ናይል ኢንሹራንስ ኩባንያ አ.ማ.

Nile Insurance Company S.C.

25th ANNIVERSARY
(1995-2020)

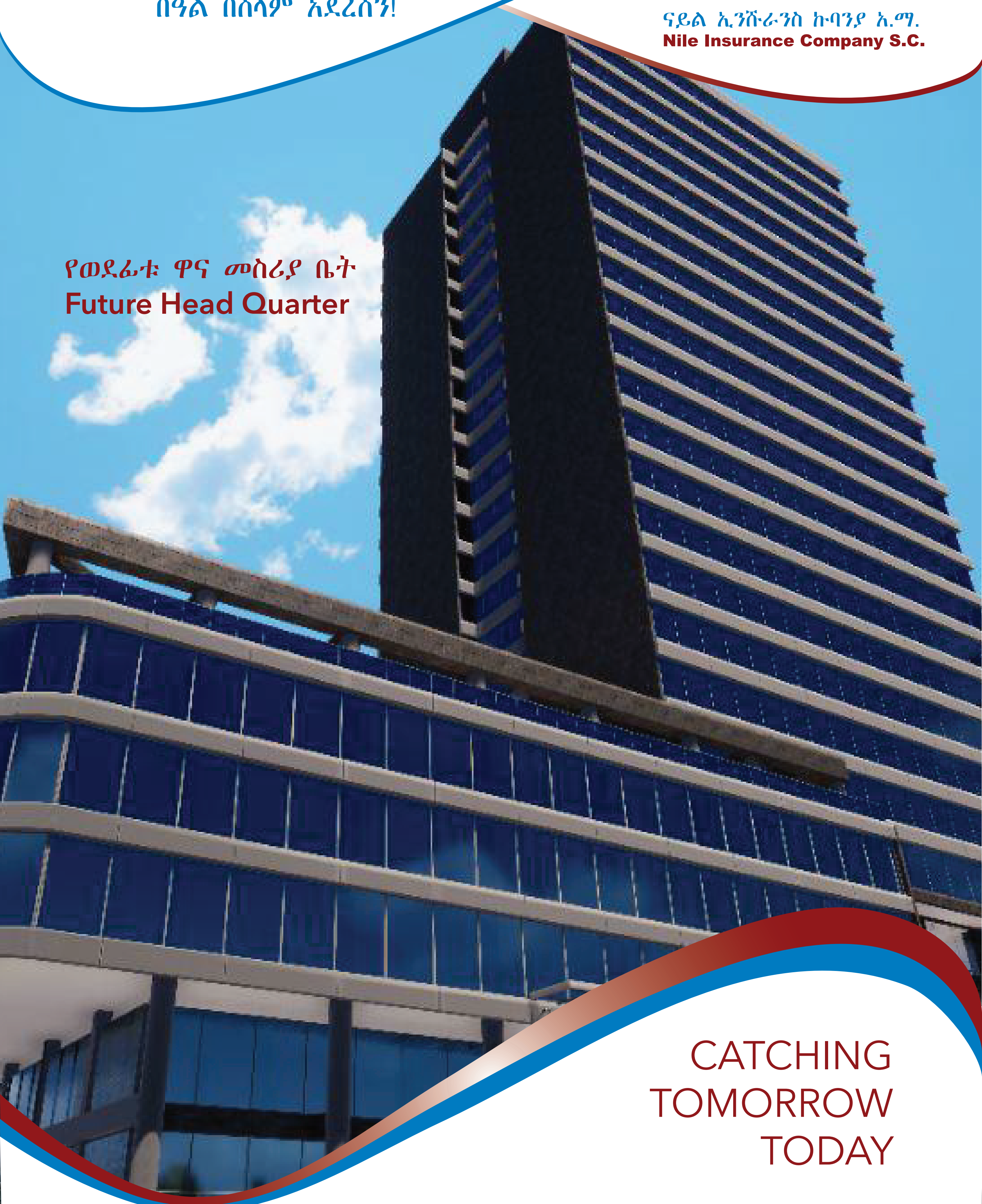
Memorizing Success,
Imagining the Secure Future

እንኳን ለ25ኛ አመት የኢዮቤልዩ
በዓል በሰላም አደረሰን!

Annual Report 2019/20

እንኳን ለ25ኛ አመት የኢዮቤልዩ
በዓል በሰላም አደረሰን!

ናይል ኢንሹራንስ ኩባንያ አ.ማ.
Nile Insurance Company S.C.



የወደፊቱ ዋና መስሪያ ቤት
Future Head Quarter

CATCHING
TOMORROW
TODAY

Nile

Contents

Board of Directors

Ato Mekdes Aklilu
Board Chairman

Yifru Tafesse (Dr.)
Deputy Board Chairman

Ato Meseret Melese
Board Director

Ato Mulugeta Asmare
Board Director

Dr. Abreham Asnake
Board Director

Ato Yerom Gessesse
Board Director

Eng. Tadesse Woldeher
Board Director

Ato Yilikal Kassa
Board Director

Ato Mehari Alemayehu
Board Director

Senior Managment Team

Ato Binalf Mekonnen
Manager, Resource Management Dep't

Ato Tadele Tegegn
Manager, Legal Dep't

Ato Abraham Chanie
Manager, Engineering Dep't

Ato Asmare Miheret
Manager, Finance & Investment Dep't

Ato Mekit Eshetu
Manager, Claims Dep't

Ato Zewdu Ayalew
Manager, Information Technology Dep't

Ato Nigus Anteneh
Chief Executive Officer

Ato Elias Seyoum
Manager, Marketing & Branch Operations Dep't

Ato Teferi Debas
D. Manager, Internal Audit Dep't

Dear Fellow Shareholders!

I feel pleased to welcome you all to this, in many ways, unique Annual General Meeting of Nile Insurance, arranged with utmost care and respect to health authority guidelines and professional advises to keep you all safe against the spreading pandemic.

The year under report was a notable one, marked by a number of challenges, including the worldwide outbreak of COVID 19 that threaten survival of mankind, on the one hand, and the continued political violence and instability that repeatedly interrupted economic activities across the country, on the other.

Despite a harsh business environment, Nile has achieved decent financial performance in both its life and non-life lines of insurance businesses. The progress made towards finalizing the digitization of our business operation as well as completion and nearing completion of construction projects was highly encouraging. The full details of our company wide performance report as well as audited accounts for year that ended 30 July 2020 are presented herewith in accordance with the relevant laws and directives.

As this is the end of my term as chairman of Nile's Board of Directors, I would like to extend my thanks to all fellow board members, senior managers and the entire staff for their respective valuable contribution in bringing Nile to a much better position than it was six years back, when we took responsibility. I am confident that the incoming Board will continue to build on the various strategic initiates envisioned to make Nile the most preferred insurer and take it to new height in the years to come.

Finally, special thanks to our shareholders for their confidence in us and support extended throughout the past six years. It has been a privilege to serve Nile.

Stay safe and keep well

Mekdes Aklilu
Chairman, Board of Directors

25th ordinary and 22nd extraordinary Annual General Shareholder's Meeting

COMPANY PROFILE

Who we are

Established in April 1995 with a capital of Birr 12.5 million, Nile Insurance Company (S.C) is one of the pioneer private insurers in Ethiopia. Over the past 25 years, the subscribed capital of the company has grown to Birr 500 million, with a paid-up capital of Birr 448 million. Currently, Nile's branch network in Addis Ababa and regional towns have reached 49, making it one of the leading insurance companies in terms of accessibility. The total asset of the company grew to Birr 1.6 billion at the end of the fiscal year. This notable growth was made possible with active participation of its valued employees, customers, shareholders, and other stakeholders.

Our Vision

To be the most preferred insurer with excellence by 2025.

Our Mission

To provide unmatched value to our customers in insurance services and engage in investment through high profile expertise and state of the art technology thereby maximizing benefit to our stakeholders.

Our Values

We at Nile believe in Dynamism, Responsiveness, Professionalism, Team- work, Respect and Ethical practice in our engagements with customers and other stakeholders.

Value Proposition to our Customers

We strive to offer value added insurance solutions with superior customer service adopting the highest ethical standard.

Products

We provide our customers a wider range of insurance solutions both in the general and long-term (life) insurance categories.

Statement of Corporate Governance

Nile's system of governance is based on checks and balances. The Executive Management charged with the strategy, management and control of the company. The Board of Directors, responsibility is to oversee the work of the Executive Management. The General Assembly decides Board appointments, remuneration and is responsible for adopting financial accounts.

Board of Directors

The Board of Directors determines company strategy, as well as Nile's budget, risk management and capital position. It holds responsibility for the Company's strategic direction, financial performance, compliance with laws and regulations. It further ensures that procedures and practices are in place to protect the Company's assets and reputation. The Board of Directors is accountable to the General Assembly. The Assembly has the ultimate authority to pass major decisions and ensure that the Board of Directors are accountable to the responsibilities bestowed on them. The Board consists of nine non-executive Directors that bring together a wealth of experience, skills and independence.

Board Meetings

The Board of Directors met for 14 times during the year under review to deal with specific matters, in accordance with the requirements of the business. Moreover, the sub committees met several times to discuss on the ongoing construction projects, and other issues related to performance review, HR, purchasing, etc. The Board's work plan and calendar of meetings is prepared in advance. Adequate notice is given for all meetings and members are provided with all the necessary information in advance in respect of the items to be discussed.

Board Committees

The Board has constituted three Committees to assist the Board in discharging of its responsibilities including monitoring key activities in the Company.

Finance, Audit & Investment Committee

The Committee is responsible for the internal audit, finance & investment function of the Company by ensuring management acts on audit reports. This committee further reviews Company's performance and confirms that all regulatory compliance is considered in the preparation of financial statements.

Business Development, Risk Management & Customers' Complaint Committee

The Committee is responsible for ensuring the effective operation of the risk management system. It reports on details of risk exposures and actions being taken to manage the exposures. It also deals with the business development activities as well as complaints of customer.

Organization and Human Resource Affairs Committee

The Committee reviews the organizational structure and core functions; policies and procedures on staff recruitment and selection, training and development, of performance and reward system in line with the Company's strategy. Further it reviews the Company's Property Administration directives and recommends amendments to the Board for approval.

Steering Committee

This committee supervises and reviews the progress of the ongoing construction and finishing works of the head quarter building project and reports to the BoD on details for further decision.

Risk Management

The Company's activities expose it to a variety of risks including market risk, liquidity risk and operational risk. Nile's approach to managing risk is outlined in the Enterprise Risk Management Framework (ERMF), which creates the context for setting policies and standards, and establishing the right practices throughout the Company.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility is an integral part of our corporate culture. Further, we ascribe to business excellence models that express the value of corporate citizenship.

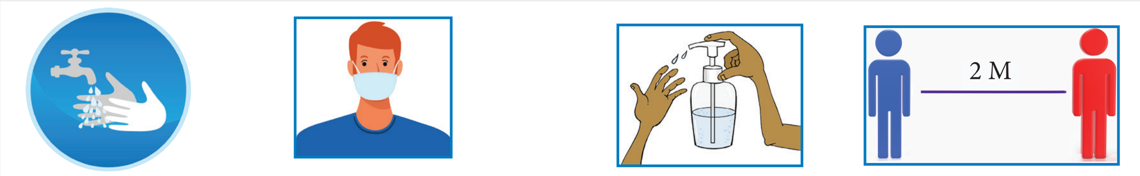
In 2019/20, we supported causes spanning health (Corona Virus Mitigation Trust Fund), environment (Sheger Riverside Development Project), and sporting activities. The Company also sponsored farmers' settlement compensation initiated by Gelan City Administration; road traffic related awareness campaign and donated educational materials to children from low income families in Nifas Silk Lafto Sub City.

25th ANNIVERSARY (1995-2020)

Memorizing Success, Imagining the Secure Future

እንኳን ለ25ኛ አመት የኢዮቤልዩ
በዓል በሰላም አደረሰን!

CORONA VIRUS
PREVENTION



WASH HANDS | WEAR MASK | USE SANITIZER | KEEP DISTANCE

Risk
PREVENTION

Endowment /Medical/ Term/ Riders/ Travel

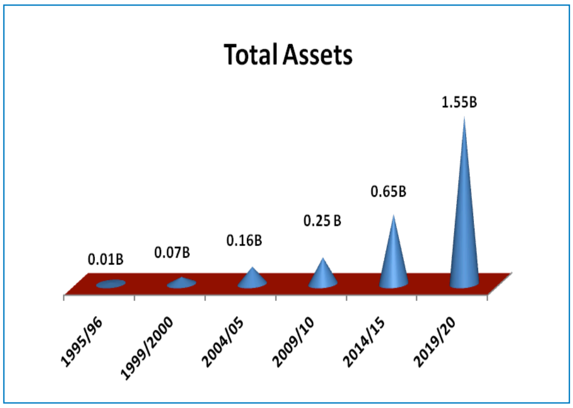
2019/20 HIGHLIGHTS

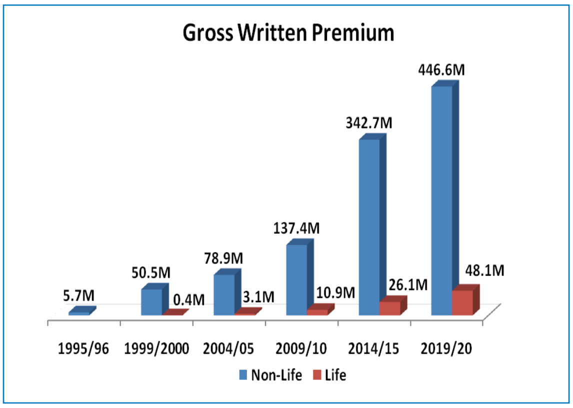
We continue to deliver strong sustainable performance

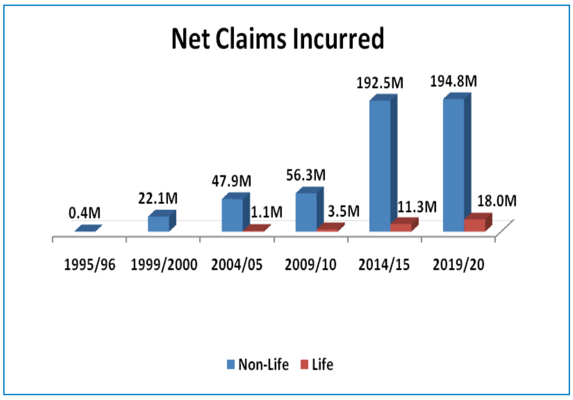
Profit before tax	Birr 128.9m (2018/19: Birr 125.5m)
Combined operating ratio	91.7% (2018/19: 92.9%)
Earning per share	Birr 269 (2018/19: Birr 327)
Solvency Margin	> 4 times (2018/19: > 4.6 times)
Total Assets	Birr 1.6 B (2018/19: Birr 1.4 B)
Paid Up Capital	Birr 448m (2018/19: Birr 366.1m)

