RISING WITH AFRICA

Ethiopian Reinsurance

የኢትዮጵያ ጠለፋ መድን

ANNUAL REPORT

2020/21

Ethio RE Family
Committed to serve our customers 24/7

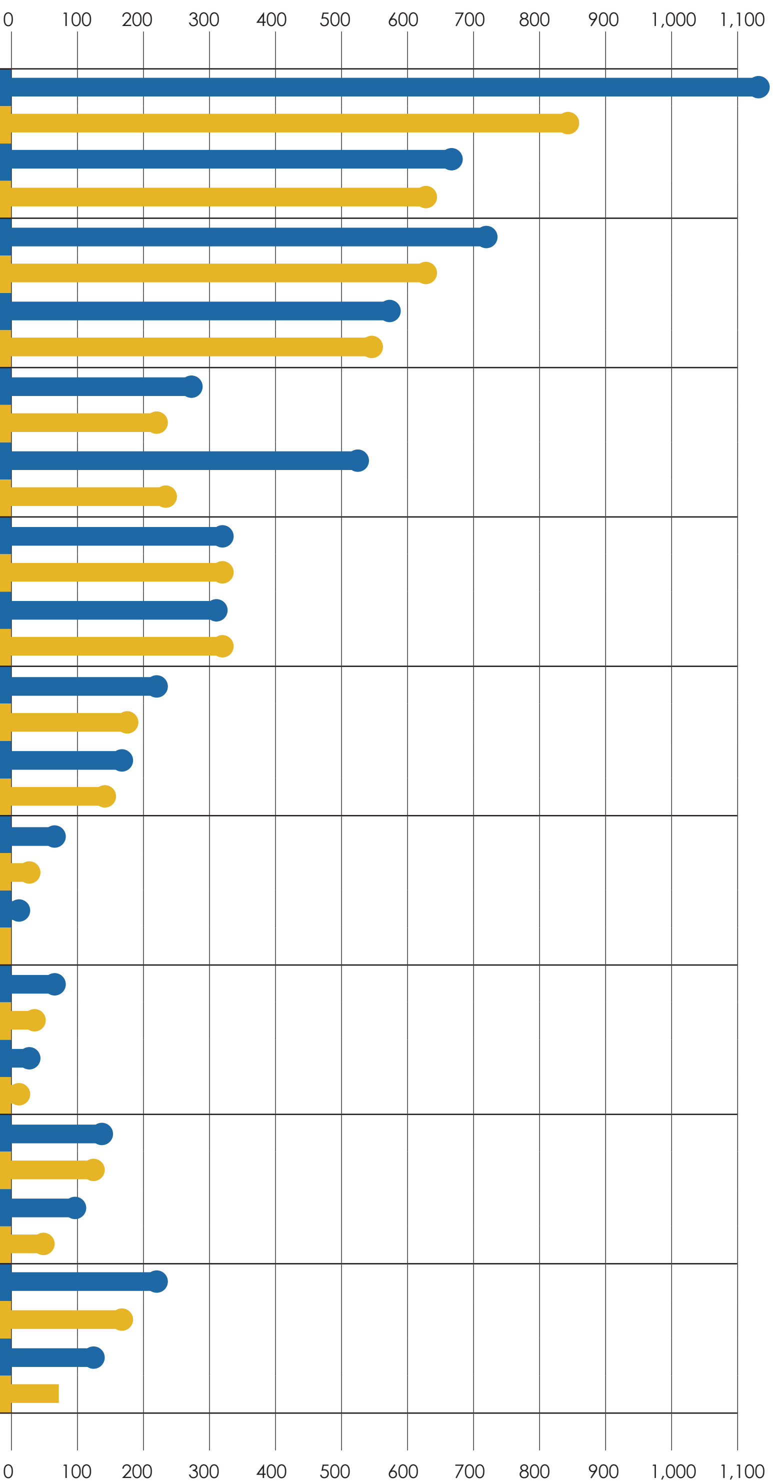
CONTENTS

ETHIO-RE IN FIGURES (FINANCIAL HIGHLIGHTS) II
WHO WE ARE IV
OUR CREDIT RATING VI
CHAIRMAN'S STATEMENT VII
MESSAGE FROM THE CEO IX
BOARD OF DIRECTORS XI
EXECUTIVE MANAGEMENT XII
DIRECTORS REPORT XIII
INDEPENDENT AUDITOR'S REPORT 2
FINANCIAL STATEMENTS 7
NOTES TO FINANCIAL STATEMENTS 11
SNAPSHOTS OF MAJOR EVENTS IN PICTURES 74

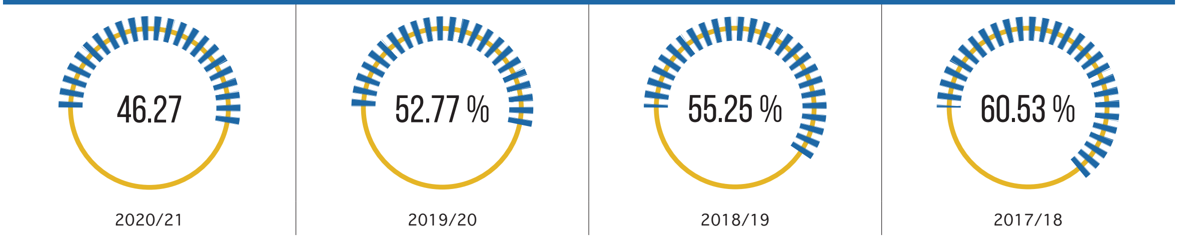
ETHIO RE IN FIGURES
(FINANCIAL HIGHLIGHTS)

Ethiopian Birr in Millions

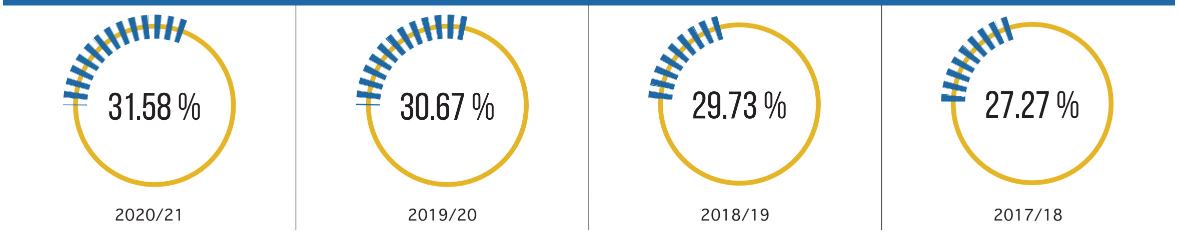
PARTICULARS		
Gross Written Premium	2020/21	1,140.3
	2019/20	874.8
	2018/19	698.7
	2017/18	661.5
Net Earned Premium	2020/21	722.9
	2019/20	636.2
	2018/19	595.2
	2017/18	553.2
Gross Claims Paid	2020/21	298.9
	2019/20	218.2
	2018/19	531.7
	2017/18	222.4
Net Claims Incurred	2020/21	334.5
	2019/20	335.7
	2018/19	328.9
	2017/18	334.9
Cedant Acquisition Cost	2020/21	228.3
	2019/20	195.1
	2018/19	176.9
	2017/18	150.9
Commission Income	2020/21	81.6
	2019/20	34.1
	2018/19	22.3
	2017/18	4.8
Operating and Other Expenses	2020/21	95.4
	2019/20	48.0
	2018/19	32.8
	2017/18	22.1
Net Investment Income	2020/21	155.5
	2019/20	129.2
	2018/19	102.7
	2017/18	66.9
Profit Before Tax	2020/21	220.5
	2019/20	186.4
	2018/19	144.5
	2017/18	78.6



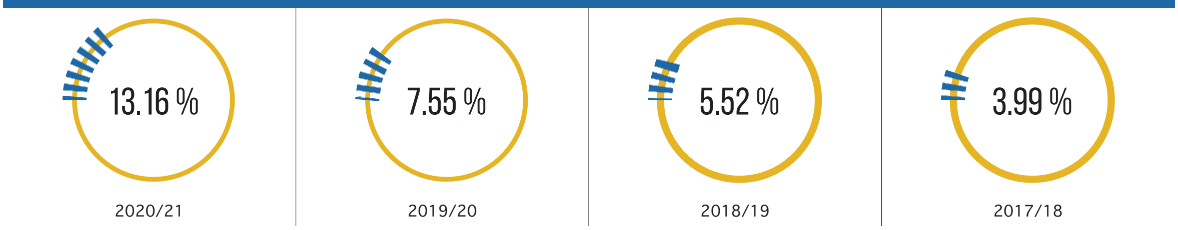
Net Claims Ratio



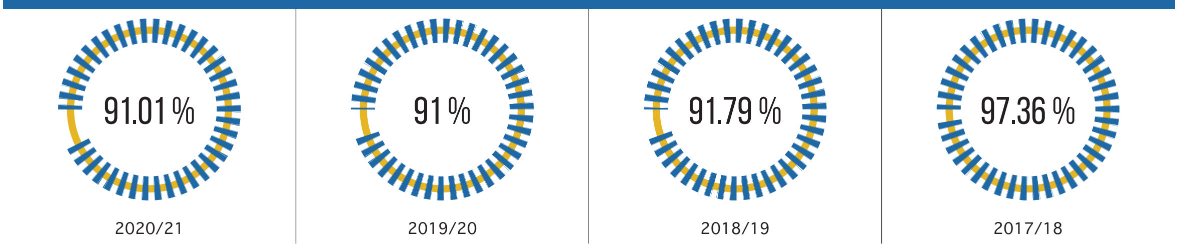
Net Commission Ratio



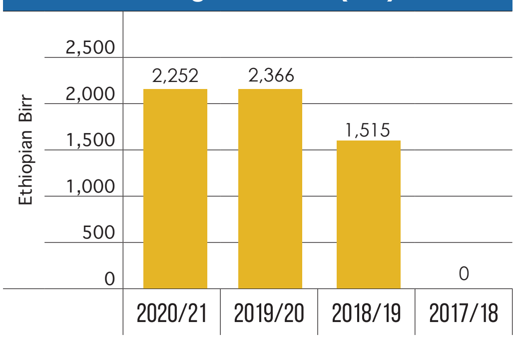
Operating and Other Expenses Ratio



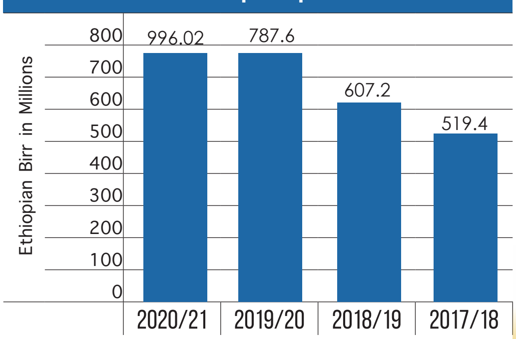
Combined ratio



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 systems. The Company endeavors 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 be the reinsurer of choice in Ethiopia and our chosen market"

CORE VALUES

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

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

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

OUR CREDIT RATING

GCR RATINGS

Certifies that

Ethiopian Reinsurance Company (S Co)

Has a

Financial Strength Rating of

International Scale B- / Outlook: Stable

National Scale $AA_{(ET)}$ / Outlook: Stable

GCR RATINGS EST. 1995

09-Dec-21

DATE

Group Head of Ratings

GCR's ratings are subject to change.
To confirm the latest rating or to learn more about GCR, visit www.GCRratings.com

CHAIRMAN'S STATEMENT

FELLOW SHAREHOLDERS,

I am delighted to welcome you to the 6th Annual General Meeting and 3rd Extraordinary general meeting of Ethio-Re. Our journey in the last year was tantalizing but successful as we pursued our growth strategy despite the commotions caused by the COVID-19 Pandemic, a threat to the world. The pandemic challenged the insurance and reinsurance industry and the reliability of our business sustainability in many ways. Yet, we reorganized our procedures to manage the encounters of the new normal. Some of the major highlights of last year were formulation and implementation of a new strategy for Ethio-Re" Vision 2030", by Deloitte International consultants, working with the industry for ensuring the sustainability of the business through the continuation of the five percent policy cessions and reorganizing the leadership team by recruiting and filling key posts, including the CEO position. We can assure that the financial performance of Ethio-Re was driven by the careful implementation of the strategic initiatives and strategic objectives.

2020-21 has been another successful year for Ethio-Re. The Company registered a 30% increase in Gross Written Premium when weighed against the preceding year's results and registered Birr 18% growth of profit before tax in the financial year. Throughout the period, we have worked with Management to strengthen the trust and loyalty of our customers, shareholders, and the communities where we operate, and with an aim to help the insurance industry and reinsurance businesses prosper. During this period, we have witnessed that the performance of the company is showing improvement and we have seen registered growth in production as well as investment income and hence profit.

The Board of Directors hand in hand with the Management of the Company worked tirelessly to realize major strategic goals and initiatives. As a result, during 2020/21, the Company took multiple initiatives aimed at preparing itself for growth and rating with a focus on achieving its long-term vision. The Company has been fairly successful in implementing the reinsurance and accounting software and hardware infrastructure, entering selected African markets, meeting production targets and profit results. I am quite positive that the company can further register results in the coming years owning to close support of its stakeholders.

During the year, the Board of Directors and Board Committees have conducted more than 28 regular meetings to provide strategic direction and play its role as per the requirements set by the Regulator and Company's Articles of Association. The Board has also restructured different Committees as per the NBE's Directive consisting of the Human Resources Affairs Committee, Risk and Compliance Committee, Strategy and Investment Committee, and Audit Committee. The Board has conducted periodic performance evaluation meetings to track record the performance of the Company against the approved Strategic Plan and appropriate actions were taken to address identified challenges.

