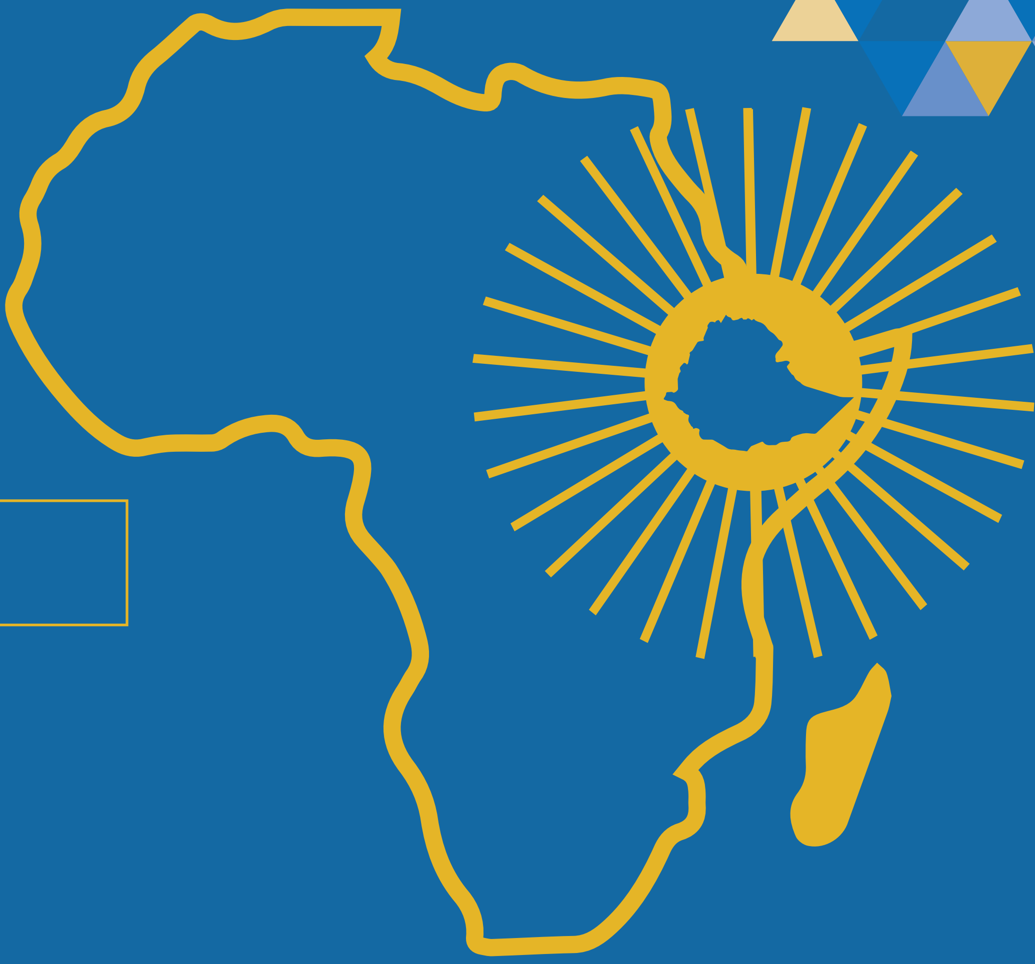

ANNUAL REPORT

Ethiopian Reinsurance

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2019/20

Ethiopian Reinsurance

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ETHIO RE FAMILY - RISING WITH AFRICA

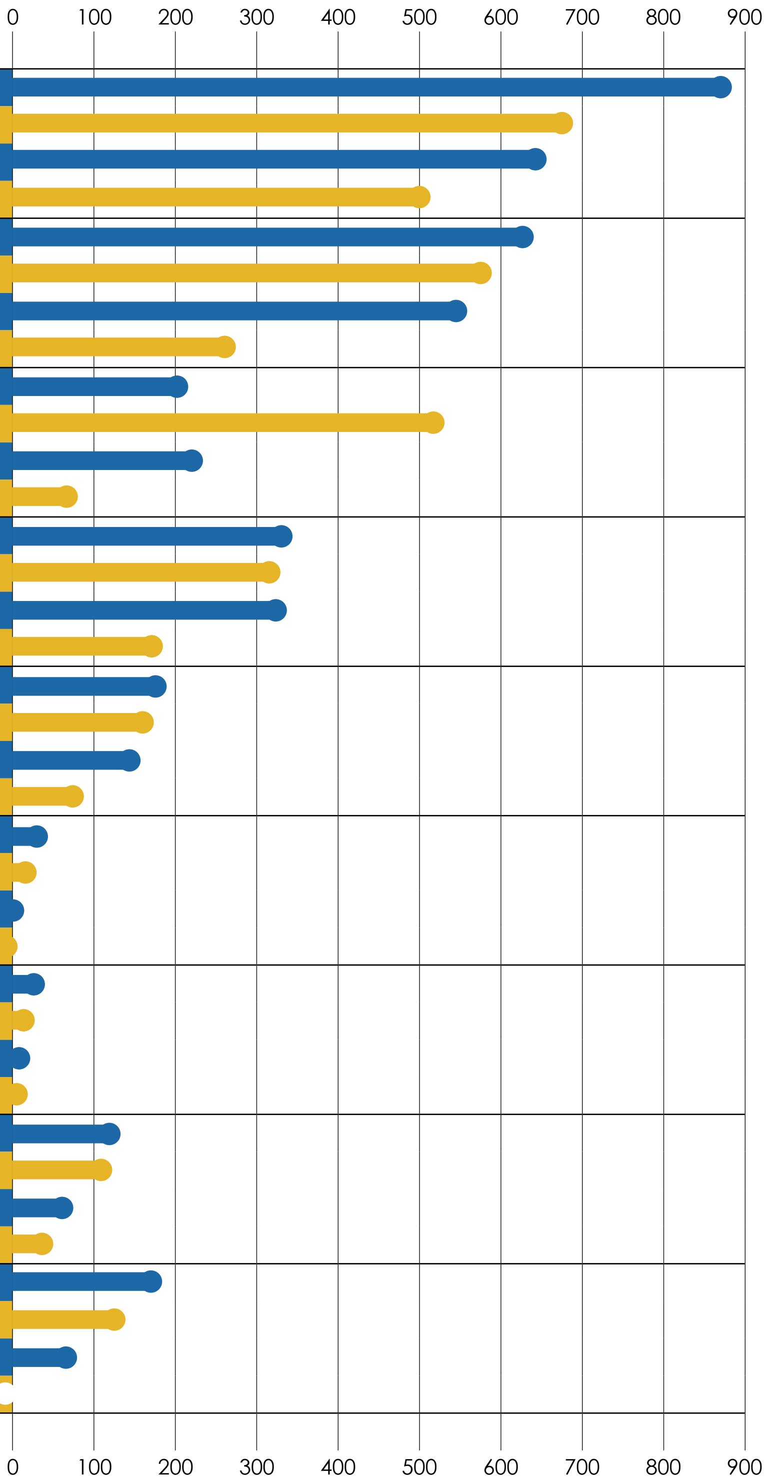
CONTENTS

ETHIO RE IN FIGURES

(FINANCIAL HIGHLIGHTS)

Ethiopian Birr in Millions

PARTICULARS	Year	Value
Gross Written Premium	2019/20	874.8
	2018/19	698.7
	2017/18	661.5
	2016/17	519.8
Net Earned Premium	2019/20	636.2
	2018/19	595.2
	2017/18	553.2
	2016/17	275.6
Gross Claims Paid	2019/20	218.1
	2018/19	521.1
	2017/18	222.4
	2016/17	85.8
Net Claims Incurred	2019/20	335.7
	2018/19	328.9
	2017/18	334.9
	2016/17	184.4
Cedant Acquisition Cost	2019/20	189.3
	2018/19	176.9
	2017/18	150.9
	2016/17	72.6
Commission Income	2019/20	34.1
	2018/19	22.3
	2017/18	4.8
	2016/17	0.478
Operating and Other Expenses	2019/20	48.0
	2018/19	32.8
	2017/18	22.1
	2016/17	11.4
Net Investment Income	2019/20	129.2
	2018/19	102.7
	2017/18	66.9
	2016/17	34.3
Profit Before Tax	2019/20	186.4
	2018/19	144.5
	2017/18	78.6
	2016/17	(5.5)



Net Claims Ratio

2019/20	2018/19	2017/18	2016/17
52.77 %	55.25 %	60.53 %	66.90 %

Net Commission Ratio

2019/20	2018/19	2017/18	2016/17
29.76 %	29.73 %	27.27 %	26.33%

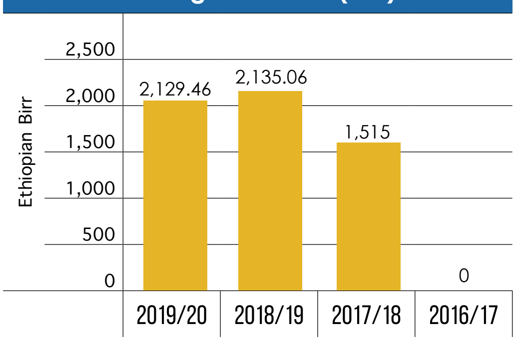
Operating and Other Expenses Ratio

2019/20	2018/19	2017/18	2016/17
7.55 %	5.52 %	3.99 %	4.13 %

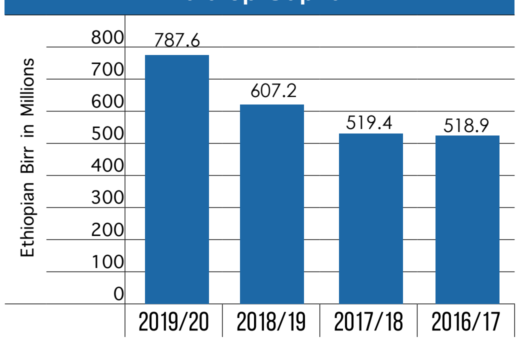
Combined ratio

2019/20	2018/19	2017/18	2016/17
90.08 %	90.5 %	91.79 %	97.36 %

Earnings Per Share (EPS)



Paid Up Capital



WHO WE ARE

MISSION, VISION AND CORE VALUES

MISSION

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

VISION

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

CORE VALUES

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

RE

- Excellence in Service
- Technology Reliant
- Honesty
- Innovation and Learning
- Openness and Transparency
- Professionalism
- Industriousness
- Ally and Close Partner 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 bene t immensely from the unprecedented business opportunities brought about by bourgeoning economic performance of Africa, and hence the motto "Rising with Africa". Basing itself in East Africa, the Company is absolutely committed to provide apposite reinsurance cover for the ever rising and dynamic demand for protection.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND HONORED PARTNERS!

I am pleased to present the fourth year Annual Report of the Board of Directors of the Ethio-Re for the year 2019/20 including the financial statements. This report also includes a review of the Company's operating environment, financial and non-financial performance, and report of the external auditors to the shareholders.

Like the preceding years, the company has registered outstanding performance during the reporting financial year 2019/20. Ethio-Re has registered a 25% increase in Gross Written Premium compared against the preceding year's results and registered Birr 186.4 million profit before tax in the reporting year.

Over the last two years of our tenure, the Board has been wielding maximum effort to understand the business environment, major challenges, and opportunities facing the Company to take the necessary corrective measures and bring the company on track.

During the course of our stay, we have engrossed in strengthening the relationship with the primary insurance market, the regulator, our business partners, shareholders, and other stakeholders to guide the company to perform as expected. During the period, we have witnessed the performance of the Company has shown improvement and we have witnessed steady growth in operational as well as investment income.

