stakeholders how the Company has managed and deployed organizational resources to deliver and fulfill its objectives during its first year of operation.

Amidst all the challenges facing the Company as a new player, it was vital to strive to come up with a value proposition that differentiate our Company from others operating in the market which in general revolves around providing our customers the reinsurance products and services meeting their expectations. It is my deepest conviction that Management has worked selflessly to lay down the building blocks of the Company during its first year of operation. The office lay-out works and recruitment of managerial and other employees, crafting the first five years Strategic Plan of the Company, arranging optimal retro programs, designing and implementing the corporate brand name and logo and works done to acquire the IT software, constitute the major achievements, so to speak.
Management has taken into account the works described above in its financial forecasts for the coming financial year. Accordingly, we forecast earnings of the company to increase year on year and the operating profit to rise steadily. The financial year ended, was an extremely important year in the sense that defining the business models for accepting compulsory cessions was finalized and agreed with cedant companies. The compulsory policy cession constitutes the Company's mainstay of business that needed to be clearly defined for the business model to work smoothly and efficiently.
The dynamic and increasingly globalized reinsurance industry that Ethiopian Re operates in is being driven by a number of complex factors. Consequently, planning beyond the immediate horizon and identifying the key trends with the potential to meet our client needs and transform our business model is an important part of our long-term strategy.

Through our strategic planning process, we have identified the trends that have the potential to significantly reshape our business, and where we believe investment in human resources development and building institutional capacity are considered the most crucial component of the overall business strategy.

As we evaluate opportunities and take actions in line with the lenses of our strategy, we remain focused on the following priorities that have consistently guided who we are as a company.

As the first reinsurance Company in the country, Ethiopian Re endeavors to enhance underwriting capacity through providing decent capacity thereby enabling local insurers to accept larger and complex risks in addition to extending technical support aimed at boosting national risk management skills. It also strives to simplify treaty negotiations, speedy settlement of claims and minimizing the outflow of hard earned foreign currency in the form of reinsurance premiums.

Ethiopian Re would stay focused on defining the strategic direction of the Company, the time horizon for achieving a rating by international rating companies, ensuring sustainable growth through laying down efficient business process and acquisition of state of the art information technology, nurturing healthy and stable domestic insurance market, including working aggressively to identify and tackle hurdles constricting the development of the life insurance business as well as crafting strategic direction that is meant to ameliorate the financial impact that the phasing out of compulsory policy cession is expected to bring about.

These priorities continue to be those by which we measure our success as an organization. By balancing the needs of all our stakeholders – our clients who entrust us with their business, our shareholders who invest in us, our people who dedicate themselves to their work, and our communities where we live and work, we believe we will continue to succeed in the future.
Overall, 2016/17 was a solid year for Ethiopian Re, in which the Company managed to record encouraging results albeit it apparently failed to avoid incurring loss contrary to established expectations. Taking into account ongoing macro-economic headwinds and the overall performance of the Ethiopian insurance industry, there is a strong reason to be optimistic that significant improvements in results will be achieved in the years ahead.

In closing, I would like to extend my appreciation and gratitude to everyone involved in making our business a success:the Board of Directors, our employees, clients, business partners, and shareholders as a whole.
We thank you for your continued support and guidance and look forward to reinforcing our relationship in future. I trust you will find the information contained in the report useful and informative.

Yewondwossen Eteffa
Chief Executive Officer
Ethiopian Reinsurance Share Company

VI / DIRECTORS REPORT

ETHIOPIAN REINSURANCE SC
REPORT OF THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 3O JUNE 2017

The Directors present their report together with the audited financial statements for the year ended 30 June 2017 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 and Directives of the National Bank of Ethiopia.

BACKGROUND INFORMATION

Ethiopian Reinsurance S.C (Ethiopian Re) is the first reinsurance Company incorporated under the provisions of Article 5(8) of the Insurance Business Proclamation No.746/2012, license number RB/01/2016 issued by the National Bank of Ethiopia. It started operation on 1 July 2016 transacting both life and non-life businesses.