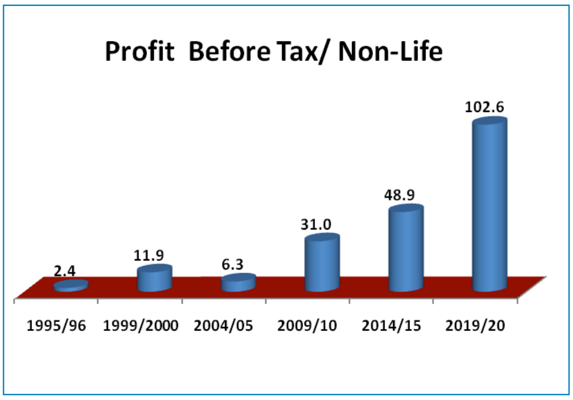
NILE'S 25 YEARS JOURNEY AT A GLANCE

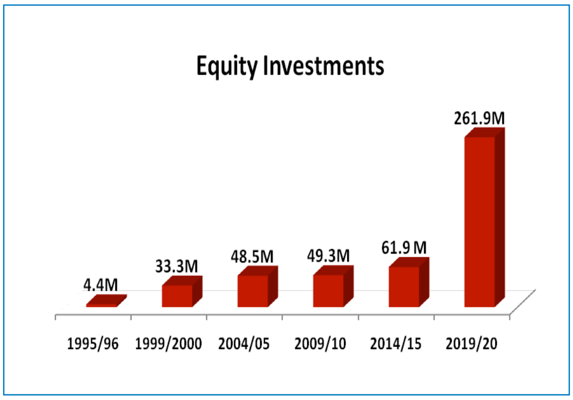
Nile celebrated its **25th** birthday as a brand this year by hitting the target of reaching **54,000** direct customers

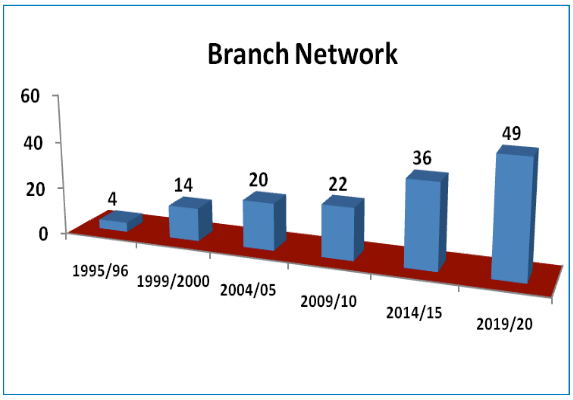


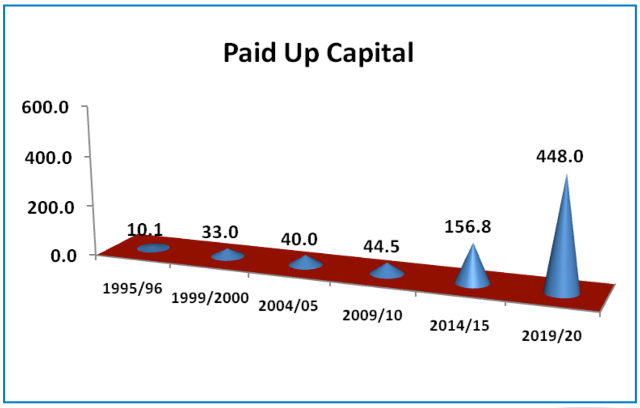












DIRECTORS' REPORT

The Board of Directors of Nile Insurance Share Company is pleased to present the 2019/20 annual report to its esteemed shareholders, customers, and other stakeholders. This report is prepared in accordance with the legal requirement of the Ethiopian Commercial Code and other regulatory directives issued by relevant authorities. This report provides an overview of Nile's value creation process. It reports on current and future financial and non-financial information, highlighting the interconnections between the environment we operate in, our strategy and our corporate governance stance.

Economic Overview

Global growth is projected at 4.9 % in 2020. The COVID-19 pandemic has had negative impacts on economic activities in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecasted (IMF: WEO, 2020). In economies with declining infection rates, the slower recovery path reflects persistent social distancing into the second half of 2020; and greater scarring (damage to supply potential) during the lockdown in the first and second quarters of 2020.

COVID-19 is also a significant headwind for growth in Africa. The uncertainty around the virus and the consequent policy actions, such as physical distancing and lockdowns, have led to a decline in demand for African products due to a sharp decline in global manufacturing activities, compounded by a decline in economic activity on the continent as the labour force remains at home to combat the virus. (UNECA: COVID-19 in Africa, 2020)

Likewise, Ethiopia which has been growing over 10% in the past 15 years on average, is facing a pronounced economic slowdown and an urgent balance of payments need owing to the COVID-19 pandemic, as exports, remittances, and foreign direct investment declined (IMF: Country Report, May 2020). Inflation has been elevated largely driven by food price inflation, which in part has been affected by interruptions to logistics networks and higher transportation costs. Non-food inflation also exceeded 10 % in 2018 and 2019 (IMF: Country Report, January 2020).

On the other hand, a Homegrown Economic Reform Agenda was launched to address the buildup in inflation and persistent foreign exchange shortages. However, the economic reform drive is taking place against the backdrop of significant political uncertainty and heightened tensions (World Bank, 2020).

Market Overview

2019/20 has been a difficult year for the insurance sector, especially for the third quarter onwards, mainly due to COVID-19. The adverse impacts of COVID-19 on economic sectors such as manufacturing, export, and tourism, have severely affected travel, marine and other property insurance demands. Like in the previous years, price-based competition also remains strong in the Insurance Industry.

According to the year-end figures released by the National Bank of Ethiopia, Ethiopian insurance industry produced nearly Birr 11.2 billion premium compared to Birr 9.1 billion in 2018/19, representing an increase of 22.7%. The highest growth was mainly due to large volume of aviation business insured by the state-owned insurance company.

General insurance business experienced a growth of 23.3% in gross premium written from Birr 8.6 billion during 2018/19 to Birr 10.6 billion during the year under review. Likewise, life insurance business volume increased by 13.2% to Birr 584.5 million compared to Birr 516.3 million in 2018/19.

On the other hand, claims incurred to the general insurance grew to Birr 3.9 billion from Birr 3.6 Billion in 2018/19 and profit after tax stood at Birr 1.61 billion, nearly the same as the previous year record (2018/19: Birr 1.6 billion). The industry's asset base grew by 39.6% from Birr 20.8 billion in 2018/19 to Birr 29.1 billion in 2019/20, signaling improving capital position.

In the year, general insurance accounted for 94.8% of the total written premium (2018/19: 94.3%), with motor vehicle insurance representing the largest portion of general insurance. Despite the 23.3% industry's growth in general insurance, the share of private insurers experienced a shortfall of 11.2%.

Regulatory Development

The National Bank of Ethiopia (NBE) has already approved a directive for the provision of Islamic insurance policies. This has created an opportunity to develop Sharia- compliant insurance policies that conform to the doctrines of the Islamic community. Industry participants should also be more involved in pushing for the enactment of additional laws that favor overall growth.

Company's Business Performance

General Insurance

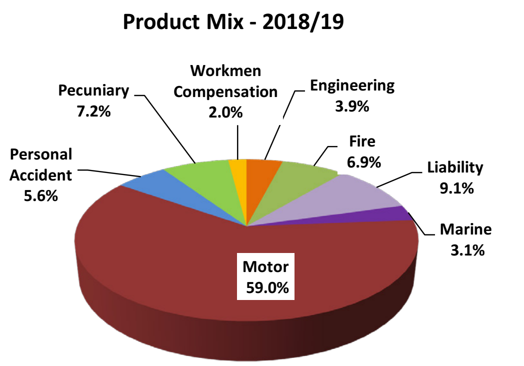
Gross Written Premium

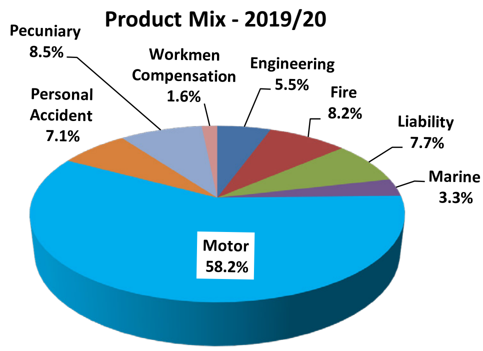
The Company's gross revenue performance had a growth of 13.5% in 2019/20 with gross premium income of Birr 446.6 million, up from Birr 393.6 million written in the previous year.

This growth was attributed to a number of factors, including efforts to acquire new businesses and retaining existing ones through CRM activities. Likewise, in relation to the growth in premium, the net earned premium increased by 7.4% to Birr 346.6 million from Birr 322.7 million in the previous same period.

General Insurance, viewed in terms of its product mix, Motor insurance business accounted 58.2 %, followed by Pecuniary: 8.5 %, Fire: 8.2 %, Liability: 7.7 %, and Accident: 7.1 %. Other classes (Engineering, Marine and Workmen's) shared the remaining 10.4 % of the total General insurance business.

Exhibit 1: below shows the composition of General Insurance gross premiums per class of business during 2019/20.





Claims Experience

The net claims paid decreased from Birr 197.5 million in 2018/19 to Birr 192 million in 2019/20. Incurred losses (claims) which further includes movement in outstanding claims provision, amount to Birr 195 million (2018/19: Birr 188.9million). The claims paid ratio (loss ratio) reduced from 58.5% the previous period to 56.3% this year.

Accordingly, the Company's combined operating ratio stood at 91.7% (2018/19: 92.9 %) decreasing by 1.2 percentage points primarily due to a lower loss ratio.

The company's prudent underwriting policy and proper claims management processes have been finally paying off with relatively good claims experience. Claims analyzed by class of businesses, motor business had the highest loss ratio (65.5 percent) followed by liability (57.2 percent) and engineering (50.6 percent).

Underwriting Profit

The Company recorded an underwriting profit of Birr 151.4 million in 2019/20 as compared to Birr 129 million a year ago. All class of businesses exhibited underwriting profit with motor class of business registering the most favorable underwriting result.

This increment in underwriting profits are in line with high premium written following strategies to attract more new businesses as well as a result of managed claims situation.

Investments and Other Income

Dividends obtained from the Bank of Abyssinia and Ethio-Re substantially increased on average by 46.3% from Birr 20.8 million in 2018/19 to Birr 30.5 million this year. However, interest income from fixed time deposits was Birr 32.1 million, which decreased by 18.2% compared to the previous same period as a result of cash outflow for head quarter finishing work.
The other and equally important source of earnings, which comprised rental income, slightly decreased by 2.3% to Birr 8.4 million from Birr 8.6 million in the year 2018/19 where a significant decrease was recorded in the first half of 2019/20.

Other operating income predominantly includes income generated through disposal of fixed assets. During the year under review, income from other sources was Birr 2.5 million, a decrease by 15.5% from the previous year.

Expenses

Other Operating and administrative expenses of the Company grew from Birr 105.9 million to Birr 122.3 million this year, increasing by 15.4%. This was primarily attributed to salary increment and holiday payment to employees, increased office rent and increment in other related costs of doing business. Moreover, factors for the increase include interest expenses for lease agreement and sponsorship for government's green initiative.

Profit – General Insurance

In 2019/20, the Company achieved a profit before tax of Birr 102.6 million which grew by 8.3% compared to Birr 94.7 million in 2018/19. The Company's diversified product and channel portfolio, disciplined underwriting and its engaged employees have helped to achieve this commendable result.

Long-Term Insurance

Gross Written Premium

Life insurance business volume grew by 6.4% from Birr 45.2 million last year to Birr 48.1 million in the year under review. This was attributed to customers' tendency to renew for short period of time due to the Corona virus outbreak. Moreover, non-governmental organizations did not increase their employees' salaries and benefits following the pandemic and this had the potential to impact the 2020 result of our life business.

Policy Holders Benefit and Expenses

Policy holders' benefit (claims incurred) during the period was Birr 17.9 million, which was 22.7% higher than the previous same period. Similarly, administrative and general expense of life insurance was Birr 3.8 million, 30 % higher than the previous year. This was mainly due to salary increment and cost of doing business.

Actuarial Surplus

In this reporting period, Actuarial Services (EA) LTD was assigned to conduct the actuarial valuation of the Company for the year 2019/20. Based on the valuation report, the Company's long-term business registered a total actuarial surplus (profit) of Birr 26.3 million, which was 10.2% lower than the previous same period. However, it must be noted that the previous year's profit record was accounted for two consecutive years (i.e. 2017/18 and 2018/19) due to the first implementation IFRS.

Accordingly, the actuary recommended Birr 26.3 million to be distributed to Shareholders as a dividend.

Life Fund

After accounting the surplus recommended by the actuary, the life fund balance as at June 30, 2020 was Birr 60.3 million.

Investment Portfolio

The Company ended the year with total investment portfolio value of Birr 622.1 million compared to Birr 570.9 million as at June 2019. This 9% growth in the investment portfolio was due to capital increase and operational cash flow surplus generated during the year.

Term deposit dominated the asset composition, accounting for 47.1% (2018/19: 54.3%), followed by 42.1% of equity investments. The share of the statutory deposit moved up to 10.8% at the end of the year.

Assets Structure

As at the end of the underwriting year 2019/20, total assets of the Company reached Birr 1.6 billion, representing an increase of 12.3% from Birr 1.4 billion in the previous year. This increase was largely attributed to the growth in equity investments and interest bearing portfolio.

Capital Management and Solvency Margin

The Company aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, and policyholder requirements.

The statutory equity, which was Birr 532.2 million for the fiscal year, was (8.2 times higher than) the minimum requirement of Birr 64.5 million (i.e 20 percent of previous year's net written premium). Similarly, the solvency margin after taking into account 25 percent of the technical reserve (or Birr 166.5 million) was 4 times more than the minimum regulatory requirement.

Other Developments

Construction Projects

Head Quarter Building

In spite of the contracts that was signed in December, 2018, the finishing works had shown little progress due to changes in design works such as aluminum curtain wall, HVAC, and firefighting. Moreover, the COVID-19 pandemic had an impact on the finishing work as the technical team of the project was unable to select and approve the quality of imported finishing materials due to travel ban. Likewise, the pandemic severely threaten the activities of laborers on the project site and is also another reason for the delay. Despite these challenges, the redesign works are currently finalized and work order is being given to the contractor. Hence, major progresses are expected next year.

Other Construction Projects

The previously started warehouse and site works at Gurdshola and Commet sites were completed during the period under review. Currently, warehouses at both project sites started generating rent income. In addition to this, maintenance work was completed for Commet office building.

Human Capital

Our human capital strategy encompasses employees' competencies, capabilities and experience, and their motivations to innovate. As part of our policy, we recognize the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for our entire team. The Company assists staff to undertake continuous professional development training programs both locally and abroad to fulfill their potential and career goals. This process is appropriately managed to align staff development with the Company's strategic business goals and objectives, and is reinforced with appropriate remuneration and incentive systems. In particular, employees' retention has increased as the Board reasonably considered a competitive benefit package and continuous development programs of Company's staff.

