



**AWASH INSURANCE COMPANY S.C.**

# **Annual**

# REPORT

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## **2018/19**

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**Directors' Report**  
**on 24<sup>th</sup> Year of Operations**

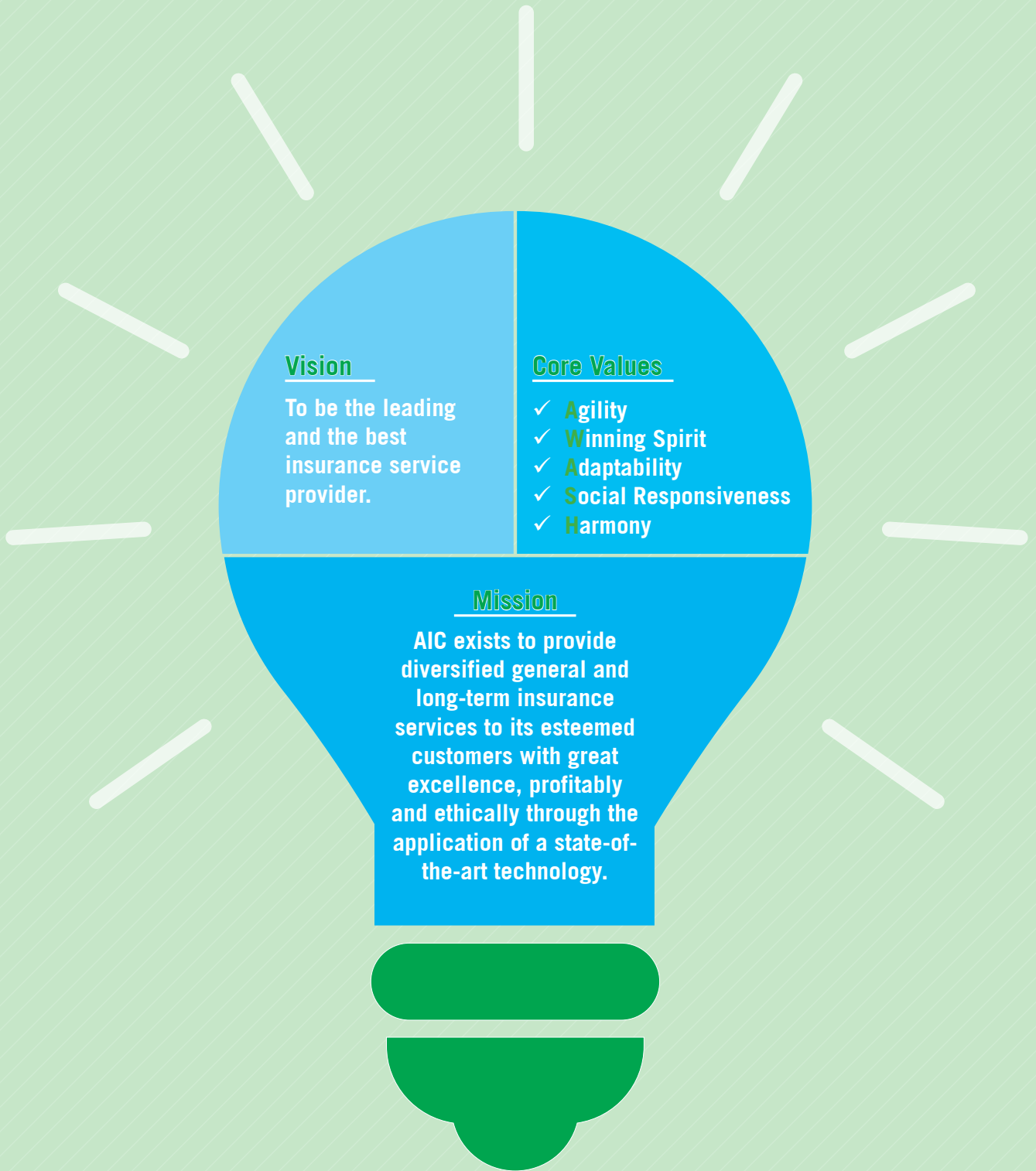
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June 30, 2019  
Addis Ababa, Ethiopia





**AWASH** Bank &  
Insurance  
Celebrating Success, Envisioning the Future



## BOARD DIRECTORS



**WOLE GURMU**  
Vice Chairman



**HAMBISSA WAKWAYA**  
Board Chairman



**AMSALU BIZUNEH**  
Board Director



**GUJETA AYELE**  
Board Director



**BACHA GINA**  
Board Director



**AYELE DESALEGN**  
Board Director



**Dr. ALEMAYEHU MECHESSA**  
Board Director



**MEKONNEN TADESSE**  
Board Director



**KEBEDE BORENA**  
Board Director

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## AIC S.C. Head Office

☎ - +251-11-557 00 01/33-62

Fax - +251-11-557 02 08

✉ - 12637 A.A.