Ethiopian Re's shareholding structure is made up of a concoction of partnerships between public and private financial institutions as well as individuals. The Company has diverse shareholders currently comprising seven banks, seventeen insurance companies, eighty individual shareholders coming from different walks of life and one labor union. The subscribed share capital of the Company is Birr 997.3 million. The Company's Board of Directors comprises of nine members representing individuals and institutions who were appointed by the Founders of the Company. The Board is responsible toprovide strategic leadership and direct the overall affairs of the Company.
Relying on its relatively strong capital base, plus sound retrocession protection provided by world renowned reinsurance companies, 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 through cross border reinsurance transactions. Moreover, as the first reinsurance Company in the country, Ethiopian Re endeavors to enhance underwriting capacity and solvency of direct insurers through providing cover against large and complex risks and availing technical support to bolster underwriting skill. It also strives to simplify treaty negotiations, settlement of claims and payment of ceded premium 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 Constitution of the Company. The Board comprises of nine directors appointed to serve in their individual capacity and as representatives of companies. 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 of its day-to-day business to the executive Management through the CEO.

Board Meetings: The Board holds meetings on a regular basis while special meetings are called whenever it is deemed necessary. The Board held fortyseven regular meetings during the year under review.

Committees of the Board: The Board has set up three principal committees which act under well-defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties of office.

TRADING ENVIRONMENT

THE GLOBAL REINSURANCE SECTOR

Reinsurance demand is still subdued, whereas the reinsurance capacity continues to increase. As a long-term trend primary insurers tend to retain more risks using improved risk management techniques. Furthermore, competitive markets as well as low investment returns force primary insurers to be increasingly price sensitive, whereas their and the reinsurers' capital position has improved due to the relative benign catastrophe activity in the last several years. (The Global Reinsurance Sector, Financial Stability Report/FSR/, June 2017)

Thus, overall, the general business environment remains largely unchanged. The rates continued to soften in 2016, despite the downward trend. Along with rate reductions also the terms and conditions for reinsurance placements improved further, e.g. expanded hours clause, broadened terrorism coverage and improved reinstatement provisions.

The Global Reinsurance Report 2017 prepared by Fitch Ratings, the key drivers behind the negative sector outlook, as well as the conditions that could lead the agency to revise its rating outlook to negative from stable include four key issues that are expected to pose a challenge to reinsurers during 2017. These include profit deterioration as a key rating sensitivity, stabilizing prices giving false hope, slowing alternative capital capacity and stalled reinsurer consolidation, but may heat up again. As a result, profit will decline in underwriting and investments and in turn could push to negative rating actions

According to SWISS Re sigma, Global insurance review 2016 and outlook 2017/18, non-life re/insurance premium growth will be modest, but will continue to improve by 2018. Global reinsurance premium growth will be slightly less, and profits slightly higher than the levels for primary non-life insurers, but follow the same pattern. Global primary non-life premium growth is forecast to be slightly weaker at 2.2% in 2017 compared with 2.4% the previous year, and then improve to 3.0% in 2018. Premium growth in emerging markets will improve steadily from 5.3% in 2016 to 5.7% in 2017 and 6.7% in 2018. Pricing in commercial lines continues to deteriorate, but at a slower pace. For non-life primary insurers, assuming average natural catastrophe losses and shrinking reserve releases, sector return on equity (RoE) is likely to decline from 8% in 2015 to 6% in 2016-18.

Global life reinsurance premium growth is expected to be about 1.5% in 2017 and around 1% in the following two years, primarily due to the close-to-zero growth in the advanced economies where the bulk of cessions originate.

Reinsurance premium growth in the emerging markets will be 8% or higher, with a particularly strong contribution from China, where the government has a target to increase the insurance penetration rate.

THE ETHIOPIAN INSURANCE INDUSTRY

Ethiopia's insurance industry is relatively undeveloped which is exemplified by the sector's low insurance penetration (percentage of insurance premium to GDP), which stood at 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 said to be the major culprits for the dismal performance of the industry.

Currently, the number of insurance companies stood at 17 (1 public and 16 private) with their branches rising to 492 following the opening of new branches. About 53.5 percent of insurance branches were situated in Addis Ababa and 83.6 percent of the total branches were private. At the same time, the total capital of insurance companies grew 25.3 % to Birr 3.6 billion of which the share of private insurance companies stood at 76.7 %.

