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Ethiopian Insurance Corporation

Annual Report

2010/11 - 2011/12

VISION

“To be a World Class Insurer by the year, **2025**”

MISSION

“We provide our customers an efficient and reliable insurance service and engage in investment activities by deploying the right mix of expertise, state of the art technology and cost effective strategy. In doing so, we contribute to the sustainable development of the national economy and play a vital role in the industry.”

VALUES

- ❖ **Customer Focused:** We seek first to understand the needs and expectations of our customers and we deliver on them;
- ❖ **Development Partner:** We are partner in the government’s development program;
- ❖ **Pro-Activeness:** We provide professional advice to our customers on loss prevention and control;
- ❖ **Excellence:** We are aware of our performance and we constantly strive to deliver better than the last time in everything we do;
- ❖ **Transparency and Accountability:** We take positive responsibility for the planning, successful execution and delivery of our services;
- ❖ **Team Work:** We help each other to do better and together we support one another to keep the promise we made to our customers;
- ❖ **Professional Ethics:** we value playing a pivotal professional Role aimed at meeting ethical standards in the insurance industry as a whole.
- ❖ **Learning Organization:** We value continual learning and use state of the art technology.

Profile Highlights

- ☞ Ethiopian Insurance Corporation was established by Proclamation No. 68/1975 on the 1st January 1976.
- ☞ Has 61 distribution channels throughout the country.
- ☞ 38 years of experience backed by 1,147 qualified and experienced manpower.
- ☞ Provides Life, Property and Liability Insurance covers.
- ☞ Strong and reliable financial standing with lion market share.
- ☞ Longstanding and strong affiliation with many international insurance organizations and associations.
- ☞ Maintained a comprehensive range of outward reinsurance contract, and accepting inward reinsurance (including Co- insurance) business on selective basis.
- ☞ Has been also engaged in different investment areas.

Table of Contents

| | Page |
|-----------------------------------------------|-------|
| Profile Highlight | 2 |
| Members of Board of Management | 3 |
| Members of Top Management | 4 |
| CEO's Message | 5-6 |
| Management Report for the Year 2011/2012 | 7 |
| Gross Written Premium | 7 |
| Net Earned Premium | 7 |
| Net Claims Incurred | 8 |
| Loss Ratio | 8 |
| Underwriting Surplus | 8 |
| Investment and Other Income | 9 |
| Expense Ratio | 9 |
| Profit | 9 |
| Total Assets | 10 |
| Capital, Reserves and Insurance Funds | 10 |
| Performance Highlights of the Past Five Years | 10 |
| Corporate Performance | 12 |
| Striving to Expand Customer Base | 12 |
| Reaching to Front Doors of Clients | 12 |
| We Change Before the Industry Does | 13 |
| Revenue Account (Direct Business) | 14 |
| Auditors' Report | 15 |
| Financial Statements | 16-23 |
| Notes to the Financial Statements | 24-40 |

MEMBERS OF EIC's BOARD OF MANAGEMENT



H.E Muktar Kedir
Board Chairperson



H.E Daba Debele
Board Member



H.E Getachew Reda
Board Member



H.E W/ro Frenesh Mekuria
Board Member



H.E Getachew Mengiste
Board Member



Ato Degu Lakew
Board Member



Ato Kelbessa Kara
Board Member



Ato Aseged G/Medhin
Board Member



Ato Kassahun H/Mariam
Board Member

MEMBERS OF TOP MANAGEMENT



*Yewondwossen Etella
Chief Executive Officer (CEO)*



*Misrak Alemayehu
Deputy CEO; Business
Development & Risk Management*



*Solomon Alemayehu
Deputy CEO
Resource Management*



*Kahase Gebremichael
Deputy CEO
Long-Term Insurance*



*Netsanet Lemessa
Deputy CEO;
General Insurance*



*Shiferaw Ruffe
Deputy CEO
Finance & Investment*



*Siray Nigussie
Director
Internal Audit*



*Kidanemariam
Director; Information Technology Service Management*

CEO's MESSAGE

**Looking ahead – Guaranteeing Reliable
Insurance Service**



Ato Yewondwossen Eteffa, (CEO)

On behalf of the management and staff, it gives me an immense pleasure when I put forward the annual report of Ethiopian Insurance Corporation (EIC) for the landmark year ended June 30, 2012.

According to Swiss Re's 2012 report on world insurance, the economic environment and financial markets in 2012 were challenging for insurers, following the slow recovery of the world economy especially in most advanced insurance markets.

However, some emerging markets have showed a relatively positive growth averaging 6.8% relative to the 2011 performance.

Despite this gloomy situation, the insurance sector in Ethiopia, working in an economy registering a double digit growth and huge untapped potential for insurance products, has moved well ahead registering a 54.5% growth which largely is attributed to the implementation of the compulsory third party motor insurance policy and coverage for mega projects resulting from the massive economic growth.

As to the Ethiopian Insurance Corporation, we are pleased to announce that the year has been another successful year in making a huge stride forward meeting its strategic and short-term goals in both its operational activity of insurance delivery and non operational activities supporting the insurance service delivery process and long-term strategic goals. In the period under review, the Corporation has registered a similar growth rate of 54.5% commanding a 41.1% of the market share in the Ethiopian insurance industry. We can proudly confirm that with the right strategic guidelines and timely executions of the plans, Ethiopian Insurance Corporation would overcome the hurdles in the coming periods.

In the 2012 fiscal year, EIC has surpassed its operational targets and managed to underwrite a Gross written Premium of Birr 1.6 Billion of which 90.5% being from the general insurance class of business which is by far better than both the previous year's performance and the plan for the year. The gross written premium grew by 54.4% or by Birr 579.6 Million from the previous year performance as stated earlier while surpassing the projection for the year by 24.1% or Birr 318.0 million. One of our strategic goals is to

increase the gross written premium of the Corporation generated from the private sector of the economy. In this regard, the performance of the 2012 fiscal year has reached Birr 703.8 million, which is 42.9% of the total direct gross written premium of the Corporation. The result is better than both previous fiscal year's performance and the plan for the period under review by 21.3% and 69.6% respectively. In 2012, the corporation was able to collect a total of Birr 1.5 billion from its sales in credit as well as cash sales. This amount is more than what was planned for which is Birr 1.3 billion and grew from the past year's performance by 41.4%.

As a development partner of the nation and in our endeavor to make economic activities carried out sustainable and sound, we provide protection for mega risks of the nation and covered risks with a total sum assured of Birr 492.3 billion were covered during the period under review. We were also successfully able to carry out our obligations in meeting the needs of customers who faced the unfortunate risks they were covered against and paid a total of Birr 473.7 million for claims settlement grew from past year by 31.5%.

By successfully carrying out our operational goals for the year, we were able to earn a Birr 264.7 million profit before tax for the fiscal year ended 30 June 2012. This profit exceeds both the projection for the plan year and from our previous year's performance by 30.6% and 83.5% respectively.

CONCLUDING REMARK

We would like to thank our ever supportive clients, the many individuals and institutions who have continued to keep faith on us and giving us the privilege to serve them. As always, we will continue to stand behind you. We believe the actions we have taken so far to strengthen our position reflects the long-term commitment we make to you. We are ever grateful to all regulatory bodies for their continued support and guidance. Likewise, we are grateful for the dedicated and thoughtful work of our employees. We are also deeply indebted to our honorable Board of Directors who have been supporting and guiding us with prudent knowledge, experience and vision.

Finally, we will remain fully engaged in the coming strategic years and continue to do all we can to reward your trust. We believe that EIC has excellent opportunities into the future. There is a wealth of market opportunities. We have resources and motivated employees, and our approach is targeted and long term. There should be good opportunities for developing EIC into bigger and better while successfully improving profitability. EIC would continue as a strategic underwriter of the nation.

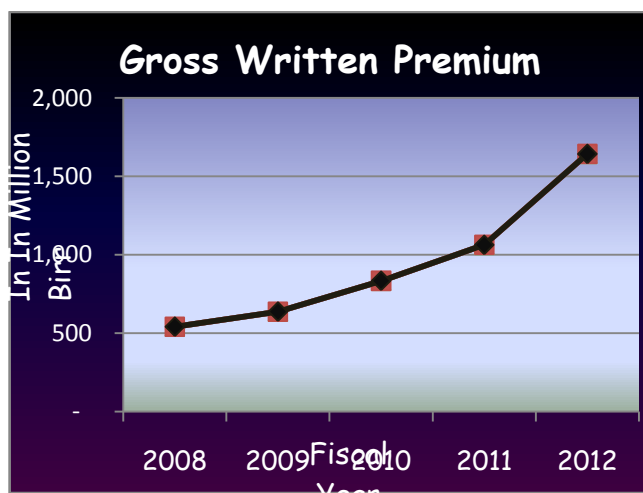
Sincerely,

Yewondwossen Eteffa (Ato)
CEO, Ethiopian Insurance Corporation

MANAGEMENT REPORT

Gross Written Premium

The Corporation has sustained its growth in gross written premium during the periods under review. In both 2010/11 and 2011/12, it has registered higher amounts of gross written premium both from the targets and prior year performances. In 2010/11 fiscal year, the Corporation has registered a gross written premium of Birr 1.0 billion which is higher than 2009/10 fiscal year's actual and the projection as well by 27.5% and 11.1% respectively. In the following year, the gross written premium has reached Birr 1.6 billion growing by 54.5% or with an increase in Birr 579.6 million.