The Board has performed hand in hand with management and stakeholders to finalize the strategic initiatives and realize the mission and vision of the company. During the year, the Company has almost concluded the reinsurance and accounting software and hardware infrastructure, finalized and implemented the new structure and HR strategy of the Company, gave due focus for filling key positions, employed the long-awaited expatriate advisor to support the board and management, and build the institutional and human resource capacity of employees and management, strengthened businesses coming from selected African markets, strengthened strategic partnerships with major regional reinsurers such as Africa Re and ZEP Re, and realized the targets set to get sound bottom-line results.

To properly guide the company and provide strategic direction during the year, the Board of Directors conducted 30 regular meetings and Board Committees also had regular monthly meetings in the course of discharging their respective responsibilities as per the requirements set out by the Regulator and the Company's Articles of Association. The Board is also working by establishing Committees comprising Human Resources Affairs Committee, Risk and Compliance Committee, Strategy and Investment Committee, and Audit Committee. The Board had also conducted the periodic performance review and evaluation meetings to help it track the performance of the Company against the approved Strategic Plan and appropriate actions were taken to address identified challenges.

Moreover, the Board had prudently noted the issues and expectations raised by Shareholders during the 4th Annual General Meeting and performed accordingly. We correspondingly promise you to perform as per the expectations of the shareholders in the coming year.

FINAL NOTE

We remain invulnerable in our vision to make Ethio-Re the premier reinsurer in Ethiopia and beyond and we will continue to trail this with strength and stamina. We carry on ensuring that our Company continues to advance on all its performance-measurement bounds. We presume the path ahead to be uneven, nevertheless, we are self-assured that we are well-positioned to take advantage of opportunities availed on our target markets.

On behalf of the Board of Directors, I would like to say thank you to all stakeholders and partners that contributed to the excellent performance achieved in the year 2019/20. I would also take this opportunity to express my deep sense of gratitude to the National Bank of Ethiopia for their strong support and guidance, during the year.

At this juncture, the Board would also like to officially recognize the recent dynamism in the National Bank of Ethiopia to take the necessary measures to amend existing directives and issue new ones to foster the development of the Ethiopian Insurance Industry.

My gratitude goes to my fellow Board Directors and Management who demonstrated a commitment to guide and support the Company. Thank you for your dedication, hard work, commitment, and support. This reassures me that I can count on you during the coming unprecedented and difficult times. More importantly, our thanks are addressed to all ceding insurance companies, reinsurance brokers, and business partners, without whom our Company cannot survive and thrive as it does.

Hailemariam Assefa
Chairman, Board of Directors

MESSAGE FROM THE A/CEO

DEAR STAKEHOLDERS!

It is with great honor I present the annual report for the financial year ending 30 June 2020 to the Fifth Annual General Meeting of the Shareholders of the Ethio-Re.

As we can witness, the Company has sustained its measured journey towards the ground objectives foreseen by its founders. Facts and figures illustrate that Ehtio-Re has continued to register encouraging results compared to projections in terms of revenue, investment income, profit, and earnings per share, among others. Nevertheless, four formative years by no means are considered an ample period for a newly incorporated national reinsurer to stand on its two feet and vigorously compete in the highly competitive and matured world of reinsurers.

As the first public-private venture in the financial sector, the ownership of the Company is fairly exceptional, as more than 60% of the shares are owned by the private sector. The ownership structure has also created a unique platform of the owner- client relationship that could be a source of unmatched business opportunity and strength for Ethio-Re. in this regard, Management is devoted to strengthening this comparative advantage granted for the company through offering fast claim service and avail support to the market.

During the reporting year, the Company has registered a 25% growth in gross written premium, and investment income increased by 26% and earnings per share reached 21.29%. the results registered so far witnessed the sustainable profitable growth of the company.

Our ten years road map and five years strategy has been delineated to make the company competitive, rated, highly proficient, and financially stable fixated on gaining the trust of customers, crowning to creating greater value for our shareholders.

We also believe that the Company's grand strategic initiatives, composed of a cautiously planned portfolio and risk diversification will enable it to realize predictable results in the years ahead.

DEAR SHAREHOLDERS,

As a company born out of a long desire of stakeholders, our triumph is indissolubly knotted with the accomplishment of our partners and the primary insurance market. So, backing the development of the insurance industry will endure as the altar of our business model. To this end, the newly formulated strategic plan by international consultants is expected to pave the way and able to deliver objective results in product innovation, development, and marketing that create value for customers. Although we strive to ensure all this, much belief is put on the demonstrative backing impending from the National Bank of Ethiopia, the Board of Directors, our employees, and of course our cedants.

Before I settle, I would like to assure you again that Ethio-Re's Management is striving to make the company competitive enough and a company of choice through deploying germane policies and strategies that permit it to accomplish steady and unwavering growth in the forthcoming.

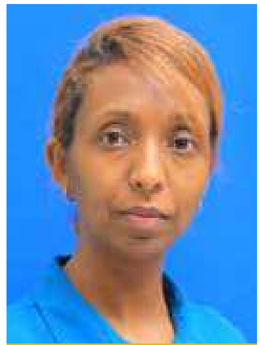
On behalf of the Ethio-Re family, I would also like to seize this opportunity to officially recognize all our stakeholders, esteemed customers, both local and international, for nurturing our business.

Finally, we hope that you will enjoy reading the report and benefit from its findings and the information made available.

Fikru Tsegaye
A/Chief Executive Officer
Ethio-Re

BOARD OF DIRECTORS

Mr. Hailemariam Assefa
Chairman



Mrs. Frehiwet Alemayehu
V/Chairperson

Mr. Shiferaw Bentie
Director

Mr. Shiferaw Ruffie
Director

Mr. Kassahun Begashaw
Director

Mr. Henok Tessema
Director

Giragn Garo
Director

Mr. Jibat Alemneh
Director

Mr. Nigus Anteneh
Director

Mr. Fikru Tsegaye
Board Secretary

EXECUTIVE MANAGEMENT

Mr. Fikru Tsegaye
A/Chief Executive Officer

Ms. Meseret Tilahun
Executive Officer (EO) Operations

Mr. Fikru Tsegaye
Executive Officer (EO), Strategy and Business Development

Mrs. Azeb Wogayehu
Executive Officer (EO) Finance & Investment

Mr. Sahlemariam Dejene
Director, Internal Audit

Mr. Mesfin Wolle
Executive Officer (EO) IT Office

Mr. Samuel Ademe
Director, Enterprise Risk and Compliance

THE DIRECTORS REPORT

REPORT OF THE BOARD OF DIRECTORS FOR THE YEAR ENDED 30 JUNE 2020

The Directors of Ethiopian Reinsurance Share Company hereby present their report together with the Audited Financial Statements for the year ended 30 June 2020 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.

1. BACKGROUND INFORMATION

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

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

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

SHAREHOLDING STRUCTURE

- Ethio-Re's capital structure is composed of private and public financial institutions as well as individual investors. The Company's current shareholders comprise 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 has reached Birr 787.6 million as of June 30, 2020.

GOVERNANCE STRUCTURE

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

2. BOARD OF DIRECTORS

The roles and functions of the Board of Directors and the CEO of the Company are distinct, and their respective responsibilities have been clearly defined in the Memorandum and Articles of Association of the Company. The Board comprises nine directors appointed to serve in their individual capacity and as representatives of institutional investors. The Board, together with executive management, defines the Company's strategies, objectives 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 and decision-making process.

Corporate governance refers to a form of responsible company management and control geared to the long-term creation of value. Ethio-Re strictly complies with the corporate governance Directive set by the National Bank of Ethiopia (NBE), Insurance Corporate Governance Directive No. SIB/48/2019 and the Company's Corporate Governance Guideline prepared and approved by its Board of Directors. The Company has the following governance structure:

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

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

COMMITTEES OF THE BOARD: The Board has set up four committees, namely the 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 and decision making on matters that normally fall within the scope of the Board's responsibilities.

3. TRADING ENVIRONMENT

3.1 THE GLOBAL REINSURANCE LANDSCAPE

According to the Swiss Re Institute sigma report, No 4/2020, the COVID-19 pandemic will spark the deepest recession since the 1930s, and forecast that global gross domestic product (GDP) will contract by around 4% in 2020. This will lead to a slump in demand for insurance this year, more so for life (it was estimated that premiums volumes will shrink by 6%) than non-life (–0.1%) covers. Overall, however, it was expected that the industry to ride out what will likely be a short-lived recession, and for premium, growth to bounce back as the economy enters more protracted recovery and the commercial Property&Casualty lines as the main driver of the comeback.

It was also forecasted that the COVID-19 crisis will put global premium (life and non-life) growth back by around 3 percentage points from the prerecession growth path. Combined life and non-life direct premiums written will recover to above pre-pandemic levels over the course of 2021, a strong outcome given the severity of this year's recession. In relative terms, the declines in life and non-life premium growth in 2020 will be of similar magnitude to that seen during the global financial crisis (GFC) in 2008–09, even though this year's GDP contraction will be much more severe.

In 2019, global premiums grew steadily at just below 3% in real terms. Life sector growth slowed to 2.2%, stronger than the 1.5% average of the previous 10 years. It was estimated that the COVID-19 crisis will slow life premium growth by 4.5 percentage points this year and next, leading to a 1.5% aggregate market contraction. At 3.5%, non-life premium growth in 2019 was slightly above the 10-year average. It was projected that a 1.1 percentage points pullback in premium growth, making for aggregate sector expansion of 1.6% over 2020–21. Motor, trade, travel, and commercial rather than personal lines will likely be the hardest hit. The emerging markets will outperform in both life and non-life. The insurance industry was well-capitalized ahead of the pandemic and it will absorb the COVID-19 earnings shock. The ultimate associated claims burden on the non-life side remains uncertain. The mid-point of the range of estimates from different sources is at USD 55 billion, well below recent peak-year natural catastrophe loss totals.

As per the report, there will be challenges to industry profitability. Investment returns will remain subdued as interest rates stay low for longer, impacting life and long-tail lines in non-life, and rising corporate defaults could lead to losses on invested assets. On the flipside, COVID-19 has hit at a time of rate hardening in non-life, and it was expected that trend to continue in commercial lines in particular, as capital becomes more scarce. This and the expected bounce-back of insurance demand should support earnings over the longer term. Further, the experience of this year's health and economic crises will raise risk awareness, the effect being to boost demand across many lines of business, including for pandemic solutions. The COVID-19 shock will likely accelerate other paradigm shifts also, such as a restructuring of global supply chains to mitigate future business disruption risks, giving rise to new premium pools in property, engineering, and surety insurance. The reinforcement of digitalization trends in personal and work life, stimulating the accelerated development of new insurance products and services was also experienced.

REINSURANCE MARKET IN SUB-SAHARAN AFRICA

According to Africa Reinsurance Pulse 2019, the African sub-continent is scrambling around in an unstable economic and political environment. Monetary depreciations, inflationary pressure, unemployment, and electoral periods have triggered too much turbulence of which insurance has suffered. Nevertheless, some African economies remain sufficiently dynamic to generate growth. That is in particular the case of the Eastern part of the continent where we note that the GDP growth rate is set around 6% in 2018 while growth in the overall Sub-Saharan African zone would be set around 2.4% in 2019 and 2.5% in 2020.