We have also learned that given the current macro environment, we will also continue to strengthen our risk management capabilities to ensure the sustainability of our business while modeling our governance practices to align with international best practices.

Moreover, the Board had carefully taken note of the issues raised by Shareholders during the Fifth Annual General Meeting and tried its level best to address most of them. We can assure you that this year's performance has been mainly driven by the suggestions given by the stakeholders, especially the lessons obtained, comments, and suggestions forwarded during the last year's annual general meeting.

LOOKING FORWARD

In the coming years, Ethio-Re would provide a due focus for the implementation of the newly designed strategic plan. The company would also strive to work on transforming the insurance industry through creating knowledge transfer and creation forums and work on improving our customer experience in terms of value proposition remains a top priority. We will also focus on building partnerships across the peers within the reinsurance industry and work on strengthening the investment income of the company. We also believe that our staff is our greatest asset. It gives me great pride that we were able to fill many vacancies over the past few years from the resources of the insurance industry. However, we will continue to lay great emphasis on workforce transformation and human resource capacity building, knowledge, and skill development.

Despite the current headwinds, the projections for the Ethiopian economy in the year 2021 and beyond are expected to be positive. The insurance and reinsurance business environment will be more feasible and we expect that the spread of the pandemic will ease as the vaccines are administered to vulnerable citizens. In the years ahead, Ethiopian Re's Board of Directors will prioritize and strive more to strengthen the investment base of the company, improve the rating score, develop the human resources capacity, risk assessment, and management framework, ensure sustainable growth, enhance and finalize the information technology projects, lobbying/working the regulator and work on continuous improvement, make the company more visible and accessible to its national and international customers, among others.

As a final point, on behalf of the Board and Management, I thank you all for your unwavering support and patronage and assure you that we will persist in striving to exceed your expectations. I also take this opportunity to express my deep sense of gratitude to the Regulatory Authority and the CEOs of the insurance industry for helping the company sustain its business through the continuation of compulsory policy cessions. We also would like to thank employees and executive management of the company for their dedication during the year and discharging their responsibilities even in the absence of a CEO.

Hailemariam Assefa
Chairman, Board of Directors

MESSAGE FROM THE CEO

DISTINGUISHED SHAREHOLDERS AND ESTEEMED PARTNERS!

It gives me great pleasure to welcome you to this year's Annual General Meeting and to present to you the highlights of the performance of Ethio-Re in the 2020/21 financial year as well as the major events that shaped its business operations. Being my first Annual General Meeting as the Chief Executive Officer, I would start by thanking you for the confidence you have placed on the new management team of this great institution. My team is committed to the long-term aspirations of Ethio-Re and we promise to work in unison with the industry to deliver superior reinsurance service and sound returns on your investments.

Many things have happened to our country last year. The financial performance of Ethio-Re showed strong resilience to the adversities the global economy witnessed in 2020/21. Although the shocks of the global pandemic, devaluation of birr, and the war caused unprecedented challenges to businesses especially in our operating environment and indeed, the continent. However, the Company has continued to register remarkable results in most of its targets.

During this period, we have registered continuous growth in Gross written premium as well as profit. We achieved all these results in a competitive environment which is more challenging than expected. Compared to last year, Gross written premium income has increased by 30%, profit increased by 18%. And we have achieved this in a sustainable way showing year-by-year increments.

We believe that the last five years by no means is sufficient for a new reinsurance Company to secure a strong hold. However, it's with a strong sense of belongingness and dedication that my colleagues and I took our current duties and responsibilities of laying the foundation of Ethio-Re.

We are very much aware that the ownership of the Company is fairly unique, as more than 66% of the Company's shares are held by local cedant insurance companies. We are particularly cognizant of the owner-client relationship we have with our shareholders. We are also convinced of the good prospects that lie ahead of us. We strongly believe in responsibly generating results while fulfilling our purpose as a national reinsurer.

DEAR PARTNERS,

I am pleased to herald that Global Credit Rating (GCR) affirms Ethio-Re initial international and national scale financial strength ratings of B- and AA (ET), respectively with a stable outlook.

Management assures that the rating was one of the "Big Five Pillars" of the newly designed strategic plan "Vision 2030", and finalized as per its time scale. Ethio- Re would also like to seize this opportunity to thank all its business partners and the regulator for creating a sound business and regulatory environment which contributed to the results achieved.

As affirmed by GCR, the ratings assigned to Ethio-Re balance its strong financial profile with an intermediate business profile. The financial profile is characterized by very strong capitalization, strong liquidity, and sound earnings. Ethio-Re notably benefits from legal cessions in Ethiopia, anchoring a strong local competitive position, despite the limited presence in other target markets. Ethio-Re also displays sound earnings supported by healthy underwriting profitability and investment returns, among others.

On behalf of the management, employees, and Board of Directors we would like to seize this opportunity to announce this milestone in the company's history and to thank you for your usual cooperation and support extended to Ethio-Re.

DEAR SHAREHOLDERS,

Taking our strategic plan as a blueprint Management is striving to achieve more than the targets set for the company. Our strategy " vision 2030" is sketched to produce tangible results, with our motivated teams gaining the trust of more customers, in turn creating greater value for our shareholders, and allowing us to continue supporting the communities in which we operate. Today Ethio-Re's team has a common culture, based on the shared goal of always striving to do things as desired. This creates a strong team, and we are striving to continuously change the way we work.

As a company born out of a long desire of stakeholders to have a national Reinsurance Company, we measure our success against the revered objectives behind the establishment of Ethio-Re. And while we strive to do all this, we do not forget the unreserved support we are getting from the regulator, National Bank of Ethiopia, Board of Directors, our employees, and all our cedants and business partners.

LOOKING AHEAD,

We will continue to focus on redesigning our systems and processes to enhance service delivery, realize our strategic initiatives and enhance our overall staff capabilities to ensure both internal and external risks are identified and mitigated before they crystalize. Our growth aspirations will be sustained while we continue to identify new opportunities in the new normal. On the back of the evolving dynamics in the economy, we will continue to ensure sustainable growth of Ethio-Re.

On behalf of my colleagues, I would like to thank our shareholders for their confidence in our stewardship. My special appreciation goes to our customers for their patronage and loyalty. Your continued support will help the Company to realize its mission.

Thank you, for your valuable time and we trust that you will find the report informative.

Dawit Gebreammanuel
Chief Executive Officer
Ethio-Re

BOARD OF DIRECTORS

Mr. Hailemariam Assefa
Chairman

Mrs. Frehiwet Alemayehu
V/Chairperson

Mr. Shiferaw Bentie
Director

Mr. Netsanet Lemessa
Director

Mr. Kassahun Begashaw
Director

Mr. Henok Tessema
Director

Giragn Garo
Director

Mr. Nigus Anteneh
Director

Mr. Fikru Tsegaye
Board Secretary

EXECUTIVE MANAGEMENT

Mr. Dawit Gebreammanuel (ACII)
Chief Executive Officer

Ms. Meseret Tilahun
Executive Officer (EO) Operations

Mr. Fikru Tsegaye (ARA,FLMI,ACS,CTP,CII)
Executive Officer (EO), Strategy and Business Development

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

Mr. Sahlemariam Dejene (ACCA)
Director, Internal Audit

Mr. Abera Demissie
Director, HR & Corporate Services

Mr. Samuel Ademe (CIA)
Director, Enterprise Risk and Compliance

REPORT OF THE BOARD OF DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2021

The Directors of Ethiopian Reinsurance Share Company hereby present their report together with the audited Financial Statements for the year ended 30 June 2021 in accordance with Article 393,366,367,370,371 and 372 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

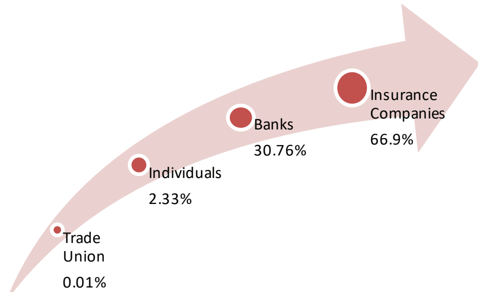
Ethiopian Reinsurance S.C (Ethio-Re) is the first reinsurance Company incorporated following the provisions of Article 5(8) of Insurance Business Proclamation No.746/2012, under license number RB/01/2016 issued by the National Bank of Ethiopia. It started operation on 1 July 2016 authorized to carry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

Ethio-Re is an organization born out of a long desire of stakeholders to have a national Reinsurance Company. The concept paper for Ethio- Re was written in 2012 initiated by a team of experts under the auspices of the Ethiopian Insurance Corporation (EIC) and later finalized by AEI. The establishment of Ethio Re finally was made possible through Directive No SRIB/1/2014 issued by the National Bank of Ethiopia. The objectives of Ethio Re are, among others, to:

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

SHAREHOLDINGS AND OWNERSHIP STRUCTURE

- Ethiopian Re's shareholding structure is a concoction of partnerships drawn from public and private sectors, where Government owns 40%, through state-owned financial institutions. i.e. Commercial Bank of Ethiopia(CBE) and Ethiopian Insurance Corporation(EIC). The Company has diverse shareholders, which currently comprise of seven Banks, seventeen insurance companies, eighty individual coming from different walks of life and one labor union.



CAPITAL STRUCTURE

- The subscribed share capital of the Company is Birr 997.3 million. The Company's paid-up capital at the end of the period under discussion has reached Birr 996.02 million as of June 30, 2021, and Birr 997.3 nowadays.

GOVERNANCE STRUCTURE

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

- Relying on a relatively strong capital base, plus sound retrocession protection provided by world-renowned reinsurers, Ethiopian Re aims to provide a comprehensive range of reinsurance covers to domestic insurers, in addition to accepting international business on a selective basis. The Company strives to mobilize financial resources which would be invested to generate additional income, needless to mention the role it plays in reducing hard-earned foreign currency outflow and in earning foreign currency from other countries in the form of cross border reinsurance transactions.

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

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

Corporate governance stands for 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 Company Corporate Governance Guideline prepared and approved by Board of Directors of Ethiopian Re. The Company has the following governance structure:

- General Meeting of Shareholders;
- Board of Directors;
- Chief Executive Officer;
- Executive 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 twenty-eight regular meetings during the year under review.

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

3. TRADING ENVIRONMENT

3.1 THE GLOBAL REINSURANCE LANDSCAPE

The outlook for the global reinsurance sector is improving for 2121/2022, According to the Fitch Rating report. Significant improvements are expected in reinsurers' financial performances due to higher prices in a hardening market, a strong rebound in economic activity, and lower pandemic-related losses. These positive factors should outweigh the negative effects of declining investment returns, increasing natural catastrophe claims due to climate change, and a temporary pick-up in inflation.

Fitch Ratings' Global Reinsurance Forecast

(USDm)	2020 Actual	2021 Forecast	2022 Forecast
Net premiums written	137,159	157,750	173,525
Catastrophe losses	8,577	13,600	16,200
Pandemic-related losses (non-life)	12,825	1,000	300
Net prior-year favourable reserve development	1,994	1,866	1,626
Calendar-year combined ratio (%)	105.0	95.8	94.9
Accident-year combined ratio (%)	106.5	97.1	95.9
Accident-year combined ratio excl. catastrophe/pandemic-related (%)	90.3	87.3	85.8
Calendar-year operating ratio (%)	97.2	89.3	88.4
Shareholders' equity (excl. Berkshire Hathaway)	195,065	198,975	208,920
Net income return on equity (excl. Berkshire Hathaway) (%)	2.2	10.0	10.4

Source: Fitch Ratings

FitchRatings

According to the report, reinsurance terms and conditions have tightened, with infectious disease and silent cyber coverage excluded from many renewed treaties. Renewals are also starting to be affected by ESG considerations, with some reinsurers reducing or withdrawing facultative reinsurance cover related to fossil fuels.

On the other hand, leading reinsurers' capitalization remains solid in the face of the COVID-19 pandemic that did not disrupt their results. For the time being, none of the major reinsurers have suffered capital destruction. Against all odds, some of these reinsurers have even managed to raise funds in 2020. However, this injection of new financial resources was not good enough to offset the slight decrease in capacity reported during the current year.

According to the 2021 risk barometer, conducted by Allianz Global Corporate & Specialty (GCS), pandemics come at the top of the ten risks facing Africa and the Middle East.

TABLE 2: TOP TEN RISKS IN AFRICA AND THE MIDDLE EAST

Ranking 2021	Ranking 2020	Top 10 risks in 2021	% of respondents in 2021	% of respondents in 2020
1	-	Pandemics *	36%	-
2	1	Business interruption	36%	31%
3	2	Cyber-incidents	33%	30%
4	5	Fire, explosions	20%	23%
5	4	Macroeconomic developments	20%	25%
6	9	Political risks and violence	19%	17%
7	8	Theft, fraud, corruption	17%	20%
8	3	Changes in legislation and regulation	17%	27%
9	6	Market developments	15%	21%
10	7	Critical infrastructure blackouts	11%	21%

* THIS RISK MAKES ITS WAY INTO THE TOP 10 IN 2021.

The health and economic crisis has not spared the insurance sector as it inflicted severe damage on the business in terms of turnover, claims experience, financial results, and solvency ratios. In terms of turnover, corporate failures, the economic slowdown and the difficulties encountered by policyholders and individuals inevitably lead to a decline in premium income.