Capitalization

The total fund infused by the Shareholders of the Company has reached Birr 448 million, grew significantly by 22.4% from the previous same period of Birr 366.1 million. This was mainly due to the capitalization of dividend during the reporting period as per the previous decision of shareholders to raise the capital of the Company to Birr 500 million.

Once the unpaid portion of the subscribed capital is fully paid, we expect the Shareholders of the Company to further invest for another capital increment plan. This investment will help to maintain an adequate level of capital that is commensurate with the risk profile of the Company and will form a strong asset base to support the development of business.

Dividends

As at June 30, 2020, the Company was able to generate a net profit of Birr 112,054,000. Based on Company's performance and in line with its dividend policy, the amount to be distributed to shareholders as dividend will be Birr 98,964,000. However, due to payments of Birr 10,374,063 in the form of dividend tax to the Ministry of Revenue, the Board of Directors recommends a dividend amount of Birr 88,589,937 to be distributed to shareholders proportionate to their respective paid up shares. Shareholders are also expected to plough-back their dividend to cover the fourth and final installment of their unpaid subscribed capital.

Distribution Channels

The Company conducted feasibility studies targeting to leverage the productivity of life and non-life businesses by opening five non life branches and one life branch in different parts of Addis.

Information Technology

The Company considers technology as its competitive weapon. Since 2018/19, the Company has had an ongoing project of implementing new information technology (IT) systems. The project will enable the Company to achieve a complete transformation from the information technology systems that it is using currently in all its different lines of business. For the last three years the Board and Management had given the required support to the purchase and development of software for the new system. However, the implementation phase, which must be executed with the physical presence of software engineers, was delayed due to travel ban in relation to COVID-19 pandemic. The new systems being fully implemented will enable the Company to be more efficient.

Future Outlook

In the year under review, the markets have experienced challenges in relation to new business acquisition due to the COVID-19 pandemic, and we expect this to have a negative impact on the projected economic growth rates and our operational activities. However, it is also expected to bring comparative advantage as we invest heavily on technologies to create alternative channels. We are optimistic that a solution will be developed to contain the COVID-19 pandemic. We are adhering to all Government directives and also maintaining a healthy workplace for our staff, customers and stakeholders. We have also implemented business continuity measures that include remote working to ensure that we continue to serve our customers. Despite the constraints, we ended 2019/20 having delivered strong financial performance for the fourth successive year.

Overall, our current-year combined operating ratio was stable; demonstrating the value in the Company's diversified product base and channel portfolio, as well as lower operating expenses.

Our focus into the future is largely on the customer. We aim to differentiate ourselves from other players in the market by raising the bar in customer service. We are focused on developing products that meet the needs of our customers, are responsive and adaptive to change where necessary. We have invested in technology which is a key driver of growth in our business, as we ensure that we deliver fast and reliable service to all our customers. In summary, key strategic focus for 2020/21 include:

Investing in technology and new ways of working
While these core strengths persist today, we recognize that to succeed in the future we need to continue to change and we are on an ambitious transformation journey to increase the competitiveness of our business.
We also aim to further increase the accuracy and speed of our underwriting; improve our competitiveness and responsiveness to change; and enhance our customer experience.

Distribution and Channel Partnership

As part of business expansion, the Company will open two branches in potential business areas. It is also in our plan to empower agents by digitizing their front end activities. Moreover, the Company will strengthen the existing strategic partnerships and grow alternative partners' relationships. In particular, the Company will give due emphasis to multiple channels including digital insurance capabilities such as mobile app., portal, and other internet platforms which continue to drive further growth in line with the conventional branch expansion effort.

Product Development

Based on our customer feedback and market intelligence we will innovate and develop products that are geared towards specific customer segments. To this end, the Company will start offering micro-insurance targeting the low-income population of the country. This will be achieved through simple and affordable product offerings as well as innovative partnerships and government policy support. Furthermore, the proposition targets to support the sustainable rural development programs initiated by the government as well as aims to increase Company's insurance penetration and provide risk protection to customer segments that were not served by conventional insurance.

Construction Works

As reported last year, we completed the structural works of the Headquarter building, which had been built with sustainability in mind. The Board recognized this project as Nile's commitment to become a well positioned insurer in the market. Despite Company's remarkable achievement in many of its various construction projects, the finishing work of this project is not completed as planned. Throughout the years, the Board and management have given due attention to problem areas in connection with construction progress and consultancy services.

Accordingly, contract conditions were amended with detailed cost breakdown and thereby agreements were signed between the Company and the contractor. The contract modification was made using thorough analysis and to the best interest of the Company. Major areas of modifications include finishing works such as Aluminum, External Solid Wall Cladding, Office Partition, Fire Fighting, HVAC and Elevator and Generator installation. In addition, the Company hired a well experienced project coordinator on a contractual basis to speed up the finishing work and currently activities are showing good progress.

Memorizing Success,
Imagining the Secure Future

እንኳን ለ25ኛ አመት የኢዮቤልዩ
በዓል በሰላም አደረሰን!

Customers AT A GLANCE

Sher Ethiopia

GHION GAS PLC

EngenderHealth
for a better life

AHADUKES FOOD PRODUCTS S.C

አቢሲንያ ባንክ
Bank of Abyssinia

MARIE STOPES INTERNATIONAL
Ethiopia

Save the Children

PVH
PVH ARVIND MANUFACTURING PLC

Aser Construction PVT.LTD CO

THE HUB
ADDIS ABABA

BRITISH EMBASSY

IOM • OIM
INTERNATIONAL ORGANIZATION FOR MIGRATION

Who is
NILE Insurance?

49
networked branches

384
employees

54,000+
customers

500 Million birr
Subscribed Capital

1.6 Billion birr
Total asset

25+ years of Diligence

Nile is one of the pioneer private insurers established in 1995.

ናይል ኢንሹራንስ ኩባንያ አ.ማ.
Nile Insurance Company s.c.

ናይል ኢንሹራንስ አ.ማ.
NILE INSURANCE S.C.
እንኳን ለ25ኛ ዓመት የብር ኢዮቤልዩ
በዓላችን በሰላም አደረሳችሁ።
1995
25th
2020
HAPPY ANNIVERSARY

Nile Insurance Company S.C

Directors, professional advisers and registered office

For the year ended 30 JUNE 2020

Company registration number 1703/87

Board Of Directors (as of 30 JUNE 2020)

Mekdes Aklilu	Board Chairman	*November 9,2017*
Yifru Tafesse(Dr)	Deputy Board Chairman	*November 9,2017*
Meseret Melese	Board Director	*November 9,2017*
Mulugeta Asmare	Board Director	*November 9,2017*
Abreham Asnake (Dr)	Board Director	*May 2,2019*
Yilikal Kassa	Board Director	*November 9,2017*
Yerom Gessesse	Board Director	*November 9,2017*
Tadesse Woldeher	Board Director	*November 9,2017*
Mehari Alemayehu	Board Director	*November 9,2017*

Senior Management Team (as of 30 JUNE 2020)

Nigus Anteneh	Chief Executive Officer
Mekit Eshetu	Manager, Claims Dep't
Elias Seyum	Manager, Markating & Operations Dep't
Asmare Miheret	Manager, Finance & Investments Dep't
Binalf Mekonnen	Manager, Resource Management Dep't
Tadele Tegegn	Manager, Legal Dep't
Abreham Chanie	Manager, Engineering Dep't
Zewdu Ayalew	Manager, Information Technology Dep't
Eyasu Minichile	Manager, Project Office
Teferi Debas	A/Manager, Internal Audit Dep't

Independent auditor

TMS plus
Chartered Certified Accountants(UK) and Authorised Auditors(Ethiopia)
P.O.Box 110690
Addis Ababa,
Ethiopia

Corporate office

Nile Insurance Company S.C Building
Nations and Nationalities Square
Gotera,
Addis Ababa,
Ethiopia

Company secretary

Nile Insurance Company S.C
Nations and Nationalities Square
Gotera,
Addis Ababa,
Ethiopia

Nile Insurance Company S.C
Directors, professional advisers and registered office
For the year ended 30 JUNE 2020

Principal bankers

Bank of Abysinnia
Dashen Bank
Commerical Bank of Ethiopia
Wegagen bank
United Bank
Oromia Cooperative Bank
Awash Bank
Enat Bank

Re-insurers

African Reinsurance Company
Zep-Re Reinsurance Company
Ethiopian Reinsurance Coporation

Consulting Actuaries

Actuarial Services East Africa Limited
26th Floor, UAP-Old Mutual Towers
Upper Hill Road, Upper Hill
Nairobi City, Kenya

Nile Insurance Company S.C

Report of the directors

For the year ended 30 JUNE 2020

The directors submit their report together with the financial statements for the period ended 30 JUNE 2020, to the members of Nile Insurance Company S.C. This report discloses the financial performance and state of affairs of the Company .

Incorporation and address Principal activities

Nile Insurance Company (S.C) was incorporated in Ethiopia in April 1995 as a share company, and is domiciled in Ethiopia.

Principal activities

The principal activities of the Company is to provide insurance solutions both in the general and long tern (Life) insurance categories.

Results and dividends

The Company 's results for the year ended 30 JUNE 2020 are set out on page 27. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Net premiums	384,060	360,637
Profit before income tax	128,863	125,480
Income tax expense	(16,809)	(14,956)
Profit for the year	112,054	110,524

Directors

The directors who held office during the year and to the date of this report are set out on page 20.

Mekdes A

Mekdes Aklilu
Chairman,Board of Directors
Addis Ababa, Ethiopia

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

Nile Insurance Company S.C

Statement of directors' responsibilities

For the year ended 30 JUNE 2020

In accordance with Financial Reporting Proclamation 847/2014 ,the Accounting and Auditing Boeard of Ethiopia may direct the Company to prepare financial statements in accordance with International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time.

The Company's management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia of 1960, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Company is required keep such records as are necessary to:

a) exhibit clearly and correctly the state of its affairs;

b) explain its transactions and financial position; and

c) enable the National Bank of Ethiopia to determine whether the Insurance company had complied with the provisions of the Insurance Business Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

The Company's management accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards,Insurance Business Proclamation, Commercial code of 1960 and the relevant Directives issued by the National Bank of Ethiopia.

The Company's management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.

The Company's management further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the management to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Directors by:

Mekdes Aklilu Board Chairman	Nigus Anteneh Chief Executive Officer

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

TMS Plus
Tafesse,Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)
Member Firm of HLB International
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK
HLB Ethiopia

Tel. 251-011-8961752 /011 6180638 Mob. 0911 229425 /0930 034356/0930 034357 Fax: 251-011 662 12 70/60
E-mail:- tmsplus@ethionet.et / tafessef@hotmail.com P.O.Box 110690 Addis Ababa - Ethiopia

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLSERS OF NILE INSURANCE SHARE COMPANY

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nile Insurance Share Company (S.C), which comprise the statement of financial position as of 30 June 2020, the statement of comprehensive income, the 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, or give a true and fair view of the financial position of the Company as at 30 June 2020, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Management for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standard, and for such internal control as Directors determine 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, Directors are 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 Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Directors are responsible for overseeing the Company's financial reporting process.

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance 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.

Basis for Opinion

We have no comment to make on the report of your directors so far as it related to these financial statements and pursuant to Article 375 of the Commercial Code of Ethiopia of 1960, recommended approval of the above financial statements.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

Tafesse, Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants.
Authorized Auditors (ETH)

Addis Ababa
26 September 2020

NILE INSURANCE COMPANY S.C
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

Currency: Ethiopian Birr

	Notes	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
ASSETS			
Cash and bank balances	15	348,653	378,304
Investment securities			
- Available for sale	16	261,895	187,688
Trade and other receivables	17	36,963	24,216
Reinsurance assets	18	252,993	203,188
Deferred acquisition cost	19	14,673	13,790
Other assets	20	145,437	142,388
Deferred tax assets	14	1,364	675
Property, plant and equipment	21	414,915	381,322
Intangible assets	22	9,920	6,604
Statutory deposits	23	67,211	45,430
Total assets		**1,554,025**	**1,383,604**
LIABILITIES			
Insurance contract liabilities	24	667,246	606,409
Insurance payables	25	106,692	95,929
Borrowings	26	16,075	22,745
Current income tax liabilities	14	16,809	14,956
Deferred tax liabilities	14	6,622	5,124
Other liabilities	27	56,837	48,760
Retirement benefit obligation	28	2,634	1,917
Total liabilities		**872,915**	**795,840**
EQUITY			
Share capital	29	448,006	366,050
Retained earnings	31	98,964	99,965
Other reserve	32	2,078	1,088
Legal reserve	33	71,797	60,591
Life fund reserve	34	60,265	60,070
Inter office account		-	-
Total equity		**681,110**	**587,764**
Total equity and liabilities		**1,554,025**	**1,383,604**

The notes on pages 30 to 89 are an integral part of these financial statements.

Mekdes Aklilu
chairman,Board of Directors

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

ናይል ኢንሹራንስ ኩባንያ አ.ማ
ዋና መስሪያ ቤት
Head Office
Nile Insurance Company S.C

Nigus Anteneh
Chief Executive Officer

NILE INSURANCE COMPANY S.C
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

Currency: Ethiopian Birr

	Notes	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Gross premiums	6	481,357	438,658
Premiums ceded to reinsurers	6	(97,297)	(78,021)
Net premiums		384,060	360,637
Fee and commission income	7	35,124	27,696
Net underwriting income		419,184	388,333
Claims expenses	8.1	(229,926)	(238,437)
Claims recovered from reinsurers	8.2	21,253	26,254
Gross change in contract liabilities	8.3	(4,117)	8,656
Net benefits and claims		(212,790)	(203,527)
Underwriting expenses	9	(33,689)	(32,212)
Underwriting profit		172,705	152,594
Investment income	10	79,655	77,264
Other operating income	11	2,573	2,956
Transfer from(to) life fund	34	-	1,508
Net income		254,933	234,322
Other operating and administrative expenses	12	(46,436)	(41,153)
Employee benefits expense	13	(79,634)	(67,689)
Profit before income tax		128,863	125,480
Income tax expense	14	(16,809)	(14,956)
Profit for the year		**112,054**	**110,524**
Other comprehensive income		-	-
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations	28	525	333
Deferred tax (liability)/asset on remeasurement gain or loss		(158)	(100)
		368	233
Total comprehensive income for the year		**112,422**	**110,757**
Basic & diluted earnings per share (Birr)	30	269	327

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

The notes on pages 30 to 89 are an integral part of these financial statements.