Despite these constraints, the insurance and reinsurance market continues to progress. In 2018, non-life insurance premiums in Sub-Saharan Africa amounted to 16.9 billion USD whereas life premiums attained 43.2 billion USD. Little more than 80% of these premiums being underwritten in South Africa. Reinsurance premiums of this zone are steadily rising, going twofold between 2008 and 2018. Non-life reinsurance is growing more rapidly than non-life insurance in most markets.

In Sub-Saharan Africa, the poor volume of premiums generated by direct insurance companies and the creation of a new reinsurance capacity is not helping the market. With reinsurance supply being superior to demand, ceding companies will continue to tap into favorable renewal terms for all the classes of business except for energy and transport risks that are rated on the international markets.

The strengths of Africa's reinsurance markets have remained fairly unchanged. Fundamentally, the continent's narrative of its growth potential is intact. Besides, key primary insurance markets like South Africa or Nigeria returned to growth. With the enforcement of risk-based capital regimes and tighter capital requirements, markets are seen as becoming more sophisticated. However, a shortage of skilled labor is a concern as experienced talent is needed to advance risk management, product development, or technology and seize market opportunities. The rise of protectionism is another worry as access to markets becomes more cumbersome and costly, in particular as the capacity for highly specialized risks is a scarcity in some African markets and might aggravate if international reinsurers who typically provide that capacity retreat. Africa's low insurance penetration is still its largest opportunity and should increase as more insurable values come onto the market. However, this expectation thus far had remained unfulfilled. The continent's average insurance penetration rate has declined in the last ten years from 3.26% in 2008 to 2.98% in 2018. Improvements may come from the expansion of Africa's insurers and reinsurers into lines of business that are seen as growth drivers, namely infrastructure and agricultural insurance. In terms of threats, Africa's reinsurers fear that rising trade barriers and overregulation affect business access, increase cost, and hamper innovation. Markets remain vulnerable to economic volatility and political unrest – both phenomena that could derail the economical and societal advancements from recent years. Finally, losses from natural catastrophes and climate change are also increasing in Africa, changing a marketplace generally known for its low NatCat exposure.

3.2 ETHIOPIAN ECONOMIC PROFILE AND THE INSURANCE INDUSTRY

The Ethiopian economy has recorded 9 percent growth in 2018/19, faster than the 7.7 percent expansion in the previous year. This growth was attributed to a 12.6 percent growth in industrial output, an 11 percent increase in the service sector, and a 3.3 percent expansion in agriculture. Consequently, the share of industry in GDP has increased to 28.1 percent in 2018/19 from 27 percent in 2017/18 while that of the service sector rose slightly to 39.8 percent from 39.2 percent. In contrast, the share of agriculture to GDP dropped to 33.3 percent from about 35 percent during the same period. This gradual but steady shift in the structure of the economy reflects the government's policy direction of developing the manufacturing sector and promoting export-led growth while continuing to give due attention to modernizing the agriculture sector which has dominated the country's economic base for years.

The robust and sustained economic growth recorded over the last 15 years has led to improvements in income inequality and poverty reduction. Accordingly, per capita income has continuously increased and reached USD 985 in 2018/19. Poverty has declined to 22 percent in 2018/19 from 38.7 percent in 2004/05. The investment to GDP ratio has increased to 35.2 percent while that of domestic savings stood at 22.3 percent. The annual average headline inflation declined to 12.6 percent in 2018/19 from 14.6 percent a year earlier due to the rise in both food and non-food inflation. Similarly, annual headline inflation went down to 15.3 percent from 16.8 percent owing to a 5.7 percentage point fall in food inflation against a 9.7 percentage point increase in non-food inflation. This slowdown in annual inflation was largely aided by a tight monetary and prudent fiscal policy stance.

Ethiopia has maintained a managed float exchange regime to ensure the competitiveness of its local currency. Accordingly, the Birr was allowed to depreciate by 7.5 percent in nominal terms against the US Dollar by the end of 2018/19. In contrast, the real effective exchange rate appreciated by 21.1 percent largely due to the strengthening of the US Dollar against the country's trading partner currencies. The Ethiopian financial sector has been broadly safe, sound, well-capitalized, and profitable. Commercial banks opened 807 new branches in 2018/19 alone which increased the total number of branches to 5,564 from 4,757 a year ago. The banks also increased their deposit mobilization by 23.2 percent, loan collection by 18.1 percent, and loan disbursement by 42.5 percent. Their non-performing loan was within the required ceiling of 5 percent. Similarly, insurance companies and microfinance institutions have scaled up their services by expanding their network and product diversification. Capital goods finance companies have also stepped up their operations showing visible signs of improvement. Moreover, the implementation of financial inclusion strategy has resulted not only in increased financial intermediation and in enhancing the use of digital money and new financial products but also in further improving access to finance and financial inclusion for a wider population which is currently outside the reach of modern financial services. (National Bank of Ethiopia, Annual report, 2018/19).

THE INSURANCE INDUSTRY:

During the year under review, the number of insurers in Ethiopia had increased by one: one public and 17 private insurers. This is due to the entrance of one private insurer "Zemen Insurance SC" to the market as an added player. The Gross written premiums of the industry reached Birr 11.2 billion revealing over 18.5% growth compared with last year's same period result (i.e. the GWP as of June 30, 2019, was Birr 9.1 billion). General insurance (GI) dominates the sector claiming Birr 10.6 Billion or 94.8%, with motor vehicle insurance continuing to dominate earning – constituting 44% of total insurance premiums and 46.4% of the GWP of GI class of insurance. The total assets and total capital of insurers have reached Birr 29 billion and Birr 9.6 billion, respectively which showed an increase of 28.3% and 15.1% respectively. Despite the decrease witnessed in retention ratio to the tune of 64% compared to last year's same period figure. i.e. 72%, the Company managed to register almost 25% growth, well above the growth rate registered by the industry.

SUMMARY OF FINANCIAL INFORMATION OF INSURERS AS OF JUNE 30, 2020

TABLE 1: PERFORMANCE OF THE INSURANCE INDUSTRY

Summary of Financial Information of Insurers as of June 30, 2020

In '000 Birr

Item	Non-Life	Life	Total June 30, 2020	Total June 30, 2019
Gross Premium	10,579,255	578,957	11,158,212	9,096,762
Net Premium	6,600,536	506,670	7,107,206	6,521,884
Ret Ratio (%)	62	88	64	72
Net Earned Premium	6,381,501	493,740	6,875,241	6,274,441
Net Claims Incurred	3,944,376	287,407	4,231,783	3,783,518
Loss Ratio (%)	62	58	62	60
Total Asset	26,680,126	2,385,260	29,065,386	20,819,397
Total Capital	8,697,346	952,803	9,650,149	8,187,598
Profit after Tax	1,614,361	110,004	1,724,365	1,600,199

SOURCE: NATIONAL BANK OF ETHIOPIA(NBE), JUNE 30, 2020

Regarding the portfolio mix, the life business still comprises 5.2%, slightly lower than last year's same period experience .i.e. 5.7%. Overall, at the industry level, it could easily be concluded from the above that, extra effort should be exerted to improve performance by adopting best practice from other countries and through active participation in initiatives already started such as actuarially approved pricing, in addition to undertaking new initiatives directed at rejuvenating the industry.

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

Like many national reinsurance companies in developing economies, Ethio-Re is entitled to receive 5% compulsory policy and 25% treaty cessions by the virtue of the stipulation of Directive No.SIB/44/2016 and amendment on the manner and criteria of transacting reinsurance Directive No. SIB/53/2020 of the National Bank of Ethiopia (NBE). The Directive, which governs the manner and criteria of transacting reinsurance business, requires an insurer to cede at least 25% of its treaty business and 5% of each policy issued or renewed by an insurer to the national reinsurance company. Besides, the Company also has the right of first refusal in respect of all facultative placements.

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

According to the audited financial statements for the year ended 30 June 2020, legal policy cessions accounted for 59% of the total premium income of the Company, whereas the underwriting result for the same period witnessed a gross loss after deducting the retrocession premium paid to protect the account. Determining the real reason behind the poor performance registered in customarily profitable classes requires further review, but the agreement which provides that commission to be paid on policy cessions to follow terms of the treaty of ceding companies has negatively impacted the result of this account.

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

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

3.4 MANNER OF ACCEPTING AND CEDING FACULTATIVE BUSINESS:

Regarding the manner of transacting reinsurance business, Directive No.SIB/44/2016 and amendment on the manner and criteria of transacting reinsurance Directive No. SIB/53/2020 grants Ethio-Re the right of first refusal on all facultative businesses before they are offered to overseas companies. Nevertheless, this particular provision of the Directive has not consistently and strictly adhered to resulting in forfeiture of the income that could be generated from this source. In addition to indirectly influencing the rate of premium being applied for a cover, strict enforcement of the provision would have boosted the income spawned from domestic sources.

The Company together with the Association of Ethiopian Insurers(AEI) has been lobbying to introduce certain amendments to the relevant provisions of Directive No. SIB/44/2016 with the object of ensuring consistent application of the original intent, i.e. exhausting local capacity before ceding business abroad. In this regard, the amendment issues this year had brought changes several changes especially in areas of the risk-sharing scheme. It is pertinent that all concerned parties exert the necessary efforts for the implementation of the revised directives before the end of the year.

3.5 TIMELY FILING OF QUARTERLY REPORTS AND SETTLEMENT OF BALANCES:

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

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

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

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

3.6 COLLECTION OF PREMIUMS:

Writing a reinsurance business is worthless if the Company never receives amounts due on time. The insurance industry is operating based on 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 and amendments thereafter.

This effectively abolished the customary way of providing cover on credit as part of the 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 debtors and the huge provisions to be set aside to guard against bad debts. Technically, any amount due to Ethio-Re. is coming from a premium that was already collected by a direct insurer and hence any premium should be paid as soon as statements of account are confirmed and delivered. If this practice is allowed to continue unchecked, the Company would ultimately be forced to keep substantial reserve as a safeguard against possible future default. In an era when insurance companies got rid of the practice of keeping a fair share of their assets as a reserve to safeguard against possible future defaults, forcing Ethio-Re. to maintain this type of reserve is unacceptable. So, settlement of premiums as soon as statements of accounts are received should be given utmost attention before the situation deteriorates to a point where supervisory intervention becomes inevitable.

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

Income targets from foreign business: The Company has set targets to write inward business from the overseas market.

Following a successful negotiation with retrocessionairs, the restrictions imposed have been waived, and Management conducted a risk assessment and drawn a business plan including identification of target markets with the assistance of Afro- Asian Insurance Services. During the year 2019/20, the Company was able to underwrite foreign business through Reinsurance Brokers amounting to Birr 7 million, as a second-year performance.

The Company has set targets to obtain voluntary cessions from the domestic market so that the impact of the cessation of compulsory cessions could be minimized. The Company so far managed to secure voluntary cession from 7 local insurance companies, namely Africa, Nile, Birhan, United, Nib, Tsehay, and Zemen Insurance companies and many have promised to provide voluntary cession on all treaties on top of the compulsory treaty cession once any outstanding issues with their current reinsurers are settled. Management expects to write more business in the years to come and especially when compulsory policy cession ceases.

4. RESULTS

4.1.FINANCIAL PERFORMANCE

TOTAL ASSET

- As of June 30, 2020, the total asset of the Company stood at Birr 1.79 billion, showing an increase of 10% than last year's similar period.