In terms of claims experience, the results of insurers heavily involved in the credit, aviation, event cancellation, business interruption, travel assistance, and life insurance activities have been severely impacted by the crisis. Swiss Re estimates the number of losses incurred by insurers due to the pandemic at nearly 55 billion USD. For Standard & Poor's, the losses of these same insurers would be set between 35 and 50 billion USD and those of reinsurers could amount to 20 billion USD.

Since the renewal on January 2021 and the first signs of strengthening of reinsurance terms and conditions, industry professionals have been hopeful that this trend will continue. With the appearance of the coronavirus, they have additional arguments to convince cedants of the merits of a rate increase in their favor.

In view of their size, Sub-Saharan markets vary from one country to another. While most of them remain moderate in size, some have gone interestingly big. This is the case of Kenya, Namibia, Nigeria, and Angola, while South Africa remains above all African countries.

Insurance in Sub-Saharan Africa continues to grow rapidly while the retention rate of cedants has been declining since 2016, after having gone through a setback during 2014-2016. The growth potential of insurance is sustained by the continent's huge reserves of natural resources and by the existence of a young and dynamic population.

Industrialization is progressing, investments in infrastructure are multiplying, the middle class is slowly emerging, and its purchasing power is increasing, which has benefited insurers and reinsurers for more than a decade.

While Sub-Saharan Africa has always offered diversification and profitability to reinsurers, growing competition and rising acquisition costs have reduced the attractiveness of this vast market. Indeed, even if volumes remain modest on an international scale, previously high margins have steadily declined.

Over 10 years, gross written premiums have increased by nearly 7%, driven exclusively by the non-life business, despite the depreciation of many African currencies against the dollar. As in the MENA area, several countries in Sub-Saharan Africa grant legal cession to national or regional reinsurers.

The current pandemic is likely to undermine local economies: lower demand for raw materials, decreased international aid, reduced direct investment, increased risk of inflation, and currency depreciation. All these factors are likely to have a negative impact on economic activity.

The International Monetary Fund expects the region's real GDP to increase by 1.8% in 2020 compared to 6.5% in 2019. The slowdown in the economies will have consequences on the sale of insurance products. In the short and medium-term, these sales are therefore likely to decline and premium collection will deteriorate.

Regional reinsurers are mainly focused on underwriting business in the African sub-continent which is not very prone to natural disasters. This explains the low loss ratio of these reinsurers which is on average 59% in 2019. For the record, the loss ratio of the top 50 reinsurers worldwide is about 70%. However, the increase in business acquisition costs imposed by local brokers has eroded the combined ratio year after year for the past five years. The latter has gone from an average of 91% to nearly 99% in recent years. This trend is aggravated by imported inflation, which penalizes entire sectors of the economy.

3.2 DEEP DIVE: ETHIOPIAN ECONOMIC PROFILE AND THE INSURANCE INDUSTRY

According to the quarterly report from the National Bank of Ethiopia, During 2020/21, headline inflation has slowed down to 5.1 percent from 7.3 percent in the preceding quarter on account of a 1.7 percentage point decline in food & non-alcoholic beverages and a 2.8 percentage point decrease in non-food inflation.

In its latest regional economic outlook, IMF forecasted that Ethiopia's GDP would flatten at zero percent in 2021. Despite the economic slowdown in the last fiscal year, the Ethiopian government is adamant that a sizeable economic growth is within reach as it predicted a 6.6 percent growth in 2020/21. However, economists stand on the opposite end of such assertions, arguing that it does not reflect the reality on the ground. The government's latest prediction is higher than the 10 percent GDP growth registered last fiscal year.

According to African Development Bank, Ethiopia's economy grew by 6.1% in 2020, down from 8.4% in 2019, largely because of the COVID–19 pandemic. Growth was led by the services and industry sectors, whereas the hospitability, transport, and communications sectors were adversely affected by the pandemic and the associated containment measures to prevent the spread of the virus. The fiscal deficit, including grants, increased slightly during 2020, financed mainly by treasury bills.

Tax revenue increased by 16%, but the tax-to-GDP ratio declined to 9.2% in 2020 from 10% in 2019 due to delayed implementation of tax reforms. Total public spending remained stable, in line with the country's fiscal consolidation strategy. In 2020 inflation reached 20.6%, well above the 8% target, due to pandemic-induced supply chain disruptions and expansionary monetary policy. In November 2020, the official exchange rate was devalued by about 8% to 35.0 birrs per US dollar. Export revenues increased by 12% in 2020, as exports of gold, flowers, coffee, and chat increased while imports declined by 8.1%. This helped narrow the current account deficit to 4.4% in 2020 from 5.3% in 2019. Service sector exports declined by about 6%, mostly because of lower revenue from Ethiopian Airlines. Foreign direct investment (FDI) fell 20% to 2.2% of GDP, and personal remittances declined by 10% to 5.3% of GDP. Poverty was projected to decline from 23.5% in 2016 to 19% by end of 2020. But pandemic-driven job losses, estimated at as many as 2.5 million, will impede poverty reduction.

As per data obtained from NBE, during the period under review, the number of insurers in Ethiopia had remained 18: one public and 17 private insurers operating throughout the country. Their branches increased to 605 from 568 a year ago. Of the total branches, about 54.4 percent were located in Addis Ababa. Similarly, their total capital reached Birr 11billion, of which about 70.7 percent was that of private insurance companies.

SUMMARY OF FINANCIAL INFORMATION OF INSURERS AS OF JUNE 30, 2021

TABLE 1: PERFORMANCE OF THE ETHIOPIAN INSURANCE INDUSTRY

In '000 Birr			
Item	**Non-Life**	**Life**	**Total**
Gross Premium	12,915,208	958,751	13,873,959
Net Premium	7,540,083	732,304	8,272,387
Ret Ratio (%)	58	76	60
Net Earned Premium	7,013,160	706,301	7,719,461
Net Claims Incurred	4,017,267	406,466	4,423,733
Loss Ratio (%)	57	58	57
Total Asset	36,274,524	2,789,347	39,063,871
Total Capital	9,957,786	1,108,119	11,065,905
Profit after Tax	1,942,761	348,575	2,291,336

SOURCE: NBE: JUNE 30, 2021

3.3 COMPULSORY POLICY CESSIONS (CPC):

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

The rationale driving the establishment of national reinsurance companies, particularly in developing countries, remains relevant to this date although it was first introduced almost more than half a century ago. Although the proliferation of private capital in the insurance sector in the late 1980s, to some extent, modulated the fear of capital flight, it did not prevent a relatively significant portion of the business from being ceded to foreign companies in the form of reinsurance resulting in a drain of hard-earned foreign exchange resources. The situation was further made worse since the emergence of mega risks as a result of extensive infrastructure projects embarked on by the country meant that only negligible proportions of these risks and hence corresponding premiums were retained by local insurers. According to the audited financial statements on average, legal policy cessions accounted for a gross premium income of over 60% of the total premiums of the Company,

Hence, the company has been able to secure the 5% policy cessions after conducting a discussion session with the insurance companies for the next five years.

3.4 MANNER OF ACCEPTING AND CEDING FACULTATIVE BUSINESS:

Regarding the manner of transacting reinsurance business, Directive No. SIB/53/2020 grants Ethiopian Reinsurance Share Company the right of first refusal on all facultative businesses transacted by direct insurers before they are being offered to overseas companies. Nevertheless, this particular provision of the Directive has been inconsistently implemented in the first year of operation which resulted in forfeiture of the income generated from this source. In addition to indirectly influencing the rate of premium is applied for a particular cover, strict enforcement of the provision would have contributed a lot in enhancing income spawned from domestic sources.

The Company together with the Association of Ethiopian Insurers has been lobbying with the object of ensuring consistent application of the original intent, i.e. exhausting local capacity before ceding business abroad.

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

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

3.5 TIMELY FILING OF QUARTERLY REPORTS AND SETTLEMENT OF BALANCES:

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

Whilst it is understandable that the delay observed in submitting periodic accounts largely emanated from the current state of automation of data processing in the insurance industry, the attention given to streamlining the compilation and consolidation of data on time should be a matter of serious concern. Moreover, the terms of the reinsurance treaties set out the timeframe for submission of quarterly accounts as a condition precedent, which in effect means that complying with the requirement of the clause is not an option. The Company should therefore work with the regulatory authority and the insurance industry to establish proper reporting mechanisms in the years to come, as discussion held general consensuses reached with the industry under the Dubai pact.

The reinsurance business is about collecting, analyzing, and interpreting data that significantly improve the ability to predict the likelihood of future occurrences fairly accurately. Ethiopian Re is uniquely positioned to serve as the aggregator of market statistics, which in addition to catering for a database for its own need, would also serve as a prime source of information as far as the insurance business is concerned. To this end, Ethiopian Re. is planning to create a suitable platform that would make it possible to capture, consolidate, 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 statements of accounts and subsequent confirmation of same has remained a challenge which affected the Company's ability to compile periodic accounts and submit them to the relevant bodies on time as well as making decision and corrective actions timely. In contrast, insurance companies have consistently complied with the deadline set by the NBE in this respect, so far Ethio Re. could not receive the information necessary for the review of periodic performance and take remedial actions on time. The Company wants to draw and/or put into practice by exploiting different options of what was agreed in the Dubai pact benefiting all stakeholders, the attention of the industry on the need to file periodic statements of accounts so that subsequent confirmation and preparation of periodic accounting reports are finalized within a reasonable time. It is also important to mention here that the delay in submission of statements of accounts means that subsequent confirmation and settlement of premiums could not be carried out in time which inevitably results in loss of income.

3.6 COLLECTION OF PREMIUMS:

Writing 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, except the state-owned one, which requires insurers to collect premiums upfront for an insurance cover to be valid as per the stipulation of Insurance Business Proclamation No. 746/2012.

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

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

Income targets from foreign business: The Company has set targets to write inward business from overseas markets. During the first and second years of operation, the company was able to receive more than 80 quotations from different parts of Africa and Asia. However, due to treaty restrictions, it was proved difficult to write a single business. After successfully negotiating a waiver of the restrictions imposed by the retro leader, Management conducted a risk assessment and business plan including identification of target markets with the assistance of brokers. This effort culminated in developing a strategy for writing foreign business. During the year 2020/21, the Company was able to underwrite foreign business through Reinsurance Brokers of nearly Birr 20 million;

The Company has set targets to obtain voluntary cessions from the domestic market as part of the strategy on how voluntary cessions from insurers could be obtained so that the impact of the cessation of compulsory cessions could be minimized and the income of Ethio Re boosted or make the foundation to lead treaties in a short time. The Company, so far managed to secure voluntary cession from ten local Insurance Companies and many have promised to provide voluntary cession on all treaties on top of the Compulsory treaty cession once any outstanding issues with their current reinsurers are settled, as per the consensus reached with the industry since March 2021. Management expects to write more business in the years to come;

Here, it is to be noted that the company is getting 25% cession from all treaties, and getting a percentage above 25% requires preparations and capacity building to properly assess risks and tackle accumulation;

Ethio-Re has approved its strategy to enter into foreign markets hugely and especially to African, COMESA, and Sub Saharan Africa (SSA) region has been scheduled to solicit reciprocal business with regional insurers and reinsurers, review regulatory landscape, and conduct risk assessment and modalities to enter foreign markets targeting East African market as a takeoff point. However, the target in this respect should be reconsidered and the requirements to enter foreign markets including upgrading credit rating score combined with aggressive promotion should be the main focus during the remaining strategic periods.

4. RESULTS

4.1. FINANCIAL PERFORMANCE

GROSS WRITTEN PREMIUM

- During the period under review, the Company has generated a gross premium income of Birr 1.1 Billion. The total premium generated was higher than last year's similar period figure by Birr 265.5 million or 30%, which is above the industry growth.

- Out of the total premium for the period, Birr 437 million or 38% has been generated by way of Compulsory Treaty Cessions, whereas Birr 647.9 million or 57% has been generated through Compulsory Policy Cessions.

- Moreover, during the period under review, Birr 34.3 million or 3% facultative business has been written which solely came from the local market. The registered 73% growth in facultative business is mainly due to businesses obtained from the local market owing to increased capacity, smoothened relationships with the market, and willingness of management to absorb businesses from the local market;

- In addition, during the period under review, the business has been written from Africa, Berhan, United and Nile Insurance Companies, NIB, Tsehay, Zemen, in addition to the Compulsory cession, from the local market voluntarily. Management has found these positive responses encouraging and will work on getting additional shares in future dealings through strengthening the business relationship and offering meaningful support to the local cedants, as early planned and solidly discussed and promised by the industry leaders during this year's training and meeting conducted in Istanbul.

- During the period under review, the Company has written businesses from selected African markets, the share of which amounted to Birr 20 million or 2%, which registered a growth of 186%.

- The total premiums for the period under review included Birr 45.6 million or 4% coming from life class of business. The amount registered was higher than the projection by Birr 8.9 million or 24% and higher than last year's similar period income by Birr 13 million or 40%. On the other hand, the Company has generated a gross premium income of Birr 1 billion or 96% under the general reinsurance class of business during the period under discussion.

- The company has also planned to boost the income from the Life business and lead most treaties in near future.

PORTFOLIO MIX

Life Insurance 4%

General Insurance 96%

CLAIMS PAID

- During the period under discussion, the Company has settled a gross claim of Birr 298.9 million. This amount is lower than the projection but higher than last year's similar period experience by Birr 66 million or 18%, and by Birr 80.5 million or 37%, respectively.

INCURRED BUT NOT REPORTED (IBNR) CLAIMS

- During the reporting period, the Company's IBNR has reached Birr 72.5 million.