The industry data as at 30th June 2017 indicates, gross written premiums of the insurance industry reached Birr 7.4 billion. General insurance dominates the sector (95.2%), with motor vehicle insurance continued to claim significant share – constituting 56% of total insurance premiums and 80.4% loss ratio at industry level. On the other hand, long term insurance constituted merely 4.8% of total premiums written with a 48% loss ratio (30thJune, 2017).

The industry's net earned premium and net claims incurred for the period ended June 2017 reached Birr 5.6 billion and Birr 3.3 billion respectively, which exhibited a loss ratio of 63.9%.

Summary of Financial Information of Insurers as at June 30, 2017

Table1: performance of the insurance industry *(in '000 Birr)*

Item	Non-Life	Life	Total
Gross Premium	7,133,478	360,093	7,493,571
Net Premium	5,288,202	322,141	5,610,343
Ret Ratio in (%)	74	89	74.9
Net Earned Premium	4,917,095	322,141	5,239,236
Net Claim Incurred	3,192,800	153,171	3,345,971
Loss Ratio in (%)	65	48	63.9
Total Asset	11,924,861	1,641,435	13,566,296
Total Capital	3,991,772	338,792	4,330,564
Profit After Tax	1,085,728	-	1,085,728

SOURCE: NBE JUNE 30, 2017

THE CASE WITH 5% COMPULSORY POLICY CESSION

In accordance with the stipulation of Directive No. SIB/44/2016, Sub Article 5.2, Ethiopian Re is entitled to take a five percent compulsory policy cession on every policy issued by insurance companies carrying on business in Ethiopia. The purpose of the mandatory cession is to augment the income from core operation in the early years of establishment where competing for business would prove difficult. In deed the income from compulsory policy cession accounted for almost two third of the total income of the Company during its first year of operation. Given compulsory cession is going to expire in four years' time, it is incumbent upon the Company's leadership to find ways to compensate the huge loss in income hovering over the horizon.

To this end the Company is tinkering over increasing its participation in the treaty of direct insurers by way of voluntary cession starting from the third year of operation. In addition, it is intended to bolster income generated from overseas business by aggressively promoting the Company in regional and even continental markets. In this regard Management duly recognized the need to get graded by international grading agencies; a requisite in most markets to qualify for competing for business. By working to increase the chance of attracting more voluntary business from domestic insurers and venturing on taking overseas business selectively, it is hoped to ameliorate the huge impact of expiry of compulsory policy cession requirement on the overall income of the Company at the end of the remaining four years.

MANNER OF ACCEPTING AND CEDING FACULTATIVE BUSINESS

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 issued the Directive early next year.

TIMELY FILING OF QUARTERLY REPORTS AND SETTLING OF BALANCES

If experience of the first year of operation is any guide, the task of collecting and consolidating data that would be used as an input for the preparation of periodic reports has proved a time consuming and laborious process. The delay in submitting quarterly statements has rendered timely confirmation of the accounts trying thereby deferring settlement of balances due from ceding companies. Since the Company entirely relies on remittances from ceding companies to finance its operations and also to generate additional income by investing the balance, timely acquisition of quarterly accounts and confirmation of balances due as well as eventual collection of premiums plays a central role in the business process.

Whilst it is understandable that the delay observed largely emanated from the state of information technology prevalent in the insurance industry, the need 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 time prescribed by law due to failure to obtain relevant data from ceding companies. The Company should therefore work with the regulatory authority and players in the insurance industry to establish proper reporting mechanisms in the years to come.

RESULTS

GENERAL

Although Ethiopian Re started operation only on 1 July 2016, recruitment of staff, acquisition of office furniture and creating conducive working environment were not finalized until the end of October 2017. Consequently, actual operation did commence four months after the financial year actually began.
On the other hand, while the manner of transacting treaty cession is straightforward, building consensus over the modality of compulsory policy cession took longer time than expected. Eventually consensus was reached on the terms and conditions for ceding compulsory policy cession with the Association of Ethiopian Insurers and a formal agreement was signed on 29 November 2016.

RETROCESSION PROGRAM:

Retro program arrangement for the year 2016/17 has been negotiated and concluded, with the object of putting adequate protection in place when the Company started operation. Although the retro program is believed to have provided sufficient protection for the risks assumed by the Company, the restriction imposed on acceptance of foreign business partly prevented the possibility of considering business offers coming from foreign reinsurers.
The Company is currently working on a business plan as part of its expressed desire to participate on foreign business which eventually will be submitted to the reinsurer leading the retrocession program in order to get the green light to write foreign business on selective basis.