Out of the total gross written premium, the corporation was able to retain 88.1% and 66.5% in the 2010/11 and 2011/12 fiscal years respectively while reinsuring the remaining portions.

The Corporation's market share from the industry in terms of gross written premium has reached 41.1% in 2010/11 and remained the same in 2011/12 as well.

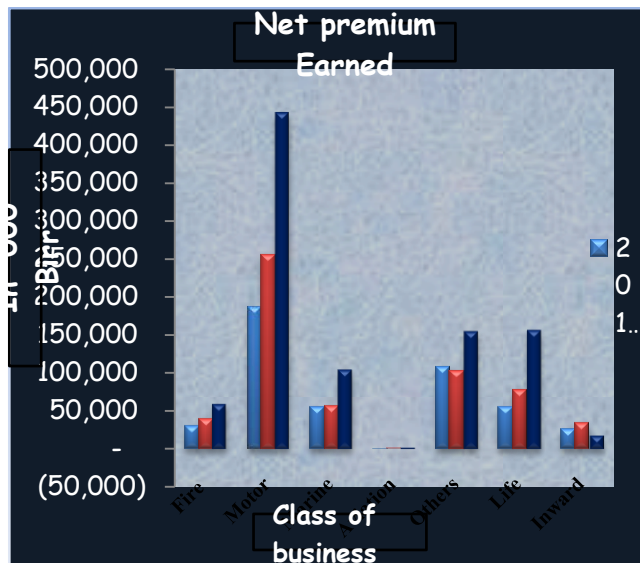
Out of the registered gross written premium and those which were considered as a doubtful debt at the beginning of the fiscal year, in 2010/11, the Corporation was able to collect Birr 1.0 billion which is 84.0% of the total collectable amount and is higher than the projected amount by Birr 10.2 million.

On top of the gross written premium generated from the direct Ethiopian insurance market, the Corporation also has generated a considerable amount of premium income from inward business using its reinsurance arrangements. In 2011/12 the Corporation has underwritten Birr 18.0 million from international markets and in the prior fiscal year it was able to underwrite a premium of Birr 33.3 million from such business.

Net Earned Premium

During 2010/11, the net earned premium of EIC was Birr 561.4 million registering a 24.0% growth from the previous fiscal year. In 2011/12 the net earned premium has reached Birr 935.4 million showing a remarkable growth rate of 66.6% which is

largely attributed to a growth in the motor class of business.



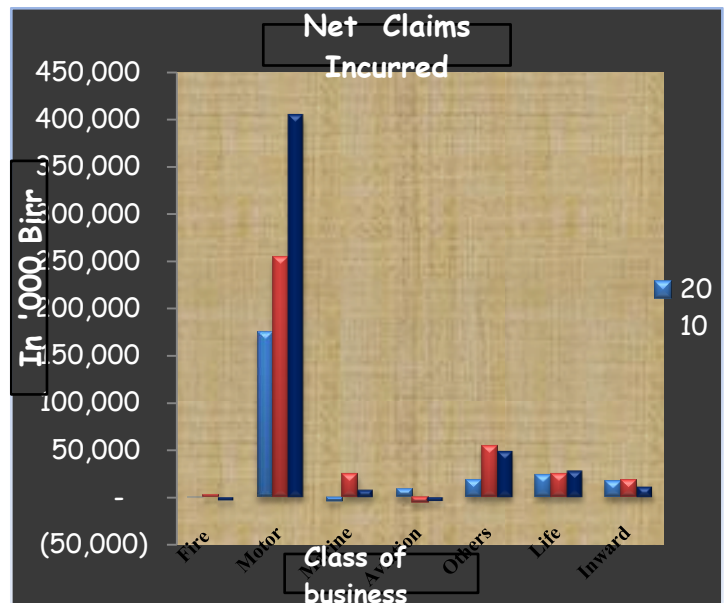
Net Claims Incurred

The claims incurred during 2011/12 was worth of Birr 493.4 million which is higher than the 2010/11 amount Birr 374.1 million by 31.9%. in both 2010/11 and 2011/12, the amount of claims incurred was significantly growing because of the rise in the amount of claims incurred during the period for motor insurance class of business. During the periods, the claims incurred amount of the motor class of business has increased by 45.7% and 58.8% respectively

Loss Ratio

The loss ratio, the ratio of net claims incurred to net premium earned showing what percentage of the net earned premium of the period is spent on to settle for claims incurred within the same period

is 67% for 2010/11 having a 14% increment from its preceding year.

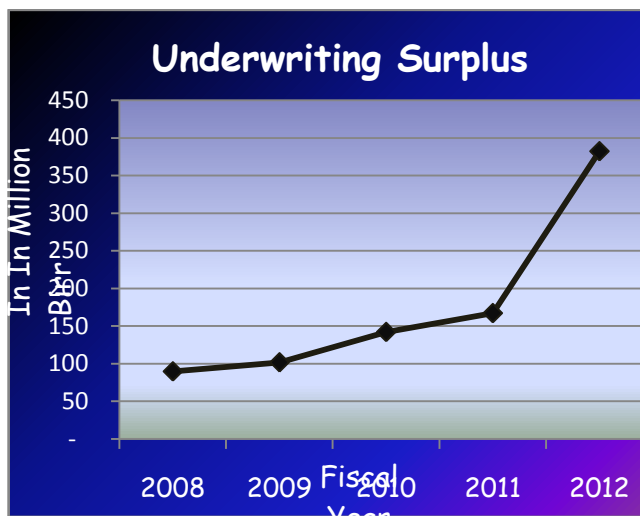


The high loss ratio for the period is attributed to an increase in both net premium earned and net claims incurred in motor class of business which results in 100% loss ratio showing the unprofitability of the motor class of business. In 2011/12, the loss ratio of the corporation was 53% which is much lower than the figure in 2010/11 as a result of a more than 50% increase in the net earned premium of the engineering class of business while the loss ratio of the motor class of business has remained significantly high at 92% for the period.

Underwriting Surplus

During the periods under review, the Corporation has made profits from operating activities (Underwriting surplus) in insurance service delivery. In 2010/11 the

corporation has registered underwriting surplus of Birr 167.3 million growing from previous fiscal year by 17.6% and during 2011/12, it was even higher than before exceptionally registering 128.7% growth rate to reach at Birr 382.6 million exceeding even the projection by Birr 135.3 million or 54.7%.



Investment and Other Income

Apart from its insurance service delivery, the Corporation is engaged in various investment activities as it is stated in its mandate of establishment. As a result, in 2010/11 EIC was able to register Birr 85.5 million from various investment areas including fixed time deposits, shares and rent incomes. This figure is higher than both from the previous year's performance and the projection by 37.5% and 38.0% respectively. In 2011/12 fiscal year, EIC was able to gain Birr 81.1 million from such

activities out of which 70.5% is generated from interest income,

13.0% from rent income, and 10.0% from dividend income in various shares and the rest from various areas of investment.

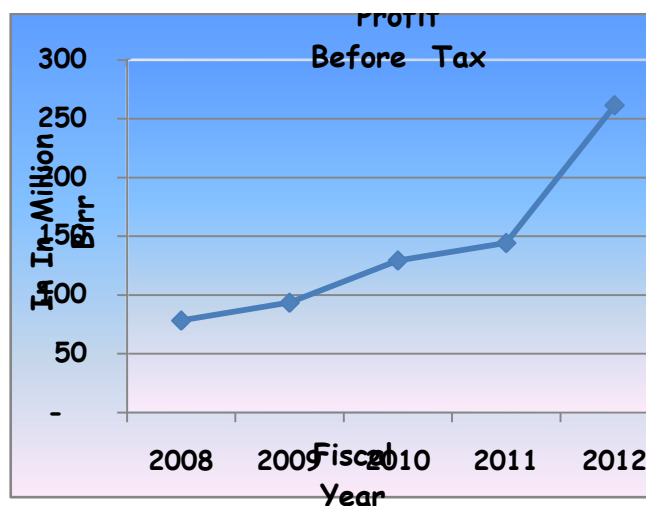
Expense Ratio

The ratio of general and administrative expenses in relation to the net earned premium within similar period is 24.6% and 26.2% in 2010/11 and 2011/12 fiscal years respectively. The expense ratios are well below the standard expense ratio set by the NBE i.e. a maximum of 35% while being in a relatively hovering around standard set by EIC which is 25% (both including the commission expense paid for intermediaries).