COMMISSION EXPENSE

- The Company has outlaid Birr 266.9 million as commission expense which is higher than the projection by Birr 40.4 million or 18% and last year's same period experience Birr 65.8 million or 33%, respectively.

OPERATING AND OTHER EXPENSES

- During the reporting period, Birr 95.2 million has been outlaid for general and administrative expenses. This amount has shown an increase from the projected amount by Birr 14.5 million or 18% However, the registered amount is also higher than last year's similar period performance by Birr 47 million or 99%. The increase is mainly due to payments made for corporate social responsibility for amounts settled for Addis Ababa municipality office (mainly for Selam orphanage feeding center, Gebeta Lehager Project, Sponsorship For National Defense Forces), payments effected for consultants for strategic plan formulation, increase in bank service charge, loss on exchange and impairment for provision of receivables, among others.

NET INVESTMENT INCOME

- During the period under review, the Company has earned Birr 155.4 million from investment and other income which is higher than the projection as well as higher than last year's same period performance by Birr 11.4 million or 8% and by Birr 26.3 million or 20%, respectively.

PROFIT

- During the period under review, the Company has registered Birr 220 million profit before tax. The registered profit is higher than last year's similar period by birr 34 million or 18% and the projected targets by Birr 70.8 million or 47%.

4.2. NON-FINANCIAL PERFORMANCE

IT PROJECT

- As part of its strategy, the Company has paid special attention to the adoption of technology to enhance its competitiveness and improve the quality of products and services to be delivered to its customers. To this end, it has started the full-scale 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 service standard of Ethio-Re. Ethio-Re has also deployed the required network infrastructure with United System Integrators (USI). The new technology and infrastructure, as part of the overall automation strategy of the business process of the Company, to lay down the foundation for the rating process since implementation of state of the art reinsurance and financial management solutions that greatly enhance the quality and time of service delivery. Building the IT capacity of employees will be given prime importance in the future.

INVESTMENT

- As per the investment policy manual of the Company and 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. Accordingly, the investment plan has been prepared and approved by the Board of Directors and one of the company's plans has been to purchase an equity share in Financial Institutions. Hence, during the year under review, the company has completed the payment of purchased shares from United Bank and Wegagen bank.

HUMAN RESOURCE STRATEGY AND PROFILE

- The Board and Management have duly recognized the importance of building the capacity of staff to be able to deliver competitive reinsurance service. Accordingly, the Company has engaged consultants to conduct a comprehensive review of the Company's Human Resource (HR) strategy aimed at developing a blueprint on how to build a competent and highly motivated workforce. Accordingly, the Company has been working with HST consultants to develop its HR strategy and it is believed that limitations in developing highly skilled and proficient human capital capable of delivering efficient and quality service will be addressed by this comprehensive study.

- Ethio-Re has also signed Contract for the Provision of Consultancy Services as Expatriate Advisor on Strategic, Leadership, Marketing and Technical Areas with Mr. Rajnikat Varia, who is known for his reputable, experienced, and competent expatriate consultancy services on strategic, leadership, market penetration, and reinsurance technical areas and support;

- Recruitment of senior management members including the CEO has been made during the year. At Ethio Re we believe that highly qualified and motivated staff is key to the success of our business. And for an emerging reinsurance company like Ethio-Re, the strategy of the Company can be properly executed with its manpower, and accordingly, the company is in the process of developing human resources strategy that could transform the human resources development aspects. Our corporate and leadership culture strongly geared to performance and business requirements has a major positive impact on the way our staff approach change, performance, and training. There were currently 27 people working at Ethio-Re of which 50% are female (figures from 30 June 2021). All of them contribute to our success through their skill, performance, and dedication, as demonstrated while the CEO position was vacant for more than one year. That is why we are committed to investing in their development and providing all staff with equal opportunities and top-quality working conditions.

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 passed the IFRS proclamation and regulation in 2014. In line with this, Ethio-Re has been producing its financial statements from the first year of establishment meeting IFRS requirements and standards. The Board has also reviewed the performance of the Company on every quarter to track record performance and take timely corrective measures.

APPROVAL OF CORPORATE STRATEGIES, WORKING MANUALS, PROCEDURES, AND GUIDELINES

- During the period under review, the Board approved the Five year's strategic plan and ten years roadmap (Vision 2030) of Ethio-Re. The plan has been prepared in accordance with the requirements of stakeholders and the regulator to make the company competitive enough in the coming years. The new strategic plan is different from our past plans and will be our Action Plan—our organization's call to action to work together to build a stronger future. This plan will help Ethio-Re realize what's truly possible when People of Action unite, connect with others who share values, and commit to creating change in the Ethiopian insurance industry and within. The plan sets forth Ethio-Re's long-term strategic goals and objectives for carrying out its core mission and grand objectives behind its establishment as a national reinsurer in Ethiopia and becoming a competitive reinsurer in its chosen markets. It describes the means and strategies that will be employed in pursuit of these goals and objectives and meticulously identifies factors outside the Ethio-Re's control that could potentially affect its achievement. The Company will pursue these goals and objectives through annual performance goals that are established each year and to be monitored in due course as per the implementation and communication plan. The Ethio-Re will report on its performance against the annual performance goals in its Annual Report.

- The Board has approved the working manuals, procedures, and guidelines of the Company, and implementation of same commenced. These includeS the Human resources strategy, succession planning, learning and development, and performance management policy manuals, Internal Audit charter, Policy and Procedure Manual, Risk Management policy and procedure manual, fraud prevention a monitoring policy manual, Customer Social Responsibility (CSR), among others.

RETRO- PROGRAM ARRANGEMENT

- Retro program arrangement for the year 2020/21 has been finalized during the reporting period. A comprehensive retro program with wider geographical coverage, covering work in the African markets has been arranged.

EFFORTS MADE TO SECURE LAND/ACQUIRE BUILDING

- During the year the board has also contacted the city administration(mayor's office) and has been frequently communicating with the concerned land bureau to acquire a plot of land for building headquarters for the company. The company has fulfilled all the requirements by the office including the required proposal, architectural design, and all other requirements, and is expecting to get a positive reply soon. Moreover, the board has also exhaustively worked on acquiring a building on a purchase basis, however, due to the government's decision to halt the transfer of buildings the plan could not be finalized. The company would continue to exert maximum efforts to realize the plan in the years to come by giving priority to the issue.

BUSINESS DEVELOPMENT, PROMOTION, AND COMMUNICATION

- **ETHIO-RE AND OMAN RE Signed a Memorandum of Understanding (MOU):** The agreement was signed in the presence of – Dr. Juma Bin Ali Al Juma, Board Chairman of Oman Re and Ethiopian Reinsurance Company, represented by its Chairman - Mr. Hailemariam Assefa Yeshitila at the ceremonial event in Muscat. The MoU defines the frame for future cooperation between Ethio-Re and Oman Re. and it paves the way for great synergy between the two entities, in solidifying the business relationships on many fronts including human resources capacity development, business reciprocity and jointly working to foster the business of insurance and reinsurance through an effective partnership. The agreement also allowed both organizations to contribute to improved coordination and also to ensure timely exchange of business and strategic partnership data to the benefit of both.

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

- **During the year, Ethio-Re also inked MoU with AlHuda CIBE:** Takaful, the globally emerging phenomenon is not only restricted to the specific countries rather it has captivated its roots in African, Asian, and European countries and America as well. The built-in features of sustainability and the best alternative financial solution make this phenomenon prominent and attract the attention of professionals and researchers. Keeping in view the importance, AlHuda CIBE and Ethiopia Reinsurance have entered into a Memorandum of Understanding (MOU) in the headquarters of Ethiopian Reinsurance, Addis Ababa, Ethiopia. The purpose of the MoU is to promote Takaful and Re-Takaful industry in East African and Ethiopian insurance markets.

- **Ethio-Re hosted the 1st National Life Assurance Summit:** As part of its strategic effort, Ethio-Re hosted a life insurance summit to foster the development of the life insurance business in Ethiopia. Ethio-Re believes that the growth and development of the life insurance business in Ethiopia could bring structural change and overhaul the insurance industry. The summit took place on 25-26 of February 2021, at Hyatt Regency, Addis Ababa, Ethiopia under the theme: "Breathing Life into the Life Assurance Business" in partnership with Addis Ababa University, Public Financial Institutions Agency, and Association of Ethiopian Insurers. The raison d'être of the Forum was to provide an impartial platform for all stakeholders; including government organs, policymakers, insurers, reinsurers, channel members and intermediaries, consultants, academia, and others who have a stake in the life assurance industry. The Annual Forum brought together participants to share evidence and experiences related to the challenges and opportunities of life insurance and how the business can be scaled up considering its untapped potential in Ethiopia.

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

- **Organizing the 1st Ethiopian Based Global Takaful and Re-Takaful Forum:** Ethio-Re has organized this global event to create Awareness, Learning, and Trained Human Capital and create a learning atmosphere to develop Islamic Financial Products to cater for the market needs bringing more and more compatibility between Customers and Islamic Financial Institutions through education, pieces of training, awareness seminars, product development, publications, and consultancy. Presenters from the African and global takaful industry presented papers on the forum and all insurance companies attended the event and benefit from the forum.

- **Ethio-Re organized a Consultation forum with the CEOs of insurers in Ethiopia and signed a Memorandum of understanding (MOU):** Ethiop-Re believes that consultative forums with stakeholders are the base for creating win-win relationships especially to discuss the implications of cessation of compulsory policy cessions and other strategic issues with all insurers in Ethiopia. The Memorandum of Understanding (MOU) a.k.a. the "Dubai –Pact" has been reached voluntarily besides sets for the terms and understanding amongst the Ethio-Re and the cedant insurers from the Ethiopian Market in respect of protocols to work cooperatively for the growth and development of the insurance industry in Ethiopia and prolong the 5% compulsory policy cessions. The forum was triggered by Ethio-Re and as part of its strategic effort to create bondage and unity of mind among players in the Ethiopian insurance industry, identify and foster tasks and initiatives that can be done jointly to transform the industry. Hence, Ethio-Re continuously envisages preparing a discussion forum with the decisive target groups, especially CEOs of the ceding companies in Ethiopia on annual basis, to create mutual understanding on topical industry issues, challenges, and hurdles and provide training on key trends and strategic issues that have hampered the development of the sector or masked the players from benefiting out of the untapped potential of the insurance business in the country. Above and beyond it was also noted that the raison d'être of these successive forums Ethio-Re conducted so far and in the future would provide an impartial platform for all stakeholders; including NBE, government authorities, Insurance companies as represented by their CEOs, and their association (AEI), Finance Managers, Operations Managers and Reinsurance Department Managers), and many others who have a stake in the fate of the development of the insurance and reinsurance industry. The Forum at Dubai started with training on Enterprise Risk Management, Corporate Governance, the impact of COVID 19 on the insurance industry, and followed by a half-day session wherein all aspects of Ethio-Re's performance, its establishment objectives, manners of strengthening business relationships between the industry and Ethio-Re, voluntary cession, data compilation, premium collection and the impact of policy cessions on the sustainability of Ethio-Re and possible options to compensate the income gap that would be created had been discussed in detail.

- **Corporate Social Responsibility (CSR):** Ethio-Re fully sponsored the costs of constructing the feeding center of the needy at Kirkos Sub City. The feeding center named Tesfa Berhan aims to serve a meal for the needy and economically poor people every day. The city administration builts the feeding centers to provide a meal for the most vulnerable members of society. Ethio-Re has also donated for the Gebeta Le-Hager, Gebeta Le-Sheger , School feeding for the deaf children, and Ethiopian defense forces to discharge its corporate social responsibility.

- Ethion-Re is also participating in a School feeding program designed for the Ethiopian National Association of the Deaf (ENAD), Co-Action Learning Centre for Deaf Children- Under the auspices of the City Government of Addis Ababa Education Bureau. ETHIO-RE as a corporate social responsibility believes in funding 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 the Ethiopian National Association of the Deaf (ENAD) Co-action school- Under the auspices of the City Government of Addis Ababa Education Bureau. They are from extremely impoverished, broken families who would be unable to send them to school without support from outside sources.

PICTURED: LEFT TO RIGHT: HE. ADANACEH ABEBE(DEPUTY MAYOR OF ADDIS ABABA CITY), ADMINISTRATOR OF KIRKOS SUB-CITY, MR. DAWIT G/AMANIUEL (CHIEF EXECUTIVE OFFICER OF ETHIO-RE), AND MR. FIKRU TSEGAYE (EXECUTIVE OFFICER, STRATEGY AND BUSINESS DEVELOPMENT OF ETHIO-RE) INAUGURATING THE FEEDING PROGRAM AT KIRKOS SUB-CITY.

- **Market Visits**

- **Domestic:** A senior management team led by the CEO has visited all local insurance companies to establish smooth business relationships and to explore ways on how to boost business opportunities. Moreover, Finance and investment team has visited all insurance companies to expedite collection performance and create a smooth business relationship.

- **International/Regional:** As a new entrant, Ethiopian Re. has to conduct market visits to promote its brand and solicit business from target markets. This could help to boost understanding of the behavior of markets that the Company is planning to accept business from and also gather information on the regulatory regime. The market visits that have been conducted previously helped to build preliminary relationships with insurance companies and more importantly to introduce Ethiopian Re. to players that presumably are potential sources of business. However, due to COVID 19 pandemics, the plan to visit regional partners and new markets in Ethiopia couldn't be realized during the year. Nevertheless, in the years ahead, the company would strengthen its relationship with customers, and conducting rigorous markets visits would continue in target markets.