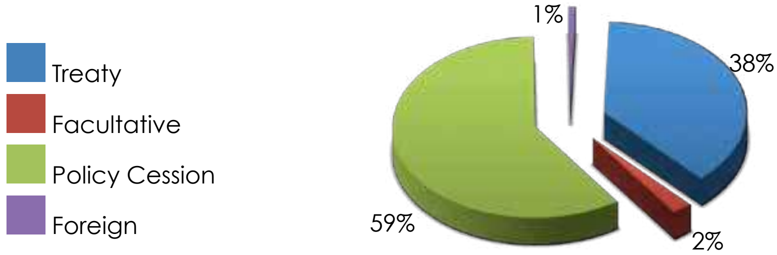
CAPITAL

- During the period under review, the total capital of the Company reached Birr 983.4 million, showing an increase of 29% when comparisons are made with last year's similar period.

GROSS WRITTEN PREMIUM

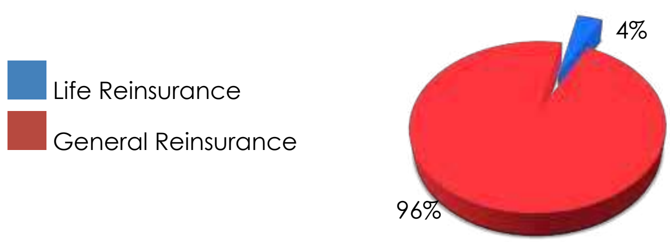
- During the period under review, the Company has generated a gross premium income of Birr 874.7million. The total premium generated was higher than last year's similar period by 25%. Figures indicate that although the growth of the company is higher than the industry's growth, the difference in registered premium under policy cession has shown a birr 39 million or 7.8%. it was assumed that the difference with the industry's performance was observed mainly due to increase of retention level of local ceding companies to align with regulatory requirements, local capacity promotion practice risk sharing of facultative business amongst local players before the same is availed to reinsurers and premium rebates relating to policy cancellations, 10% contribution relating to compulsory third party motor insurance premium, COMESA yellow card cover premium, travel and health insurance, and inward facultative businesses or there may be errors or omissions that may call for an inspection of accounts in the future. On the other hand, the difference under life insurance class was observed because the company only takes yearly renewable life policies.

FIG 1: PORTFOLIO MIX BY TREATY TYPE



- From the total premium for the period under review, Birr 842million or 96% was generated from general reinsurance, whereas the remaining Birr 32.7 million or 4% was from life reinsurance.

FIG 2: PORTFOLIO MIX BY THE CLASS OF REINSURANCE



- During the reporting period, the Company has written business from selected African markets amounting to Birr 7 million.

CLAIMS PAID

- The Company has settled gross claims amounting to Birr 218.1 million. Out of the total claims paid, Birr 144.9 million and Birr 73.5 million were paid under policy and treaty cessions, respectively. Moreover, the Company has settled gross claims amounting to Birr 371 thousand for businesses written under the foreign account and Birr 5.8 million under facultative business.

CEDANT ACQUISITION COST

- The Company has outlaid Birr 189 million for acquisition cost, which is higher than last year's similar period by Birr 12 million or 12%. The increment in cedant acquisition cost was mainly due to an increase in written premium during the year.

COMMISSION INCOME

- The company earned Birr 34 million as commission income which is higher than last year by Birr 11.8 million. The increase in commission income was registered mainly due to a change in retrocession arrangement from non-proportional to the proportional treaty under the pecuniary class of business.

OPERATING AND OTHER EXPENSES

- The Company has outlaid Birr 48 million as operating and other expenses which is higher than last year's similar period by Birr 15.2 million. The registered increase was mainly due to supports extended to the government under various corporate social responsibility schemes, financial charges, and staff costs.

NET INVESTMENT INCOME

- During the period under review, the Company has earned Birr 129.1 million from investment which is higher than last year's similar period income by Birr 26.4 million or 25%. The registered increase in investment income was mainly due to interest income growth from fixed time deposits.

PROFIT

- During the period under review, the Company has registered Birr 186.4 million profit before tax, which is higher than last year's similar period performance by Birr 41.9 million, or 29%. The share of general insurance stood at Birr 166.9 million, whereas the life insurance business contributed Birr 19.4 million towards the total generated. Accordingly, the earnings per share (EPS) of the Company stood at 21.29%.

4.2. NON-FINANCIAL PERFORMANCE

IT PROJECT

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

- Ethio-Re has also finalized the deployment of the required network infrastructure. The new technology and infrastructure, as part of the overall automation strategy of the business process of the Company, will help in furthering the ongoing rating efforts. As per the project's action plan, the project will go-life in the coming April 2021.

CORPORATE STRATEGIC PLAN PREPARATION

- Ethio-Re has engaged Deloitte international consultants and currently has reached the final stage of formulating its ten years road map and five years strategic plan. The company ventured to develop a Strategic Plan aimed at defining, inter alia, the strategic direction of the Company, the time horizon for achieving a rating by international rating companies, ensuring sustainable growth through supporting the primary insurance market, fostering the development of the domestic market, especially resuscitating the life insurance business as well as laying out strategic directions that are meant to significantly reduce the financial impact that the phasing out of compulsory policy cession would bring. Currently, the formulation has been completed and the solution developing and implementation phase and follow up and monitoring phase will be the prime focus in the coming strategic period.

INVESTMENT

- Within the limits set by the National Bank of Ethiopia (NBE) directives, Ethio Re needs to look at how to get a high return by investing its excess funds in other areas of investment other than fixed time deposits. Accordingly, an investment plan has been prepared and approved by the Board of Directors to diversity investment options. To this end, the Company has purchased shares from Wegagen Bank with a total amount of Birr 6 million. Moreover, the company is also working on the acquisition of headquarters and the project has reached the valuation stage.

HUMAN RESOURCE STRATEGY AND PROFILE

- The company has duly recognized the importance of building the capacity of staff to be able to deliver competitive reinsurance service. Accordingly, the Company has engaged an internationally renowned and experienced expatriate advisor aimed at developing a blueprint on how to build a competent and highly motivated workforce, consult the board and management on key operational, marketing, and governance areas. Accordingly, the Company has implemented a new structure and HR Strategy following the approval granted by the Board, effective March 2020.

Second generation strategic planning approval workshop

- To strengthen the long term insurance business, the company has employed competent staff during the reporting period. Ethio-Re believes that life insurance has the potential to drive economic growth and development at a crucial time in Ethiopia through mobilizing domestic savings and investment, creating employment, and enhancing household welfare. Moreover, the company has a strong objective to become a leader in life treaty programs, therefore, it has devised strategies and active policy decisions to develop the potential market and benefit from the untapped market.

- At Ethio Re we believe that highly qualified and motivated staff is key to the success of our business. Our corporate and leadership culture is strongly geared to performance and business requirements that shape the way our staff approach change, performance, and training. There are currently 21 people working at Ethio-Re of which almost 50% are female (figures from 30 June 2020). All of them contribute to our success through their skill, performance, and dedication. We are committed to investing in their development and provide all staff with equal opportunities and top-quality working conditions. We strive to recruit the best staff we can and equip them to deal with the global business of opportunities and risks.

PRODUCING REPORTS IN LINE WITH INTERNATIONAL REPORTING STANDARDS(IFRS)

- IFRS constitutes standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that a company's accounts are transparent and comparable across international boundaries. The government of Ethiopia also enacted the IFRS proclamation and regulation in 2014. Accordingly, banks, insurance companies, and public enterprises are obliged to comply with IFRS within the deadline starting from 2018. In line with this, Ethio-Re has been producing its financial statements from the first year of establishment i.e. for the financial years 2016/17,2017/18,2018/19, and 2019/20 in compliance with IFRS standards. The Board has also reviewed the performance of the Company every quarter to track performance and take timely corrective measures.

APPROVAL OF POLICIES, WORKING MANUALS, PROCEDURES, AND GUIDELINES

- The Company has revised the working manuals, procedures, and guidelines to make them more suitable to the working context and keep abreast with the changes and review and implementation of same will be finalized after a thorough assessment by the expatriate advisor.

INCORPORATION OF RETAKAFUL WING

- The company has also finalized the necessary preparations to incorporate retakaful wing under Ethio-Re so as to serve the market.

RETRO-PROGRAM ARRANGEMENT

- Retro program arrangement for the year 20120/21 has been finalized during the reporting period. A comprehensive retro program with wider geographical coverage, from sub-Saharan African to the entire African markets has been concluded. It is believed that this in turn would enable the company to generate more income from the overseas market in the coming strategic periods.

BUSINESS DEVELOPMENT, PROMOTION, AND COMMUNICATION

- Although market visit has been conducted all plans and initiative to participate in the continental and global forums, Organizing market pieces of training on topical industry issues, consultation forum with insurance companies and the regulator, National Bank of Ethiopia (NBE), could not be realized during the year due to COVID 19 pandemics;

- However, Ethio-Re believes that consultative forums with stakeholders serve as a springboard for creating and maintaining a strong link. At the center of this endeavor is the discussion on the implications of cessation of compulsory policy cessions and what possible actions could be taken to mitigate the negative impact. As part of the effort to create a sustainable business relationship with stakeholders, arranging regular discussion platforms with key partners lies at the heart of the communication strategy. To this end, the consultation forum will aim 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 and the forums will be conducted as planned in the coming strategic year.

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

- Moreover, Ethio-Re has responded positively on the subject of supporting “Dine for Ethiopia”, also known as “Gebeta Le Hager” project, “Gebeta Le-Sheger” project, and other supports at the national level heralded by PM Dr. Abiy Ahmed, cognizant of the benefits the projects would fetch to the prosperity of Ethiopia in terms of creating Ethiopia’s climate-resilient green economy, tourism, income generation schemes, environment protection, and other multiple benefits for communities in which they are established.

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

Corporate Social Responsibilities:- Participation in Green Legacy Project

Corporate Social Responsibilities:- Support for Co-action Deaf School Children

APPOINTMENT OF ACTUARY AND CONTACTING RATING AGENCIES

- Credit rating: The Company has communicated selected rating agencies, AM BEST and Global Credit Rating (GCR) as per the decision of the Board of Directors. Accordingly, information regarding the 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 to fulfill rating requirements and finalize the project within the action plan set.

- Actuarial services: Ethio-Re. envisages developing its internal actuarial expertise in the long run. However, in the short run, the Company has selected and engaged ACTSERV, a Kenyan based actuarial firm, to perform the required actuarial services.

5. MAJOR CHALLENGES ENCOUNTERED DURING THE YEAR

During the period under review, the achievements made had been tempered by the following challenges that the Company strived to overcome in close collaboration with stakeholders and partners. Some of these challenges were chronic, and the Board and Management undertook measures to adjust and refine relevant policies and strategies, to bring the performance of the company back on track and minimize their adverse impact.

- Although started in the third quarter of the year, the COVID-19 crisis continues to have a significant impact on individuals, society, business, and the wider economy across the globe. The insurance and reinsurance industry has not escaped its impact although has responded quickly to the crisis. As the broader economy recovers and responds to the pandemic, insurers will face several challenges but also see many new opportunities in the medium to long term. However, the company's performance especially the forums, travels, and foreign promotion programs have been canceled due to the pandemics;

- Foreign currency shortage has also impacted the operation of the company in meeting its obligations and settling retrocession premiums in due course;

- During the period under review, there have been notable changes in the political landscape in the Country. These circumstances have affected the economic well-being of the populations, and have also compromised the infrastructural developments in the country.

- In recent years, competition in the insurance sector has been intensified due to the price based cut-throat rivalry among players. Competition has long played an uneasy role in the insurance industry. If consumers cannot easily observe the financial health of their insurers, competition between insurers may drive premiums down to the point where the risk of failure is high.