GROSS WRITTEN PREMIUM

The Company has generated a gross premium income of Birr 519.8 million during its first year of operation. From the total premium for the period, Birr 194 million or 37% has been generated by way of Compulsory Treaty Cession whereas Birr 321.8 million or 62% was generated from Compulsory Policy Cession. Moreover, Birr 3.97 million was written under facultative voluntary cession from local market. No business was written under foreign business.

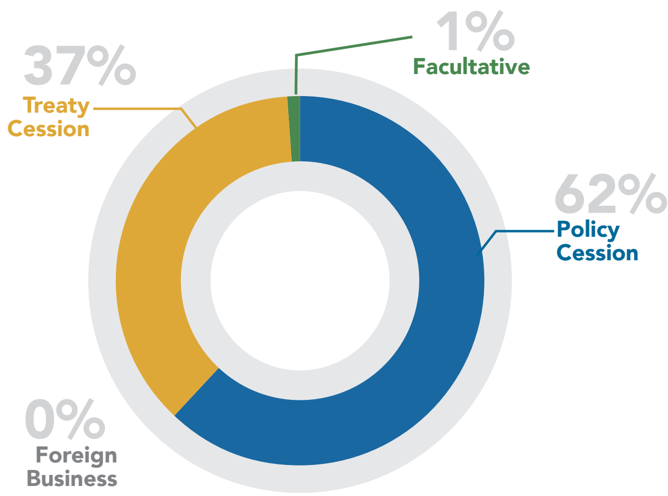

Fig: portfolio mix by treaty type

From the total premium for the period under review, Birr 502 million or 96.66% has been generated from general reinsurance class of business whereas the remaining Birr 17.4 million or 3.34% generated from life reinsurance.

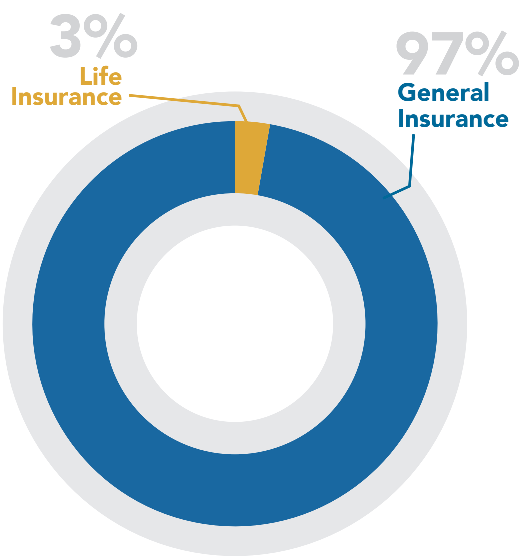

Fig: portfolio mix by class of reinsurance

CLAIMS PAID

TOTAL GROSS CLAIMS PAID (GENERAL INSURANCE)

During the reporting period, the Company has settled a gross claim of Birr 82.2 million. Out of which Birr 16.2 million and Birr 66 million is paid for treaty and policy cession, respectively.

OUTSTANDING CLAIMS

At the end of the financial year under discussion, the total outstanding claims balance stood at Birr 71.9 million. Out of which treaty cession and policy cession share Birr 20 million and Birr 51.9 million, respectively.

TOTAL CLAIMS INCURRED (LONG TERM INSURANCE)

During the period under consideration, the Company's claims incurred (life class of business) has reached Birr 3.7 million

COMMISSION EXPENSE

During the period under discussion, the total ceding commission paid to insurers amounted to Birr 122.6 million. Likewise, the Company has paid Birr 45.4 million as profit commission.

GENERAL AND ADMINISTRATIVE EXPENSES

During the year, Birr 12.8 million has been expended for general and administrative expenses.

INVESTMENT AND OTHER INCOME

The Company has earned Birr 34.4 million from investment and other income during the year under consideration.

PROFIT AND LOSS

The Company has incurred Birr 60.9 million loss during the year.

NON-FINANCIAL PERFORMANCE

INFORMATION TECHNOLOGY (IT)

In an effort to modernize its business processes the Company is in the final process of acquiring reinsurance software.