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

APPOINTMENT OF ACTUARY AND CONTACTING RATING AGENCIES

- Credit rating: The Company has selected and obtained its first credit rating from Global Credit Rating (GCR) as per the decision of the Board of Directors. Accordingly, it has obtained a score, during the year.

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

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;

- Devaluation of birr and 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 citizens, and have also compromised the infrastructural developments in the country. The problem has also a spanning effect in the plan of the company which is targeted to get land and/or acquire real estate.

- 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 shortage of skilled professionals in the insurance industry has resulted in intensive headhunt 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,

6. FUTURE PLAN

- The Board in consultation with Deloitte international consultants, the expatriate advisor, and through engaging management and other stakeholders has prepared and approved Ethiopian Re's Vision -2030: Take off for Ethio-Re, 5-year comprehensive strategy and 10-year roadmap which is the second strategic plan covering the years 2021/22-2024/25. Accordingly, the Board of Directors and Senior Management have reviewed and approved and started implementation as planned in July 2021, the strategic plan which was later presented to the National Bank of Ethiopia and communicated for all concerned stakeholders to create ownership- buy-in and engagement. The strategic plan is in its first year of implementation and the subsequent years would enable Ethio-Re to become competitive and earn sustainable growth.

- Hence, having incorporated learnings from the current state assessment, we have asserted our refreshed vision – 'To be the reinsurer of choice in Ethiopia and our chosen markets.

- On top of the above, through a process of studying the company's internal configuration, the SP has developed three distinct 'horizons' of strategic initiatives that are key to the new strategy:

HORIZON 1: Big Five – Five initiatives that consider non-negotiable to the success of all other strategic initiatives as well as Ethio-Re's overall viability. These non-negotiable initiatives are:

1. Enhance communication, stakeholder relationships, brand awareness, and reputation;
2. Obtain credit rating and increase foreign business inflows;
3. Ensure extension of compulsory cessions; and
4. Enhance leadership capabilities
5. Implement technology to support business and operations

HORIZON 2: Quick wins – High impact initiatives that are less complex to implement, meaning that they can be initiated in the current financial year.

HORIZON 3: Other Priority – Other key initiatives that are more complex to implement or longer-term in nature, still being essential to Ethio-Re's long term success

- The board also believes that if we ensure alignment across the organization in terms of the new strategy process as detailed in the SP document, as well as building a culture of performance-driven behavior, we can achieve success. However, the success will be achieved through a transformative journey that is starting from FY21-22.

- The company has a planned to work with the regulator National Bank of Ethiopia and other concerned stakeholders to create enabling regulatory environment including insurance of relevant directive, laws and proclamation necessary for the Reinsurance Company. The Company has also a plan to review and amend it's Articles of Association in line with the new Commercial code and other relevant directives and proclamations.

- In the years ahead, the Company should also gear up all its efforts towards the successful implementation of all prioritized strategic initiatives to significantly sharpen its competitive edge in view of the changing business environment. Furthermore, in order to ensure a leading role in offering reinsurance services as stated in its mission and vision statements; the Company will step up the efforts directed at developing the capacity of its workforce, work on Company Rating, strengthening relationships with cedants and implementing state of the art information technology.

- The company has envisaged supporting the market in its efforts for the development of inclusive insurance, agricultural insurance, life insurance, micro-insurance, and other new products that could contribute to the development of the industry. Hence, the company has a plan to provide a due focus for inclusive insurance and organizing international forums on the importance of cyber security insurance and bankers blanket insurance for the banking industry and give support for the development of agricultural insurance, life insurance, micro insurance as a national reinsurance company.

- The strategic plan has also clearly indicated that Ethio-Re has also a long-term vision to become a "Training and center of excellence" and own its own "Ethio-Re academy". hence the Company will provide a prime focus for the establishment of the academy to support the nation in general and the industry in particular in capacity development.

- These strategic initiatives are also expected to bring about a paradigm shift in the Company's overall business and operating models, which ultimately enable it to realize the desired goals by enhancing its competitive advantage.

- When the efforts to get land from the municipality office and/or acquisition of building for Ethio-Re's headquarters come into fruition, it would improve its investment income and inconveniencies created due to the absence of its own head office.

7. APPROPRIATION OF RETAINED EARNINGS

- During the financial year 2020/21, the Company has obtained an after-tax profit of Birr 194.9 million. The Board of Directors, therefore, recommends that Birr 175 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 responsible for auditing the Company's books of accounts in accordance with the resolution of the General Meeting that sanctioned the Corporation as External Auditors to carry out the audit for the year ended 30 June 2021.

9. VOTE OF THANKS

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

Hailemariam Assefa

Chairman of the Board of Directors

Dawit G/Ammanuel

Chief Executive Officer

Ethiopian Reinsurance

የኢትዮጵያ ጠለፋ መድን

FINANCIAL STATEMENTS

በኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ ሪፐብሊክ
የሂሣብ ምርመራ አገልግሎት ኮርፖሬሽን

The Federal Democratic Republic of Ethiopia
Audit Services Corporation

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ethiopian Reinsurance Share Company (the Company), which comprise the statement of financial position as at 30 June 2021, 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 2021 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.

ASC

251-011-5515222
251-011-5535012
251-011-5535015
251-011-5535016
Fax 251-011-5513083
E-mail asc@ascethiopia.com
website www.ascethiopia.com
5720

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.

asc

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.

asc

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 2021, we must report to you in accordance with

Article 349 (1) that we have no comments to make on the report of the Board of Directors; and

Article 349 (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
16 December 2021

ETHIOPIAN REISURANCE S.C
STATEMENT OF DIRECTORS' RESPONISBILITIES

The Commercial Code of Ethiopia 2021 and the insurance business proclamation number 746/2012 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The Board of directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of directors accept responsibility for the preparation and presentation of these financial statements in accordance with the Financial Reporting Proclamation No. 847/2014 and in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgments and accounting estimates that are reasonable in the circumstances.

Nothing has come to the attention of the Board of Directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement. The Board of directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of directors on December 16,2021 and signed on its behalf by;

Hailemariam Assefa
Chairman
Board of Directors

Dawit Geb
(ACII,Char Insurer
Chief Executive Officer

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF THE FINANCIAL POSITION
AS AT JUNE 30, 2021

	Note	Gen.Ins 2020-21 ETB	Long Term Ins 2020-21 ETB	Total 2020-21 ETB	Total 2019-20 ETB
Assets					
Cash	5	135,671,318	3,855,563	139,526,881	100,150,209
Other Receivables	6	5,386,086	458,895	5,844,981	9,026,208
Due from ceding companies	7	404,373,819	14,728,022	419,101,841	239,376,139
Deferred acquisition costs	8	105,809,280	3,359,333	109,168,613	78,877,265
Time deposits	9	1,183,706,226	149,175,063	1,332,881,289	1,153,888,020
Equity Investment	10	77,427,778	6,000,000	83,427,778	52,195,000
Grand Renaissance Dam Bonds	11	131,102,041	23,135,654	154,237,695	121,681,137
Right of use asset	12	987,106	-	987,106	2,877,311
Property Plant & Equipment	13	17,396,988	-	17,396,988	15,631,660
Intangible Asset in progress	13	23,394,786		23,394,786	18,505,314
Total assets		**2,085,255,428**	**200,712,530**	**2,285,967,958**	**1,792,208,263**
Liabilities					
Provision for unearned premiums	14	306,083,589	23,083,876	329,167,465	271,622,621
Interbranch Business		720,933	(720,933)		
Other payables	15	10,754,798		10,754,798	7,271,438
Due to ceding companies	16	56,940,515	2,613,364	59,553,879	57,603,329
Due to retrocessionaires		244,988,131	-	244,988,131	117,663,244
Employee benefits liability	17	277,025	4,192	281,217	212,151
Lease Liability	12	-		-	2,097,406
Provision for incurred but not reported claims		68,687,881	3,788,177	72,476,058	73,504,726
Outstanding claims reserve	18	301,851,387	-	301,851,387	256,301,044
Deferred tax liablity	25	1,259,256	65,177	1,324,433	637,508
Provision for income tax	25	23,890,326	1,596,350	25,486,676	21,860,771
Total Liabilities		**1,015,453,842**	**30,430,203**	**1,045,884,045**	**808,774,238**
Equity					
Capital: Paid up	19	846,617,001	149,403,000	996,020,000	787,620,509
Formation fund	19	9,973,000	-	9,973,000	9,973,000
Retained earnings		160,654,601	14,762,508	175,417,109	148,118,784
Legal reserve		51,084,993	6,116,821	57,201,814	37,703,947
Other Comprehensive Income		1,471,991	-	1,471,991	17,785
Total equity		**1,069,801,586**	**170,282,328**	**1,240,083,914**	**983,434,025**
Total liabilities and equity		**2,085,255,428**	**200,712,530**	**2,285,967,958**	**1,792,208,263**

The accompanying notes on page 10 to 71 are an integral part of these financial statements.

Hailemariam Assefa
Chairman
Board of Directors

Dawit Gebreammanuel
ACII, Chartered Insurer
Chief Executive Officer

Ethiopian Reinsurance

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021

		Gen.Ins	Long Term Ins	Total	Total
	Note	2021	2021	2021	2020
Income					
Gross premiums written	20	1,094,353,153	45,899,088	1,140,252,241	874,792,139
Retrocession Premium		(359,764,212)	-	(359,764,212)	(202,205,537)
Change in net unearned premium	14	(50,859,127)	(6,685,717)	(57,544,844)	(36,392,897)
Net Earned premium		683,729,814	39,213,372	722,943,186	636,193,706
Reinsurance commission income		81,647,208	-	81,647,208	34,083,373
Total Income		765,377,021	39,213,372	804,590,394	670,277,079
RE-INSURANCE EXPENSES					
Net claims incurred	21	315,832,445	18,662,450	334,494,895	335,747,361
Cedant Acquisition Cost	22	230,210,690	6,440,410	236,651,100	189,320,325
profit commission Exp.		66,100,303	7,174,594	73,274,898	39,885,387
Total outgo		612,143,439	32,277,453	644,420,892	564,953,072
Undewriting profit (loss)		153,233,583	6,935,919	160,169,501	105,324,007
Net Investment Income	23	140,324,067	15,115,461	155,439,528	129,154,859
Other Income		13,305	-	13,305	-
Operating and other expenses	24	(91,107,577)	(4,049,412)	(95,156,989)	(48,041,700)
Profit before tax		202,463,378	18,001,968	220,465,345	186,437,166
Profit Tax		23,890,326	1,596,350	25,486,676	21,860,771
Profit for the year after tax		178,573,052	16,405,618	194,978,668	164,576,395
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remesurment gains on defined benefit plan		49,660	-	49,660	(753)
Deferred tax liablity/asset on remesurment gain or loss		(14,898)		(14,898)	
Remesurment gains on defined benefit plan net of tax		34,762		34,762	
Remesurment of fair value gain on equity investment		2,027,778		2,027,778	
Deferred tax liablity/asset on remesurment fair value		(608,333)		(608,333)	
Remesurment of fair value gain on equity investment Net of tax		1,419,444		1,419,444	
Other Comprehensive income ,net of tax		1,454,206	-	1,454,206	(753)
Total comprehensive income for the year		180,027,258	16,405,618	196,432,875	164,575,642

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	Capital	Formation fund	Excess Fund	Retained Earnings	Legal Reserve	Other comprehensive Income	Total Equity
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 ye	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
Balance at 1 July 2020	787,620,509	9,973,000	-	148,118,784	37,703,947	17,785	983,434,025
Profit for the year	-	-	-	194,978,668	-		194,978,668
Dividend declared				(146,768,783)			(146,768,783)
Directors compensation				(1,350,000)			(1,350,000)
Transfer to legal reserve	-	-	-	(19,497,867)	19,497,867	-	-
capital contributed during the ye	208,399,491	-	-	-	-	-	208,399,491
Defered tax expense				(63,694)			(63,694)
Remesurment of Defined benefit Liablity net of tax						34,762	34,762
Equity investment Fair value mesurment net of tax						1,419,444	1,419,444
Balance at 30 June 2021	996,020,000	9,973,000	-	175,417,109	57,201,814	1,471,991	1,240,083,914

The Federal Democratic Republic of Ethiopia
Audit Services Corporation

ETHIOPIAN REINSURANCE SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	ETB	ETB
Cash flows from operating activities:		
Profit for the year	220,465,345	186,437,166
Depreciation and Amortization	5,060,722	4,416,036
Interest on employer liability	263,438	75,210
Interest on lease liability	151,037	413,506
Interest on staff loan	(232,644)	(98,327)
Unrealized exchange gains	(567,209)	(39,003)
Acturial Gain		753
Interest income	(154,876,954)	(129,643,574)
	70,263,736	61,561,765
Movement in Working Capital		
Increase in receivables and prepayments	3,181,228	(2,447,787)
Increase in amounts due from ceding companies an	(209,466,349)	99,698,454
Insurance provisions	102,066,519	80,446,679
Other provision	69,066	105,484
Increase in payables	3,483,361	4,551,871
Increase in amounts due to ceding companies	129,275,438	(148,127,010)
Net cash flows from operating activities	98,872,997	95,789,455
Cash flows from investing activities		
Payment for investment in the Grand Renaissance	(31,521,288)	(27,177,350)
Payment for time deposits	(167,342,266)	(173,044,669)
Payment for Equity investment	(29,205,000)	(52,195,000)
Interest received	142,190,682	118,157,073
Acquisition of property, plant and equipment	(9,776,495)	(17,647,544)
Payment for provision for tax	(21,860,771)	(10,677,346)
Payment of finance lease liablity	(2,261,893)	(2,261,893)
Dividend paid	(48,232,042)	(9,885,248)
Payment for directors	(1,350,000)	(1,287,500)
Net cash used in investing activities	(169,359,074)	(176,019,477)
Cash flows from financing activities:		
Capital received	109,862,749	71,247,731
Net cash from financing activities	109,862,749	71,247,731
Increase in cash and cash equivalents	39,376,672	(8,982,292)
Cash and cash equivalents:		
At beginning of the period	100,150,209	109,132,501
At end of the period	139,526,881	100,150,209

The Federal Democratic Republic of Ethiopia Audit Services Corporation

Ethiopian Reinsurance

የኢትዮጵያ ጠለፋ መድን

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

(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

(Continue)

(D) USE OF JUDGMENTS AND ESTIMATES(CONTINUED)

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 2021 is included in the following notes

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

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

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

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

Note 3 (i) (n),

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES

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

(A) FOREIGN CURRENCY

FOREIGN CURRENCY TRANSACTIONS

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

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

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

(B) REINSURANCE CONTRACT

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

The reinsurance contracts are classified into two main categories:

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

The Federal Democratic Republic of Ethiopia * Audit Services Corporation

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) REINSURANCE CONTRACTS (CONTINUED)

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

RECOGNITION AND MEASUREMENT

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

PREMIUM INCOME

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) REINSURANCE CONTRACTS (CONTINUED)

LIABILITY ADEQUACY TEST

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

RETROCESSION CONTRACTS HELD

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

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

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

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

RECEIVABLE AND PAYABLES RELATED TO REINSURANCE CONTRACTS

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) REINSURANCE CONTRACTS (CONTINUED)

RECEIVABLE AND PAYABLES RELATED TO REINSURANCE CONTRACTS (CONTINUED)

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

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

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(I) CLASSIFICATION

FINANCIAL ASSETS

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

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

AMORTIZED COST

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

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

Fair value through Other Comprehensive Income (FVOCI)

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(I) CLASSIFICATION – CONTINUED

- 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.