- The dearth of skilled professionals in the insurance industry has resulted in intensive head-hunt by operators, a situation that is now becoming worrisome to the management of most companies, including Ethio-Re.

- Shortage of quality and timely data and information. The digital revolution has allowed for the collection and storage of large and diverse amounts of information. However, due to less utilization of information technology in the industry for insurance purposes, data and information shortage is affecting the underwriting, rating, pricing, risk assessment, marketing, and claims handling efforts in the insurance industry;

6. THE WAY FORWARD

- To make the company competitive and realize the vision 2027 .ie. "To be the Reinsurer of Choice in Ethiopia and our chosen markets", Ethio-Re has formulated its second-generation strategic plan by international consultants covering the years 2020/21-2024/25. Accordingly, the Board of Directors and Senior Management have reviewed and approved the strategic plan and made it ready for implementation effective the new strategic period.

- During the captioned 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 and discharge its corporate social responsibility.

- In the upcoming financial 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 given the changing business environment. To bear a leading role in offering reinsurance services as stated in its mission and vision statements, the Company will step up its efforts at developing the capacity of its workforce, work on Company Rating, strengthen the relationship with cedants and implement state of the art information technology system. In the year 2020/21, the Company, among others, would focus on the following strategic initiatives:

    - Developing the skill, knowledge, and capacity of the workforce, through strengthening the established strategic partnerships with renowned companies including Africa Re, ZEP Re, and Oman Re;
    - Strengthen the institutional capacity of Ethio-Re through employing an experienced expatriate consultant to support the Board, Management and build the capacity of core employees;
    - Finalizing the implementation of reinsurance and financial accounting software to ensure the competitiveness of the Company;
    - Meticulously work with the industry to foster the development of the life insurance sector and curb structural challenges in Ethiopia thorough organizing national forums, policy dialogues considering its potential;
    - Building the brand image of the Company and consolidating its income by promoting its services on continental and regional markets;
    - Focus on investment diversification to consolidate the asset and earnings of the Company and engage resources in various equity shares from banks, mining industry, government privatization projects, real-estate and building headquarters of the Company, and other available investment options;
    - Enable the company to own its headquarters and conducive office environment;
    - Increase the market share of the Company and implement a comprehensive risk management program;
    - Collect all outstanding capital subscription within the legal time frame;
    - Focus on the credit rating project to determine the financial strength and ability of Ethio-Re with apposite rating agencies to build the brand image, market acceptability and facilitate entering into overseas markets;
    - Consolidate the business relationship of the Company with ceding companies and other stakeholders;
    - Working to strengthening the institutional capacity of the Company.
    - Closely work with the industry to curb major challenges including the institution of regulatory

reform to limit price-based competition and focus on prudential regulation to stabilize the market.

- The implementation of these strategic initiatives is 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.

7. RECOMMENDATION ON THE APPROPRIATION OF PROFIT

- During the financial year 2019/20, the Company has obtained a profit after-tax of Birr 164.5 million;

- The Board of Directors, therefore, recommends to the General Assembly of shareholders that Birr 146 million be distributed to shareholders in proportion to their respective shares after deducting legal reserve and the remuneration of the Board of Directors.

8. AUDITORS

- The Audit Services Corporation is accountable for auditing the Company's books of accounts per the resolution of the Fourth AGM of shareholders that sanctioned the Corporation as External Auditors for the financial year ended 30 June 2020.

9. VOTE OF THANKS

- The Board of Directors, the Executive Management, and employees would like to prompt their earnest gratitude to all insurers in Ethiopia, retrocessionaires, our reinsurance brokers, our shareholders, the regulator National Bank of Ethiopia, and other stakeholders for their candid support and enthusiasm to continue to do business with the Company;

- Our special thanks go to insurance companies in Ethiopia that provided voluntary cessions to Ethio-Re, namely, namely Africa, Nile, Birhan, United, Nib, Tsehay, and Zemen Insurance companies. We also would like to take this opportunity to request others to follow their footsteps and we are confident that they will continue to exert their concerted efforts to achieve more positive outcomes and robust progress during FY 2020/21 and beyond

Hailemariam Assefa
Chairman of the Board of Directors

Fikru Tsegaye
A/Chief Executive Officer

FINANCIAL STATEMENTS

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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 2020, 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 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

Key Audit Matters

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

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The Federal Democratic Republic of Ethiopia Audit Services Corporation

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

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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The Federal Democratic Republic of Ethiopia
Audit Se[illegible] Corporation

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

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Other Legal and Regulatory Requirements

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

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

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

audit Services Corporation

Audit Services Corporation
Auditors of
Ethiopian Reinsurance Share Company

Addis Ababa
3 December 2020

The Federal Democratic Republic of Ethiopia * Audit Services Corporation

ETHIOPIAN REINSURANCE SHARE COMPANY					
Statement of Financial Position					
AS AT JUNE 30,2020					
		Gen.Ins	Long Term Ins	Total	Total
	Note	2019-20	2019-20	2019-20	2018-19
		ETB	ETB	ETB	ETB
Assets					
Cash	5	99,877,813	272,396	100,150,209	109,132,501
Other Receivables	6	8,906,048	120,160	9,026,208	6,578,421
Due from retrocessionaires	7				215,302,382
Due from ceding companies	8	223,266,753	16,109,385	239,376,139	135,482,070
Deferred acquisition costs	9	76,034,426	2,842,839	78,877,265	67,167,405
Time deposits	10	1,037,215,318	116,672,702	1,153,888,020	969,930,431
Equity Investment	11	46,195,000	6,000,000	52,195,000	
Grand Renaissance Dam Bonds	12	103,428,966	18,252,171	121,681,137	93,930,206
Right of use asset	13	2,877,311		2,877,311	4,802,744
Property Plant & Equipment	14	15,631,660		15,631,660	13,555,638
Intangible Asset		18,505,314		18,505,314	5,460,476
Total assets		1,631,938,609	160,269,653	1,792,208,263	1,621,342,274
Liabilities					
Provision for unearned premiums	15	255,224,462	16,398,159	271,622,621	235,229,724
Interbranch Business		(140,582)	140,582		
Other payables	16	7,846,317	62,630	7,908,946	3,357,075
Due to ceding companies	17	57,068,741	534,587	57,603,329	303,972,657
Due to retrocessionaires		117,663,244		117,663,244	19,420,926
Employee benefits liability	18	207,960	4,191	212,151	104,810
Lease Liability	13	2,097,406		2,097,406	3,981,876
Provision for incurred but not reported claims		70,781,644	2,723,082	73,504,726	67,351,046
Outstanding claims reserve	19	256,301,044		256,301,044	218,400,942
Provision for income tax		19,346,988	2,513,783	21,860,771	10,677,346
Total Liabilities		786,397,224	22,377,014	808,774,238	862,496,402
Equity					
Capital: Paid up	20	669,477,433	118,143,076	787,620,509	607,168,354
Formation fund	20	9,973,000		9,973,000	9,973,000
Retained earnings		132,845,480	15,273,304	148,118,784	120,439,673
Legal reserve		33,227,687	4,476,259	37,703,947	21,246,307
Other Comprehensive Income		17,785	-	17,785	18,538
Total equity		845,541,385	137,892,639	983,434,025	758,845,872
Total liabilities and equity		1,631,938,609	160,269,653	1,792,208,263	1,621,342,274

Haile Mariam Assefa
Chairman,Board of Directors

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Fikru Tsegaye
A/Chief Executive Officer

ETHIOPIAN REINSURANCE SHARE COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Gen.Ins 2020	Long Term Ins 2020	Total 2020	Total 2019
Income					
Gross premiums written	21	842,024,996	32,767,143	874,792,139	698,731,889
Retrocession Premium		(202,205,537)	-	(202,205,537)	(110,653,854)
Change in net unearned premiu	15	(32,823,397)	(3,569,500)	(36,392,897)	7,112,764
Net Earned premium		606,996,063	29,197,643	636,193,706	595,190,800
Reinsurance commission income		34,083,373	-	34,083,373	22,254,953
Total Income		641,079,436	29,197,643	670,277,079	617,445,753
RE-INSURANCE EXPENSES					
Net claims incurred	22	322,384,280	13,363,080	335,747,361	328,871,670
Cedant Acquisition Cost	23	184,580,152	4,740,173	189,320,325	176,921,938
profit commission Exp.		37,921,348	1,964,039	39,885,387	37,033,994
Total outgo		544,885,780	20,067,291	564,953,072	542,827,602
Undewriting profit (loss)		96,193,656	9,130,352	105,324,007	74,618,151
Net Investment Income	24	117,896,464	11,258,395	129,154,859	102,714,643
Other Income		-	-	-	1,503
Operating and other expenses	25	(47,137,074)	(904,626)	(48,041,700)	(32,835,092)
Profit before tax		166,953,045	19,484,121	186,437,166	144,499,205
Profit Tax		19,346,988	2,513,783	21,860,771	10,677,346
Profit for the year after tax		147,606,057	16,970,338	164,576,395	133,821,859
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Acturial Gain/Loss		(753)	-	(753)	9,166
Total comprehensive income for the year		147,605,304	16,970,338	164,575,642	133,831,025

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ETHIOPIAN REINSURANCE SHARE COMPANY							
STATEMENT OF CHANGES IN EQUITY							
FOR THE YEAR ENDED 30 JUNE 2020							
	Capital	Formation fund	Excess Fund	Retained Earnings	Legal Reserve	Other comprehensive Income	Total Equity
Balance at 1 July 2018	519,450,000	9,973,000	-	78,628,720	7,864,121	9,372	615,925,212
Profit for the year	-	-	-	133,821,859	-	9,166	133,831,025
Dividend declared				(77,278,720)			(77,278,720)
Directors compensation				(1,350,000)			(1,350,000)
Transfer to legal reserve	-	-	-	(13,382,186)	13,382,186	-	-
capital contributed during the year	87,718,354	-	-	-	-	-	87,718,354
Balance at 30 June 2019	607,168,354	9,973,000	-	120,439,673	21,246,307	18,538	758,845,871
Balance at 1 July 2019	607,168,354	9,973,000	-	120,439,673	21,246,307	18,538	758,845,871
Profit for the year	-	-	-	164,576,395	-	(753)	164,575,642
Dividend declared				(119,089,673)			(119,089,673)
Directors compensation				(1,350,000)			(1,350,000)
Transfer to legal reserve	-	-	-	(16,457,640)	16,457,640	-	-
capital contributed during the year	180,452,155	-	-	-	-	-	180,452,155
Balance at 30 June 2020	787,620,509	9,973,000	-	148,118,784	37,703,947	17,785	983,434,025