Profit

As a result of its operational and non operational activities, the Corporation was able to register a gross profit of Birr 144.2 and 261.3 million in the consecutive reporting fiscal years.

The 2010/11 fiscal year's profit of Birr 144.2 million has grown from 2009/10 fiscal year's gross profit by 11.5% while the 2011/12 fiscal years profit of Birr 261.3 million was with an exceptional growth of 81.2% than the previous fiscal year.



Performance Highlights of the past five years

| In million Birr | | | | | |
|-----------------------------|-------|-------|-------|---------|---------|
| Particulars | 2008 | 2009 | 2010 | 2011 | 2012 |
| Gross Written Premium | 541.2 | 637.2 | 833.7 | 1,062.7 | 1,642.2 |
| Underwriting Surplus | 89.8 | 101.9 | 142.2 | 167.3 | 382.6 |
| Investment and Other Income | 48.0 | 59.8 | 62.3 | 85.6 | 81.1 |
| General and Admin Expense | 59.5 | 68.2 | 75.2 | 108.7 | 202.3 |
| Profit Before Tax | 78.2 | 93.4 | 129.3 | 144.2 | 261.3 |
| Profit After Tax | 63.6 | 71.2 | 100.3 | 112.1 | 167.0 |

Total Assets

In 2010/11, the total asset of the Corporation was Birr 2.2 billion which is higher than the previous fiscal year by 35.7% while in 2011/12 this amount grew by Birr 395.9 million or 17.8% reaching at a total of Birr 2.6 billion as its total asset.

Capital, Reserves and

Insurance Funds

The sum of capital, reserves and insurance funds during 2010/11 totaled Birr 1.2 billion and increased by Birr 180.9 million or 17.6 % over the amount of 2009/2010.

In the following year, 2011/12 this totaled sum has reached over Birr 1.6 billion growing by Birr 402.4 million or 33.3% over the amount of 2010/2011.

EIC is a Strategic Underwriter of the Nation



Ethiopian Grand Renaissance Dam-
One of the Mega Projects covered by
Ethiopian Insurance Corporation

Ashegoda Windmill Project-One of the Mega
Projects covered by Ethiopian Insurance
Corporation



We provide due focus for building the capacity of our management members

CORPORATE PERFORMANCE

STRIVING TO EXPAND CUSTOMER BASE

In fulfilling its purpose of establishment, to provide insurance service to the public at large, and also spread the risk by increasing the number of policyholders, and hence become more profitable, EIC has set a strategic goal to increase the number of policy issued by the corporation. To this end during this period, the Corporation's performance was exceptional in number of policy issued both in terms of increasing the number of new polices and the number of renewed policies as well.

On average, the Corporation has registered a growth rate of 181.5% in terms of the total number of policies to reach at a total of 296,602 policies at the end of 2011/12 fiscal year from 81,271 policies at the end of the 2009/10 fiscal year.



Discussion with Customers to serve the best of their insurance needs

REACHING TO FRONT DOORS OF CLIENTS

To increase accessibility of the Corporation and compete in the industry, EIC constantly improves its distribution channels both in number and in quality of system delivery. During the periods under review, the total number of branches in the Corporation has reached 60 including the ones inaugurated in the 2011/12 fiscal year which are Debre Markos, Wolkite, Wolita Sodo, and Woldiya.

Additionally, to exploit new market through distribution channels development, more than 120 new sales forces have been trained and signed an agreement.



Sales Agents' training to increase the accessibility of our service

WE CHANGE BEFORE THE INDUSTRY DOES

The change initiatives that are expected to transform the Corporation and also move it one step closer to its vision to become a world class insurer have been relentlessly undertaken during the reporting periods. The Corporation has been carrying out these initiatives in two main areas.

The business process reengineering (BPR) study conducted by the Corporation with the aim of bringing radical shift in the process of service delivery and hence zenith in customer satisfaction was fully completed and put into operations starting from 1st April 2011. As a result, the Corporation was able to see some major shifts in service delivery and hence customer satisfaction and is still working on some areas where there is a need for improvement and adjustment for further results.

It was also during the reporting periods that EIC has fully implemented the insurance and accounting software packages that are the first in kind for the insurance industry in the Country. The insurance package (both INSIS Life, and INSIS Non-life) have been fully operational (put into operation) starting from July 1, 2011 and broadband Network installation, configuration and deployment of Insurance & Accounting Package has been made in all districts and branches. The necessary training on the insurance and financial management system has been given to more than 200 end users drawn from each district and branch offices. In addition, those who have IT background and well acquainted with the system have been selected and assigned for certain period in each district offices found in Addis Ababa and out of Addis Ababa to assist the staffs in using the system. Various erroneous data captured into the system by the end users of each district and branches have been traced and continuous feedback have been given to each branch and district offices in order to fix the erroneous data timely. So as to use of better technology, all the new Servers and some of the old Servers are installed & upgraded.

Revenue Account**/Direct Business/**

| | In '000 | | |
|----------------------------------|------------------|----------------|----------------|
| Non-Life | 2011/12 | 2010/11 | 2009/10 |
| Premium Written Less Reinsurance | 935,793 | 542,563 | 395,848 |
| Premium Earned (Net) | 761,217 | 451,927 | 374,472 |
| Commission Earned | 150,920 | 100,854 | 81,005 |
| Less - Claims Incurred (Net) | 257,669 | 256,141 | 197,525 |
| - Commission Paid | 18,847 | 12,583 | 11,219 |
| - Expense | 202, 297 | 108,696 | 75,172 |
| Difference Technical Reserves | (26,628) | (3,554) | (72,224) |
| Underwriting Result (Net) | 1,598,042 | 721,478 | 639,633 |

| | In '000 | | |
|----------------------------------|----------------|----------------|----------------|
| Life | 2011/12 | 2010/11 | 2009/10 |
| Premium Written Less Reinsurance | 156,147 | 76,128 | 53,825 |
| Premium Earned | 156,147 | 76,128 | 53,825 |
| Commission Earned | 252 | 188 | 240 |
| Less - Claims Incurred (Net) | 28,213 | 22,267 | 23,607 |
| - Commission Paid | 4,520 | 4,018 | 2,720 |
| - Policy holders Dividend | - | - | 0.2 |
| - Technical Outgo | 102 | 191 | 142 |
| - Difference in Life Fund | 112,446 | 57,998 | 37,126 |
| Underwriting Result (Net) | 167,265 | 67,970 | 44,295 |

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AUDIT SERVICES CORPORATION

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P.O.Box } Tel. } FAX NO. }

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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF ETHIOPIAN INSURANCE CORPORATION

We have audited the accompanying financial statements of Ethiopian Insurance Corporation, which comprise the Statement of Financial Position as at 30 June 2012, and Statement of Comprehensive Income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Managements' Responsibility for the Financial Statements

The Corporation's Managing Director is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of Ethiopian Insurance Corporation as at 30 June 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Code of Ethiopia of 1960.