(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.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(III) DERECOGNITION (CONTINUED)

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

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

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

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

FINANCIAL LIABILITIES

The Company derecognizes a financial liability when its contractual obligations 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.

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(IV) MODIFICATIONS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES - CONTINUED

FINANCIAL LIABILITIES

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

(V) OFFSETTING

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

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

(VI) AMORTIZED COST MEASUREMENT

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

(VII) FAIR VALUE MEASUREMENT

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(VII) FAIR VALUE MEASUREMENT - CONTINUED

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

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

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

(VIII) IMPAIRMENT

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

- Financial assets measured at amortized cost;

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

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

(Continue)

(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;

(Continue)

(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.

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) CASH AND CASH EQUIVALENTS

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

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

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

(E) PROPERTY, PLANT AND EQUIPMENT (PPE)

(I) =RECOGNITION AND MEASUREMENT

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

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

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

(II) SUBSEQUENT COSTS

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(III) DEPRECIATION

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

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

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

(Continue)

(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.

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) INTANGIBLE ASSETS

(I) SOFTWARE

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

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

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

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

The Company did not have assets that fulfill the criteria to be classified as intangible assets as at 30 June 2021.

(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.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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

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

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

(I) PROVISIONS

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

(J) EMPLOYEE BENEFITS

(I) DEFINED BENEFIT PLANS

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

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) EMPLOYEE BENEFITS (CONTINUED)

(I) DEFINED BENEFIT PLANS

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

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

(II) DEFINED CONTRIBUTION PLANS

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

(III) SHORT-TERM BENEFITS

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

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

(IV) OTHER LONG-TERM BENEFITS

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

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) EMPLOYEE BENEFITS (CONTINUED)

(V) TERMINATION BENEFITS

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

(K) LEGAL RESERVE

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

(L) STATUTORY DEPOSIT

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

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

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

(M) INCOME TAX

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

(I) CURRENT TAX

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

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) INCOME TAX (CONTINUED)

(II) DEFERRED TAX

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

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

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

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

(N) CONTINGENCIES

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

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(Continue)

(3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) FINANCE INCOME AND FINANCE COSTS

The Company's financial income and finance cost include interest income, interest expense, dividend income, foreign exchange gains or losses and impairment losses on investments. Interest income or expense is 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 2021.

(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 2021.

(Continue)

(R) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(I) EARLY ADOPTED STANDARDS AND INTERPRETATIONS

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

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

(II) NEW AND AMENDED STANDARDS AND INTERPRETATIONS ADOPTED DURING THE YEAR ENDED 30 JUNE 2021

Amendments on IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.

The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

(Continue)

(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 2021– continued

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2021, 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
Covid 19 Related rent concessions Amendments to IFRS 16	1[st] April 2021
Property ,plant and equipment :proceeds before intended use –Amendments to IAS 16	1[st] January 2022
Onerous Contract –costs of Fulfilling a contract –Amendments to IAS 37	1[st] January 2022
Classification of Liabilities as current or non-current Amendments to IAS 1	1[st] January 2023

(Continue)

(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 2021 – 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.

The Federal Democratic Republic of Ethiopia * Audit Service Corporation *

(Continue)

(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 2021 – 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.

(Continue)

(4) FINANCIAL RISK REVIEW

Ethio-Re underwrites risks that natural persons, corporate or other entities wish to transfer to an insurer. Such risks may relate to engineering, aviation, fire, pecuniary, accident (PA & GPA), motor, liability, marine, and other perils which may arise from an insured event. As such, the Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under reinsurance contracts.

Furthermore, the Company is also exposed to financial and operational risks from insurance and reinsurance contracts and financial instruments. Financial risks include credit risk, liquidity risk, market risk, etc. Market risk, in turn, comprises of currency risk, interest rate risk and other price risks.

This report is, therefore, presents information about the Company's risk exposure, and the Company's objectives, policies and processes for measuring and managing risk and 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.

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

RISK MANAGEMENT FRAMEWORK (CONTINUED)

Key risks arising from reinsurance contracts and financial instruments include:

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

(A) UNDERWRITING RISK

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

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

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

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

MANAGEMENT OF UNDERWRITING RISK

The Company retrocedes all classes of insurance business including: engineering, aviation, fire, pecuniary, accident (PA & GPA) , Motor, liability, Marine , Life and other perils. The bulk of the business written is short term in nature.

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

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

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(A) UNDERWRITING RISK

An independent unit, Enterprise Risk and Compliance Office, ensures adherence to these guidelines through periodic review of the activities of operations. The reports of the review are submitted to management and the BRCC.

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

The retrocession arrangements existing as at 30 June 2021 are as follows:

Class of Business	Gross exposure (ETB)	Net exposure (ETB)
Fire and engineering risk gross account excess of loss	400,000,000	25,000,000
Fire and engineering catastrophe gross account excess of loss treaty	1,800,000,000	25,000,000
Marine cargo and hull gross excess of loss treaty	90,000,000	15,000,000
Motor, Liability, General TPL, product liability professional indemnity, Workmen's compensation, Accident(PA/GPA/ Travel accident) Fidelity guarantee; Burglary; Money; Plate glass; All risk and Bonds gross account excess of loss retro treaty	35,000,000	5,000,000
Terrorism and Political Risk Quota share retro treaty.	200,000,000	60,000,000
PVT Net Account Excess of Loss Treaty	60,000,000	10,000,000
Bond Quota share retro treaty.	200,000,000	40,000,000
Aviation Quota share retro treaty.	USD 1,500,000	USD 450,000
Fire Facultative Obligatory Surplus Treaty	1,435,000,000	35,000,000
Engineering Facultative Obligatory Surplus Treaty	1,435,000,000	35,000,000
Marine Facultative Obligatory Surplus Treaty	534,000,000	8,750,000
Others Facultative Obligatory	110,000,000	10,000,000

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(A) UNDERWRITING RISK (CONTINUED)

CONCENTRATION OF UNDERWRITING RISK(CONTINUED)

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 indicated here below.

Class of business	General Insurance	Long term Insurance	Total 2020/21	Total 2019/20
Accident	26,830,648	-	26,830,648	23,006,729
Aviation	120,098,995	-	120,098,995	87,723,074
Burglary	3,906,346	-	3,906,346	2,823,048
Eng.	86,817,649	-	86,817,649	68,786,404
Emp. Liability	10,061,344	-	10,061,344	8,905,781
Fire	155,255,685	-	155,255,685	121,667,409
Goods in Transit	1,594,178	-	1,594,178	1,394,180
Liability	27,706,792	-	27,706,792	19,602,348
Marine	91,125,937	-	91,125,937	82,746,154
Medical	617,397	-	617,397	381,296
Motor	308,750,645	-	308,750,645	273,970,687
Pecuniary	124,188,395	-	124,188,395	*96,361,504*
Others	137,399,142	-	137,397,702	*54,656,383*
Group Term Life Assurance	-	30,874,757	30,874,757	20,680,334
Health Insurance	-	14,952,633	14,952,633	11,379,961
OTHER	-	71,698	71,698	706,847
Total	**1,094,353,153**	**45,899,088**	**1,140,252,241**	**874,792,139**

(continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(A) UNDERWRITING RISK(CONTINUED)

CONCENTRATION OF UNDERWRITING RISK(CONTINUED)

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 28.2% from its last year position of 32.5%, which by itself was an improved one from its preceding year. This continuous improvement is a good sign to balance undue concentration among classes of business.

(B) MARKET RISK

Market risk is the risk that changes in the market prices – e.g. foreign exchange rates and interest rate fluctuations; real-state and equity prices volatility 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.

- **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.

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.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(B) MARKET RISK (CONTINUED)

(I) INTEREST RATE RISK – CONTINUED

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 amount June 30, 2021		
	General Ins	Life Ins	Total
Abyssinia Bank	204,831,580	34,646,775	239,478,356
Addis International bank	15,560,128		15,560,128
Awash International bank	257,229,640	22,724,007	279,953,647
Coop. Bank of Oromia	68,923,047		68,923,047
Dashen Bank	157,736,441	29,909,645	187,646.086
Debub Global	25,812,055		25,812,055
Nib International bank	145,518,197	32,432,146	177,950,342
Oromia International bank	207,802,274	22,429,153	230,231,427
United Bank	37,415,916		37,415,916
Wegagen Bank	62,876,949	7,033.336	69,910,285
Total	**1,183,706,226**	**149,175,063**	**1,332,881,289**

Bond Description	Bond Principal amount June 31, 2020		
	General Ins	Life Ins	Total
Government Bond	131,108,596	23,136,811	154,245,407
Total	**131,108,596**	**23,136,811**	**154,245,407**

(Continue)

(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	6,664,406	-6,664,406	6,664,406	-6,664,406
Government Bond	771,227	-771,227	771,227	-771,227
Total	**7,435,633**	**-7,435,633**	**7,435,633**	**-7,435,633**

(II) EQUITY PRICE RISK

Equity price risk refers to the potential gain or loss in fair value resulting from positive or adverse changes in the fair value of stocks/shares/ that the company has invested in.

Investment Entity	Principal investment as at 30/06/21			30/06/20
	G. Insu.	Life Assu.	Total	Total
United Bank Share Co.	55,000,000	-	55,000,000	25,795,000
Addis-Africa international convention and exhibition centre (AAICEC)	20,400,000	-	20,400,000	20,400,000
Wegagen Bank S. Co.		6,000,000	6,000,000	6,000,000
Total	**75,400,000**	**6,000,000**	**81,400,000**	**52,195,000**

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(B) MARKET RISK (CONTINUED)

(II) EQUITY PRICE RISK

As at June 30, 2021 the exposure to equity price at face value was Birr 81.4 million, which shows an increase of 56% from last year equity investment. An increase/decrease of 15% in the value of these equities would result in an increase/ decrease in Other Comprehensive Income (OCI) of Birr12.21 million as depicted here below.

Financial Instruments	Effect on OCI	
	15% increase	15% decrease
Equity/ Share investment	12,210,000.00	-12,210,000.00
Total (ETB)	**12,210,000.00**	**-12,210,000.00**

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, 2021
	USD
Reinsurance assets (receivables)	USD 287,267.69
Reinsurance liability (payables)	1,151,475.76

(Continue)

(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	(1,249,827)	1,249,827	(1,249,827)	1,249,827
Receivables	5,043,418	(5,043,418)	5,043,418	(5,043,418)
Total (ETB)	**3,793,591**	**(3,793,591)**	**3,793,591**	**(3,793,591)**

The following exchange rate has been applied

June 2021 closing rate

	Buying	selling
USD 1 =	**Birr 43.5074**	**Br.43.7996**

(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.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

MANAGEMENT OF CREDIT RISK

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

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

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

EXPOSURE TO CREDIT RISK

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

Carrying amount	**ETB**
Time deposits	1,332,881,289
Government Bond	149,643,125
Staff loans	1,269,726
Insurance Receivables – Ceding	432,772,670
Insurance Receivables – Retrocession	0
Cash and cash equivalents (bank balances)	139,526,881
Balances at 30 June 2020	**2,056,093,691**

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

IMPAIRMENT LOSSES

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

Receivables from Ceding Companies.

Description	Gross Amount
	ETB
Current (0-29 days)	65,620,548
Past due (30-90 days)	6,320,777
Past due (91 – 180 days)	159,605,133
Past due 181 – 360 days	82,458,216
Past due 1 – 2 years	48,932,806
Past due 2 – 3 years	5,402,614
Past due 3 – 4 years	3,322,919
Past due more than 4 years	1,555,774
Total	**373,218,787**
Impairment	13,670,829.11

The allowance account in respect of insurance receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible.