Ethiopian Reinsurance Share Company		
Statement of Cash Flows		
For the year ended 30 June 2020		
	2020	2019
	ETB	ETB
Cash flows from operating activities:		
Profit for the year	186,437,166	144,499,205
Depreciation and Amortization	4,416,036	4,151,634
Interest on employer liability	75,210	
Interest on lease liability	413,506	563,502
Interest on staff loan	(98,327)	
Realized/Unrealized exchange gains	(39,003)	
Acturial Gain	753	(9,166)
Interest income	(129,643,574)	(103,309,846)
	61,561,765	45,895,329
Movement in Working Capital		
Increase in receivables and prepayments	(2,447,787)	(534,929)
Increase in amounts due from ceding companies and retrocessic	99,698,454	(227,704,863)
Insurance provisions	80,446,679	63,298,581
Other provision	105,484	41,696
Increase in payables	4,551,871	1,510,324
Increase in amounts due to ceding companies	(148,127,010)	264,448,304
Net cash flows from operating activities	95,789,455	146,954,443
Cash flows from investing activities		
Payment for investment in the Grand Renaissance Dam Bond	(27,177,350)	(13,019,275)
Payment for time deposits	(173,044,669)	(341,500,692)
Payment for Equity investment	(52,195,000)	
Interest received	118,157,073	78,422,165
Acquisition of property, plant and equipment	(17,647,544)	(5,570,316)
Payment for provision for tax	(10,677,346)	
Payment of finance lease liablity	(2,261,893)	(2,261,893)
Dividend paid	(9,885,248)	(1,020,793)
Payment for directors	(1,287,500)	(1,287,500)
Net cash used in investing activities	(176,019,477)	(286,238,306)
Cash flows from financing activities:		
Capital received	71,247,731	11,417,973
Net cash from financing activities	71,247,731	11,417,973
Increase in cash and cash equivalents	(8,982,292)	(127,865,890)
Cash and cash equivalents:		
At beginning of the period	109,132,501	236,998,391
At end of the period	100,150,209	109,132,501

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Ethiopian Reinsurance

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NOTES TO FINANCIAL STATEMENTS

FOT THE YEAR ENDED 30 JUNE 2020

(1) REPORTING ENTITY

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

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

(2) BASIS OF ACCOUNTING

(A) STATEMENT OF COMPLIANCE

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

(B) FUNCTIONAL AND PRESENTATION CURRENCY

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

(C) USE OF JUDGMENTS AND ESTIMATES

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

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

JUDGMENTS

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

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

ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information on assumptions and uncertainty of estimates posing a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the year ending 30 June 2020 is included in the following notes

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

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

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

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

Note 3 (i) (n),

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

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(Continued)

(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.

(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:

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) REINSURANCE CONTRACTS (CONTINUED)

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 methods. Gross written premiums are recognized based upon reports from ceding companies. Statements of account are received on a quarterly basis where the statements of account are not received by the year-end, the estimates will be computed through the pipeline method.

CLAIMS INCURRED

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

CEDANT ACQUISITION COSTS AND DEFERRED ACQUISITION COSTS

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

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.

(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) REINSURANCE CONTRACTS (CONTINUED)

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.

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.

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

FAIR VALUE THROUGH PROFIT OR LOSS

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

FINANCIAL LIABILITIES

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

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(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.

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

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

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

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

FINANCIAL LIABILITIES

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

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(Continued)

(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.

(III) 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.

(IV) 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.

(V) 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.

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(Continued)

(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.

(VI) 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

(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(VIII) IMPAIRMENT – CONTINUED

- 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.

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;

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(VIII) IMPAIRMENT – CONTINUED

- 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
- 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.

(Continued)

(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.

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(Continued)

(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%
Intangible Asset	10%	

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.

(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) LEASES (CONTINUED)

(I) COMPANY ACTING AS A LESSEE – CONTINUED

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.

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.

(Continued)

(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 2020.

(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.

(Continued)

(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.

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(Continued)

(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.

(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) EMPLOYEE BENEFITS (CONTINUED)

(V) TERMINATION BENEFITS

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

(K) LEGAL RESERVE

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

(L) STATUTORY DEPOSIT

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

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

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

(M) INCOME TAX

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

(N) 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.

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(Continued)

(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.

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(Continued)

(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 recognized using the effective interest rate method. Dividend income is recognized 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 amortized 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 2020.

(Q) SHARE BASED PAYMENTS

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized 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 recognized 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 2020

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(Continued)

(R) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(I) EARLY ADOPTED STANDARDS AND INTERPRETATIONS

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

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

(II) NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED DURING THE YEAR ENDED 30 JUNE 2020

The Company applied the following standards and interpretations for the first time for their annual reporting period 2019-20 and they did not have a significant impact on the financial statements:

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

The Interpretation, applicable to annual periods beginning on or after 1 January 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments.

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

(III) NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE DURING THE PERIOD ENDED 30 JUNE 2020 – CONTINUED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2020, and have not been applied in preparing these financial statements. These are summarized as follows:

New standards or amendments	Effective for annual periods beginning on or after
Definition of a Business-Amendments to IFRS 3	1 January 2020
Interest rate benchmark reform -Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of Material -Amendments to IAS 1 and IAS 8	1 January 2020
The conceptual Framework for financial reporting	1 January 2020
Insurance Contracts – IFRS 17	1 January 2023
Classification of Liabilities as current or non-current Amendments to IAS 1	1 January 2022

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(Continued)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

(III) NEW AND AMENDED STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE DURING THE PERIOD ENDED 30 JUNE 2020 – CONTINUED

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 recognized as revenue over the coverage period.

The standard allows a choice between recognizing 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.

(Continued)

(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 2020 – 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 2023 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 2020.

(Continued)

(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 2020 – 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 2020. Predominance is only reassessed if there is a change in the entity's activities.

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

AMENDMENTS TO IFRS 'FINANCIAL INSTRUMENTS 'ON PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1ST JANUARY 2020. THE AMENDMENT COVERS TWO ISSUES.

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

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

(4) FINANCIAL RISK REVIEW

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

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

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

FINANCIAL RISK REVIEW (CONTINUED)

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

RISK MANAGEMENT FRAMEWORK

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

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

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

Key risks arising from reinsurance contracts and financial instruments include:

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

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

UNDERWRITING RISK

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

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

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

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

MANAGEMENT OF UNDERWRITING RISK

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

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

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

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

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(A) UNDERWRITING RISK (CONTINUED)

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

The retrocession arrangements existing as at 30 June 2020 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	40,000,000	5,000,000
Terrorism and Political Risk Quota share retro treaty.	200,000,000	60,000,000
Bond Quota share retro treaty.	200,000,000	80,000,000
Aviation Quota share retro treaty.	USD 1,500,000	USD 450,000
Fire Facultative Obligatory Surplus Treaty	USD 41,000,000	USD 1,000,000
Engineering Facultative Obligatory Surplus Treaty	USD 41,000,000	USD 1,000,000
Marine Facultative Obligatory Surplus Treaty	USD 15,250,000	USD 250,000

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

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 21.

As can be observed from the above table the share of motor class of business as compared to all other general insurance is reduced to 32.5% from its last year position of 38%, which is a good sign to balance undue concentration among classes of business

On the other hand, more than two-fold increases were seen on Aviation, Pecuniary and Other classes of business. The reasons for the observed increases are, however, different. For example, in the case of Aviation, the increase was related to loading of premium by leading reinsurer based on past claim experience more specifically to the air crash incident of *Ethiopian* on March, 2018. In which case, the risk that the company has assumed may not necessarily increased. Whereas, the increase in Pecuniary and other classes of business partially related to an increase in demand of special covers like - PVT insurance.

(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. Investment in equity is within the regulatory limits for the purpose of solvency.

- **Exchange rate** risk principally arises on the change of Company's interest-bearing financial assets and financial liabilities denoted in foreign currencies.
- Interest rate risk will also arise if the interest rate applies on time deposit increases or decreases.
- The increase and decrease on the fair value of equity investment is an equity price risk, which have an impact on the profitability of the company.

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; currency rate risk and equity price risk.

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(B) MARKET RISK (CONTINUED)

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.

Banks	Fixed Time Deposit Principal amount June 30, 2020		
	General Ins	Life Ins	Total
Abyssinia Bank	171,444,228.89	28,740,664.83	200,184,893.72
Addis International bank	12,758,782.14		12,758,782.14
Awash International bank	217,521,833.95	18,694,312.50	236,216,146.45
Coop. Bank of Oromia	77,387,145.48		77,387,145.48
Dashen Bank	133,787,246.15	24,819,920.00	158,607,166.15
Nib International bank	138,450,856.26	11,211,250.00	149,662,106.26
Oromia International bank	154,677,572.59	19,000,000.00	173,677,572.59
United Bank	17,197,273.74		17,197,273.74
Wegagen Bank	55,780,316.99	6,041,000.41	61,821,317.40
Total	**979,005,256.19**	**108,507,147.74**	**1,087,512,403.93**

Bond Description	Bond Principal amount June 30, 2020		
	General Ins	Life Ins	Total
Government Bond	100,397,006.10	17,717,118.90	118,114,125.00
Total	**100,397,006.10**	**17,717,118.90**	**118,114,125.00**

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(continued)

(5) 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	5,437,562.02	(5,437,562.02)	5,437,562.02	(5,437,562.02)
Government Bond	590,570.63	(590,570.63)	590,570.63	(590,570.63)
Total	**6,028,132.65**	**(6,028,132.65)**	**6,028,132.62**	**(6,028,132.65)**

(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 have investments in equity as at 30 June 2020.

Investment Entity	Principal investment as at 30/06/20			30/06/19
	G. Insu.	Life Assu.	Total	Total
United Bank Share Co.	25,795,000	-	25,795,000	0
Addis-Africa international convention and exhibition centre (AAICEC)	20,400,000	-	20,400,000	0
Wegagen Bank S. Co.	-	6,000,000	6,000,000	0
Total	46,195,000	6,000,000	52,195,000	0

(Continued)

(B) MARKET RISK (CONTINUED)

(II) EQUITY PRICE RISK - CONTINUED

As at June 30, 2020 the exposure to equity price at face value was Birr 52.2 million. An increase/decrease of 15% in the value of these equities would result in an increase/ decrease in Other Comprehensive Income (OCI) of Birr 7.8 million as depicted here below.

Financial Instruments	Effect on OCI	
	15% increase	15% decrease
Equity/ Share investment	7,829,250.00	(7,829,250.00)
Total (ETB)	**7,829,250.00**	**(7,829,250.00)**

As per the policy of the Company such variation in fair value is accounted through Other Comprehensive Income (OCI) and hence it has no effect on retained earnings

(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:

Reinsurance contracts	June 30, 2020
	USD
Reinsurance assets (receivables)	149,708.90
Reinsurance liability (payables)	1,471,257.07

(Continued)

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(4) FINANCIAL RISK REVIEW (CONTINUED)

(B) MARKET RISK (CONTINUED)

(III) CURRENCY RISK – CONTINUED

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

Reinsurance contracts	Effect on Profit/Loss		Effect on Equity	
	10% Strengthening	10% Weakening	10% Strengthening	10% Weakening
Payables	(512,154)	512,154	(512,154)	512,154
Receivables	5,033,170	(5,033,170)	5,033,170	(5,033,170)
Total (ETB)	**4,521,016**	**(4,521,016)**	**4,521,016**	**(4,521,016)**

The following exchange rate has been applied

	2020
USD 1 = 34.5744	**Closing rate**

(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.

(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	**2020** **ETB**
Time deposits	1,153,888,020
Government Bond	121,681,137
Staff loans	2,126,312.90
Insurance Receivables(ceding)	239,376,139
Insurance Receivable Retrocession	-
Cash and cash equivalents (bank balances)	100,150,209
Balances at 30 June 2020	**1,618,167,159.00**

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(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

IMPAIRMENT LOSSES

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

Description	Gross Amount	Impairment
	ETB	ETB
Not past due (0-29 days)	137,064,449.31	
Past due (30-90 days)	98,356,837.20	
Past due (91-180 days)	36,789,977.98	
Past due (181-360 days)	25,058,923.23	
Past due More than 360 days	45,089,661.98	
Total	**342,359,849.70**	

Receivables from Retrocesionnaires

Description	Gross Amount	Impairment
	ETB	ETB
Current (0-29 days)	2,422,999.01	
Past due (30-90 days)		
Past due (91 – 180 days)	3,942,818.79	
Past due 181 – 360 days		
Past due more than 360 days	22,518,699.57	
Total	**28,884,517.37**	

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

(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

at 30 June 2020 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:

	2020 **ETB**
Staff loans	2,126,312.90
Cash on hand and at bank	100,150,209
Time deposits	1,153,888,020
Government Bond	121,681,137
Total	**1,377,845,680.90**

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.