STRATEGIC PLAN

Ethiopian Re has developed the first strategic plan covering the years 2016/17-2021/22 which was subsequently reviewed and approved by the Board of Directors and Senior Management and eventually filed with the National Bank of Ethiopia.

AUDITORS

The Audit Services Corporation is responsible for auditing the Company's books of account in accordance with the resolution of the Founder's Meeting that sanctioned the Corporation as external auditors responsible to carry out the audit for the year ended 30 June 2017.

VOTE OF THANKS

The Board of Directors, the Executive Management and employees would like to express their deepest gratitude to customers of the Company for their unreserved support and willingness to continue to do business with the Company.

Hailemichael Kumsa
Chairman, Board of directors, Ethiopian Re

Yewendwossen Eteffa Kumsa
CEO, Ethiopian Re

VII / INDEPENDENT AUDITORS REPORT TO SHAREHOLDERS

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የሂሣብ ምርመራ አገልግሎት ኮርፖሬሽን

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 balance sheet as at 30 June 2017, and the profit and loss account, 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 2017 and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles (GAAP) and the requirements of the Commercial Code of Ethiopia of 1960.

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.

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 GAAP and in the manner required by the Commercial Code of Ethiopia of 1960, 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.

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.

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.

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

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 Requirements

Report on Other Legal 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 2017

Audit Services Corporation
Auditors of
Ethiopian Reinsurance Share Company

VIII / FINANCIAL STATEMENTS

ETHIOPIAN REINSURANCE SHARE COMPANY
PROFIT AND LOSS ACCOUNT - General insurance
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Ethiopian
INCOME		
Gross premiums written	3(a)	502,406,694
Less: Retrocession		(37,213,563)
Change in provision for unearned premiums		(198,328,047)
Net Earned premium		266,865,084
Reinsurance commission income		478,020
		267,343,104
OUTGOINGS		
Net claims incurred		150,079,988
Change in provision for incurred but not reported claims		26,686,508
Ceding commission		122,559,503
Profit commission		45,384,971
Management expense		6,123,816
		350,834,786
Underwriting loss		(83,491,682)
Investment income	4	28,894,896
		(54,596,786)
EXPENSES		
Administrative and general	5	2,244,222
Salaries and benefits of support staff		1,945,634
Depreciation		840,562
Amortization		713,749
Directors' allowance		432,000
Audit fee		172,500
		6,348,667
LOSS FOR THE YEAR		**(60,945,453)**

ETHIOPIAN REINSURANCE SHARE COMPANY
PROFIT AND LOSS ACCOUNT - Long term insurance
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	**Ethiopian**
INCOME		
Gross premiums written	3(b)	17,380,809
OUTGOINGS		
Net claims incurred		3,663,299
Commission		2,947,228
Profit commission		2,206,455
		8,816,982
Underwriting profit		8,563,827
Investment Income	4	5,531,509
		14,095,336
EXPENSES		
Administrative and general	5	167,156
Salaries and benefits of support staff		85,209
Depreciation		33,535
		285,900
Transfer to Life Fund		**13,809,436**

ETHIOPIAN REINSURANCE SHARE COMPANY
REVENUE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2017

	Note	Gross Ethiopian Birr	Retrocession Ethiopian Birr	Net Ethiopian Birr
INCOME				
Premium income		502,406,694	37,213,563	465,193,131
Commission received on retroceded business		478,020	-	478,020
		502,884,714	**37,213,563**	**465,671,151**
OUTGOINGS				
Claims Paid	6	82,174,906	4,004,059	78,170,847
Unearned premium		198,328,047	-	198,328,047
Outstanding claims		71,909,141	-	71,909,141
Technical reserve - IBNR		26,686,508	-	26,686,508
Ceding commission		122,559,503	-	122,559,503
Profit commission		45,384,971	-	45,384,971
Management expense		6,123,816	-	6,123,816
		553,166,892	**4,004,059**	**549,162,833**
Underwriting results		**(50,282,178)**	**33,209,504**	**(83,491,682)**