NILE INSURANCE COMPANY S.C
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

Currency: Ethiopian Birr

	Notes	Share capital Birr'000	Retained earnings Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Life fund reserve Birr'000	Total Birr'000
As at 1 JULY 2018		302,700	60,812	855	49,538	61,579	475,484
Additional shares issued	29	63,350	-	-	-	-	63,350
Profit for the year		-	110,524	-	-	-	110,524
Dividends paid during the year	31	-	(60,445)	-	-	-	(60,445)
Other comprehensive income:							
Re-measurement gains on defined benefit plans (net of tax)	14		100	233			333
Total comprehensive income for the		-	100	233	-	-	333
Transfer to legal reserve	33	-	(11,052)	-	11,052		-
Increase in life fund	34	-		-	-	(1,508)	(1,508)
Prior year adjustmet			26				26
As at 30 JUNE 2019		**366,050**	**99,965**	**1,088**	**60,590**	**60,071**	**587,764**
As at 1 July 2019		366,050	99,965	1,088	60,590	60,071	587,764
Additional shares issued	29	81,956					81,956
Profit for the year			112,054				112,054
Dividends paid during the year	31		(99,499)				(99,499)
Other comprehensive income:							
Re-measurement gains on defined benefit plans	14		-809	990			181
Total comprehensive income for the		-	(809)	990	-	-	181
Transfer to legal reserve	33		(11,205)		11,205		0
Decrease in life fund	34					195	195
Prior year adjustment			(1,542)				(1,542)
As at 30 JUNE 2020		**448,006**	**98,964**	**2,078**	**71,797**	**60,265**	**681,110**

The notes on pages 30 to 89 are an integral part of these financial statements.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

NILE INSURANCE COMPANY S.C
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

Currency: Ethiopian Birr

	Notes	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Cash flows from operating activities			
Cash generated from operations	35	200,189	118,941
Prior year adjustment		(1,542)	(1,195)
Defined benefit paid	28	(2,429)	(92)
Income tax paid	14	(14,956)	-
Net cash inflow from operating activities		**181,262**	**117,656**
Cash flows from investing activities			
Purchase of investment securities	16	(74,207)	(20,866)
Procede from dispoasl of property, plant and equipment	21	1,039	946
Purchase of property, plant and equipment	21	(43,606)	(90,131)
Purchase of intangible assets	22	(3,545)	(3,173)
Net cash (outflow) from investing activities		(120,319)	(113,224)
Cash flows from financing activities			
Increase in statutory deposits	23	(21,781)	-
Proceeds from short term borrowings	26	(6,670)	6,231
Proceeds from issues of shares	29	81,956	63,353
Increase/(decrease) in life fund	24	194	(1,508)
Dividends paid	31	(99,499)	(60,445)
Net cash (outflow) from financing activities		(45,800)	7,630
Net increase in cash and cash equivalents		**15,143**	**12,062**
Cash and cash equivalents at the beginning of the year	15	40,502	28,442
Cash and cash equivalents at the end of the year	15	**55,645**	**40,502**

The notes on pages 30 to 89 are an integral part of these financial statements.

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

2.2.2 Changes in accounting policies and disclosures

New Standards, amendments, interpretations issued but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 JUNE 2019, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9 - Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. Early adoption of the standard is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15 - Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 16 - Leases

This standard was issued in January 2016 (Effective 1 January 2019) . It sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. It also substantially carries forward the lessor accounting requirements in IAS 17. The Company is yet to assess the expected impact of this standard.

Tadesse, Shiferaw & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. General information

Nile Insurance Company ("the Company) SC is a private commercial Insurance company domiciled in Ethiopia. The Company was established in April 1995, in accordance with proclamation No. 86/1994 and the Commercial code of Ethiopia of 1960. The Company has been licensed by the National Bank of Ethiopia, the licensing body of Banks, Insurance and other Financial Institutions as per the power vested to it through Proclamation No 591/2008, the National Bank of Ethiopia Establishment (as amended) Proclamation. The registered office is at:

Nile Insurance S.C Building
Nations and Nationalities Square
Gotera,
Addis Ababa,
Ethiopia

The principal activities of the Company is to provide insurance solutions both in the general and long tern (Life) insurance categories.

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

The financial statements for the year ended 30 JUNE 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept except for available for sale financial assets which is measured at fair value. All values are rounded to the nearest thousand, except when otherwise indicated. The financial statements are presented in thousands of Ethiopian Birr (Birr' 000).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Company's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.2.1 Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the Company would remain in existence after 12 months.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

IFRS 17 - Insurance contracts

IFRS 17 was issued in May 2017 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

This standard requires a company that issues insurance contracts to report insurance obligations and risks on the balance sheet as the total of:

(a) the fulfilment cash flows—the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows; and
(b) the contractual service margin—the expected profit for providing future insurance coverage (i.e. unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest-rate guarantees and financial options included in the insurance contracts.

The standard replaces IFRS 4 'Insurance contracts'. The standard is effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted. The Company is yet to assess the expected impact on this standard.

2.3 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The functional currency and presentation currency of the Company is the Ethiopian Birr (Birr).

2.4 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, cash at bank, short term deposit with banks.

2.5 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.5.1 Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Tadesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.5 Financial instruments - initial recognition and subsequent measurement (Contd)

Subsequent measurement

For purposes of subsequent measurement, the Company's financial assets are classified into two

- Loans and receivables
- Available for sale

a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar income in income statement. The losses arising from impairment are recognised in income statement in loan impairment charge.

The Company's loans and receivables comprise of Loans and receivables including insurance receivables, investment securities and other financial assets. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

b) *Available-for-sale (AFS) financial assets*

AFS investments include equity investments. Equity investments classified as AFS are those which are neither classified as held–for–trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to income statement in impairment loss on financial investment. Interest earned whilst holding AFS financial investments is reported as interest and similar income using the EIR method. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss. Refer to the information below under reclassification.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Other operating income'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised.

2.5 Financial instruments - initial recognition and subsequent measurement (Contd)

Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

For a financial asset reclassified out of the 'Available–for–sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to income statement.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either

  (a) the Company has transferred substantially all the risks and rewards of the asset, or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Tassew Shisema & Ayalew TMS Plus Certified Audit Partnership

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and receivables), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'loan impairment charge'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Available-for-sale (AFS) financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

2.5.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities.

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. The Company's financial liabilities include customer's deposits, margin held on letter of credits, and other liabilities. Interest expenditure is recognised in interest and similar expense.

2.5 Financial instruments - initial recognition and subsequent measurement (Contd)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

a) Financial liabilities at amortised cost

Financial instruments issued by the Company, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities at amortised cost are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

All financial liabilities of the Company are carried at amortised cost.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

Derecognition of financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The Company has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Company or the counterparty.

2.6 Reinsurance assets

The Company cedes business to reinsurers in the normal course of business for the purpose of limiting its net loss potential through the transfer of risks as described in note 2.14. Premium ceded comprise gross written premiums. Reinsurance arrangements do not relieve the Company from its direct obligations to its policy holders.

Reinsurance assets are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract. The Company has the right to set off reinsurance payables against amounts due from reinsurers in line with the agreed arrangements between both parties.

2.7 Other assets

Other assets are generally defined as claims held against other entities for the future receipt of money or other benefits. The other assets in the Company's financial statements include the following:

(a) Prepayments

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortised over the period in which the service is to be enjoyed.

(b) Other receivables

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Company's other receivables are staff debtors and sundry debtors.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

2.8 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. DAC is subsequently amortised over the life of the contracts as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and

Deferred acquisition costs represent a portion of commission which are incurred during a financial year and are deferred to the extent that they are recoverable out of future revenue margins by applying to the acquisition expenses the ratio of unearned premium to written premium.

DACs are derecognised when the related contracts are either settled or disposed of.

2.9 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Company as a lessee

Leases that do not transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

Company as a lessor

Leases where the Company does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

2.10 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

2.10 Property, plant and equipment (Contd)

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate (years)	Residual value (%)
Buildings	50	5%
Motor vehicles	10	5%
Computer and accessories	7	1%
Office furniture and Fixture	10	1%
Equipment	7	1%
Long living Equipment	15	1%

The Company commences depreciation when the asset is available for use. Construction work-in-progress is not depreciated as these assets are not yet available for use. They are disclosed when reclassified during the year.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.11 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follow:

Assets class	Useful lives (years)
Computer software	8

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

2.12 Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.12 Impairment of non-financial assets (Contd)

In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.13 Statutory deposits

Statutory deposits are cash balances held with the National Bank of Ethiopia in line with Article 20 of Insurance Business Proclamation No. 746/2012 and 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. They have been separately disclosed due to their nature and liquidity. Statutory deposits are measured at cost.

2.14 Insurance contracts

2.14.1 Classification

The Company enters into insurance contracts as its primary business activity. Insurance contracts are those that the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary, if a specified uncertain future event (the insured event) adversely affects the policyholder or the other beneficiary. The Company as a guide defines significant insurance risk as the possibility of having to pay benefit on the occurrence of an insured event that is at least 10% more than the benefit payable if the insured event did not occur.

The Company's insurance contracts are classified into two main categories, depending on the duration of risk.

(a) Non- life insurance contracts

These contracts are accidents and casualty and property insurance contracts.

Accidents and casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for
the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.14 Insurance contracts (Contd)

(b) Life insurance contracts

These contracts insure events associated with human life (for example, death or survival) over a long duration.

In addition, the Company has short-term life insurance contracts which protect the Company's policyholders from the consequences of events (such as death or disability) that would affect the ability of the insured or his/ her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the insured or the beneficiary. There are no maturity or surrender benefits.

2.14.2 Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. 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 initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

As set out in 4.2 above, long-term insurance contracts with fixed terms 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. Any DAC written off as a result of this test cannot subsequently be reinstated.

2.14.3 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 2.14.1 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's property or casualty insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Company for the related claim, the difference is amortised over the estimated remaining settlement period.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. the Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.10.

TMS Plus
Tifesse, Shiferaw & Ayalew
Certified Audit Partnership

2.14 Insurance contracts (Contd)

2.14.4 Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.5.

2.14.5 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).
Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.14.6 Insurance contract liabilities

Insurance contract liabilities arising from insurance contracts are determined as follows:

(a) Non- life insurance contracts

(i) Reserves for outstanding claims

The reserve for outstanding claims is maintained at the total amount of outstanding claims incurred and reported plus claims incurred but not reported ("IBNR") as at the balance sheet date. The IBNR is based on the liability adequacy test described in note 2.14.

(ii) Reserves for unearned premium and unexpired risk

The reserve for unearned premium is calculated on a time apportionment basis in respect of risk accepted during the year. A provision for additional unexpired risk reserve is recognised for an underwriting year where it is envisaged that the estimated cost of claims and expenses would exceed the unearned premium reserve.

At the end of each reporting period, proportions of net retained premium of the general insurance are provided to cover portions of risks which have not expired. The reserves are calculated on 1/24th method as prescribed by the Directive of the National Bank of Ethiopia.

(iii) Reserving methodology

The data used for reserving is segmented into the following classes as per the NBE Directives:
• Motor vehicle insurance business;
• Fire insurance business;
• Personal accident insurance business;
• Liability insurance business;
• Marine insurance business;
• Workmen compensation insurance business;
• Engineering and;
• Pecuniary.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.14 Insurance contracts (Contd)

(b) Life insurance contracts

(i) Incurred But Not Reported (IBNR) and Unearned Premium Reserve (UPR)

This is made up of net liabilities on policies in force as determined by qualified actuaries at the reporting date. Surplus or deficit arising from the periodic valuation of the life insurance contracts are recognised in the statement of profit and loss.

(ii) Reserving methodology

The data used for reserving is segmented into the following classes as per the NBE Directives:
•Individual insurance business;
• Group term insurance business and;
• Medical cover insurance business.

2.15 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as other operating expenses.

2.16 Insurance payables

Insurance payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date is less than one year, discounting is omitted as the impact is not expected to be significant.

2.17 Other liabilities

Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date is less than one year, discounting is omitted as the impact is not expected to be significant.

2.18 Share capital

The Company classifies ordinary shares as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are recognized as deductions from equity, net of tax, from the proceeds. The excess of the issue price over the par value is recorded in the share premium reserve.

2.19 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period.

Diluted EPS is determined by adjusting the profit of loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effect of all diluted potential ordinary shares.

Tefesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

2.20 Retained earnings

The net profits or losses from operations in current and prior periods are accumulated in retained earnings less distributions to equity holders.

2.21 Legal reserves

In accordance with Article 22 sub article 1 - 2 of Insurance Business Proclamation No 746/12, the Company, at the end of each financial year, transfers to its legal reserve to account a sum of not less than 10% of profit. When the legal reserve becomes equal to the paid-up capital of the Company, the amount of the legal reserve to be retained by the Company each year from its net profit shall be determined by NBE's directive.

2.22 Dividend

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Ethiopian legislation identifies the basis of distribution as the current year net profit.

2.23 Revenue recognition

a) Gross premiums

Gross recurring premiums on life and investment contracts with DPF are recognised as revenue when payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective. Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

b) Reinsurance premiums

Gross outward reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Gross general reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business

c) Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.23 Revenue recognition (Contd)

d) Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the EIR method. Fees and commissions that are an integral part of the effective yield of the financial asset are recognised as an adjustment to the EIR of the instrument.

Investment income also includes dividends when the right to receive payment is established, which is generally when the shareholders approve and declare the dividend.

2.24 Gross benefits and claims

Gross benefits and claims for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Changes in the gross valuation of insurance and investment contract liabilities with DPF are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

General insurance and health claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

2.25 Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

2.26 Finance cost

Interest paid is recognised in the statement of profit or loss as it accrues and is calculated by using the EIR method. Accrued interest is included within the carrying value of the interest bearing financial liability.

2.27 Underwriting expenses

Underwriting expenses are made up of acquisition and maintenance expenses comprising commission and policy expenses and other direct costs.

Underwriting expenses for insurance contracts are recognized as expense when incurred, with the exception of acquisition costs which are recognized on a time apportionment basis in respect of risk.

2.28 Employee benefits

The Company operates various post-employment schemes, including both defined benefits and defined contribution pension plans.

(a) Wages, salaries and annual leave

Wages, salaries, bonuses, other contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Company.

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

2.28 Employee benefits (Contd)

(b) Defined contribution plan

The Company operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Company respectively;

ii) provident fund contribution, funding under this scheme is 5% and 10% by employees and the Company respectively based on the employees' salary.

Employer's contributions to this scheme are charged to profit or loss in the year in which they relate.

(c) Defined benefit plan

The Company operates a defined benefit severance scheme in Ethiopia, where members of staff who have spent 5 years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on final emolument of staff and length of service. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of gratuity benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds that have terms to maturity approximating to the terms of the related pension obligation.

Employer's contributions to this scheme are charged to profit or loss in the year in which they relate.

Remeasurement gain and loss arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service and interest cost are included as part of employee benefit expense in the profit or loss. Past-service costs are recognised immediately in profit or loss. Gains or losses on curtailment or settlement are recognised in profit or loss when the curtailment or settlement occurs.