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(Continued)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

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

- The Company considers time deposits to be in default when a financial asset is more than 90 days past due; all its time deposits were paid on the date of maturity.
- In assessing whether a borrower is in default, the Company considers indicators such as breaches of covenant and other indicators of financial distress, overdue status of another obligation of the same issuer; none of these conditions were applicable.
- Subsequent to 30 June 2020 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.

(Continued)

(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 2020 to the earlier of the re-pricing or contractual maturity date.

Description	Below 1 year	1 – 5 years	> 5 years	Total
1 Assets				
Cash and cash equivalent	16,318,370.60			16,318,370.60
Reinsurance Premium Receivables - Ceding	239,376,139			239,376,139
Reinsurance Premium Receivables - Retro	0			0
Investments	121,681,137			121,681,137
Bank Deposits (current and saving)	83,831,838			83,831,838
Fixed time deposit at amortized cost	1,153,888,020			1,153,888,020
Staff loans	1,980,064.18	146,265.84		2,126,330.02
Total Assets 'A'	**1,617,075,569.18**	**146,265.84**	**0.00**	**1,617,221,835.02**
2. Liabilities				
Due to ceding companies	57,603,329			57,603,329
Due to Retrocessionaires	117,901,218			117,901,218
Provision for unearned premiums	271,622,621			271,622,621
Provision for incurred but not reported claims (IBNR)	80,825,186			80,825,186
Outstanding Claims Reserve	256,301,044			256,301,044
Other payables	8,173,955			8,173,955
Lease Liability	413,505.60	1,683,899.85		2,097,405.45
Employees Benefit Liability	212,152.01			212,152.01
Provision for Income Tax				
Total Liability 'B'	**793,053,011**	**1,683,900**	**0**	**794,736,910**
Liquidity gap A - B	824,022,559			822,484,925
Liquidity Ratio A : B	2:01			2:01

(4) FINANCIAL RISK REVIEW (CONTINUED)

(D) LIQUIDITY RISK (CONTINUED)

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

Management of Liquidity risk

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

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

(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.

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(Continued)

(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 787,620,509 paid up capital which is above the statutory requirement of Birr 500,000,000 set by the National Bank of Ethiopia.

5. CASH AND CASH EQUIVALENTS

	Gen.Ins 2020	Long Term Ins 2020	Total 2020	Total 2019
Saving accounts				
Commercial Bank of Eth.	69,261,399	-	69,261,399	83,351,690
Current accounts				
Abyssinia Bank	486,517	-	486,517	6,511,740
Addis International Bank	1,825	-	1,825	1,825
Awash International Bank	7,730,560	-	7,730,560	6,150,782
Buna International Bank	960		960	990
Commercial Bank of Ethiopia	3,002,562	-	3,002,562	2,017,065
Coop. Bank Of Oromia	5,230	-	5,230	8,760,916
Dashen Bank	858,772	-	858,772	395,427
Nib International Bank	58,612	-	58,612	1,790,579
Oromia International Bank	1,821,486	-	1,821,486	131,289
United Bank	331,519		331,519	
Wegagen Bank	-	272,396	272,396	10,197
Cash on Hand	16,318,371	-	16,318,371	10,000
Total	99,877,813	272,396	100,150,209	109,132,500

(Continued)

6. OTHER RECEIVABLES

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Staff loans	2,126,313	-	2,126,313	469,543
Prepayment	3,144,456	-	3,144,456	3,077,245
Advance tax	3,635,279	120,160	3,755,439	3,031,634
Total	8,906,048	120,160	9,026,208	6,578,421

7. DUE FROM RETROCESSIONAIRES

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Due from retrocessionaires	-	-	-	215,302,382
	-	-	-	215,302,382

8. DUE FROM CEDING COMPANIES

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Due from ceding companies	223,266,753	16,109,385	239,376,139	135,482,070
	223,266,753	16,109,385	239,376,139	135,482,070

As per IFRS requirement the company reviews the portfolio of trade receivables on an annual basis in determining whether receivables are impaired. The company assess the expected credit loss associated with its debt on a forward-looking basis.

As at 30, June 2020 details of receivables have been gathered, age analysis has been made related to different cedants and there is no significant history of default and expected credit loss were assessed. And in the opinion of the company it does not have a significant impact on the financial statement that may cause significant effect on decision.

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(Continued)

9. DEFERRED ACQUISITION COSTS

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2020	2020	2020	2019
Accident	2,499,856		2,499,856	2,028,953
Aviation	169		169	46
Burglary	239,609		239,609	182,044
Engineering	13,151,819		13,151,819	9,960,162
Employers Liability	1,281,756		1,281,756	1,332,056
Fire	7,591,601		7,591,601	6,509,038
Goods in transit	319,071		319,071	159,211
Liability	2,857,289		2,857,289	3,003,616
Marine	15,776,225		15,776,225	14,579,595
Medical	70,525		70,525	9,739
Motor	13,155,942		13,155,942	12,345,285
Pecuiniary	12,742,479		12,742,479	10,760,785
Others	6,348,085		6,348,085	4,330,896
Life	-	2,842,839	2,842,839	1,965,978
Total	76,034,426	2,842,839	78,877,265	67,167,405

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

(Continued)

10. TIME DEPOSITS

	Gen.Ins	Long Term Ins	Total	Total
Name of Bank	2020	2020	2020	2019
Abyssinia Bank	183,935,745	31,110,470	215,046,216	192,669,271
Addis Internat	13,916,904	-	13,916,904	12,435,980
Awash Internat	229,884,522	20,318,221	250,202,743	214,396,915
Buna Internati	-	-	-	-
Coop. Bank of Oromia	61,428,479	-	61,428,479	42,727,498
Dashen Bank	140,898,244	26,741,764	167,640,008	149,842,148
Nib Internatio	146,694,288	12,189,727	158,884,015	119,482,076
Oromia Interna	185,573,878	20,019,949	205,593,826	165,797,533
United Bank	18,685,545	-	18,685,545	16,697,162
Wegagen Bank	56,197,714	6,292,571	62,490,285	55,881,847
	1,037,215,318	116,672,702	1,153,888,020	969,930,431

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

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

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Interest Receivable	58,210,062	8,165,554	66,375,616	55,462,696

(Continued)

11. EQUITY INVESTMENT

The equity investment is measured at fair value through other comprehensive income as of June 30,2020. The Company has invested in the under listed companies during the period 2019/20.

	30-Jun-20	30-Jun-20	30-Jun-20	30-Jun-19
	General Insurance	Longterm Insuranc	Total	Total
United Bank S.C.	25,795,000	-	25,795,000	-
Addis-Africa International Covention & Exhibition Center(AAICEC)	20,400,000	-	20,400,000	-
Wegagen Bank	-	6,000,000	6,000,000	-
	46,195,000	6,000,000	52,195,000	-

12. 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
	2020	2020	2020	2019
Statutory deposit	100,397,006	17,717,119	118,114,125	90,936,775
Interest Receivable	3,031,960	535,052	3,567,012	2,993,431
	103,428,966	18,252,171	121,681,137	93,930,206

The bond has been recognized as a financial asset at amortized cost. The effective biannual interest rate on the bond has changed from 2.75% to 3.75% effective from October 2020.

(Continued)

13. LEASES

RIGHT OF USE

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Cost				
Balance at beginning of the year	8,968,036	-	8,968,036	8,117,946
Addition	-	-	-	-
FV adjustments	(36,083)	-	(36,083)	850,089
Balance at end of the year	8,931,953	-	8,931,953	8,968,035
Depreciation				
Balance at beginning of the year	(4,165,292)	-	(4,165,292)	(2,410,260)
Additions	(1,889,351)	-	(1,889,351)	(1,755,032)
Balance at end of the year	(6,054,643)	-	(6,054,643)	(4,165,292)
Net carrying value	2,877,311	-	2,877,311	4,802,744
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	2020	2020	2020	2019
Balance at beginning of the year	3,981,876		3,981,876	4,830,175
Lease liability Addition (Adjustment)	(36,083)		(36,083)	850,091
Interest expense on Lease	413,506		413,506	563,502
settlement	(2,261,893)		(2,261,893)	(2,261,893)
Balance at end of the year	2,097,405	-	2,097,405	3,981,876
			Total	Total
Maturity Analysis			2020	2019
Less than 1 year			413,505.60	1,388,265.00
1-5 years			1,683,899.85	2,593,611.00
More than 5 years			-	-
Total			2,097,405.45	3,981,876.00

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 14.25%.

(Continued)

14. PROPERTY, PLANT AND EQUIPMENT

	Balance		Balance	Total
COST	01-07-19	Additions	30-06-20	2019
Partition work	2,489,846	-	2,489,846	2,489,846
Motor Vehicles	14,343,506	3,937,787	18,281,293	14,343,506
Office Equipment, furniture and fittings	1,758,908	493,392	2,252,301	1,758,908
Computers & accessories	701,279	171,527	872,806	701,279
Sub total	19,293,540	4,602,706	23,896,246	19,293,540
	Balance		Balance	Total
DEPRECIATION	01-07-19	Additions	30-06-20	2019
Partition work	1,150,759	492,989	1,643,748	1,150,759
Motor Vehicles	3,783,881	1,593,767	5,377,648	3,783,881
Office Equipment, furniture and	481,411	237,920	719,331	481,411
Computers & accessories	321,851	202,008	523,859	321,851
Sub total	5,737,902	2,526,685	8,264,586	5,737,902
NET BOOK VALUE	13,555,638	2,076,021	15,631,660	13,555,638
	Balance		Balance	Total
COST	01-07-19	Additions	30-06-20	2019
Computer Software & infrastructure	5,460,476	13,044,838	18,505,314	5,460,476

15. UNEARNED PREMIUM

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Provision for Unearned Pren	321,830,909	16,398,159	338,229,068	273,068,633
Less: Retrocess. Share of Provision for UPR	66,606,447	-	66,606,447	37,838,909
Net Provision for Unear	255,224,462	16,398,159	271,622,621	235,229,724

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.