ETHIOPIAN REINSURANCE SHARE COMPANY
BALANCE SHEET
AS AT 30 JUNE 2017

	Notes	General Eth Birr	Long Term Eth Birr	Total Eth Birr	2016 Eth Birr
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	7	14,189,306	-	14,189,306	945,124
Establishment expenses	8	2,854,998	-	2,854,998	3,568,748
Statutory deposit	9	66,159,750	11,675,250	77,835,000	-
		83,204,054	**11,675,250**	**94,879,304**	**4,513,872**
CURRENT ASSETS					
Receivables		217,896	-	217,896	3,000
Due from ceding companies		106,928,840	8,057,955	114,986,795	-
Due from retrocessionaires		2,095,612	-	2,095,612	-
Inter-business account		(541,395)	541,395	-	-
Prepayments		3,228,153	-	3,228,153	-
Advance profit tax		2,151,256	15,156	2,166,412	-
Interest receivable		14,404,865	5,062,964	19,467,829	-
Time deposits	10	256,047,578	65,800,000	321,847,578	-
Cash	11	262,300,214	979,554	263,279,768	541,577,201
		646,833,019	**80,457,024**	**727,290,043**	**541,580,201**
TOTAL ASSETS		**730,037,073**	**92,132,274**	**822,169,347**	**546,094,073**
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
Capital					
Subscribed 99,730 shares of Birr 10,000 each				**997,300,000**	
Paid up		441,065,000	77,835,000	518,900,000	516,150,000
Formation fund		9,973,000	-	9,973,000	9,973,000
Accumulated loss		(43,966,254)	-	(43,966,254)	16,979,199
TOTAL EQUITY		**407,071,746**	**77,835,000**	**484,906,746**	**543,102,199**
INSURANCE FUNDS					
Outstanding claims reserve	12	71,909,141	-	71,909,141	-
Provision for unearned premiums	13	198,328,047	-	198,328,047	-
Provision for incurred but not reported claims		26,686,508	-	26,686,508	-
Life insurance fund		-	13,809,436	13,809,436	-
		296,923,696	**13,809,436**	**310,733,132**	**-**
CURRENT LIABILITIES					
Due to ceding companies		24,476,294	487,838	24,964,132	-
Payables		1,565,337	-	1,565,337	2,991,874
		26,041,631	**487,838**	**26,529,469**	**2,991,874**
TOTAL EQUITY AND LIABILITIES		**730,037,073**	**92,132,274**	**822,169,347**	**546,094,073**

Haile Michael Kumsa
Chairman, Board of Directors

Yewendwossen Eteffa Kumsa
Chief Executive Officer

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Capital ETB	Formation fund ETB	Accumulated loss ETB	Total ETB
Balance at 30 June 2016	**516,150,000**	**9,973,000**	**16,979,199**	**543,102,199**
Increase	2,750,000			**2,750,000**
Loss for the year			(60,945,453)	(60,945,453)
Balance at 30 June 2017	**518,900,000**	**9,973,000**	**(43,966,254)**	**484,906,746**

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Ethiopian Birr
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss for the year	(60,945,453)
Adjustments for	
Increase in insurance funds recognized in profit or loss	238,823,991
Interest recognized in profit or loss	(34,426,405)
Depreciation of non-current assets	2,339,873
	145,792,006
Movements in working capital	
Increase in receivables and prepayments	(3,443,049)
Increase in amounts due from ceding companies and retrocessionaires	(117,082,407)
Increase in outstanding claims	71,909,141
Increase in payables	(1,426,537)
Increase in amounts due to ceding companies	24,964,132
Cash generated from operations	**120,713,286**
Income taxes paid	(2,166,412)
Net cash generated by operating activities	**118,546,874**
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for investment	(77,835,000)
Interest received	14,958,576
Payments for property, plant and equipment	(14,870,305)
Net cash used in investing activities	**(77,746,729)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital received	2,750,000
Net cash generated from financing activities	**2,750,000**
Increase in cash and cash equivalents	**43,550,145**
Cash and cash equivalents at the beginning of the year	541,577,201
Cash and cash equivalents at the end of the year	**585,127,346**
Cash and cash equivalents comprise	
Time deposits	321,847,578
Cash	263,279,768
	585,127,346

IX / NOTES TO THE ACCOUNTS

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY INFORMATION

Ethiopian Reinsurance Share Company was established on 7 July 2016 with the objective of engaging in the business of rendering general and long-term reinsurance services.

It has its registered office in Addis Ababa.