2.29 Fair value measurement

The Company measures financial instruments classified as available-for-sale at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are, summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Note 4.7.1 and Notes 3
- Quantitative disclosures of fair value measurement hierarchy Note 4.7.2

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.29 Fair value measurement (Contd)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.30 Income taxation

(a) Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Ethiopia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

2.30 Income taxation (Contd)

(b) Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

• Capital management Note 4.6
• Financial risk management and policies Note 4

3.1 Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments -Company as lessor

The Company has entered into commercial property leases on its investment property. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(a) Valuation of insurance contract liabilities

Life insurance contract liabilities

The liability for life insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time together with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

These liabilities are estimated using appropriate and acceptable base tables of standard mortality according to the type of contract being written. Management make various assumptions such as expenses inflation, valuation interest rate and mortality in estimating the required liabilities for life contracts.

Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Average Cost per Claim.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provide by a contract requires amortisation of unearned premium on a basis other than time apportionment.

(b) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.7.2 for further disclosures.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

3.2 Estimates and assumptions (Contd)

(c) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

(d) Impairment of insurance receivables

The Company assesses at the end of every reporting period whether there is any objective evidence that its premium receivable is impaired. The Company determines whether impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the receivable (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivable that can be reliably estimated, or a trigger event is identified.

The following impairment triggers have been set by the Company:
(a) Significant financial difficulty of the premium debtor;
(b) Significant financial difficulty of the broker;
(c) A breach of agreements, such as payment defaults or delinquency in premium payments;
(d) Economic, regulatory or legal reasons relating to the premium debtor's financial difficulty, granting to the premium debtor a concession that the Company would not otherwise consider;
(e) High probability that the premium debtor will enter bankruptcy or other financial reorganisation.

If any of the impairment triggers are identified, the Company specifically assess the receivables for impairment. Where no impairment trigger is identified, or no objective evidence of impairment exists, the Company assesses its receivables collectively for impairment using the historical loss rate model.

The historical loss rate model considers the historical recoveries (cash flows) on premium debts for policies written in prior years, in order to determine the loss given default ratio on outstanding premium as at the reporting date. The model also considers premium receipts subsequent to the reporting date. The loss ratio derived is used to determine the allowance for impairment on premium debts.

This model assumes that all premium debts will be paid until evidence to the contrary (a loss or trigger event) is identified. On the identification of an objective evidence of impairment, the premium debts are subject to specific impairment. Where there is no objective evidence of impairment, the premium debts are subjected to collective impairment.

Collective impairment incorporates the following:

- current and reliable data, management's experienced credit judgements, and all known relevant internal and external factors that may affect collectability;
- historical loss experience or where institutions have no loss experience of their own or insufficient experience, peer company experience for a comparable company's of financial instruments at amortized cost;
- adjustments to historical loss experiences on the basis of current observable data to reflect the effects of current conditions.

Liabilities arising from insurance contracts

Liabilities for unpaid claims are estimated on case by case basis. The reserves made for claims fluctuate based on the nature and severity of the claim reported. Claims incurred but not reported are determined using statistical analyses and the Company deem the reserves as adequate.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

3.2 Estimates and assumptions (Contd)

(f) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of severance pay obligations. The assumptions used in determining the net cost (income) include the discount rate, rate of return on assets, future salary increments and mortality rates.

The Company determines the appropriate discount rate at the end of the year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the gratuity obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. Other key assumptions for retirement benefit obligations are based in part on current market conditions.

(g) Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement.

The Company estimates the useful lives of property, plant and machinery based on the period over which the assets are expected to be available for use. Property, plant and machinery is depreciated over its useful life.

Estimates could change if expectations differ due to physical wear and tear and technical or commercial obsolescence. It is possible however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and machinery would increase expenses and decrease the carrying value of non-current assets.

(h) Impairment of non- financial assets

The Company reviews other non-financial assets for possible impairment if there are events or changes in circumstances that indicate that the carrying values of the assets may not be recoverable, or at least at every reporting date, when there is any indication that the asset might be impaired. The fair value of the property,palnt and equipment of the company has estimate by the company professionals.The Company is of the opinion that there is no impairment indicator on its non- financial assets as at the reporting date.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

4. Insurance and financial risk management

4.1 Introduction

Risk is inherent in the Company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to insurance and financial (credit, liquidity and market) risk. It is also subject to country risk and various operating risks.

4.1.1 Risk management structure

The Board of Directors (The Board) is responsible for the overall risk encountered by the Company. The Board is responsible to develop comprehensives risk management program and policies of the Company. The Board has an oversight role on the proper implementation of the Company's risk management program or policies. The Board monitors proper implementation policies through various reports.

The Senior Management has the overall responsibility for the proper execution and interpretation of the risk strategy and implementing principles, frameworks, policies and limits. It is also responsible for managing risk decisions and monitoring risk levels and deliberate on reports to the Board regarding risk management issues and give timely directions.

The Risk Management Unit is responsible for implementing and maintaining risk related procedures, independently assesses and monitor the level of risk assumed by the Company. Besides, the Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Company. It carries out an assessment of risk on periodic basis to monitor the Company's overall risk, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. Exceptions are reported, where necessary, to the Board's Risk Committee and the relevant actions are taken to address exceptions and any areas of weakness. The unit works closely with the Management Risk Committees to ensure that procedures are compliant with the overall framework. The unit is functionally responsible to the Board. The risk management has also reporting relationship with internal audit function. Internal audit function among others ensures the effectiveness of the risk management function periodically. Internal Audit Function discusses the results of its assessments with management, and reports its findings and recommendations to the Board Audit Committee.

4.1.2 Risk measurement and reporting systems

The Company's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical model. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected regions. In addition, the Company measures and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

4.1.3 Risk mitigation

The Company uses various risk mitigating techniques to reduce it's risk to the level acceptable. Risk controls and mitigants, identified and approved for the Company, are documented for existing and new processes and systems.

The adequacy of these mitigants is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently reviewed as part of the review process.

4.2 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. the Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota–share reinsurance
which is taken out to reduce the overall exposure of the Company to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. the Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

4.2.1 Life insurance contracts

Life insurance contracts offered by the Company include: whole life, term assurance, unitised pensions, guaranteed annuity pensions, pure endowment pensions and mortgage endowments.

The main risks that the Company is exposed to are as follows:

- ► Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- ► Investment return risk – risk of loss arising from actual returns being different than expected
- ► Expense risk – risk of loss arising from expense experience being different than expected
- ► Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected. These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry.

TMS Plus
Tafese, Shisema & Ayalew
Certified Audit Partnership

4.2.1 Life insurance contracts (Contd)

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims' handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs. the Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The following tables show the concentration of life insurance contract liabilities by type of contract.

30 JUNE 2020	**Gross Birr'000**	**Reinsurance Birr'000**	**Net Birr'000**
Whole life	**331**	**(10)**	**321**
Group Endowment	**6,584**	**-**	**6,584**
Group term	**16,528**	**(7,044)**	**9,484**
Medical cover	**18,816**	**(2,072)**	**16,744**
Mortgage	**5,701**	**(1,526)**	**4,175**
Travle	**106**	**-**	**106**
Total life insurance	48,066	(10,652)	37,414

30 JUNE 2019	**Gross Birr'000**	**Reinsurance Birr'000**	**Net Birr'000**
Whole life	**318**	**1,291**	**1,609**
Group Endowment	**12,337**	**-**	**12,337**
Group term	**13,442**	**(6,699)**	**6,743**
Medical cover	**16,494**	**-**	**16,494**
Mortgage	**2,589**	**(1,870)**	**719**
Total life insurance	45,180	(7,278)	37,902

Key assumptions

The key assumptions to which the estimation of liabilities is particularly sensitive are, as follows:

► Mortality and morbidity rates

Assumptions are based on standard industry, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

Tefesse, Shiseme & Ayalew TMS Plus Certified Audit Partnership

4.2.1 Life insurance contracts (Contd)

Key assumptions

► Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in–force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.

An increase in the level of expenses would result in an increase in expenditure, thereby reducing profits for the shareholders.

► Policyholder decision (lapses and surrender)

Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders to the unrecouped initial expenses.

► Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

It should be noted that movements in these assumptions are non–linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they

		Change in liability	
		2020	2019
	Change in assumptions	Birr'000	Birr'000
Mortality/morbidity rate	+10%	1,002	367
Expenses	+10%	-	-
Lapse and surrenders rate	+10%	-	-
Discount rate	+1%	(4,441)	(3,879)

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

		Change in liability	
		2020	2019
	Change in assumptions	Birr'000	Birr'000
Mortality/morbidity rate	-10%	(1,007)	(369)
Expenses	-10%	-	-
Lapse and surrenders rate	-10%	-	-
Discount rate	-1%	4,856	4,275

4.2.2 Non- life insurance contracts

The Company principally issues the following types of general insurance contracts: motor, fire, engineering, liability, marine, pecuniary, accident and workmen compensation. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed as renewable. Risks under non–life insurance policies usually cover twelve months duration.

For general insurance contracts, the most significant risks arise from accidents. These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts.

The table below sets out the concentration of non–life insurance contract liabilities by type of contract:

30 JUNE 2020	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
Engineering	**11,136**	**(7,891)**	**3,245**
Fire	**4,159**	**(691)**	**3,468**
Liability	**32,399**	**(2,726)**	**29,673**
Marine	**5,939**	**(2,508)**	**3,431**
Motor	**205,399**	**(24,314)**	**181,085**
Accident and health	**3,656**	**(225)**	**3,431**
Pecuniary	**227,250**	**(200,576)**	**26,674**
Workmen's' compensation	**1,802**	**(132)**	**1,670**
Total non- life insurance	491,740	(239,063)	252,677

30 JUNE 2019	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
Engineering	**17,320**	**(14,527)**	**2,793**
Fire	**3,028**	**(1,301)**	**1,727**
Liability	**36,053**	**(1,548)**	**34,505**
Marine	**3,962**	**(986)**	**2,976**
Motor	**196,055**	**(13,343)**	**182,712**
Accident and health	**3,518**	**(82)**	**3,436**
Pecuniary	**182,871**	**(163,374)**	**19,497**
Workmen's' compensation	**2,079**	**(80)**	**1,999**
Total non- life insurance	444,886	(195,241)	249,645

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

4.2 Financial risk

Financial instruments by category

The Company's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortised cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

4.2 Financial risk (Contd)

The Company's classification of its financial assets is summarised in the table below:

30 JUNE 2020	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and bank balances	15	-	348,653	348,653
Investment securities				-
- Available for sale	16	261,895	-	261,895
Trade and other receivables	17	-	36,963	36,963
Reinsurance assets	18	-	252,993	252,993
Statutory deposits	23	-	67,211	67,211
Total financial assets		261,895.00	705,820.00	967,715

30 JUNE 2019	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and bank balances	15	-	378,304	378,304
Investment securities				-
- Available for sale	16	187,688	-	187,688
Trade and other receivables	17	-	24,217	24,217
Reinsurance assets	18	-	203,188	203,188
Statutory deposits	23	-	45,430	45,430
Total financial assets		187,688	651,139	838,827

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

4.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's investment portfolio, long term staff loans and the reliance on reinsurers to make payment when certain loss conditions are met.

For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

a) The Company's risk management policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored, exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

b) Net exposure limits are set for each counterparty or company of counterparties and industry segment (i.e. limits are set for investments and cash deposits)

c) The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it enters into significant volumes of transactions. However, such arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The Company's reinsurance treaty contracts involve netting arrangements.

d) Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties" limits that are set each year by the management and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

The table below shows the maximum exposure to credit risk for the Company's financial assets. The maximum exposure is shown gross, before the effect of mitigation:

	30 JUNE 2020	30 JUNE 2019
	Birr'000	Birr'000
Cash and bank balances	348,653	378,304
Investment securities		
- Available for sale	261,895	187,688
Trade and other receivables	56,288	43,542
Reinsurance assets	253,911	204,106
Statutory deposits	67,211	45,430
	987,958	859,070

4.3.1 Credit quality analysis

(a) Cash and bank balances

The credit quality of cash and bank balances and short-term investments are neither past due nor impaired as at 30 JUNE 2019, 30 JUNE 2018 and 30 June 2017 and are non-rated as they are held in Ethiopian banks. There are no credit rating agencies in Ethiopia. The Company has no cash and cash equivalents that are held in foreign banks.

(b) Investment securities

The Company's investment portfolio is exposed to credit risk through its investment in equity instruments. The Company further manages its exposure to credit risk through counterparty risk via established limits as approved by the Board. The credit risk exposure associated with equity investments is low.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

4.3 Credit risk (Contd)

(c) Trade and other receivables

30 JUNE 2020	Neither past due nor Birr'000	Past due but not impaired Birr'000	Impaired Birr'000	Total Birr'000
Insurance receivables				
Due from contract holders	-	-	18,568	18,568
Due from reinsurers	-	-	-	-
	-	-	18,568	18,568
Other loans and receivables				
Other receivables	15,112	-	-	15,112
Staff debtors	8,764	-	-	8,764
	23,876	-	-	23,876
Gross	23,876	-	18,568	42,444
Less: Impairment allowance (note 17.1)	(266)	-	(19,059)	(19,325)
Net	23,610	-	(491)	23,119

30 JUNE 2019	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Impaired Birr'000	Total Birr'000
Insurance receivables				
Due from contract holders	-	-	18,410	18,410
Due from reinsurers	-	-	-	-
	-	-	18,410	18,410
Other loans and receivables				
Other receivables	9,194	-	-	9,194
Staff debtors	7,446	-	-	7,446
	16,640	-	-	16,640
Gross	16,640	-	18,410	35,050
Less: Impairment allowance (note 17.1)	(266)	-	(19,059)	(19,325)
Net	16,374	-	(649)	15,725

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

Other loans and receivables- - neither past due nor impaired

Other loans and receivables balances constitute rent receivables, deposits for utilities and staff debtors. The exposure to credit risk associated with other loans and receivables is low.

Insurance receivables - Impaired

The credit quality of the portfolio of insurance receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Insurance receivables are receivables from contract holders that enjoy insurance cover without making premium payments.

Insurance receivables that have been classified as neither past due nor impaired are assessed on a collective basis.

(d) Reinsurance assets

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

4.3.2 *Allowance for impairment*

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on receivables subject to individual assessment for impairment.

	30 JUNE 2020 Birr'000	2019 Birr'000
Due from contract holders	19,059	19,059
Other loans and receivables	266	266
Total allowance for impairment	19,325	19,325

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

4.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Company on acceptable terms.

The main objective of the Company's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

4.4.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

The Company evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Company devises strategies to manage its liquidity risk.

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Company's reputation.

4.4.2 Maturity analysis of financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The cash flows presented are the undiscounted amounts to be settled in future.