Audit Services Corporation

12 February 2014

ETHIOPIAN INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011 Birr</u> |
|---------------------------------------------|--------------|----------------------|----------------------|----------------------|
| <u>ASSETS EMPLOYED</u> | | | | |
| PROPERTY AND EQUIPMENT | 1(d),2 | | 111,213,925 | 112,789,457 |
| INVESTMENTS | 3 | | 213,882,752 | 99,711,823 |
| STATUTORY DEPOSIT | 4 | | 9,151,056 | 9,151,056 |
| <u>CURRENT ASSETS</u> | | | | |
| Stock | 1 (e), 5 | 5,669,522 | | 3,023,898 |
| Debtors | 1(f),6 | 321,799,120 | | 203,527,008 |
| Due from reinsurers | 7 | 16,776,716 | | 21,078,687 |
| Due from ceding companies | 7 | 53,257,217 | | 51,116,434 |
| Treasury bills | 8 | 106,538,344 | | 106,538,344 |
| Fixed time deposits | | 990,978,055 | | 807,069,956 |
| Cash and bank balances | | <u>378,952,533</u> | | <u>234,339,098</u> |
| | | <u>1,873,971,507</u> | | <u>1,426,693,425</u> |
| <u>CURRENT LIABILITIES</u> | | | | |
| Outstanding claims | 1(g) | 336,133,051 | | 237,951,839 |
| Creditors | | 62,550,855 | | 61,395,963 |
| Due to reinsurers | | 98,938,561 | | 103,697,503 |
| Due to ceding companies | | 25,677,725 | | 23,709,012 |
| Income tax | 9 | <u>74,738,854</u> | | <u>13,779,930</u> |
| | | <u>598,039,046</u> | | <u>440,534,247</u> |
| | | | <u>1,275,932,461</u> | <u>986,159,178</u> |
| <u>NET CURRENT ASSETS</u> | | | <u>1,610,180,194</u> | <u>1,207,811,514</u> |
| <u>FINANCED BY</u> | | | | |
| CAPITAL – Authorized and paid up | 10 | | 61,007,038 | 61,007,038 |
| LEGAL RESERVE | 11 | | 61,007,038 | 61,007,038 |
| GENERAL RESERVE | 12 | | 12,926,656 | 12,926,656 |
| ACCUMULATED PROFIT | | | <u>322,482,544</u> | <u>235,270,489</u> |
| | | | 457,423,276 | 370,211,221 |
| DEFERRED TAX LIABILITY | 1(h),13 | | 2,644,754 | 1,059,193 |
| <u>INSURANCE FUNDS</u> | | | | |
| Provision for unexpired risks | 1(i) (i) | 453,101,087 | | 278,495,855 |
| Other technical provisions | 1(i) (ii) | 248,185,692 | | 221,557,914 |
| Inward business reserve | 1(i) (iii) | 32,224,054 | | 32,332,463 |
| Life insurance, provident and pension funds | 1(i) (iv),15 | <u>416,601,331</u> | | <u>304,154,868</u> |
| | | | <u>1,150,112,164</u> | <u>836,541,100</u> |
| | | | <u>1,610,180,194</u> | <u>1,207,811,514</u> |

The notes on pages 24 to 40 form an integral part of these financial statements.

ETHIOPIAN INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AND APPROPRIATION ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|------------------------------------------|--------------|---------------------|---------------------|----------------------------|
| NET PROFIT FOR THE YEAR- NON-LIFE | | | 243,909,099 | 144,228,534 |
| PROFIT FROM LIFE BUSINESS | | | <u>17,414,379</u> | <u>-</u> |
| PROFIT BEFORE TAXATION | | | 261,323,478 | 144,228,534 |
| TAX EXPENSE | 21 | | <u>(94,281,983)</u> | <u>(32,083,965)</u> |
| PROFIT AFTER TAXATION | | | 167,041,495 | 112,144,569 |
| APPROPRIATIONS | | | | |
| Legal reserve | | | <u>-</u> | <u>-</u> |
| | | | 167,041,495 | 112,144,569 |
| BALANCE BROUGHT FORWARD | | 235,270,489 | | 214,650,090 |
| Payment of state dividend of Prior years | | <u>(79,829,440)</u> | | <u>(91,524,170)</u> |
| BALANCE CARRIED FORWARD | | | <u>155,441,049</u> | <u>123,125,920</u> |
| | | | <u>322,482,544</u> | <u>235,270,489</u> |

The notes on pages 24 to 40 form an integral part of these financial statements.

ETHIOPIAN INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

| | <u>Assigned Capital Birr</u> | <u>Legal Reserve Birr</u> | <u>General Reserve Birr</u> | <u>Accumulated profit Birr</u> | <u>Total equity Birr</u> |
|---------------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------------|----------------------------------|
| Balance at 30 June 2010 | 61,007,038 | 61,007,038 | 12,926,656 | 214,650,090 | 349,590,822 |
| Net profit for the year | - | - | - | 112,144,569 | 112,144,569 |
| Payment of state dividend of Prior years | - | - | - | (91,524,170) | (91,524,170) |
| Balance at 30 June 2011 | 61,007,038 | 61,007,038 | 12,926,656 | 235,270,489 | 370,211,221 |
| Net profit for the year | - | - | - | 167,041,495 | 167,041,495 |
| Payment of state dividend of Prior years | - | - | - | (79,829,440) | (79,829,440) |
| Balance at 30 June 2012 | <u>61,007,038</u> | <u>61,007,038</u> | <u>12,926,656</u> | <u>322,482,544</u> | <u>457,423,276</u> |

The notes on pages 24 to 40 form an integral part of these financial statements.

ETHIOPIAN INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|----------------------------------------------------|--------------|---------------------|---------------------|----------------------------|
| Cash flow from operating activities | 22 | | 505,178,630 | 192,984,610 |
| Cash flow from investing activities | | | | |
| Payments for fixed time deposits | | (183,908,099) | | (32,917,990) |
| Payments for acquisition of property and equipment | | (16,552,158) | | (49,261,043) |
| Investment on bond | | (100,000,000) | | - |
| Loans collected | | 7,200,732 | | 7,085,271 |
| New loans granted | | (21,371,663) | | (19,707,000) |
| Payments for acquisition of shares | | <u>-</u> | | <u>(17,356,082)</u> |
| Net cash outflow from investing activities | | | (314,631,188) | (112,156,844) |
| Cash flow from financing activities | | | | |
| Interest and rent received | | 56,664,434 | | 45,947,758 |
| Interest paid | | (83,323) | | (82,489) |
| Dividend received | | 9,051,819 | | 5,551,295 |
| State dividend paid | | (79,829,440) | | (91,524,170) |
| Profit tax paid | | <u>(31,737,497)</u> | | <u>(36,701,409)</u> |
| Net cash outflow from financing activities | | | <u>(45,934,007)</u> | <u>(76,809,015)</u> |
| Increase in cash and cash equivalents | 23 | | 144,613,435 | 4,018,751 |
| Cash and cash equivalents at 30 June 2011 | 23 | | <u>234,339,098</u> | <u>230,320,347</u> |
| Cash and cash equivalents at 30 June 2012 | 23 | | <u>378,952,533</u> | <u>234,339,098</u> |

The notes on pages 24 to 40 form an integral part of these financial statements.

ETHIOPIAN INSURANCE CORPORATION
NON-LIFE BUSINESS
STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|----------------------------------|--------------|----------------------|----------------------|----------------------------|
| <u>ASSETS EMPLOYED</u> | | | | |
| PROPERTY AND EQUIPMENT | 1(d),2 | | 101,992,153 | 111,075,684 |
| INVESTMENTS | 3 | | 200,388,243 | 86,575,574 |
| STATUTORY DEPOSIT | 4 | | 9,151,056 | 9,151,056 |
| CURRENT ASSETS | | | | |
| Stock | 1(e),5 | 5,669,522 | | 3,023,898 |
| Debtors | 1(f),6 | 310,952,248 | | 194,740,363 |
| Due from reinsurers | 7 | 16,776,716 | | 21,078,687 |
| Due from ceding companies | 7 | 53,257,217 | | 51,116,434 |
| Treasury bills | 8 | 80,623,944 | | 80,623,944 |
| Current account with Life Branch | | 6,763,644 | | 17,705,229 |
| Fixed time deposits | | 674,097,585 | | 520,337,506 |
| Cash and bank balances | | <u>293,827,055</u> | | <u>221,405,517</u> |
| | | <u>1,441,967,931</u> | | <u>1,110,031,578</u> |
| CURRENT LIABILITIES | | | | |
| Outstanding claims | 1(g) | 333,120,602 | | 234,959,521 |
| Creditors | | 36,444,021 | | 45,429,974 |
| Due to reinsurers | | 93,939,318 | | 99,298,809 |
| Due to ceding companies | | 25,677,725 | | 23,709,012 |
| Income tax | 9 | <u>74,738,854</u> | | <u>13,779,930</u> |
| NET CURRENT ASSETS | | <u>563,920,520</u> | | <u>417,177,246</u> |
| | | | <u>878,047,411</u> | <u>692,854,332</u> |
| | | | <u>1,189,578,863</u> | <u>899,656,646</u> |
| <u>FINANCED BY</u> | | | | |
| CAPITAL – Authorized and paid up | 10 | | 57,007,038 | 57,007,038 |
| LEGAL RESERVE | 11 | | 61,007,038 | 61,007,038 |
| GENERAL RESERVE | 12 | | 12,926,656 | 12,926,656 |
| ACCUMULATED PROFIT | | | <u>322,482,544</u> | <u>235,270,489</u> |
| | | | <u>453,423,276</u> | <u>366,211,221</u> |
| DEFERRED TAX LIABILITY | 1(h),13 | | 2,644,754 | 1,059,193 |
| INSURANCE FUNDS | | | | |
| Provision for unexpired risks | 1(i) (i) | 453,101,087 | | 278,495,855 |
| Other technical provisions | 1(i) (ii) | 248,185,692 | | 221,557,914 |
| Inward business reserve | 1(i) (iii) | <u>32,224,054</u> | | <u>32,332,463</u> |
| | | | <u>733,510,833</u> | <u>532,386,232</u> |
| | | | <u>1,189,578,863</u> | <u>899,656,646</u> |