At that point the amount is considered irrecoverable and is written off against the financial asset directly.

As at 30 June 2021 the Company's management, for the first time, has decided that all net receivables from cedants to be categorized in to two major groupings i.e. receivables below two years and above two years and impair 2% for the first category and 100% for the second category. As a result, the Company impaired Birr 13.66 million as indicated above.

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

Amount arising from Expected Credit Losses (ECL)

The following amounts were subject to ECL as they were classified at amortised cost:

Description	2020/21 ETB	2019/20 ETB
Staff loans	1,269,726	2,126,313
Cash at bank	139,526,881	100,150,209
Time deposits	1,332,881,289	1,153,888,020
Government Bond	149,643,125	121,681,137
Total As at 30 June 2021	**1,623,321,021**	**1,377,845,679**

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

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

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

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

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(C) CREDIT RISK (CONTINUED)

AMOUNT ARISING FROM EXPECTED CREDIT LOSSES (ECL)(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.

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.

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation ★

(Continue)

(4) FINANCIAL RISK REVIEW (CONTINUED)

(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 2021 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	5,435,653			5,435,653
Reinsurance Premium Receivables - Ceding	432,772,670			432,772,670
Investments	80,524,782	73,720,625		154,245,407
Bank Deposits (current and saving)	134,091,228			134,091,228
Fixed time deposit at amortized cost	1,332,881,289			1,332,881,289
Staff loans	612,840	656,903		1,269,743
Total Assets 'A'	**1,986,318,462**	**74,377,528**		**2,060,695,990**
2. Liabilities				
Due to ceding companies	59,553,879			59,553,879
Due to Retrocessionaires	244,988,131			244,988,131
Provision for unearned premiums	329,167,463			329,167,463
Provision for incurred but not reported claims (IBNR)	72,476,058			72,476,058
Outstanding Claims Reserve	301,851,387			301,851,387
Other payables	11,627,241			11,627,241
Employees Benefit Liability	281,217			281,217
Provision for Income Tax				0
Total Liability 'B'	**1,019,945,376**	**0**	**0**	**1,019,945,376**
Liquidity gap A - B	**966,373,086**	**74,377,528**	**0**	1,040,750,614
Liquidity Ratio A : B	**1.95 : 1.00**			2.02 : 1.00

The Federal Democratic Republic of Ethiopia ★ Audit Services Corporation

(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. As can be seen from the above table for every one Birr current liability the company maintains one birr and 92 cents in current asset.

MANAGEMENT OF LIQUIDITY RISK

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

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

(E) OPERATIONAL RISK

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

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

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

(Continue)

(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 996,020,000 paid up capital which is above the statutory requirement of Birr 500,000,000 set by the National Bank of Ethiopia.

(Continue)

5. CASH AND CASH EQUIVALENTS

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Saving accounts				
Commercial Bank of Eth.	57,743,891	-	57,743,891	69,261,399
Current accounts				
Abyssinia Bank	458,094	-	458,094	486,517
Addis International Bank	6,404	-	6,404	1,825
Awash International Bank	6,356,449	-	6,356,449	7,730,560
Buna International Bank	930		930	960
Commercial Bank of Ethiopia	3,524,779	-	3,524,779	3,002,562
CBE Interest free Account	162,166		162,166	
CBE Foreign Ex.Retention A	50,508		50,508	
Coop. Bank Of Oromia	1,414,315	-	1,414,315	5,230
Dashen Bank	17,037,228	-	17,037,228	858,772
Debub Global Bank	30,918,495		30,918,495	
Nib International Bank	4,802,135	-	4,802,135	58,612
Oromia International Bank	402,555	-	402,555	1,821,486
United Bank	7,243,639		7,243,639	331,519
Zemen Bank	114,077		114,077	
Wegagen Bank	-	3,855,563	3,855,563	272,396
Cash on Hand	5,435,653	-	5,435,653	16,318,371
Total	135,671,318	3,855,563	139,526,881	100,150,209

(Continue)

6. OTHER RECEIVABLES

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Staff loans	1,269,726	-	1,269,726	2,126,313
Prepayment	844,828	-	844,828	3,144,456
Advance tax	3,271,532	458,895	3,730,427	3,755,439
Total	5,386,086	458,895	5,844,981	9,026,208

7 . DUE FROM CEDING COMPANIES

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Due from ceding companies	415,610,775	17,161,895	432,772,670	239,376,139
Provision of impairment	11,236,956	2,433,873	13,670,829	
	404,373,819	14,728,022	419,101,841	239,376,139

As per IFRS requirement the company reviews the portfolio of receivables related to reinsurance contract on an annual basis in determining whether receivables are impaired, The Company assesses the expected credit loss associated with its debt on a forward-looking basis.

The ageing analysis of Reinsurance debtors as at June 30,2021 for each cedants, have been prepared.

(Continue)

8. DEFERRED ACQUISITION COSTS

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2021	2021	2021	2020
Accident	3,637,084		3,637,084	2,499,856
Aviation	235,001		235,001	169
Burglary	485,866		485,866	239,609
Engineering	12,871,291		12,871,291	13,151,819
Employers Liability	1,427,320		1,427,320	1,281,756
Fire	12,020,501		12,020,501	7,591,601
Goods in transit	303,934		303,934	319,071
Liability	4,332,476		4,332,476	2,857,289
Marine	17,964,146		17,964,146	15,776,225
Medical	37,319		37,319	70,525
Motor	15,323,990		15,323,990	13,155,942
Pecuniary	22,928,117		22,928,117	12,742,479
Others	14,242,236		14,242,236	6,348,085
Life	-	3,359,333	3,359,333	2,842,839
Total	105,809,280	3,359,333	109,168,613	78,877,265

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.

(Continue)

9.TIME DEPOSITS

	Gen.Ins	Long Term Ins	Total	Total
Name of Bank	2021	2021	2021	2020
Abyssinia Bank	204,831,580	34,646,775	239,478,356	215,046,216
Addis Internat	15,560,128	-	15,560,128	13,916,904
Awash Internat	257,229,640	22,724,007	279,953,647	250,202,743
Coop. Bank of Oromia	68,923,047	-	68,923,047	61,428,479
Dashen Bank	157,736,441	29,909,645	187,646,086	167,640,008
Debub Global	25,812,055		25,812,055	
Nib Internatio	145,518,197	32,432,146	177,950,342	158,884,015
Oromia Interna	207,802,274	22,429,153	230,231,427	205,593,826
United Bank	37,415,916	-	37,415,916	18,685,545
Wegagen Bank	62,876,949	7,033,336	69,910,285	62,490,285
	1,183,706,226	149,175,063	1,332,881,289	1,153,888,020

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
2021	2021	2021	2020
66,975,875	11,050,744	78,026,619	66,375,616

(Continue)

10. EQUITY INVESTMENT

The equity investment is measured at fair value through other comprehensive income. The Company has invested in the under listed companies during the period.

Though Addis-Africa International Convention & Exhibition Center is not yet operational, based on the analysis of the Center's performances, the Company management concluded that there is no objective evidence of impairment, thus the equity investments held at cost were not impaired with in the year.

Fair value measurement for Investment at united bank is prepared

Regarding Wegagen Banks, as latest draft financial statements of banks were not available for valuation, the investments valued at cost.

	30-Jun-21	30-Jun-21	30-Jun-21	30-Jun-20
	General Insurance	Long term Insura	Total	Total
United Bank S.C.	55,000,000	-	55,000,000	25,795,000
Change in Fair value	2,027,778	-	2,027,778	-
Total united	57,027,778	-	57,027,778	25,795,000
Addis-Africa International Covention & Exhibition Center(AAICEC)	20,400,000	-	20,400,000	20,400,000
Wegagen Bank	-	6,000,000	6,000,000	6,000,000
Total	77,427,778	6,000,000	83,427,778	52,195,000

Fair value revaluation for Investment at united bank has been done and recognized birr 2,027,778 gain through other comprehensive income.

11. GRAND RENAISSANCE DAM BONDS

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

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

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Statutory deposit	127,196,656	22,446,469	149,643,125	118,114,125
Interest Receivable	3,911,940	690,342	4,602,282	3,567,012
ECL impairment allowance for bond	(6,555)	(1,157)	(7,712)	
	131,102,041	23,135,654	154,237,695	121,681,137

The Federal Democratic Republic of Ethiopia Audit Services Corporation

(Continue)

11 GRAND RENAISSANCE DAM BONDS(CONTINUED)

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.

Impairment allowance for bond is calculated based on minimum rate for probability of default set by Basel committee

12. LEASES

RIGHT OF USE

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Cost				
Balance at beginning of the year	8,931,953	-	8,931,953	8,968,036
Addition	-	-	-	-
FV adjustments	-	-	-	(36,083)
Balance at end of the year	8,931,953	-	8,931,953	8,931,953
Depreciation				
Balance at beginning of the year	(6,054,643)	-	(6,054,643)	(4,165,292)
Additions	(1,890,204)	-	(1,890,204)	(1,889,351)
Balance at end of the year	(7,944,847)	-	(7,944,847)	(6,054,643)
Net carrying value	987,106	-	987,106	2,877,311
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	2021	2021	2021	2020
Balance at beginning of the year	2,097,405		2,097,405	3,981,876
Lease liability Addition (Adjustment)	-		-	(36,083)
Interest expense on Lease	164,486		164,486	413,506
settlement & unrealized gain	(2,261,893)		(2,261,893)	(2,261,893)
Balance at end of the year	(0)	-	(0)	2,097,405

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%.

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

13. PROPERTY, PLANT AND EQUIPMENT

	Balance		Balance	Total
COST	01/07/20	Additions	30/06/21	2020
Partition work	2,489,846	-	2,489,846	2,489,846
Motor Vehicles	18,281,293	3,839,780	22,121,073	18,281,293
Office Equipment, furniture and fittings	2,252,301	794,036	3,046,337	2,252,301
Computers & accessories	872,806	253,207	1,126,013	872,806
Sub total	23,896,246	4,887,023	28,783,269	23,896,246
	Balance		Balance	Total
DEPRECIATION	01/07/20	Additions	30/06/21	2020
Partition work	1,643,748	492,989	2,136,738	1,643,748
Motor Vehicles	5,377,648	2,179,155	7,556,803	5,377,648
Office Equipment, furniture a	719,331	298,240	1,017,571	719,331
Computers & accessories	523,859	151,310	675,169	523,859
Sub total	8,264,586	3,121,695	11,386,281	8,264,586
NET BOOK VALUE	15,631,660	1,765,328	17,396,988	15,631,660
	Balance		Balance	Total
COST	01/07/20	Additions	30/06/21	2020
Intangable assetin progress	18,505,314	4,889,472	23,394,786	18,505,314

14. UNEARNED PREMIUM

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Provision for Unearned Premi	448,859,426	23,083,876	471,943,302	338,229,068
Less: Retrocess. Share of Provision for UPR	142,775,837	-	142,775,837	66,606,447
Net Provision for Unearne	306,083,589	23,083,876	329,167,465	271,622,621

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

(Continue)

15. OTHER PAYABLES

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Employees Income tax payabl	514,867	-	514,867	360,485
Withholding tax payable	1,451,630	-	1,451,630	1,193,255
Pension Payable	192,961	-	192,961	126,893
Sundry creditors	5,924,446	-	5,924,446	3,405,031
Accrued staff bonus and leave	1,681,665	-	1,681,665	1,434,884
Provision for audit fee	385,250	-	385,250	563,500
Other accruals	603,980	-	603,980	187,391
			-	
	10,754,798	-	10,754,798	7,271,438

15a		
Sundry creditors breakdow	June 30, 2021	June 30, 2020
Provision for professional fee	2,968,964	1,649,656
Provision for bonus	2,497,236	1,473,339
Other sundry creditors	458,245	282,035
Total	5,924,446	3,405,031

16. DUE TO CEDING COMPANIES

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Due to Insurance Companies	56,940,515	2,613,364	59,553,879	57,603,329

(Continue)

17. EMPLOYEE BENEFITS

17.1 DEFINED BENEFIT PLANS

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

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

(A) PRESENT VALUE OF FUNDED OBLIGATIONS

	Gen.Ins	Long Term Ins	Total	Total
a) Present value of funded obli	2021	2021	2021	2020
Active Members	277,025	4,192	281,217	212,152
Net Liability on Statement of Fi	277,025	4,192	281,217	212,152

(B) RECONCILIATION OF BENEFIT OBLIGATIONS

			Total	Total
			2021	2020
Opening benefit obligation			212,152	104,809
Current service cost net of employees' contributions			82,608	88,039
Interest cost			36,117	18,550
Actuarial Gain /loss			(49,660)	753
Benefits and expenses paid			-	-
Closing benefit obligation			281,217	212,152

(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%

(Continue)

17. EMPLOYEE BENEFITS (CONTINUED)

(C) ACTUARIAL ASSUMPTIONS (CONTINUED)

The discount rate was based on the rate of return of fixed term deposit due to lack of a deep and liquid market for long-term bonds in Ethiopia. The salary 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, 2021 by the amounts shown below:

YEAR ENDED 30 JUNE 2021					
	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	14.25%	15.25%	14.25%	13.25%	14.25%
salary increase	10%	10%	11%	10%	9%
net liability at start of period	212,152	212,152	212,152	212,152	212,152
Total net expense recognized in income statement	118,725	118,725	118,725	118,725	118,725
Net finance costs recognized in profit and loss	(49,660)	(64,486)	(33,554)	(33,039)	(64,159)
Employer contribution					
Net liability at end of period	281,217	266,391	297,323	297,838	266,718

(Continue)

17.2 DEFINED CONTRIBUTION PLAN

Pensions are provided for employees by a separate pension fund to which both the company and employees contribute in accordance with Proclamation No. 715/2011. Under the arrangement, both the company and employees contribute defined percentages of employees' salaries. This pension fund is a defined contribution plan under which retirement benefits are determined by reference to the contributions to the fund. The Company's contributions for the schemes for the year amounted to ETB 1,065,529.50.