(Continued)

16. OTHER PAYABLES

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Employees Income tax payable	360,485	-	360,485	206,080
Withholding tax payable	1,193,255	-	1,193,255	7,789
Pension Payable	126,893	-	126,893	79,481
Sundry creditors	3,405,031	-	3,405,031	1,188,614
Accrued staff bonus and leave	1,434,884	-	1,434,884	993,740
Provision for audit fee	563,500	-	563,500	281,750
Other accruals	187,391	-	187,391	126,839
Differed Tax payable	574,879	62,629	637,508	472,784
	7,846,317	62,629	7,908,946	3,357,076

17. DUE TO CEDING COMPANIES

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Due to Insurance Companies	57,068,741	534,587	57,603,329	303,972,657

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(Continued)

18. EMPLOYEE BENEFITS

18.1 DEFINED BENEFIT PLANS

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

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

(A) PRESENT VALUE OF FUNDED OBLIGATIONS

	Gen.Ins	Long Term Ins	Total	Total
a) Present value of funded o	2020	2020	2020	2019
Active Members	207,960	4,192	212,152	104,810
Net Liability on Statement o	207,960	4,192	212,152	104,810

(B) RECONCILIATION OF BENEFIT OBLIGATIONS

			Total	Total
			2020	2019
Opening benefit obligation			104,809	61,398
Current service cost net of employees' contributions			88,039	43,435
Interest cost			18,550	9,142
Actuarial Gain /loss			753	(9,166)
Benefits and expenses paid			-	-
Closing benefit obligation			212,151	104,809

(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	14.25%
Rate of salary increase	10%

(Continued)

18. 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 10% 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, 2020 by the amounts shown below:

YEAR ENDED 30 JUNE 2020					
	SENARIO 1, BASE	**SENARIO 2, DISCOUNT RATE INCREASE BY 1%**	**SENARIO 3, SALARY RATE INCREASED BY 1%**	**SENARIO 4, DISCOUNT RATE DECREASED BY 1%**	**SENARIO 5 SALARY RATE DECREASE BY 1%**
Discount rate salary increase	14.25% 10%	15.25% 10%	14.25% 11%	13.25% 10%	14.25% 9%
net liability at start of period	104,809	104,809	104,809	104,809	104809
Total net expense recognized in income statement	106,590	106,509	106,590	106,590	106,590
Net finance costs recognized in profit and loss	753	(10,730)	13,234	13,647	(10,464)
Employer contribution	-	-	-	-	-
Net liability at end of period	212,152	200,669	224,633	225,046	200,935

(Continued)

18.2 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 1,321,309.37.

19. 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
	2020	2020	2020	2019
Oustanding Claims Reserve	563,480,465	-	563,480,465	241,490,199
Less: Retro cess. Share of Oustanding Claims Reserve	307,179,421	-	307,179,421	23,089,257
Net Oustanding Claims Reserv	256,301,044	-	256,301,044	218,400,942

20. 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 2020, the Company's capital was as follows:

		2020
Authorized: Share Capital		
99,730 shares of Birr 10,000 each	ETB	997,300,000

	Gen.Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Issued and Fully paid	669,477,433	118,143,076	787,620,509	607,168,354

(B) NATURE AND PURPOSE OF RESERVES

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

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

(Continue)

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21. 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 2020 is analyzed as below:

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2020	2020	2020	2019
Accident	23,006,728		23,006,728	16,671,580
Aviation	87,723,074	-	87,723,074	33,417,749
Burglary	2,845,326	-	2,845,326	2,463,272
Eng.	68,786,404	-	68,786,404	74,352,399
Emp. Liability	8,905,781	-	8,905,781	9,015,297
Fire	121,667,409	-	121,667,409	99,369,717
Goods in Transit	1,394,180	-	1,394,180	1,153,991
Liability	19,603,499	-	19,603,499	18,471,574
Marine	83,420,966	-	83,420,966	88,657,085
Medical	381,296	-	381,296	47,946
Motor	273,144,331	-	273,144,331	254,468,174
Pecuniary	96,478,369	-	96,478,369	44,524,267
Others	54,667,633	-	54,667,633	29,623,426
Group term life assurance		20,680,335	20,680,335	16,757,344
Health insurance	-	11,379,961	11,379,961	9,684,349
Funeral expense insurance	-	706,847	706,847	53,719
Total	842,024,997	32,767,143	874,792,140	698,731,899

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(Continued)

22. 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	2020	2020	2020	2019
Accident	5,335,078		5,335,078	6,573,861
Aviation	12,352,107	-	12,352,107	1,559,333
Burglary	(111,513)	-	(111,513)	93,890
Eng.	13,407,358	-	13,407,358	11,416,072
Emp. Liability	2,087,494	-	2,087,494	2,987,417
Fire	12,416,650	-	12,416,650	13,366,795
Goods in Transit	323,170	-	323,170	(43,605)
Liability	9,917,974	-	9,917,974	7,975,475
Marine	(2,177,132)	-	(2,177,132)	29,972,251
Medical	134,645	-	134,645	773
Motor	213,544,750	-	213,544,750	205,978,436
Pecuniary	38,123,925	-	38,123,925	21,795,651
Others	17,029,774	-	17,029,774	9,679,861
Group Term Life Assurance	-	2,914,971	2,914,971	2,974,085
Health Insurance	-	10,049,069	10,049,069	7,633,717
Funeral Expense Insurance	-	399,042	399,042	64,000
Total	322,384,280	13,363,081	335,747,361	322,028,011

(Continued)

23. CEDANT ACQUISITION COSTS

Class of Business	Gen.Ins 2020	Long Term Ins 2020	Total 2020	Total 2019
Accident	7,499,914		7,499,914	6,844,236
Aviation	3,353,601		3,353,601	1,243,781
Burglary	1,221,628		1,221,628	900,716
Engineering	22,350,212		22,350,212	30,367,161
Employers Liability	3,247,043		3,247,043	3,163,069
Fire	43,508,409		43,508,409	37,025,880
Goods in Transit	366,395		366,395	561,012
Liability	7,204,146		7,204,146	6,384,320
Marine	31,770,536		31,770,536	34,628,546
Medical	63,135		63,135	5,843
Motor	28,515,113		28,515,113	26,373,730
Pecuniary	25,955,123		25,955,123	20,994,743
Others	9,524,898		9,524,898	4,588,110
Life	-	4,740,173	4,740,173	3,840,792
Total	184,580,152	4,740,173	189,320,325	176,921,938

24. NET FINANCE COSTS

	Gen.Ins 2020	Long Term Ins 2020	Total 2020	Total 2019
Investment and finance	118,382,913	11,260,661	129,643,574	103,309,846
Interest on Saving Accounts	2,612,043	-	2,612,043	5,160,317
Interest on Fixed timed deposits	109,396,975	10,215,344	119,612,319	91,545,665
Interest on Grand Ren. Dam Bond	5,922,583	1,045,317	6,967,900	6,273,311
Interest on current account	313,981	-	313,981	95,996
Interest on staff loan	98,327	-	98,327	50,243
Realized/Unrealized exchange gains	39,003	-	39,003	184,315
Investment and finance Co	486,449	2,266	488,715	595,203
Interest on lease liability	413,506	-	413,506	563,502
Interest on staff loan benefit	-	-	-	-
Interest on employee benefits liability	72,943	2,266	75,210	31,701
Net Investment Income	117,896,464	11,258,395	129,154,859	102,714,643

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(Continued)

25. OPERATING AND OTHER EXPENSES

	Gen. Ins	Long Term Ins	Total	Total
	2020	2020	2020	2019
Administrative and general	30,397,747	603,892	31,001,639	19,303,715
Staff costs	12,935,372	237,524	13,172,897	9,414,975
Depreciation	2,463,475	63,209	2,526,685	2,396,602
Directors allowance	1,070,000	-	1,070,000	1,361,000
Audit fees	270,480	-	270,480	358,800
Total expenses	47,137,074	904,626	48,041,700	32,835,092

26. INCOME TAXES

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

(A) INCOME TAX EXPENSE

Total income tax expense for the year ended 30 June 2020 is as follows:

	2020 ETB
Current tax expense	21,860,771
Deferred tax liability	637,508
Income tax Expense	**22,498,279**

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(Continued)

(B) INCOME TAX EXPENSE

Total taxable income or loss for the year ended 30 June 2020 is as follows

INCOME TAX COMPUTATION			
For the year ended June 30th, 2020			
Adjusted tax calculation			
			Total
	Gen.Ins	Long Term Ins	2020
PROFIT PER ACCOUNTS	166,953,045	19,484,121	186,437,166
Add:			
Amortization of Right Of Use (ROU)	1,889,351	-	1,889,351
Interest on least liability	486,449	2,266	488,715
Depreciation of fixed assets per IFRS	2,463,475	63,209	2,526,685
Differed tax Expense	158,164	6,590	164,754
Sponsership	4,800,000	200,000	5,000,000
Less:			
Depreciation of fixed assets per I.Tax Proc.	(2,952,832)	(123,035)	(3,075,866)
Rent Expenses for the year 2019-20	(2,171,417)	(90,476)	(2,261,893)
Amortization of differed establishement cost	(2,055,598)	(85,650)	(2,141,248)
Disallowed expenses:			
Loss on exchange unrealized	3,285,180	-	3,285,180
Entertainment	596,955	44,066	641,022
unrealized Exchange gain	(39,003)	-	(39,003)
Severance pay provision	88,039	-	88,039
Provision for annual leave	432,864	8,279	441,143
Over IBNR provision	10,040,872	187,666	10,228,538
Employee vehicle Benefit In kind	130,399		130,399
Tax exempt Income			
Interest Income	(118,245,582)	(11,260,661)	(129,506,244)
Taxable Profit Current year	65,860,361	8,436,376	74,296,737
Taxable Loss BBF	(1,370,399)	(57,100)	(1,427,499)
Total TAXABLE INCOME/(LOSS)	64,489,962	8,379,276	72,869,238
CURRENT INCOME TAX @ 30%	19,346,988	2,513,783	21,860,771
Less: Advance profit tax paid in 2019-20	3,635,279	120,160	3,755,439
Income Tax payable (Refundable)	15,711,709	2,393,623	18,105,332

27. 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.

Profit attributable to Shareholders			148,118,784	120,439,673
Weighted average number of ordinary shares issued			69,557	56,410
Basic and diluted earnings per share			2,129.46	2,135.06

Basic and diluted earnings per share

There were no potentially dilutive shares outstanding at 30 June 2020. The diluted earnings per share is therefore the same as the basic earnings per share.

28. RELATED PARTIES

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

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

ULTIMATE PARENT COMPANY

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

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(Continued)

Shareholder Category	Composition	Percentage Shareholding
Insurance companies	17 insurance companies. Ethiopian insurance Corporation (EIC) is a major shareholder in this category with 20.05%	66.90%
Banks	7 banks in Ethiopia. Commercial Bank of Ethiopia (CBE) is a major shareholder with 20.05%	30.76%
Individuals	79 individuals.	2.33%
Trade unions	1 trade union	0.01%
Total %		100%

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

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(Continued)

28. RELATED PARTIES (CONTINUED)

(A) OTHER RELATED PARTY TRANSACTIONS

	2020	2019
	ETB	ETB
BBF	30,505,292	13,067,191
Premiums written	321,182,667	244,479,919
Claims paid	(101,715,711)	(49,052,421)
Commission	(75,719,917)	(68,789,502)
Profit commission	(9,484,839)	(13,868,446)
Net amount	164,767,493	125,836,742
Amounts paid by EIC	(89,567,921)	(95,331,449)
Amounts outstanding from EIC	75,199,571.29	30,505,292

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

	2020	2019
	ETB	ETB
Savings account	69,261,399	83,351,690
Current account	3,002,562	2,017,065
Total Balance	72,263,961	85,368,755

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

	2020	2019
	ETB	ETB
Savings account		-
Current account	27,613,852	23,753,549
Time Deposits	806,491,630	691,169,399
Total balance	834,105,482	714,922,948

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.

(Continued)

28. 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 2020:

			2020	2019
			ETB	ETB
Directors allowances			1,070,000	1,361,000

Key management members received the following remuneration during the financial year ended 30 June, 2020:

			2020	2019
			ETB	ETB
Short-term benefits			5,929,494	5,871,767
Post-employment benefits			77,781	42,923

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.

EVENTS IN PICTURE: CAPTIONS FROM 4TH AGM

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