The notes on pages 24 to 40 form an integral part of these financial statements

ETHIOPIAN INSURANCE CORPORATION
NON-LIFE BUSINESS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|------------------------------|--------------|----------------|--------------------|----------------------------|
| INCOME | | | | |
| Profit from underwriting | 16 | | 371,444,514 | 175,458,577 |
| Investment income | 17 | | 46,824,076 | 56,930,765 |
| Rent | | | 10,116,348 | 9,867,579 |
| Sundry income | 18 | | <u>7,523,864</u> | <u>4,015,426</u> |
| | | | 435,908,802 | 246,272,347 |
| EXPENSES | | | | |
| Administrative and general | 19 | 84,789,887 | | 77,289,267 |
| Financial charges | 20 | 352,966 | | 727,922 |
| Depreciation | | 11,464,057 | | 8,521,981 |
| Provision for doubtful debts | | 95,094,293 | | 15,144,543 |
| Investment written off | | - | | 6,000.00 |
| Board fees | | 137,500 | | 193,100 |
| Audit fee and expenses | | <u>161,000</u> | | <u>161,000</u> |
| | | | <u>191,999,703</u> | <u>102,043,813</u> |
| NET PROFIT | | | <u>243,909,099</u> | <u>144,228,534</u> |

The notes on pages 24 to 40 form an integral part of these financial statements

ETHIOPIAN INSURANCE CORPORATION
LIFE BUSINESS
STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|-----------------------------------------------|--------------|--------------------|--------------------|----------------------------|
| <u>ASSETS EMPLOYED</u> | | | | |
| PROPERTY AND EQUIPMENT | 1(d),2 | | 9,221,772 | 1,713,773 |
| INVESTMENTS | 3 | | 13,494,509 | 13,136,249 |
| CURRENT ASSETS | | | | |
| Debtors | 1(f),6 | 10,846,872 | | 8,786,645 |
| Treasury bills | 8 | 25,914,400 | | 25,914,400 |
| Fixed deposits | | 316,880,470 | | 286,732,450 |
| Cash and bank balances | | <u>85,125,478</u> | | <u>12,933,581</u> |
| | | <u>438,767,220</u> | | <u>334,367,076</u> |
| CURRENT LIABILITIES | | | | |
| Outstanding claims (net) | 1(g) | 3,012,449 | | 2,992,318 |
| Creditors | | 26,106,834 | | 15,965,989 |
| Due to reinsures | | 4,999,243 | | 4,398,694 |
| Current account with non-life branches | | <u>6,763,644</u> | | <u>17,705,229</u> |
| | | <u>40,882,170</u> | | <u>41,062,230</u> |
| NET CURRENT ASSETS | | | <u>397,885,050</u> | <u>293,304,846</u> |
| | | | <u>420,601,331</u> | <u>308,154,868</u> |
| <u>FINANCED BY</u> | | | | |
| CAPITAL | 10 | | 4,000,000 | 4,000,000 |
| INSURANCE, PROVIDENT AND PENSION FUNDS | 1(i) (iv),15 | | 416,601,331 | 304,154,868 |
| | | | <u>420,601,331</u> | <u>308,154,868</u> |

The notes on pages 24 to 40 form an integral part of these financial statements

ETHIOPIAN INSURANCE CORPORATION
LIFE BUSINESS
REVENUE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2012

| | <u>Notes</u> | <u>Birr</u> | <u>Birr</u> | <u>2011 Birr</u> |
|-----------------------------------------------------|--------------|------------------|----------------------------------------|----------------------------------|
| LIFE INSURANCE FUND AT 30 JUNE 2011 | | 304,154,868 | | 246,156,815 |
| PROVISION FOR CLAIMS OUTSTANDING AT 30 JUNE 2011 | | <u>2,992,318</u> | 307,147,186 | <u>3,745,324</u> 249,902,139 |
| ADD: NET PREMIUM COLLECTED | | 156,044,326 | | 75,937,013 |
| COMMISSION | | <u>251,785</u> | | <u>187,882</u> |
| | | | <u>156,296,111</u> 463,443,297 | <u>76,124,895</u> 326,027,034 |
| LESS: LIFE INSURANCE FUND AT 30 JUNE 2012 | 15 | 416,601,331 | | 304,154,868 |
| PROVISION FOR CLAIMS OUTSTANDING AT 30 JUNE 2012 | | 3,012,449 | | 2,992,318 |
| NET CLAIMS | | 28,193,319 | | 23,019,560 |
| COMMISSION | | <u>4,519,784</u> | | <u>4,017,698</u> |
| | | | <u>452,326,883</u> | <u>334,184,444</u> |
| GROSS OPERATING LOSS | | | 11,116,414 | (8,157,410) |
| OTHER INCOME | | | | |
| Interest | 17 | 16,542,743 | | 14,795,744 |
| Sundry | 18 | <u>52,052</u> | | <u>13,382</u> |
| | | | <u>16,594,795</u> 27,711,209 | <u>14,809,126</u> 6,651,716 |
| EXPENSES | | | | |
| Administrative and general | 19 | 9,168,468 | | 6,422,036 |
| Financial charges | 20 | 14,673 | | 16,053 |
| Depreciation | | 1,113,116 | | 213,627 |
| Provision for doubtful debts | | <u>573</u> | | <u>-</u> |
| Net Profit | | | <u>10,296,830</u> <u>17,414,379</u> | <u>6,651,716</u> <u>NIL</u> |

The notes on pages 24 to 40 form an integral part of these financial statements

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES

The major accounting policies adopted by the Corporation, which are consistent with those applied in the preceding year, are stated below.

a) Basis of preparation

- i) These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.**
- ii) All amounts are expressed in Birr.**

b) Consolidation principles

- i) The consolidated financial statements incorporate the financial statements of all the districts and branches of the Corporation categorized as life business and non-life business for the year ended 30 June 2012.**
- ii) All inter-Corporation balances and transactions are eliminated on consolidation.**

c) Valuation of assets and liabilities

- i) Foreign currency transactions are translated into Birr at the exchange rate prevailing at the date of the transaction.**
- ii) Assets and liabilities denominated in foreign currencies are translated into Birr at the exchange rates ruling at the date of the statement of financial position.**
- iii) All major financial assets are measured at fair value.**

d) Property and equipment

Buildings, motor vehicles, equipment and furniture are stated at cost or valuation less accumulated depreciation. Depreciation is charged on the straight line basis at the following rates per annum.

| | <u>%</u> |
|-------------------------|----------|
| Buildings | 5 |
| Furniture and equipment | 10 |
| Computers | 10 |
| Motor vehicles | 20 |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Stock

Stock is valued at cost using First In First Out (FIFO) method.

f) The provision for doubtful debts is based on an assessment of each specific debt and also is in line with the Directives No. SIB/26/2004 of the National Bank of Ethiopia. The percentages applied on the outstanding trade debtor balances are as follows:

| <u>Days in arrears</u> | <u>%</u> |
|------------------------|----------|
| 91 - 180 | 25 |
| 181 - 360 | 50 |
| Over 360 | 75 |

Furthermore, if a debt is over two years old, it is fully provided for.

g) Outstanding claims (net)

This is a provision for the net estimated cost of incidents notified on or before the end of the financial period. Any difference between the estimated cost and subsequent settlement is written off to the revenue account of the period in which settlement is made.

h) Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

i) Insurance fund

i) The provision for unexpired risks is calculated as follows

- Marine, aviation, motor - BSG and personal accident – BSG - 100% of the total premiums written during the twelve months ending at the date of the statement of financial position.
- Other insurance - on the basis of the one twenty- fourth method.

ii) Other technical provisions are made to cover the costs of claims incurred but not reported (IBNR) and omissions or understatements of the estimated costs of claims notified on or before the date of the statement of financial position. These provisions are calculated at 10% of the total net earned premium during the twelve months ending on the statement of financial position date. Moreover, the following additional provisions are made:-