18. OUTSTANDING CLAIMS RESERVE

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

	Gen. Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Oustanding Claims Reserve	654,655,817	-	654,655,817	563,480,465
Less: Retro cess. Share of Oustanding Claims Reserve	352,804,430	-	352,804,430	307,179,421
Net Oustanding Claims Reserve	301,851,387	-	301,851,387	256,301,044

19. CAPITAL

(A) STRUCTURE OF CAPITAL

The Company is wholly owned by Ethiopian nationals and/or organizations wholly owned by Ethiopian nationals. All shares rank equally with regard to the Company's residual assets and shareholders are entitled to one vote per share. As of 30 June 2021, the Company's capital was as follows:

		2021
Authorized: Share Capital		
99,730 shares of Birr 10,000 each	ETB	997,300,000

	Gen. Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Issued and Fully paid	846,617,001	149,403,000	996,020,000	787,620,509

(Continue)

19. CAPITAL

(B) NATURE AND PURPOSE OF RESERVES

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

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

20. GROSS PREMIUM

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

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

The gross premiums for the financial year 2021 is analyzed as below:

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2021	2021	2021	2020
Accident	26,830,648		26,830,648	23,006,728
Aviation	120,098,995	-	120,098,995	87,723,074
Burglary	3,906,346	-	3,906,346	2,845,326
Eng.	86,817,649	-	86,817,649	68,786,404
Emp. Liability	10,061,344	-	10,061,344	8,905,781
Fire	155,255,685	-	155,255,685	121,667,409
Goods in Transit	1,594,178	-	1,594,178	1,394,180
Liability	27,706,792	-	27,706,792	19,603,499
Marine	91,125,937	-	91,125,937	83,420,966
Medical	617,397	-	617,397	381,296
Motor	308,750,645	-	308,750,645	273,144,331
Pecuniary	124,188,395	-	124,188,395	96,478,369
Others	137,399,142	-	137,399,142	54,667,633
Group term life assurance		30,874,757	30,874,757	20,680,335
Health insurance	-	14,952,633	14,952,633	11,379,961
Funeral expense insurance	-	71,698	71,698	706,847
Total	1,094,353,154	45,899,088	1,140,252,241	874,792,140

(continue)

21. CLAIMS INCURRED

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

Class of Business	Gen.Ins 2021	Long Term Ins 2021	Total 2021	Total 2020
Accident	8,499,128		8,499,128	5,335,078
Aviation	(14,275,967)	-	(14,275,967)	12,352,107
Burglary	442,077	-	442,077	(111,513)
Eng.	12,360,322	-	12,360,322	13,407,358
Emp. Liability	3,015,235	-	3,015,235	2,087,494
Fire	32,546,201	-	32,546,201	12,416,650
Goods in Transit	218,735	-	218,735	323,170
Liability	14,693,975	-	14,693,975	9,917,974
Marine	6,918,604	-	6,918,604	(2,177,132)
Medical	358,934	-	358,934	134,645
Motor	225,937,703	-	225,937,703	213,544,750
Pecuniary	13,561,655	-	13,561,655	38,123,925
Others	11,555,843	-	11,555,843	17,029,774
Group Term Life Assurance		5,464,255	5,464,255	2,914,971
Health Insurance		13,197,331	13,197,331	10,049,069
Funeral Expense Insurance		864	864	399,042
Total	315,832,445	18,662,450	334,494,895	335,747,361

The Federal Democratic Republic of Ethiopia * Audit Service Corporation *

(Continue)

22.CEDANT ACQUISITION COSTS

	Gen.Ins	Long Term Ins	Total	Total
Class of Business	2021	2021	2021	2020
Accident	9,169,106		9,169,106	7,499,914
Aviation	4,717,789		4,717,789	3,353,601
Burglary	1,369,967		1,369,967	1,221,628
Engineering	29,898,821		29,898,821	22,350,212
Employers Liability	3,445,613		3,445,613	3,247,043
Fire	53,109,414		53,109,414	43,508,409
Goods in Transit	596,567		596,567	366,395
Liability	7,557,870		7,557,870	7,204,146
Marine	33,572,357		33,572,357	31,770,536
Medical	271,179		271,179	63,135
Motor	31,203,001		31,203,001	28,515,113
Pecuniary	34,220,259		34,220,259	25,955,123
Others	21,078,748		21,078,748	9,524,898
Life	-	6,440,410	6,440,410	4,740,173
Total	230,210,690	6,440,410	236,651,100	189,320,325

23. NET FINANCE COSTS

	Gen.Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Investment and finance In	140,729,450	15,124,554	155,854,004	129,643,574
Interest on Saving Accounts	3,066,529	-	3,066,529	2,612,043
Interest on Fixed timed deposits	125,271,476	13,733,328	139,004,804	119,612,319
Interest on Grand Ren. Dam Bond	7,708,566	1,360,335	9,068,901	6,967,900
Dividend income	3,127,521	30,890	3,158,411	
Interest on current account	578,309	-	578,309	313,981
Interest on staff loan	232,644	-	232,644	98,327
Realized/Unrealized exchange gains	744,405	-	744,405	39,003
Investment and finance Costs	405,383	9,093	414,475	488,715
Interest on lease liability	151,037	-	151,037	413,506
Interest on staff loan benefit	-	-	-	-
Interest on employee benefits liability	254,345	9,093	263,438	75,210
Net Investment Income	140,324,067	15,115,461	155,439,528	129,154,859

24. OPERATING AND OTHER EXPENSES

	Gen. Ins	Long Term Ins	Total	Total
	2021	2021	2021	2020
Administrative and general	68,903,802	3,634,207	72,538,009	31,001,639
Staff costs	17,733,467	343,795	18,077,262	13,172,897
Depreciation	3,099,108	71,410	3,170,518	2,526,685
Directors allowance	1,040,000	-	1,040,000	1,070,000
Audit fees	331,200	-	331,200	270,480
Total expenses	91,107,577	4,049,412	95,156,989	48,041,700

25. INCOME TAXES

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

(A) INCOME TAX EXPENSE

Total income tax expense for the year ended 30 June 2021 is as follows:

		2021
		ETB
Current tax expense		25,486,676
Deferred tax expense		63,694
Income tax expense		25,550,370

(B) DEFERRED TAX EXPENSE

Additional deferred tax due to temporary difference on depreciation calculation		
PPE carring value	17,396,988	
PPE tax base	14,728,771	
Difference	2,668,216	
30%tax Deferred tax Liablity		(800,465)
Severance Payable	330,877	
Accrued Leave Payable		
30% tax Deferred tax Asset	330,877	99,263
Deferred tax Asset/Liablity as of June 30,2021		(701,201.8)
Opening deferred tax 2019/20		(637,508.0)
		(63,693.8)

The Federal Democratic Republic of Ethiopia * Audit Services Corporation *

(B) INCOME TAX EXPENSE

Total taxable income or loss for the year ended 30 June 2021 is as follows

INCOME TAX COMPUTATION			
For the year ended June 30th, 2021			
Adjusted tax calculation			
			Total
	Gen.Ins	Long Term Ins	2021
PROFIT PER ACCOUNTS	202,463,378	18,001,968	220,465,346
Add:			
Amortization of Right Of Use (ROU)	1,814,596	75,608	1,890,204
Interest on least liability & Interest on employee benefits liability	405,383	9,093	414,475
Depreciation of fixed assets per IFRS	3,099,108	71,410	3,170,518
	-	-	-
Less:			
Depreciation of fixed assets per I.Tax Proc.	(3,795,488)	(158,145)	(3,953,634)
Rent Expenses for the year 2020-21	(2,171,417)	(90,476)	(2,261,893)
Amortization of differed establishement cost			-
Disallowed expenses:			
Loss on exchange unrealized	3,640,189	-	3,640,189
Entertainment	2,199,474	92,749	2,292,223
unrealized Exchange gain	(540,453)	-	(540,453)
Severance pay provision	82,608	-	82,608
Provision for annual leave	507,703	8,485	516,187
Over IBNR provision	314,900		314,900
Employee vehicle Benefit In kind	123,328		123,328
Provision for Recievable	11,243,511	2,435,030	13,678,541
Tax exempt Income			
Interest Income	(139,752,400)	(15,124,554)	(154,876,954)
Taxable Profit Current year	79,634,419	5,321,168	84,955,587
Taxable Loss BBF			-
Total TAXABLE INCOME/(LOSS)	79,634,419	5,321,168	84,955,587
CURRENT INCOME TAX @30%	23,890,326	1,596,350	25,486,676
Less: Advance profit tax paid in 2020-21	3,271,532	458,895	3,730,427
Income Tax payable	20,618,794	1,137,456	21,756,250

(Continue)

26. EARNINGS PER SHARE (EPS)

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

			2021	2020
			ETB	ETB
Profit attributable to Shareholders			194,978,668	164,576,395
Weighted average number of ordinary shares issued			86,581	69,557
Basic and diluted earnings per share			2,252	2,366

Basic and diluted earnings per share

There were no potentially dilutive shares outstanding at 30 June 2021. The diluted earnings per share is therefore the same as the basic earnings per share.

27. RELATED PARTIES

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

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

ULTIMATE PARENT COMPANY

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

(Continue)

27. RELATED PARTIES (CONTINUED)

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

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

(Continue

27. RELATED PARTIES (CONTINUED)

(A) OTHER RELATED PARTY TRANSACTIONS

			2021	2020
			ETB	ETB
BBF			75,199,571	30,505,292
Premiums written			393,146,539	321,182,667
Claims paid			(67,666,565)	(101,715,711)
Commission			(88,433,924)	(75,719,917)
Profit commission			(22,613,225)	(9,484,839)
Net amount			289,632,395	164,767,493
Amounts paid by EIC			(143,118,463)	(89,567,921)
Amounts outstanding from EIC			146,513,932	75,199,571

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

			2021	2020
			ETB	ETB
Savings account			57,743,891	69,261,399
Current account			3,524,779	3,002,562
Total Balance			61,268,670	72,263,961

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

			2021	2020
			ETB	ETB
Savings account				-
Current account			5,435,653	27,613,852
Time Deposits			901,766,264	806,491,630
Total balance			907,201,917	834,105,482

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.

The Federal Democratic Republic of Ethiopia Audit Services Corporation

(Continue)

27. RELATED PARTIES (CONTINUED)

(B) REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

Ethiopian Re directors received the following payments during the financial year ended 30 June 2021:

			2021	2020
			ETB	ETB
Directors allowances			1,040,000	1,070,000

Key management members received the following remuneration during the financial year ended 30 June, 2021:

			2021	2020
			ETB	ETB
Short-term benefits			8,364,517	5,929,494
Post-employment benefits			101,087	77,781

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

(Continue)

28. EMPLOYEES

The number of employees of the company during the year was as follows:

	30, June 2021
Number of employees	20
New entrants	7
Number of employees as at June 30,2021	**27**

29. CONTINGENT LIABILITY

In the opinion of the Directors, there were no contingent liability.

30. COMMITMENTS

The company has a contract agreement with MSG global solution and Deloitte and has the following commitments based on the deliverables:

	30 June 2021
MSG Global (related to implementation of IT software	13,760,014
Deloitte (related with Preparation of strategic plan)	6,206,460
Total	**19,966,474.**

31. EVENTS AFTER REPORTING PERIOD

In the opinion of the Directors, there were no significant post balance sheet events which could have material effect on the state of affairs of the company as at June 30,2021and on the profit for the period ended on that date, which have not been adequately provided for or disclosure

ETHIO RE SENIOR MANAGEMENT

IT PROJECT TEAM ON PROGRESS

CEO FORUM

ETHIO RE BOARD TRAINING & MOU SIGNING

"BREATHING LIFE INTO THE LIFE ASSURANCE BUSINESS" THE FIRST GLOBAL LIFE ASSURANCE FORUM ORGANIZED IN PARTNERSHIP WITH ADDIS ABABA UNIVERSITY, PUBLIC FINANCIAL INSTITUTIONS AGENCY AND ASSOCIATION OF ETHIOPIAN INSURERS.

ETHIO-RE STAFF VISITING THE UNITY PARK AND ENTOTO PARK

GREEN LEGACY PROJECT

GLOBAL TAKAFUL & RE-TAKAFUL FORUM 2021
18 March, 2021 Hyatt Regency Hotel, Addis Ababa, Ethiopia

KNOW YOUR STRATEGY "KYS" WORKSHOPS TO GET "STRATEGIC BUY- IN" FROM EMPLOYEES

PRACTICAL MARKET TRAINING ON
CONTRACTORS PLANT AND MACHINERY (CPM)


Ethiopian Reinsurance
Training On Fire Insurance organized by Ethio-Re
Decembre 7-8-2021 Addis Ababa Ethiopia

የኢትዮጵያ ጠለፋ መድን አ.ማ.
Ethiopian Reinsurance S.C.

Africa Avenue | Kirkos Subcity | Woreda 9
Tel: +251-115-575757 | 115-582790 | 92 | 93
Fax:+251 115 575758
P.O. Box 12687 , Addis Ababa, Ethiopia

Email: info@ethiopianre.com
Website: www.ethiopianre.com