30 JUNE 2020	Less than 90 days Birr'000	days- 1 year Birr'000	Over 1 year Birr'000	Total Birr'000
Insurance payables		106,692	-	106,692
Other liabilities		4,815	16,172	20,987
Total financial liabilities	-	111,507	16,172	127,679

30 JUNE 2019	Less than 90 days Birr'000	days- 1 year Birr'000	Over 1 year Birr'000	Total Birr'000
Insurance payables	-	95,929	-	95,929
Other liabilities		5,090	16,897	21,987
Total financial liabilities	-	101,019	16,897	117,916

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

4.5 Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions.

4.5.1 Management of market risk

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Exposure to this risk primarily results from timing differences in the repricing of assets and liabilities as they mature (fixed rate instruments).

The Company monitors this exposure through periodic reviews of the assets and liability position. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance provisions are modelled and reviewed . The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest sensitivity of insurance liabilities than that of the related assets, to the extent that such sensitivities are measurable then the interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products.

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

30 JUNE 2020	Fixed Birr'000	interest bearing Birr'000	Total Birr'000
Assets			
Cash and bank balances	348,653	-	348,653
Investment securities			-
- Available for sale	-	261,895	261,895
Trade and other receivables	-	56,288	56,288
Reinsurance assets	-	253,911	253,911
Statutory deposits	67,211	-	67,211
Total	415,864	572,094	987,958
Liabilities			
Insurance payables	-	106,692	106,692
Other liabilities	-	20,987	20,987
Total	-	127,679	127,679

4.5.1 Management of market risk (Contd)

30 JUNE 2019	Fixed Birr'000	interest bearing Birr'000	Total Birr'000
Assets			
Cash and bank balances	378,304	-	378,304
Investment securities			-
- Available for sale	-	187,688	187,688
Trade and other receivables	-	43,542	43,542
Reinsurance assets	-	204,106	204,106
Statutory deposits	45,430	-	45,430
Total	423,734	435,336	859,070
Liabilities			
Insurance payables	-	95,929	95,929
Other liabilities	-	21,987	21,987
Total	-	117,916	117,916

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The Company is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Company has no transaction in foreign currency.

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each sector and market.

The Company has no significant concentration of price risk as there is no active market in Ethiopia.

4.6 Capital management

The Company's objectives when managing capital are to comply with the capital requirements set by the National Bank of Ethiopia, safeguard its ability to continue as a going concern, and to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future

4.7 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

4.7.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data. In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all assets and liabilities for which the valuation technique includes inputs not based on observable date and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.7.2 Financial instruments not measured at fair value

The carrying amounts of financial assets and liabilities approximate their carrying amount at the

4.7.3 Valuation technique using significant unobservable inputs – Level 3

The Company has no financial asset measured at fair value on subsequent recognition.

Transfers between the fair value hierarchy categories

During the reporting period covered by these annual financial statements, there were no movements between levels as a result of significant inputs to the fair valuation process becoming observable or unobservable.

4.8 Offsetting financial assets and financial liabilities

There are no offsetting arrangements. Financial assets and liabilities are settled and disclosed on a gross

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

5 Segment information

Segment information is presented in respect of the Company's business segments which represents the primary segment reporting format and is based on the Company's management and reporting structure.

Revenue in these segments is derived primarily from insurance premium and investment income. Expenses for corporate units that render services for all business segments are initially paid by the general business segment and transferred to other business units at cost price. The expenses are allocated based on service man hours rendered by the corporate units to the various business segments.

Business segments

The Company operates the following main business segments:

Non- life (general) business- Includes general insurance transactions with individual and corporate customers. This segment covers the protection of customers' assets (particularly their properties, both for personal and commercial business) and indemnification of other parties that have suffered damage as a result of customers' accidents. Most contracts in this segment are short term in nature.

Life business- Includes life insurance policies with individual and corporate customers. This segment covers the protection of the Company's customers against the risk of premature death, disability, critical illness and other accidents.

The segment information provided by the Management Underwriting Investment Committee for the reporting segments for the year ended 30 JUNE 2020 is as follows:

5.1 Statement of profit or loss and other comprehensive income for the year ended 30 JUNE 2020

	Non- life		Life		Total	
	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Revenue						
Gross premiums	433,291	393,478	48,066	45,180	481,357	438,658
Premiums ceded to reinsurers	(86,645)	(70,744)	(10,652)	(7,277)	(97,297)	(78,021)
Net premiums	346,646	322,734	37,414	37,903	384,060	360,637
Fee and commission income-Life	29,681	23,884	5,443	3,812	35,124	27,696
Net underwriting income	376,327	346,618	42,857	41,715	419,184	388,333
Claims expenses	(209,524)	(223,657)	(20,402)	(14,780)	(229,926)	(238,437)
Claims recovered from reinsurers	17,522	26,107	3,731	147	21,253	26,254
Gross change in contract liabilities	(2,838)	8,656	(1,279)	-	(4,117)	8,656
Net benefits and claims	(194,840)	(188,894)	(17,950)	(14,633)	(212,790)	(203,527)
Underwriting expenses	(30,134)	(28,758)	(3,555)	(3,454)	(33,689)	(32,212)
Underwriting profit	151,353	128,966	21,352	23,628	172,705	152,594
Investment income	71,043	68,752	8,612	8,512	79,655	77,264
Other operating income	2,485	2,940	88	16	2,573	2,956
Net income	224,882	200,658	30,051	32,156	254,933	232,814
Other operating and administrative expenses	(44,694)	(39,878)	(1,742)	(1,275)	(46,436)	(41,153)
Employee benefits expense	(77,596)	(66,057)	(2,038)	(1,632)	(79,634)	(67,689)
Profit before income tax	102,592	94,723	26,271	29,249	128,863	123,972
Transfer from/(to) life fund	-		-	1,508	-	1,508
Income tax expense	(16,809)	(14,956)	-	-	(16,809)	(14,956)
Profit for the year	**85,783**	**79,767**	**26,271**	**30,757**	**112,054**	**110,524**
Other comprehensive income						
Items that will not be subsequently reclassified into profit or loss:						
Remeasurement gain/(loss) on retirement benefits obligations	525	333	-	-	525	333
Deferred tax (liability)/asset on remeasurement gain or loss	(158)	(100)			(158)	(100)
	368	233	-	-	368	234
Total comprehensive income for the year	86,151	80,000	26,271	30,757	112,422	110,758

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

5.2 Statement of financial position for each segment at 30 JUNE 2020

	Non- life		Life		Total	
	30 JUNE 2020	30 JUNE 2019	30 JUNE 2020	30 JUNE 2019	30 JUNE 2020	30 JUNE 2019
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
ASSETS						
Cash and bank balances	277,661	294,477	70,993	83,828	348,653	378,304
Investment securities	-	-	-	-		
- Available for sale	221,000	174,938	40,895	12,750	261,895	187,688
Trade and other receivables	36,275	23,949	688	267	36,963	24,216
Reinsurance assets	252,965	203,188	27	-	252,993	203,188
cost	14,673	13,790	-	-	14,673	13,790
Other assets	142,732	140,474	2,706	1,914	145,437	142,388
Deferred tax assets	1,364	675	-	-	1,364	675
Property, plant and equipment	388,560	380,494	26,355	828	414,915	381,322
Intangible assets	9,920	6,604	-	-	9,920	6,604
Statutory deposits	61,961	40,180	5,250	5,250	67,211	45,430
Total assets	**1,407,110**	**1,278,767**	**146,914**	**104,837**	**1,554,025**	**1,383,604**
LIABILITIES						
Insurance contract liabilities	666,137	606,194	1,109	215	667,246	606,409
Insurance payables	92,159	84,107	14,533	11,822	106,692	95,929
Borrowings	16,075	22,745	-	-	16,075	22,745
Current income tax liabilities	16,809	14,956	-	-	16,809	14,956
Deferred tax liabilities	6,622	5,124	-	-	6,622	5,124
Other liabilities	55,359	47,197	1,478	1,561	56,837	48,758
Retirement benefit obligation	2,634	1,917	-	-	2,634	1,917
Total liabilities	855,795	782,241	17,120	13,597	872,915	795,838
Equity						
Share capital	413,006	331,052	35,000	35,000	448,006	366,052
Retained earnings	72,694	48,244	26,270	51,721	98,964	99,965
Other reserve	2,078	1,088	-	-	2,078	1,088
Legal reserve	67,768	56,562	4,029	4,029	71,797	60,591
Life Fund	-	20,963	60,265	39,107	60,265	60,070
Inter office account	(4,231)	38,617	4,231	(38,617)	-	-
Total equity	551,316	496,527	129,794	91,240	681,110	587,766
Total equity and liabilities	**1,407,111**	**1,278,767**	**146,914**	**104,837**	**1,554,025**	**1,383,604**

6. Net premiums

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
6.1	**Gross premiums on insurance contracts**		
	Life insurance	48,066	45,180
	Non-life insurance	422,563	378,041
	Inward reinsurance	24,011	15,595
	Total gross written premium	494,640	438,816
	Change in unearned premiums provision	(13,283)	(158)
	Total gross premiums	481,357	438,658
6.2	**Premiums ceded to reinsurers on insurance contracts**		
	Life insurance premium ceded	10,652	7,277
	Non-life insurance premium ceded	86,645	70,744
	Total premiums ceded to reinsurers	97,297	78,021
	Total net premiums	384,060	360,637

There were no events in the reporting periods that prompted losses of sufficient size to trigger a recovery from contracts.

7. Fee and commission income

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Sales commission-LIFE	3,546	-
Sales commissio-NON LIFE	19,781	19,656
Profit Commission-LIFE	1,897	-
Profit Commission-NON LIFE	8,458	7,231
Reinsurance commission income	1,442	809
Total fees and commission income	35,124	27,696

Fee income represents commission received on direct business and transactions ceded to re-insurance during the year under review.

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000

8. Net benefits and claims

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
8.1	**Claims expenses**		
	Life insurance contracts	20,402	16,370
	Non-life insurance contracts	209,524	222,067
	Total claims expenses	229,926	238,437
8.2	**Claims recovered from reinsurers**		
	Claims recovered from life insurance contracts	(3,730)	(1,736)
	Claims recovered from non-life insurance contracts	(17,523)	(24,518)
	Total claims recovered from reinsurers	(21,253)	(26,254)
8.3	**Gross change in contract liabilities**		
	Change in life insurance contract liabilities	1,082	-
	Change in non-life insurance contract liabilities	6,640	(12,987)
	Change in non-life insurance contract IBNR provision	(3,605)	4,331
	Total gross change in contract liabilities	4,117	-8,656
		212,790	203,527

9. Underwriting expenses

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Sales commision paid life	3,556	7,065
Sales commision paid Non life	30,133	25,147
	33,689	32,212

10. Investment income

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Rental income		8,404	8,600
Dividend income on equity investments non life		30,502	20,845
Dividend income on equity investments life		20	-
Interest income on cash and short-term deposits	Non life	32,137	39,307
Interest income on cash and short-term deposits	Life	8,592	8,512
Total investment income		79,655	77,264

11. Other operating income

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Profit on disposal of property, plant and equipment		975	826
Interest income on staff loans		404	284
Income from towing		603	517
Sale of bid document		84	129
Sundry income	LIFE	88	-
Sundry income	NON LIFE	419	1,200
		2,573	2,956

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

12. Other operating and administrative expenses

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Rental expenses	10,545	9,876
Repair and maintenance	3,747	3,718
Car running and maintenance	2,130	2,483
Advertising and publication	5,494	2,413
Communication	2,161	2,581
Printing and stationaries	1,793	1,761
Entertainment	915	1,057
Penality and Fines	13	207
Travelling and transportation expenses	471	857
Insurance	1,103	1,111
Guarding and office cleaning fee	1,979	1,301
Utilities	508	513
Legal and professional fees	674	1,528
Audit fees	97	90
Subscription and membership fees	591	135
Donations	64	1,957
Depreciation on property and equipment	8,966	7,300
Amortisation of intangible assets	228	255
Amortisation of leasehold land	508	682
Bank charges	593	245
Write-back on provision on bad debt	-	(333)
Towing expense	368	545
Third party medical contribution	1,616	-
Sundry expenses	1,872	871
	46,436	41,153

13. Employee benefits expense

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Directors Remuneration	1,220	1,041
Salaries and wages	50,649	43,364
Staff allowances	6,321	5,888
Pension costs – Defined contribution plan	5,440	4,591
Pension costs - Defined benefit plans	-	
Other employee expenses	16,004	12,805
	79,634	67,689

14. Company income tax and deferred tax

14.1 Current income tax

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Company income tax	16,809	14,956
Prior year (over)/ under provision		-
Capital gains tax		-
Deferred income tax/(credit) to profit or loss	809	100
Total charge to profit or loss	17,618	15,056
Tax (credit) on other comprehensive income		
Total tax in statement of comprehensive income	17,618	15,056

14.2 Reconciliation of effective tax to statutory tax

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Profit befor tax for IFRS	128,863	125,480
Tax calculated at statutory tax rate of 30 %	38,659	37,644
Tax on Disallowable expenses	3,726	3,254
Tax on Depreciation Amortisation for tax purposes(Birr 14,000,841.28)	(4,200)	(2,449)
Provision for other assets taxed at 100%	-	-
Tax on Dividend income taxed at source	(9,157)	(6,254)
Tax on Interest income taxed at source	(12,219)	(17,239)
	16,809	**14,956**

Tax on Disallowable expenses	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Entertainment	915	1057
Staff leave pay –provision	1055	1325
Severance Expense	1242	701
Penality and Fines	13	207
Marriage expense	-	2
Depreciation for accounting purpose	8966	7300
Amortization for accounting purpose	228	255
	12,419	**10,847**

14.3 Current income tax liability	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Balance at the beginning of the year	-11,568	184
Charge for the year:	-16,809	-14,956
Capital gains tax	-	
Income tax expense	-	
Prior year (over)/ under provision	-	
WHT Notes utilised	4,310	3,204
Payment during the year	11,752	-
Balance at the end of the year	-12,315	(11,568)

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

14. Company income tax and deferred tax (Contd)

14.4 Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets of Birr 689 (464, 609) for the Company have been recognised as at 30 JUNE 2020, 30 JUNE 2019 and 1 JULY 2018 respectively because it is probable that future taxable profits will be available against which they can be utilised.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
The analysis of deferred tax assets is as follows:		
Opening balance	675	648
Charge for the year	689	27
Tax over paid on previous year		-
	1,364	**675**

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(6,171)	(5,362)
To be recovered within 12 months	-	-
	-6,171	-5,362

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in profit or loss ("p or l), in equity and other comprehensive income are attributable to the following items:

Deferred income tax assets/(liabilities):	At 1 July 2019 Birr'000	Credit/ (charge) to profit or Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, plant and equipment	(5,124)	(1,498)		(6,622)
Post employment benefit obligation	(238)	689		451
	-5,362	-809	-	-6,171

Deferred income tax assets/(liabilities):	At 1 July 2018 Birr'000	Credit/ (charge) to profit or Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, plant and equipment	(4,997)	(127)	-	(5,124)
Post employment benefit obligation	(265)	27	-	(238)
Total deferred tax assets/(liabilities)	**(5,262)**	**(100)**	**-**	**(5,362)**