Its shareholders include insurance companies, banks and individuals.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with generally accepted accounting principles and the requirements of the Commercial Code of Ethiopia of 1960. They are also in compliance with Insurance Business Proclamation No. 746/2012, with Insurance/Reinsurance directives issued by the National Bank of Ethiopia and with practices prevailing within the insurance/reinsurance industry.

b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the measurement of impaired assets at their recoverable amounts. The principal accounting policies are set out below.

c) Underwriting results for general insurance business

Underwriting results for general insurance business are determined on an annual basis whereby the incurred costs of claims, commission and related expenses are charged against the earned proportion of premium, net of reinsurance, as follows

(i) Gross written premiums and operational expenses are recognized based upon reports from ceding companies. Where statements of account are not received by the year end, the estimates pipeline method is used.

(ii) The unearned premium provision represents the proportion of premiums written in the current year which relate to risks that have not expired by the end of the financial year. It is calculated by applying the one-over-eights method.

(iii) Claims incurred comprise claims paid during the financial year and provisions for outstanding and incurred but not reported (IBNR) claims. Outstanding claims represent the estimated cost of all claims arising from incidents occurring prior to the end of the reporting period, but not settled at the date of reporting.
10% of net earned premiums is set for IBNR claims at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Underwriting results for general insurance business (continued)

(iv) Management expenses comprise all operational staff and marketing salaries and benefits, depreciation related to the operations and marketing departments and two-thirds ($^2/_3$) of other expenses except few have been accounted in the revenue account as management expenses. One third of other expenses, Audit fee, consultancy fee, amortization and advertising expenses are directly charged to the profit and loss Account.

(v) Retrocession arrangement: the Company uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce its risk of catastrophic loss on reinsurance assumed.

d) Underwriting results for long term insurance business

The underwriting results for long term insurance business are determined on a fund accounting basis.

The insurance contracts are assessed every three years by qualified consulting actuaries and the resulting actuarial profit or loss is recognized in profit or loss.

e) Investment income

Investment income comprises interest received or receivable from bank deposits and investments in securities. Finance revenue is recognized as it accrues in profit or loss.

f) Tangible assets

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged on the straight-line basis at the following rates per annum.

	%
Computers and accessories	20
Other assets	15

g) Intangible assets

Establishment expenses

Establishment expenses are stated at cost less accumulated amortization. The cost is amortized over a period of 5 years.

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks in current and deposit accounts and short term, highly liquid investments with maturity periods of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and at banks net of short-term finances.

3 GROSS PREMIUMS WRITTEN

(a) Class-wise premium distribution - General insurance

Class of business	Policy cession Ethiopian Birr	Facultative Ethiopian Birr	Treaty Ethiopian Birr	Total Ethiopian Birr
Motor	191,691,112	-	35,906,158	227,597,270
Fire	21,264,980	1,020,296	44,574,916	66,860,192
Marine	23,273,458	-	37,376,907	60,650,365
Engineering	20,393,014	2,462,801	25,226,767	48,082,582
Pecuniary	15,721,196	449,362	27,847,987	44,018,545
Accident	10,944,027	-	8,658,701	19,602,728
Liability	11,912,271	32,584	1,740,909	13,685,764
Employer's liability	7,152,803	-	-	7,152,803
Aviation	4,188,602	-	-	4,188,602
Burglary	631,692	5,476	645,170	1,282,338
Goods in transit	538,382	-	479,913	1,018,295
Others	2,633,364	-	5,633,846	8,267,210
	310,344,901	**3,970,519**	**188,091,274**	**502,406,694**

(b) Class-wise premium distribution - Long term insurance

Group term life	5,750,082	-	5,920,798	11,670,880
Health	5,697,562	-	-	5,697,562
Funeral expense	12,367	-	-	12,367
	11,460,011	**-**	**5,920,798**	**17,380,809**

4 INVESTMENT INCOME

	General Insurance	Long term insurance	Total
Interest from			
Savings accounts	13,213,800	-	13,213,800
Fixed time deposits	12,333,744	5,062,964	17,396,708
Dam Bonds	2,655,090	468,545	3,123,635
Current accounts	692,262	-	692,262
	28,894,896	**5,531,509**	**34,426,405**

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Ethiopian Birr Ethiopian Birr Ethiopian Birr