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

| | |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Motor | Birr 12,000,000 for public emergency services, police and military forces vehicles and motor road risks for contractors plant and machinery as the reinsurance cover is inadequate; |
| Motor- BSG | Birr 15,253,076 since there is no reinsurance treaty for this class of business and due to the increase in claims for damages in recent years; |
| Fire, Earthquake & flood | Birr 47,272,234 due to inadequate reinsurance cover; |
| Marine | Birr 45,632,622 due to the increase in the Corporation's retention capacity and inadequate reinsurance cover; |
| Aviation | USD 350,000 (Birr 6,329,785); |
| Bond | Birr 27,196,956 because of inadequate reinsurance cover and cover is provided by the Corporation without collateral; |
| Professional indemnity | Birr 11,750,508 because of inadequate reinsurance cover and cover is provided by the Corporation without collateral; |
| Engineering | Birr 8,000,000 due to inadequate reinsurance cover. |

- iii) All underwriting accounts for inward business are maintained on an underwriting year basis and the accounts of each underwriting year are kept open for three years during which the excess of income over expenses is carried forward as "Inward Business Reserve". At the end of the third year for each underwriting year, a profit or loss is determined and the result is again carried forward to the reserve account until adequate reserve is built up to meet big claims.
- iv) The actuarial valuation of the life insurance fund is required to be made every three years. Until this is done, the profit or loss on this business for a given financial period is transferred to the Life Insurance Fund. After the actuarial valuation is obtained, the accumulated net profit/loss is transferred to the statement of comprehensive income.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

j) **Recognition of financial assets and financial liabilities.**

The Corporation recognizes a financial asset or a financial liability on its statement of financial position when, and only when, it becomes a party to the contractual provision of the instrument. A financial asset is derecognized when, and only when, the control over the contractual rights is lost. A financial liability is derecognized when, and only when, it is extinguished.

k) **Income recognition**

Income is recognized in the period in which it is earned.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

2. PROPERTY AND EQUIPMENT

| | N O N L I F E | | | | | L I F E | | | |
|--------------------------|----------------------|-------------------|--------------------|----------------------|----------------------|------------------|--------------------|----------------------|---------------------|
| | <u>Balance at 30</u> | | <u>Transfers/</u> | <u>Balance at 30</u> | <u>Balance at 30</u> | | <u>Transfers/</u> | <u>Balance at 30</u> | <u>Total</u> |
| | <u>June 2011</u> | <u>Additions</u> | <u>Disposals/</u> | <u>June 2012</u> | <u>June 2011</u> | <u>Additions</u> | <u>Disposals/</u> | <u>June 2012</u> | <u>30 June 2012</u> |
| | <u>Birr</u> | <u>Birr</u> | <u>Adjustments</u> | <u>Birr</u> | <u>Birr</u> | <u>Birr</u> | <u>Adjustments</u> | <u>Birr</u> | <u>Birr</u> |
| | | | <u>Birr</u> | | | | <u>Birr</u> | | |
| COST OR VALUATION | | | | | | | | | |
| Buildings | 109,502,762 | - | - | 109,502,762 | - | - | - | - | 109,502,762 |
| Furniture and equipment | 19,694,877 | 4,127,568 | (301,568) | 23,520,877 | 720,112 | - | 194,521 | 914,633 | 24,435,510 |
| Computers | 55,414,082 | 5,025,990 | (7,256,556) | 53,183,516 | 1,507,020 | - | 8,367,007 | 9,874,027 | 63,057,543 |
| Motor Vehicles | 77,559,224 | 1,227,087 | - | 78,786,311 | 1,364,478 | - | - | 1,364,478 | 80,150,789 |
| Construction in progress | <u>5,370,233</u> | <u>6,171,513</u> | <u>-</u> | <u>11,541,746</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,541,746</u> |
| | <u>267,541,178</u> | <u>16,552,158</u> | <u>(7,558,124)</u> | <u>276,535,212</u> | <u>3,591,610</u> | <u>-</u> | <u>8,561,528</u> | <u>12,153,138</u> | <u>288,688,350</u> |
| DEPRECIATION | | | | | | | | | |
| Buildings | 86,740,056 | 4,210,018 | | 90,950,074 | - | - | - | - | 90,950,074 |
| Furniture and equipment | 13,934,056 | 1,210,779 | 12,124 | 15,156,959 | 538,892 | 37,513 | - | 576,405 | 15,733,364 |
| Computers | 11,564,978 | 4,471,559 | 63,241 | 16,099,778 | 376,706 | 909,788 | - | 1,286,494 | 17,386,272 |
| Motor Vehicles | <u>44,226,404</u> | <u>8,109,844</u> | <u>-</u> | <u>52,336,248</u> | <u>962,239</u> | <u>106,228</u> | <u>-</u> | <u>1,068,467</u> | <u>53,404,715</u> |
| | <u>156,465,494</u> | <u>18,002,200</u> | <u>75,365</u> | <u>174,543,059</u> | <u>1,877,837</u> | <u>1,053,529</u> | <u>-</u> | <u>2,931,366</u> | <u>177,474,425</u> |
| NET BOOK VALUE | <u>111,075,684</u> | | | <u>101,992,153</u> | <u>1,713,773</u> | | | <u>9,221,772</u> | <u>111,213,925</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

3. INVESTMENTS

a) These are as follows:-

| | <u>NON-LIFE</u> <u>Birr</u> | <u>LIFE</u> <u>Birr</u> | <u>TOTAL</u> <u>Birr</u> | <u>2011</u> <u>TOTAL</u> <u>Birr</u> |
|------------------------------------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------------------|
| Shares in non-nationalized companies | 625,000 | - | 625,000 | 625,000 |
| African Reinsurance Corporation | 54,710,517 | - | 54,710,517 | 54,710,517 |
| Loans to policy holders | - | 13,494,509 | 13,494,509 | 13,136,249 |
| Shares in the African Export Import Bank | 2,438,000 | - | 2,438,000 | 2,438,000 |
| Shares in United Investors Share Company | 850,000 | - | 850,000 | 850,000 |
| Bond | 100,000,000 | - | 100,000,000 | - |
| Loan to Construction and Business Bank Share Company | 3,692,913 | - | 3,692,913 | 10,893,646 |
| Loan to Tigray Disabled Veterans Association | <u>38,071,813</u> | | <u>38,071,813</u> | <u>17,058,411</u> |
| | <u>200,388,243</u> | <u>13,494,509</u> | <u>213,882,752</u> | <u>99,711,823</u> |

b) Investments in shares are stated at acquisition cost less provision for losses of Birr 101,510 (2011: Birr 101,510). Investments under Life Branch are also net of provision of Birr 118,466 (2011: Birr 118,466).

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

- c) The details of the loans granted to Construction and Business Bank (CBB) Share Company and Tigray Disabled Veterans Association are as follows:-

i) **CBB**

| | |
|----------------|-----------------------------------------|
| Loan amount | Birr 100,000,000 |
| Period of loan | 20 years (October 1992 to October 2012) |
| Grace period | 3 years |
| Repayment term | Birr 3,690,000, semi annually |
| Interest rate | 2% p.a. |
| Collateral | free |

ii) **TIGRAY DISABLED VETERANS ASSOCIATION**

This is a loan Co-financed by the Corporation and CBB

| | |
|----------------|-------------------------------------------------------------------------------------------------------------|
| Loan amount | Birr 95,686,175 (of which the Corporation's Share is Birr 45,686,175) |
| Period of Loan | 10 years (April 7, 2013 to march 6, 2023) |
| Grace period | 2 years |
| Repayment term | Birr 1,304,575 monthly (to be shared by the Corporation and CBB in proportion to the loans granted by them) |
| Interest rate | 10.75% p.a |
| Collateral | Property located in Kirkos Sub City Kebele 15/16 |

4. **STATUTORY DEPOSIT**

This represents the deposit that must be kept with the National Bank of Ethiopia in line with the Licensing and Supervision of Insurance Business Proclamation No. 86/1994. According to this Proclamation such deposit should amount to 15% of the paid up capital and can be kept either in cash or government securities. However, as per the same Proclamation, the deposit or any part thereof shall not be withdrawn except with the written permission of the National Bank of Ethiopia; nor shall such deposit be used as a pledge or security against any loan or overdraft.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

5. STOCK

These are as follows:-

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|-------------------------------------------------|------------------|----------------------------|
| Spare parts | 861,383 | 419,184 |
| Stationary and printed materials | 1,383,233 | 1,744,63 |
| Uniforms | 252,074 | 127,354 |
| Computer accessories | 355,577 | 409,144 |
| Give away materials | 165,150 | 180,383 |
| Sanitary materials | 66,391 | 45,821 |
| Building materials | 94,796 | 103 |
| Tools | 97,278 | 97,278 |
| Third party comprehensive Insurance Certificate | 2,393,483 | - |
| Others | 157 | - |
| | <u>5,669,522</u> | <u>3,023,898</u> |