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

15. Cash and bank balances

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Cash in hand	4,658	1,955
Deposits with local banks	50,987	38,547
Fixed time deposits	293,008	337,802
	348,653	378,304

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	55,645	40,502
Non- current	293,008	337,802
	348,653	378,304

15.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash in hand, cash at bank, short term deposit with banks.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Cash in hand	4,658	1,955
Deposits with local banks	50,987	38,547
	55,645	40,502

16. Investment securities

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Available for sale:		
Equity Investments	261,895	187,688
	261,895	187,688

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	-	-
Non-Current	261,895	187,688
	261,895	187,688

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
17. Trade and other receivables		
Insurance receivables		
Due from contract holders	18,568	18,410
Due from reinsurers	13,844	8,492
Gross amount	32,412	26,902
Less: Specific impairment allowance (note 17.1)	(19,059)	(19,059)
	13,353	7,843
Other loans and receivables		
Other receivables	15,112	9,194
Staff debtors	8,764	7,446
Gross amount	23,876	16,640
Less: Specific impairment allowance (note 17.1.1)	(266)	(266)
	23,610	16,374
Gross amount	36,963	24,217

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	28,956	17,686
Non- current	27,332	25,856
	56,288	43,542

17. Trade and other receivables (Contd)

17.1 Impairment allowance on trade and other receivables

A reconciliation of the allowance for impairment losses for loans and receivables by class, is as follows:

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
At 1 July	19,325	19,668
Recoveries (note 12)	-	(343)
As at 30 June	19,325	19,325

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
18. Reinsurance assets		
Reinsurance receivable on claims paid	14,821	8,865
Reinsurance recoverable on outstanding claims (note 18.1)	226,742	189,086
Reinsurance recoverable Claims incurred but not reported IBNR (note 24.1)	12,348	6,155
Gross amount	253,911	204,106
Less: Specific impairment allowance (note 18.2)	(918)	(918)
	252,993	203,188

At 30 JUNE 2020, the Company management conducted an impairment review according to the national bank of ethiopia directive of the reinsurance assets and there is no additional impairment recognised in the year ended june 30,2020 (2019:Birr 917 864.58,2018: Birr 917,864.58)to be reported in other operating and administrative expenses. The carrying amounts disclosed above in respect of the reinsurance of investment contracts approximate fair value at the reporting date.

During the year, the Company entered into reinsurance arrangements that resulted in profits of Birr 10,355 (2019 :5,674,2018: Birr 5,150). This profit has been reflected in the statement of profit or loss.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
18.1 Reinsurance recoverable on outstanding claims		
The movement in claims recoverable is analysed as:		
Balance at beginning of the year	189,086	55,580
Increase in recoverable during the year	37,656	133,506
Balance at end of year	226,742	189,086

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
18.2 Impairment allowance on reinsurance assets		
Balance at beginning of the year	918	918
(Recovery)/allowance made during the year for doubtful recoverable	-	-
Balance at end of year	918	918

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

Other loans and receivables- - neither past due nor impaired

Other loans and receivables balances constitute rent receivables, deposits for utilities and staff debtors. The exposure to credit risk associated with other loans and receivables is low.

Insurance receivables - Impaired

The credit quality of the portfolio of insurance receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Insurance receivables are receivables from contract holders that enjoy insurance cover without making premium payments.

Insurance receivables that have been classified as neither past due nor impaired are assessed on a collective basis.

(d) Reinsurance assets

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

4.3.2 ***Allowance for impairment***

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on receivables subject to individual assessment for impairment.

	30 JUNE 2020 Birr'000	2019 Birr'000
Due from contract holders	19,059	19,059
Other loans and receivables	266	266
Total allowance for impairment	19,325	19,325

4.4 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Company on acceptable terms.

The main objective of the Company's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

Tafesse Shisema & Ayalew TMS Plus Certified Audit Partnership

19. Deferred acquisition cost

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Engineering	4,572	3,525
Fire	2,788	2,654
Liability	5,681	5,956
Marine	1,230	1,284
Motor	-4,945	-4,689
Accident and health	716	841
Pecuniary	3,839	3,322
Workmens' compensation	792	896
	14,673	13,790

This represents commission on unearned premium relating to the unexpired tenure of risk.

20. Other assets

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Prepaid staff expense	44	57
Withholding tax receivable	9,668	8,540
Bid security for federal courts execution directorate payment	-	-
Preapid leasehold land	25,195	25,702
Prepayments	106,473	104,714
Salvage Available for sale	1,588	905
Prepaid staff benefit	2,470	2,470
	145,437	142,388

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	9,668	8,540
Non- current	135,769	133,848
	145,437	142,388

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

21. Property, plant and equipment

	Buildings Birr'000	Motor vehicles Birr'000	Computer and accessories Birr'000	furniture and equipment Birr'000	Construction in progress Birr'000	Total Birr'000
Cost						
As at 1 July 2019	56,811	44,653	8,870	39,787	276,523	426,644
Additions		3,986	4,224	824	34,572	43,606
Disposals	-	(1,152)	(4)	(25)	-	(1,181)
Reclassification	-	-	-	-	-	-
As at 30 JUNE 2020	56,811	47,487	13,090	40,586	311,095	469,069
Accumulated depreciation						
As at 1 July 2019	4,462	22,267	6,896	11,697	-	45,322
Prior year adjustment	976	-	-	-	-	976
Charge for the year	1,849	3,536	879	2,702		8,966
Disposals	-	(1,088)	(4)	(25)	-	(1,117)
As at 30 JUNE 2020	7,287	24,715	7,771	14,374	-	54,147
Net book value						
As at 30 JUNE 2019	52,349	22,386	1,974	28,090	276,523	381,322
As at 30 JUNE 2020	49,524	22,772	5,319	26,212	311,095	414,915

In the year ended June 2019/20 the compnany has got a procced of birr 975,000.00 from disposal of fixed assets

22. Intangible Assets

	Cost Birr'000	Amortisation Birr'000	Net book value Birr'000
As at 1 JULY 2019	10,189	(3,585)	6,604
Additions/(amortisation)	3,545	(228)	3,317
As at 30 JUNE 2020	13,734	(3,813)	9,920

23. Statutory deposits

		30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Statutory deposits	**Non Life**	61,961	40,180
Statutory deposits	**Life**	5,250	5,250
		67,211	45,430

Tafesse, Shisema & Ayalew
TMS Plus
Certified Audit Partnership

This balance represents deposits made with National Bank of Ethiopia (NBE) in accordance with Article 20 of Proclamation No 746/2012. The company has a policy of maintaining the deposits at 15% of the paid up capital.

24. Insurance contract liabilities

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Non-life insurance contracts		
- Claims reported and loss adjustment expenses (note 24.1)	433,572	389,303
- Claims incurred but not reported IBNR (note 24.1)	58,171	55,583
- Unearned premiums (note 24.2)	174,395	161,309
	666,138	606,195
Life insurance contracts		
- Claims reported and loss adjustment expenses (note 24.1)	1,109	215
	1,109	215
Total insurance liabilities, gross	667,246	606,410
Recoverable from reinsurers		
Non-life insurance contracts		
Reinsurance recoverable on outstanding claims (note 18.1)	226,715	189,086
Reinsurance recoverable Claims incurred but not reported IBNR (note 24.1)	12,348	6,155
Prepaid re-insurance (note 18.2)	-	-
	239,063	195,241
Life insurance contracts		
Reinsurance recoverable on outstanding claims (note 18.1)	27	-
	27	-
Total reinsurers' share of insurance liabilities	239,090	195,241
Non-life insurance contracts		
- Claims reported and loss adjustment expenses (note 24.1)	206,857	200,217
- Claims incurred but not reported IBNR (note 24.1)	45,823	49,428
- Unearned premiums (note 24.2)	174,395	161,309
	427,075	410,954
Life insurance contracts		
Reinsurance recoverable on outstanding claims (note 18.1)	1,082	215
	1,082	215
Total insurance contract liabilities, net	428,157	411,169

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

24. Insurance contract liabilities (Contd)

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	207,939	200,432
Non- current	220,218	210,737
	428,157	411,169

The gross claims reported, the loss adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of years are not material.

Movements in insurance liabilities and reinsurance assets is detailed below:

	30 JUNE 2020			30 JUNE 2019		
	Birr'000 Gross	Birr'000 e	Birr'000 Net	Birr'000 Gross	Birr'000 e	Birr'000 Net
24.1 Claims and loss adjustment expenses						
At 1 July	444,886	(195,241)	249,645	314,761	(60,651)	254,110
Notified claims	274,195	(43,822)	230,373	362,267	(134,590)	227,677
Incurred but not reported	2,588	-	2,588	6,295	-	6,295
Total at beginning of year	721,669	(239,063)	482,606	683,323	(195,241)	488,082
Cash paid for claims settled in year						
Increase in liabilities:						
- Arising from current-year cl	(50,899)	-	(50,899)	(92,622)	-	(92,622)
- Arising from prior-year clair	(179,027)	-	(179,027)	(145,815)	-	(145,815)
	(229,926)	-	(229,926)	(238,437)	-	(238,437)
As at 30 June	491,743	(239,063)	252,680	444,886	(195,241)	249,645

	30 JUNE 2020			30 JUNE 2019		
	Birr'000 Gross	Birr'000 e	Birr'000 Net	Birr'000 Gross	Birr'000 e	Birr'000 Net
24.2 Provisions for unearned premiums						
Unearned premium provision						
At 1 July	161,309		161,309	161,151	-	161,151
Increase in the period	-		-	-	-	-
Release in the period	13,086		13,086	158	-	158
As at 30 June	174,395	-	174,395.00	161,309	-	161,309

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

24. Insurance contract liabilities (Contd)

24.3 Life insurance contracts	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
At 1 July	60,071	61,579
Increase(Decrease) in life fund	26,465	29,249
Actuary Surplus Distributed to Shareholders	(26,271)	(30,757)
As at 30 June	60,265	60,071

The Company carried out an actuarial valuation to determine the actuarial liabilities for its life fund as at June 2020. The results of the actuarial valuation are summarised below:

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Actuarial liabilities/Life fund Beginning	60,071	61,579
Increase(Decrease) in life fund of the period	26,465	29,249
Actuary Surplus Distributed to Shareholders	-26,271	-30,757
Actuarial liabilities/Life fund Ending	60,265	60,071

25. Insurance payables

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Due to reinsurers	80,946	71,058
Due to sales agents and brokers	14,902	10,531
Due to third parties	(1,091)	4,166
Unclaimed payment	11,934	10,173
	106,692	95,929

The carrying amounts disclosed above approximate fair value at the reporting date. All amounts payable on direct insurance business and assumed reinsurance business are payable within one year.

26. Borrowings

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Short term borrowings	16,075	22,745
	16,075	22,745

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

26.1 Reconciliation of bank borrowings

A reconciliation of the changes in borrowings is as follows:

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Balance at the beginning of the year	22,745	16,514
Proceeds from borrowings	-6,670	6,231
Repayment of borrowings		-
Accretion of interest		-
Balance at the end of the year	16,075	22,745

27. Other liabilities

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Financial liabilities		
Retention payable	10,935	10,936
Pension fund payable	1,075	1,164
Provident fund payable	297	-
Lease land payable	5,237	5,961
Motor annual inspection centre	-	
Third party motor insurance	473	1,207
Sundry payables	4,815	5,090
	22,832	24,358
Other non financial liabilities		
Deferred revenue	15,376	8,539
Withholding tax and Valued added tax payables	1,301	1,645
Employee income tax payable	1,932	1,774
Accruals	7,007	6,393
Provisions	244	191
Stamp duty	44	43
Dividend payable	8,095	5,816
	33,999	24,401
Gross amount	**56,837**	**48,759**

Maturity analysis	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current	32,107	23,631
Non- current	24,730	25,128
	56,837	48,759

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
28. Retirement benefit obligation		
Defined benefits liabilities:		
– Severance benefit plan (note 27.1)	2,634	1,917
Liability in the statement of financial position	**2,634**	**1,917**
Income statement charge included in personnel expenses:		
– Severance benefit plan (note 27.1)	1,241	793
Total defined benefit expenses	**1,241**	**793**
Remeasurements for:		
– Severance benefit plan (note 27.1)	-525	(333)
	(525)	**(333)**

The income statement charge included within personnel expenses includes current service cost, interest cost, past service costs on the defined benefit schemes.

The severance benefit plan is an unfunded defined benefit scheme.

(i) *Severance benefit plan*

377/2003, as amended by the Labour (Amendment) Proclamation No. 494/2006. Employees are only entitled to the benefits under this scheme provided they have no entitlement to pension or provident fund benefits at retirement date.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
A. Liability recognised in the financial position		
Retirement benefit obligation	2,634	1,917

B. Amount recognised in the profit or loss	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Current service cost	941	566
Interest cost	300	228
	1,241	793

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

28. Retirement benefit obligation (Contd)

C. Amount recognised in other comprehensive income:

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Actuarial (Gains)/Losses on demographic assumptions	-525	-333
Actuarial (Gains)/Losses on economic assumptions		-
	(525)	(333)
Deferred tax (liability)/asset on remeasurement gain or loss		-
	(525)	(333)

D. Changes in the present value of the defined benefit obligation

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
At the beginning of the year	1,917	1,549
Current service cost	941	566
Interest cost	300	228
Remeasurement (gains)/losses arising from changes in demographic assumptions	(525)	(333)
Remeasurement (gains)/losses arising from changes in the financial assumptions	-	-
Benefits paid		-92
At the end of the year	2,633	1,918

E. The principal assumptions used in determining defined benefit obligations

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000	1 JULY 2018 Birr'000
Discount rate (p.a)	14.25%	13.5%	12.75%
Long term salary increases (p.a)	13.00%	13.00%	15.0%

(i) Discount rate

In Ethiopia, there is neither a deep market in corporate nor government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market determined. IAS19 does not provide guidance for setting the discount rate in a country with limited government bonds or instruments.

(ii) Long term salary increases

The salary increase has been determined by the management as mutually compatible rate taking into account the likely future economic scenarios of the country.

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

28. Retirement benefit obligation (Contd)

(iii) Mortality rate

Mortality is normally expressed as the probability of death within the next year for an individual of a specifc age. Different mortality rates are thus set for each age group (higher rates for older people) and this set of rates is referred to as a mortality table.

The mortality table used for the current employees was A1949/52 as published by the Institute of Actuaries.

	30 JUNE 2020		30 JUNE 2019	
	Males	**Females**	**Males**	**Females**
20	0.111%	0.111%	0.111%	0.111%
25	0.112%	0.111%	0.112%	0.111%
30	0.116%	0.113%	0.116%	0.113%
35	0.132%	0.120%	0.132%	0.120%
40	0.188%	0.147%	0.188%	0.147%
45	0.330%	0.231%	0.330%	0.231%
50	0.599%	0.420%	0.599%	0.420%
55	1.035%	0.750%	1.035%	0.750%
60	1.720%	1.272%	1.720%	1.272%

(iv) Withdrawals from service

The withdrawal rate selected was based on experience in other similar arrangements.