5 ADMINISTRATIVE AND GENERAL EXPENSES

	General Insurance	Long term insurance	Total
Advertising and promotion	175,041	7,293	182,334
Rent	569,178	71,147	640,325
Bank charges	334,548	-	334,548
Training and development	109,138	18,029	127,167
Shareholders' meeting	446,483	-	446,483
Other	609,834	70,687	680,521
	2,244,222	**167,156**	**2,411,378**

6 GROSS CLAIMS PAID

Class of business	
Motor	60,890,714
Fire	7,687,622
Aviation	4,004,059
Accident	2,462,999
Engineering	2,148,879
Liability	2,020,529
Marine	1,196,255
Employer's liability	781,004
Goods in transit	123,005
Pecuniary	42,729
Burglary	2,273
Others	814,838
	82,174,906

7 PROPERTY, PLANT AND EQUIPMENT

	Balance at 30 June 2016 Ethiopian Birr	Additions Ethiopian Birr	Balance at 30 June 2017 Ethiopian Birr
COST			
Partitions	-	2,489,846	2,489,846
Motor vehicles	897,000	10,401,636	11,298,636
Office equipment, furniture and fittings	23,543	1,640,758	1,664,301
Computers and accessories	24,581	338,065	362,646
	945,124	**14,870,305**	**15,815,429**
DEPRECIATION			
Partitions	-	165,080	165,080
Motor vehicles	-	1,322,056	1,322,056
Office equipment, furniture and fittings	-	100,994	100,994
Computers and accessories	-	37,993	37,993
	-	**1,626,123**	**1,626,123**
NET BOOK VALUE	**945,124**		**14,189,306**

8 ESTABLISHMENT EXPENSES

COST	
Balance at 30 June 2016	3,568,748
AMORTIZATION	
For the year	713,750
	2,854,998

9 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 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.

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)

	Ethiopian Birr	Ethiopian Birr	Ethiopian Birr
10 TIME DEPOSITS			
	General Insurance	**Long term insurance**	**Total**
Awash International Bank	75,500,000	15,000,000	90,500,000
Wegagen Bank	50,000,000	20,000,000	70,000,000
Abyssinia Bank	25,000,000	20,800,000	45,800,000
Nib International Bank	30,000,000	10,000,000	40,000,000
Dashen Bank	35,000,000	-	35,000,000
Buna International Bank	15,547,578	-	15,547,578
Oromia International Bank	12,500,000	-	12,500,000
United Bank	12,500,000	-	12,500,000
	256,047,578	**65,800,000**	**321,847,578**

11 CASH

Savings accounts			
Commercial Bank of Ethiopia	238,656,623	-	238,656,623
Wegagen Bank	3,462,154	-	3,462,154
Current accounts			
Awash International Bank	8,105,737	-	8,105,737
Commercial Bank of Ethiopia	2,991,616	-	2,991,616
Wegagen Bank	-	979,554	979,554
Nib International Bank	1,000	-	1,000
Oromia International Bank	1,000	-	1,000
Abyssinia Bank	597	-	597
Dashen Bank	231	-	231
Cash on hand	9,081,256	-	9,081,256
	262,300,214	**979,554**	**263,279,768**

Ethiopian Birr

12 OUTSTANDING CLAIMS RESERVE

Class of business	
Motor	61,663,834
Marine	2,070,344
Engineering	1,605,398
Liability	920,548
Pecuniary	764,978
Employer's liability	629,285
Accident	571,221
Fire	506,489
Burglary	382,100
Others	2,794,944
	71,909,141

13 PROVISION FOR UNEARNED PREMIUMS

Class of business	
Motor	92,571,019
Marine	29,619,358
Engineering	24,599,150
Pecuniary	23,752,271
Fire	10,964,994
Liability	5,963,215
Accident	4,602,684
Employer's liability	3,240,653
Goods in transit	656,691
Burglary	340,613
Others	2,017,399
	198,328,047

14 RETIREMENT BENEFIT OBLIGATIONS

The Company makes contributions to a statutory defined pension scheme. The employer and the employee make contributions of 11% and 7% of the employee's basic salary as determined by statute.

ETHIOPIAN REINSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)

15 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period which should be reported in these financial statements.

16 DATE OF AUTHORIZATION

The Chairman of the Board of Directors authorized the issue of these financial statements on 7 December 2017.

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Ethiopian Reinsurance Company S.C.

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