6. DEBTORS

| | <u>Non-Life</u> <u>Birr</u> | <u>Life</u> <u>Birr</u> | <u>2011</u> <u>Non-Life</u> <u>Birr</u> | <u>Life</u> <u>Birr</u> |
|------------------------------------|--------------------------------|----------------------------|-----------------------------------------------|----------------------------|
| Trade debtors | 387,594,303 | | 207,155,223 | - |
| Sundry debtors | 17,100,729 | 330,200 | 6,957,616 | 233,592 |
| Staff debtors | 13,846,064 | 1,092,787 | 2,895,364 | 275,285 |
| Prepayments and deposits | 49,401,984 | - | 46,248,922 | - |
| Interest and rent receivable | <u>23,024,365</u> | <u>9,805,268</u> | <u>16,404,142</u> | <u>8,658,578</u> |
| | 490,967,445 | 11,228,255 | 279,661,267 | 9,167,455 |
| Less: Provision for doubtful debts | <u>180,015,197</u> | <u>381,383</u> | <u>84,920,904</u> | <u>380,810</u> |
| | <u>310,952,248</u> | <u>10,846,872</u> | <u>194,740,363</u> | <u>8,786,645</u> |
| | <u>321,799,120</u> | | <u>203,527,008</u> | |

7. DUE FROM REINSURERS AND CEDING COMPANIES

The balances due from reinsurers and ceding companies shown in the financial statements are after deduction of provisions for doubtful balances of Birr 4,792,195 and Birr 15,669,065 respectively.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

8. TREASURY BILLS

This represents the discounted values of various treasury bills purchased from the National Bank of Ethiopia with maturity dates ranging from 8 August 2012 to 3 October 2012.

9. INCOME TAX

a) The movement in this account is as follows:-

| | <u>Birr</u> | <u>Birr</u> |
|--------------------------------|-------------------|---------------------|
| Balance at 30 June 2011 | | 13,779,930 |
| Payments made during the year | | |
| ▪ Direct payments | 11,344,980 | |
| ▪ Withholding tax | <u>20,392,517</u> | <u>(31,737,497)</u> |
| | | <u>(17,957,567)</u> |
| Provision for the current year | | |
| ▪ For rental income | 2,163,569 | |
| ▪ For other operations | <u>90,532,852</u> | <u>92,696,421</u> |
| | | <u>74,738,854</u> |

b) Tax assessments have been made and finalized by the Ethiopian Revenues and Customs Authority up to the year ended 30 June 2000.

10. CAPITAL

| | <u>Non life Birr</u> | <u>Life Birr</u> | <u>Total Birr</u> | <u>2011 Total Birr</u> |
|------------------|--------------------------|----------------------|-----------------------|--------------------------------|
| Assigned capital | <u>57,007,038</u> | <u>4,000,000</u> | <u>61,007,038</u> | <u>61,007,038</u> |

The Corporation is wholly owned by the Government of the Federal Democratic Republic of Ethiopia. Assigned capital represents capital allocated to the Corporation and is not repayable to the Government in whole or part thereof, as long as the Corporation continues trading. There are no shares and no par value.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

11. LEGAL RESERVE

The legal reserve is a statutory reserve to which not less than 10% of the net profits shall be transferred each year until such reserve equals the capital of the Corporation. The reserve amounted to the consolidated capital of the Corporation as shown on the Consolidated Statement of Financial Position and this amount has also been shown on the Statement of Financial Position for the Non-Life Business though it exceeded the capital of the Non-Life Business by Birr 4,000,000 which represents the capital of the Life Business.

12. GENERAL RESERVE

This represents brought forward balance of the appropriations made from the net profits of the Corporation for the period prior to 30 June 1995, period before the Corporation was re-established as a public enterprise. The reserve is available for utilization by the Corporation when the need arises.

13. DEFERRED TAX LIABILITY

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|----------------------------------------------------------------------------------------------|------------------|----------------------------|
| Difference in the tax base of property and equipment and their value for accounting purposes | <u>2,644,754</u> | <u>1,059,193</u> |

14. DIVIDEND

The Board of Management of the Corporation proposed dividend of Birr 133,624,576 representing 80% of the net profit after deduction of transfers to legal reserve of the year. The same was subsequently paid by the Corporation to the Ministry of Finance and Economic Development of the Federal Democratic Republic of Ethiopia upon the request by the latter in its letter reference No. H/S34/7/2 dated 26 Hidar, 2005.

15. INSURANCE, PROVIDENT AND PENSION FUNDS

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|---------------------|--------------------|----------------------------|
| Life insurance fund | <u>416,601,331</u> | <u>304,154,868</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

16. PROFIT FROM UNDERWRITING

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|----------|--------------------|----------------------------|
| Fire | 53,959,059 | 25,299,058 |
| Motor | 590,403 | (18,292,714) |
| Marine | 184,353,143 | 106,592,564 |
| Aviation | 20,097,973 | 13,373,833 |
| Others | <u>112,443,936</u> | <u>48,485,836</u> |
| | <u>371,444,514</u> | <u>175,458,577</u> |

17. INVESTMENT INCOME

| | <u>Non-Life</u> <u>Birr</u> | <u>Life</u> <u>Birr</u> | <u>Total</u> <u>Birr</u> | <u>2011</u> <u>Total</u> <u>Birr</u> |
|----------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------------------|
| Interest on fixed deposits | 29,568,054 | 16,237,923 | 45,805,977 | 38,693,495 |
| Interest on loans | 7,790,359 | 133,051 | 7,923,410 | 824,161 |
| Interest on treasury bills | 913,813 | 171,769 | 1,085,582 | 1,080,226 |
| Dividend | 8,489,317 | - | 8,489,317 | 30,632,625 |
| Others | <u>62,533</u> | <u>-</u> | <u>62,533</u> | <u>496,002</u> |
| | <u>46,824,076</u> | <u>16,542,743</u> | <u>63,366,819</u> | <u>71,726,509</u> |

18. SUNDRY INCOME

| | <u>Non-Life</u> <u>Birr</u> | <u>Life</u> <u>Birr</u> | <u>2011</u> <u>Non-Life</u> <u>Birr</u> | <u>Life</u> <u>Birr</u> |
|----------------------------------------------------|--------------------------------|----------------------------|-----------------------------------------------|----------------------------|
| Write back of provision | 14 | - | 59,457 | - |
| Gain on foreign currency transactions and balances | 2,921,479 | 2,760 | 611,569 | - |
| Others | <u>4,602,371</u> | <u>49,292</u> | <u>3,344,400</u> | <u>13,382</u> |
| | <u>7,523,864</u> | <u>52,052</u> | <u>4,015,426</u> | <u>13,382</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 June 2012

19. ADMINISTRATIVE AND GENERAL EXPENSES

| | 2011 | | | |
|------------------------------------|-------------------|------------------|-------------------|------------------|
| | NON-LIFE | LIFE | NON-LIFE | LIFE |
| | Birr | Birr | Birr | Birr |
| Salaries and related benefits | 44,055,523 | 6,764,743 | 42,588,664 | 5,261,405 |
| Car running and maintenance | 7,625,012 | 227,463 | 6,453,392 | 187,343 |
| Advertising | 6,107,832 | - | 3,419,711 | - |
| Printing and stationery | 533,784 | 1,191,784 | 313,480 | 257,521 |
| Light and water | 1,456,624 | 36,749 | 1,089,569 | 29,171 |
| Insurance | 2,445,303 | 162,158 | 1,769,072 | 115,716 |
| Traveling | 3,191,117 | 73,875 | 3,172,350 | 52,385 |
| Office cleaning and supplies | 233,273 | 14,632 | 243,857 | 3,059 |
| Communications | 3,773,429 | 153,440 | 3,533,418 | 161,164 |
| Entertainment | 2,692,474 | 69,657 | 1,319,209 | 44,174 |
| Municipal tax | 186,636 | - | 223,621 | - |
| Legal and professional fees | 270,743 | - | 213,799 | - |
| Rent | 781,290 | - | 427,976 | - |
| Education and training | 1,389,877 | 5,544 | 1,170,334 | 19,201 |
| Uniforms | 681,312 | 9,176 | 622,345 | 5,528 |
| Medical | 2,765,115 | 235,802 | 2,326,447 | 207,614 |
| Sports | 4,000,000 | - | 2,990,145 | - |
| Repair and maintenance | 2,064,331 | 14,141 | 1,364,440 | 19,177 |
| Susbscriptions and membership fee | 608,276 | 6,331 | 290,068 | 4,600 |
| Commissison expense | 157,948 | - | 10,447 | - |
| Actuarial fees | - | 195,677 | - | - |
| Expenses related with the Business | | | | |
| Process Re-engineering | (1,200,745) | - | 2,821,755 | - |
| Operating lease cost | 263,253 | - | 272,734 | - |
| Donation and contribution | 40,297 | - | - | - |
| Loss on foreign currency | - | - | - | 24,756 |
| Transactions and balances | - | - | - | 29,222 |
| Miscellaneous | <u>667,183</u> | <u>7,296</u> | <u>652,434</u> | <u>29,222</u> |
| | <u>84,789,887</u> | <u>9,168,468</u> | <u>77,289,267</u> | <u>6,422,036</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