	30 JUNE 2020		30 JUNE 2019	
	Males	**Females**	**Males**	**Females**
20	15.00%	15.00%	15.00%	15.00%
25	12.00%	12.00%	12.00%	12.00%
30	6.00%	6.00%	6.00%	6.00%
35	2.50%	2.50%	2.50%	2.50%
40	1.80%	1.80%	1.80%	1.80%
45	1.00%	1.00%	1.00%	1.00%
50	0.18%	0.18%	0.18%	0.18%
55	0.08%	0.08%	0.08%	0.08%
60	0.08%	0.08%	0.08%	0.08%

(v) Ill-health / Disability

	30 JUNE 2020		30 JUNE 2019	
	Males	**Females**	**Males**	**Females**
20	0.040%	0.040%	0.040%	0.040%
25	0.040%	0.040%	0.040%	0.040%
30	0.040%	0.040%	0.040%	0.040%
35	0.040%	0.040%	0.040%	0.040%
40	0.063%	0.050%	0.063%	0.050%
45	0.110%	0.080%	0.110%	0.080%
50	0.200%	0.140%	0.200%	0.140%
55	0.350%	0.250%	0.350%	0.250%
60	0.570%	0.420%	0.570%	0.420%

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

(vi) Duration of the plan

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the retirement benefit obligation at the end of the reporting period is 9.05 years (30 JUNE 2019: 9.05 years, 1 JULY 2018: 9 years)

28. Retirement benefit obligation (Contd)

F. Quantitative sensitivity analysis for significant assumption

The sensitivity of the overall defined benefit liability to changes in the weighted principal assumption is:

		Impact on defined benefit obligation			
		30 JUNE 2020		30 JUNE 2019	
	Change in assumption	Impact of an increase	Impact of a decrease	Impact of an increase	Impact of a decrease
		Birr'000	Birr'000	Birr'000	Birr'000
Discount rate	1.0%	(164)	188	(135)	156
Long term salary increases	-1.0%	179	(158)	156	(137)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The following payments are expected contributions to be made in for the next five (5) years out of the defined benefit plan obligation:

	30 JUNE 2020	30 JUNE 2019
	Birr'000	Birr'000
Within the next 12 months (next annual reporting period)	1	1
Between 1 to 5 years	-	3
Above 5 years	2,633	1,913
	2,634	1,917

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

G. Risk exposure

Through its post-employment benefit schemes, the Company is exposed to a number of risks. The most significant of which are detailed below:

(i) *Liquidity risk*

The defined liabilities are unfunded and as a result, there is a risk of the Company not having the required cash flow to fund future defined benefit obligations as they fall due.

(ii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the schemes' liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000

29. Share capital

Authorised:		
Ordinary shares of Birr 1000 each	500,000	500,000
Issued and fully paid:		
Paid up share capital	448,006	366,050

The subscribed capital of the Company is Birr 500 million divided into 500,000 shares of Birr 1,000 par value each. The current paid up capital is 366,052,00.00 (2019: Birr 366,050,000.00)

30. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Profit attributable to shareholders	112,054	110,524
Weighted average number of ordinary shares in issue	417,154	338,081
Basic & diluted earnings per share (Birr)	269	327

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 JUNE 2019:nil, 1 JULY 2018: nil), hence the basic and diluted earning per share have the same value.

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000

31. Retained earnings

At the beginning of the year	99,965	60,812
Profit/ (loss) for the year	112,054	110,524
Re-measurement gains on defined benefit plans (net of tax)	-1,542	26
prior year proft tax adjustment	-	-
Transfer to deffered asset	689	-
Transfer to deffered liability	(1,498)	101
Transfer to legal reserve	(11,205)	(11,052)
Board of directors profit sharing	-	-
Dividends paid	(99,499)	(60,445)
Transfer to other reserve	-	-
At the end of the year	98,964	99,965

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
32. Other reserve		
At the beginning of the year	1,088	855
Re-measurement gains on defined benefit plans	990	233
At the end of the year	2,078	1,088

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
33. Legal reserve		
At the beginning of the year	60,591	49,538
Transfer from profit or loss	11,205	11,052
At the end of the year	71,797	60,591

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
34. Life fund reserves		
At the beginning of the year	60,070	61,579
Transfer from profit or loss	26,466	29,246
Actuary Surplus Distributed to Shareholders	-26,271	-30,757
At the end of the year	60,265	60,070
Transfer from(to) life fund	-	1,508

Tafesse, Shisema & Ayalew ★ TMS Plus ★ Certified Audit Partnership

	Notes	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
35. Cash generated from operating activities			
Profit before tax		128,863	125,480
Adjustments for non- cash items:			
Depreciation of property, plant and equipment	21	8,966	7,300
Amortisation of intangible assets	22	228	255
Retirement benefit obligations	28	1,241	793
Changes in working capital:			
-Increase/ (Decrease) in trade and other receivables	17	(12,747)	(9,471)
-Increase/ (Decrease) in reinsurance assets	18	(49,805)	(141,781)
-Increase/ (Decrease) in deferred acquisition costs	19	(883)	872
-(Decrease)/ Increase in other assets	20	(3,049)	(81,485)
-(Decrease)/ Increase in defered tax assets	14	689	27
-Decrease/ (Increase) in fixed time deposits	15	44,794	84,583
-Increase/ (decrease) in Insurance contract liabilities	24	60,836	128,823
-Increase/ (decrease) in insurance payables	25	10,763	8,796
-Increase/ (decrease) in current income tax liabilities	14	-	-
-Increase/ (decrease) in defered tax payables	14	1,498	127
-Increase/ (decrease) in other liabilities	27	8,078	(5,743)
-(Decrease)/ Increase in Retirement benefit obligatioı	28	717	367
		200,189	118,941

In the statement of cash flows, profit on sale of property, plant and equipment compris

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
Proceeds on disposal	1,039	-
Net book value of property, plant and equipment disposed (Note 11)	(64)	-
Gain/(loss) on sale of property, plant and equipment	975	-

36. Related party transactions

The Licensing & Supervision of Insurance Business Directive No SIB/53/2012 of the National Bank of Ethiopia defined a related party as a shareholder, a director, a chief executive officer, or a senior officer of a Insurance Company and/or their spouse or relation in the first degree of consanguinity or affinity; and a partnership, a common enterprise, a private limited company, a share company, a joint venture, a corporation, or any other business in which officers of the Company and/or their spouse or relation in the first degree of consanguinity or affinity of the officers of the Company has business interest as shareholder, director, chief executive officer, senior officer, owner or partner . The directive stipulates that the identification of related parties shall be the responsibility of the Company.

From the above, only directors were identified to be related parties to the Company.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

	30 JUNE 2020 Birr'000	30 JUNE 2019 Birr'000
36.1 *Transactions with related parties*		
Loans to Directors		
	-	-

The balance with related parties complies with the limitations on loans and advances stipulated in the directive. The aggregate sum of loans or advances extended to one related party at any one time should not exceed 15% of the total capital of the Company. The breakdown of the outstanding loan balance to related parties as at 30 JUNE 2019 is shown in the table above. There were no other transactions with related parties for the periods under consideration.

36. Related party transactions (Contd)

36.2 *Key management compensation*

Key management has been determined to be the members of the Board of Directors and the Senior Management team of the Company.

Directors are renumerated as per Directive No. SIB/46/2018 of National Bank of Ethiopia which limited payments to Directors to be Birr 150,000 per annum and Birr 10,000 transportation alowance every month. The current balance is composed of monthly allowances paid during the year.

	30 JUNE 2020 Birr'000	2019 Birr'000
Salaries and other short-term employee benefits	835	730
Post-employment benefits	92	80
Representation allowance	84	73
	1,010	883

37. Directors and employees

i) The average number of persons (excluding directors) employed by the Company during the year was a

	30 JUNE 2020 Number	2019 Number
Professionals and High Level Supervisors	74	69
Semi-professional, Administrative and Clerical	237	230
Technician and Skilled	42	51
Custodian	31	32
	384	382

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

NILE INSURANCE COMPANY S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

38. Contingent liabilities

38.1 Claims and litigation

In the opinion of the Directors, there were no contingent liability on balance sheet date which could have a material effect on the state of affairs of the Company as at 30 JUNE 2020.

39. Commitments

The Company has no commitments, not provided for in these financial statements as at the date of this report. (30 JUNE 2019: nil, 1 JULY 2018: nil) for purchase of various capital items.

40. Operating lease commitments - Company as lessee

The Company leases various properties under non-cancellable operating lease agreements. The lease terms are between two and five years, and majority of these lease agreements are renewable at the end of the each lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 JUNE 2020 Birr'000	2019 Birr'000
No later than 1 year		
Later than 1 year and no later than 2 years		
Later than 2 years but not later than 5 years		
Total		

41. Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Company as at 30 JUNE 2020 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

Tafesse, Shisema & Ayalew TMS Plus Certified Audit Partnership

ናይል ኢንሹራንስ ኩባንያ አ.ማ.
Nile Insurance Company S.C.

MARINE

WORKMEN COMPENSATION

MORTGAGE

PERSONAL ACCIDENT

BOND

ENGINEERING

MONEY

HEALTH

MOTOR

FIRE

TRAVEL

LIABILITY

LIFE

all covered
Nile has a complete solution for every insurance need.

25th ANNIVERSARY (1995-2020)

Memorizing Success,
Imagining the Secure Future.

እንኳን ለ25ኛ አመት የኢዩቤልዩ
በዓል በሰላም አደረሰን!

We have it

Head Office

No	Department	Tel. No. Office	Fax No. Office	P.O. Box
1	CEO OFFICE	011-442-57-54	011442-60-08	12836
2	FINANCE & INVESTMENT	011-442-58-36	011-470-75-48	12836
3	RESOURCE MANAGEMENT	011-442-58-13	011-442-57-95	12836
4	MARKETING & BRANCH OPERATIONS	011-442-58-38	011-470-75-48	12836
5	CLAIMS	011-442-58-37	011-470-85-78	12836
6	ENGINEERING	011-442-58-50	011-44206008	12836
7	LEGAL	011-470-77-75	011-442-57-95	12836
8	INFORMATION TECHNOLOGY	011-442-58-42	011-442-57-95	12836
9	INTERNAI AUDIT	011-442-58-54	011-442-60-08	12836
10	PROJECT OFFICE	011-442-58-13	011-442-57-95	12836
11	RE-INSURANCE DIVISION HEAD	011-442-41-20	011-442-57-95	12836

Addis Ababa Branches

No	Branch Name	Tel. No. Office	Fax No. Office	P.O. Box	Address
1	Leghar	011-5536158/011-5514365 011-5514999	011-5514419	12836	Addis Ababa
2	Kirkos	011-5510496/011-5531715	011-5507836	12836	Addis Ababa
3	Life Branch	011-5514329/011-5546749	011-5514592	12836	Addis Ababa
4	Abakoran	011-2779567/011-2779568	011-2779797	12836	Addis Ababa
5	Addis Ketema	011-2756389/011-2772155	011-2772058	12836	Addis Ababa
6	Bekelobet	011-4655289/011-4655262	011-4655308	12836	Addis Ababa
7	Bole	011-5546702/011-5526907	011-5526908	12836	Addis Ababa
8	Gerji	011-6298031/011-6298032	011-6294564	12836	Addis Ababa
9	Gotera	011-4426016/011-4426013	011-4426008	12836	Addis Ababa
10	Megenagna	011-6188464/011-6620681	011-6635607	12836	Addis Ababa
11	Tewodros	011-1559967/011-1552585	011-1559968	12836	Addis Ababa
12	Kality	011-4400963/011-4400962	011-4400961	12836	Addis Ababa
13	CMC	011-6675685/011-6675660	011-6675644	12836	Addis Ababa
14	Ledeta	011-5576230/78	011-5576291	12836	Addis Ababa
15	T/Medhanialem	011-6672665/49	011-6672633	12836	Addis Ababa
16	Addisu Gebya	011 126 8389/011 126 8398	011126 8408	12836	Addis Ababa
17	Lebu	011 471 0911/011 471 0905	011471 0883	12836	Addis Ababa
18	Gofa	011 470 0843/011 470 0846	011 4700826	12836	Addis Ababa
19	Urael	0115620270	0115620046	12836	Addis Ababa
20	Kolfe	0112739839	0112739217	12836	Addis Ababa
21	Arat Kilo	0111261301	0111261304	12836	Addis Ababa
22	Gulelle	0111262982	0111262354	12836	Addis Ababa
23	Beshale	0116-661482	0116-66-14-81	12836	Addis Ababa
24	Comet	0114709651	0114709252	12836	Addis Ababa
25	GurdShola	0116671838	0116671780	12836	Addis Ababa
26	Kazanches	0115585683		12836	Addis Ababa
27	Kazanches-Life branch	0115588270		12836	Addis Ababa

Outlying Branch Address

No	Branch Name	Tel. No. Office	Fax No. Office	P.O. Box
1	Hawassa	046-2201262	046-2204032	529
2	Bahir Dar	058-2201646/058-2203662	058-2201783	999
3	Dessie	033-1120879/ 033-1113731	033-1120878	1076
4	Dire Dawa	025-1110840/025-1120973	025-1111780	419
5	Gondar	058 - 111 9868	058-111 9880	90
6	Mekele	034-4408485	034-440 6499	545
7	Adama	022-1114427/ 022-1114428	022-1120348	358
8	Debre Markos	058-7716907/058-7716873	058-7711921	485
9	Dilla	046 - 331 2497	046-3312498	235
10	Jimma	047-1114577/ 047-1114588	047-1114578	1327
11	Wolayita	046 - 551 4441	046-5514414	448
12	Woldiya	033 - 331 0976	033-3310224	92
13	Butajira	046-1150088	046-1150929	0187
14	Debre Birhan	011 - 637 5100	011-681 4635	281
15	Humera	034-448 0820/034-4981098	058-111 4590	96
16	Mizan Teferi	047-135 0200	047-135 0206	437
17	Nekmte	057- 661 1574	057-661 1553	246
18	Semera	033-366 5349	033-3663619	1076
19	Shire	034-4440858	034-4440837	12836
20	Bishoftu	011-4306467	011-4308435	12836
21	Hosaena	046-1788296	0461787057	12836
22	Injibara	0582271813	0582271725	12836
23	Sekota (Contact Office)	033 - 331 0976	033-3310224	92

የወደፊቱ ዋና መ/ቤት በግንባታ ላይ

th

Nations and Nationalities Square,
Gotera, Nile Insurance S.C.
Tel.: +251-11-442 6000
Fax.: +251-11-442 6008
info@nileinsurancesc.com
Web: nileinsurancesc.com