20. FINANCIAL CHARGES

| | | | <u>2011</u> | |
|---------------------------------|-----------------|---------------|-----------------|---------------|
| | <u>NON-LIFE</u> | <u>LIFE</u> | <u>NON-LIFE</u> | <u>LIFE</u> |
| | <u>Birr</u> | <u>Birr</u> | <u>Birr</u> | <u>Birr</u> |
| Bank charges | 200,278 | 14,673 | 582,547 | 16,053 |
| Interest on reinsurers' reserve | 83,323 | - | 82,489 | - |
| Revenue stamp | <u>69,365</u> | <u>-</u> | <u>62,886</u> | <u>-</u> |
| | <u>352,966</u> | <u>14,673</u> | <u>727,922</u> | <u>16,053</u> |

21. TAX EXPENSE

a) MAJOR COMPONENTS OF TAX EXPENSE

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|----------------------------------------------------------------------------------------|-------------------|----------------------------|
| Current tax expense | 92,696,422 | 31,890,248 |
| Deferred tax expense relating to the origination and reversal of temporary differences | <u>1,585,561</u> | <u>193,717</u> |
| Tax expense | <u>94,281,983</u> | <u>32,083,965</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

b) **EXPLANATION OF THE RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT**

| | <u>Birr</u> | <u>2011 Birr</u> |
|------------------------------------------------------------------------------|--------------------|----------------------|
| Accounting Profit | <u>261,323,478</u> | <u>144,228,534</u> |
| Tax at the applicable rate of 30% | 78,397,043 | 43,268,560 |
| Tax effect of expenses that are not deductible in determining taxable profit | | |
| - Entertainment expenses | 828,639 | 409,015 |
| - Excess representation allowance | 466 | 4,830 |
| - Provision for doubtful debts | 28,528,460 | 4,543,363 |
| Tax effect of income that are not to be added in determining taxable profit | | |
| - Dividend income | (2,546,795) | (9,189,788) |
| - Interest on treasury bills | (325,675) | (324,068) |
| - Interest on fixed deposits | (13,738,899) | (11,608,048) |
| - Provision no longer required | (4) | (17,837) |
| | <u>16,611,373</u> | <u>27,086,027</u> |
| | 2,289,816 | 1,934,675 |
| | <u>848,932</u> | <u>3,063,263</u> |
| Add: Tax deducted at source | <u>94,281,983</u> | <u>32,083,965</u> |
| - on interest income on fixed deposits | | |
| - on dividend income | | |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATIONS

| | <u>Birr</u> | <u>2011</u> <u>Birr</u> |
|-----------------------------------------------|--------------------|----------------------------|
| Net profit before taxation | 261,323,478 | 144,228,534 |
| Interest and rent income | (64,993,849) | (50,961,463) |
| Interest expense | 83,323 | 82,489 |
| Dividend income | (8,489,317) | (30,632,625) |
| Depreciation | 19,055,728 | 14,059,162 |
| Adjustment on property and Equipment | (928,038) | 390,223 |
| Provision for doubtful debts | 95,094,866 | 15,144,543 |
| Write off of investment | - | 6,000 |
| Write back of provision | (14) | (59,457) |
| Increase in stock | (2,645,624) | (3,023,898) |
| Increase in debtors | (205,600,064) | (101,378,167) |
| Decrease / (Increase) in due from reinsurers | 4,301,985 | (18,738,373) |
| Increase in due from ceding companies | (2,140,783) | (13,643,412) |
| Increase in outstanding claims | 98,181,212 | 37,647,342 |
| Increase in provision for insurance funds | 313,571,064 | 160,058,812 |
| Increase in creditors | 1,154,892 | 24,050,300 |
| (Decrease) / Increase in due to reinsurers | (4,758,942) | 10,897,576 |
| Increase in due to ceding companies | <u>1,968,713</u> | <u>4,857,024</u> |
| | <u>505,178,630</u> | <u>192,984,610</u> |

23. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

| | <u>2012</u> <u>Birr</u> | <u>2011</u> <u>Birr</u> | <u>Change</u> <u>Birr</u> | <u>2011</u> <u>Change</u> <u>Birr</u> |
|------------------------|----------------------------|----------------------------|------------------------------|---------------------------------------------|
| Cash and bank balances | <u>378,952,533</u> | <u>234,339,098</u> | <u>144,613,435</u> | <u>4,018,751</u> |

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

24. RELATED PARTY TRANSACTIONS

Related parties are considered to be other entities that exercise significant influence over the Corporation's financial and operating decisions or entities over which the Corporation is able to exercise significant influence in their financial and operating decisions. However, the provisions of International Financial Reporting Standards do not include the government, government departments or agencies in the definition of related parties.

There are no transactions with related parties, except loans and advances to employees amounting to Birr 14,938,851 (2011 - Birr 3,170,648). Loans to employees are non-interest bearing.

25. STAFF COSTS

Staff costs for the year amounted to Birr 55,909,492 (2011 – Birr 52,204,037) and are included in the various major expense categories.

26. RETIREMENT BENEFIT OBLIGATIONS

The Corporation makes contributions to a statutory defined contribution pension scheme. The employer and employee make contributions of 7% and 5% of the employee's basic salary respectively, as determined by statute. For the year ended on 30 June 2012, the Corporation contributed Birr 3,732,816 (2011 – Birr 2,454,382) which has been charged to the statement of comprehensive income.

27. ESTABLISHMENT

The Corporation was established as an autonomous public enterprise on 1 January 1976 by Proclamation No. 68 of 1975. Its principal place of business is in Addis Ababa and having branches all over the Country. It has limited liability. It is governed by Proclamation No. 746 of 2012, Proclamation to provide for insurance business. Without prejudice to the applicability of laws governing insurance business, the Corporation shall also be governed by the Public Enterprises Proclamation No. 25 of 1992. Starting from 30 January 2004, the Corporation shall be accountable to the Financial Public Enterprises Agency which is established as an autonomous government office having its own legal personality by Council of Ministers Regulations No. 98/2004 to supervise financial public enterprises.

ETHIOPIAN INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
30 JUNE 2012

28. EMPLOYEES

The Corporation employed 1,147 staff at 30 June 2012 (2011- 1,142).

29. COMMITMENTS

The Corporation has commitments, not provided for in these financial statements, in respect of the following:-

- a) Birr 4,462,425 representing the unpaid portion of the cost of generator and photo copiers
- b) Birr 764,975 representing the unpaid portion of the cost of computers and accessories

30. DATE OF AUTHORIZATION

The Managing Director of the Corporation authorized the issue of these financial statements on 12 February 2014.

DISTRICTS AND BRANCH OFFICES

Six District As and 15 Branches

Central Addis District

- Welkite Branch

Northern Addis District

- Combolcha Branch
- Weldiya Branch
- Debreberhan Branch
- Gofa Branch

Western Addis District

- Ambo Branch
- Ayertena Branch

Southern Addis District

- Saris Branch
- Bishoftu Branch

Eastern Addis District

- Bole Branch
- Megenagna Branch

Life Addis District

- Mexico Life Branch
- Bole Life Branch
- Merkato Life Branch
- Megnenagna Life Branch

Eight District Bs and 31 Outlying Branches

Mekele District

- Shire Endasilasie Branch
- Humera Branch

Adama District

- Assela Branch
- Robe Branch
- Semera Branch

Hawasa District

- Arbaminch Branch
- Dilla Branch
- Batu Branch
- Hosaena Branch
- Welaita Sodo Branch
- Shashemene Branch

Nekemte District

- Gimbi Branch
- Asosa Branch

Jimma District

- Metu Branch
- Mizan Aman Branch
- Gambella Branch

Dire Dawa District

- Jigjiga Branch
- Chiro Branch
- Harar Branch

Bahir Dar District

- Gonder Branch
- Debremarkos Branch

Arada District (Addis Ababa)

- Merkato Branch
- Gulele Branch

Outlying Life Branches

- Adama Life Branch (Adama)
- Hawasa Life Branch (Hawassa)
- Tana Life Branch (Bahir Dar)
- Gibe Life Branch (Jimma)
- Dire Life Branch (Dire Dawa)
- Tekeze Life Branch (Mekelle)
- Dedessa Life Branch (Nekemte)
- Bati Life Branch (Combolcha)