E-mail - aic@ethionet.et

Website - www.awashinsurance.com

June 30, 2019  
Addis Ababa  
Ethiopia

## EXECUTIVE MANAGEMENT



**GUDISSA LEGESSE**  
Chief of Operations



**TSEGAYE KEMI, FLMI**  
Chief Executive Officer



**AYELE YEBASSA**  
Chief of Resource Management



**TADDESE ROBA**  
Director, Research & Business Development Directorate



**BEKALU TILAHUN**  
Director, Legal & Advisory Services Directorate



**MINTESINOT DESALEGN**  
Director, Audit & Inspection Directorate



**JIBAT ALEMNEH**  
Director, General Insurance Claims Directorate



**FREHIWOT ALEMAYEHU**  
Director, General Insurance Underwriting & Branch Operations Directorate



**ABEL TADESSE**  
Director, Reinsurance Directorate



**DEJENE TSEGAYE**  
Director, Management Information System Directorate



**MULATU TEMESGEN**  
Director, Human Capital Management Directorate



**ADANE SEYOUM**  
Director, Finance & Accounts Directorate

## NOTICE TO SHAREHOLDERS

Notice is hereby given to the shareholders to attend the 25th Annual General Meeting of Awash Insurance Company S.C. that will be held in accordance with Articles 418 and 419 of the Commercial Code of Ethiopia and Article 14 (1) of the Articles of Association of the Company on October 26, 2019 at Addis Ababa Hilton starting from 8:00 a.m. to transact the following business:

### AGENDA FOR THE 25TH ANNUAL ORDINARY GENERAL MEETING

1. Consideration of Share Transfers in 2018/19;
2. Consideration of the 2018/19 Annual Report of Directors;
3. Consideration of the 2018/19 Annual Report of Auditors;
4. Deliberation on and approval of items 2 & 3 above;
5. Deliberation on and approval of the proposed appropriation of 2018/19 profits;
6. Approval of Annual Compensation of Directors for 2018/19;
7. Approval of Directors' monthly allowance for 2019/20;
8. Election of Auditors;
9. Approval of Auditors' fee for 2019/20;
10. Consideration of the Procedure for Nomination & Election of Board Directors (1st Amendment);
11. Consideration of the Report of Nomination & Election Committee of Board Directors;
12. Election of Board Directors.

By order of the Board of Directors

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Awash Insurance Company S.C. (AIC) and on my own behalf, I am pleased to welcome you all to the 25th Ordinary Annual General Meeting of Shareholders.

The overall performance of our company during the Fiscal Year (FY) 2018/19 is presented at length in the Directors' Report and the financial statements appended thereto. I would, however, like to highlight the outstanding achievements of the budget year.

The Non-Life Gross Written Premium grew by 14.3% as at June 30, 2019. As a result, our Company's market share in Non-Life showed encouraging improvement from 7.4% to 8.1% as at the end of the fiscal year. The growth of our life business was strong enough that registered 54% as at June 30, 2019 and it yielded a remarkable market share of 21% in the industry. Our market leadership position was, therefore, further consolidated in both Life and Non-Life during the year under report. Not only the gross sales, but the underwriting surplus of the FY too grew significantly over the previous period against the backdrop of many challenges in the industry and the broader economy. The growth in total assets, another performance indicator, showed satisfactory growth of 15% over the FY 2017/18.



*Hambissa Wakwaya  
Chairman, Board of Directors*

On the cash outlay side, the net claims incurred reached Birr 270.3 million at June 30, 2019 escalating by 10% over the year before. The major contributor, as always, was the Motor Class. Its share out of the total claims incurred was birr 225.4 million or 83.4%.

The financial result, the bottom-line factor, was, however, remarkable seen against the sharp rise in claims incurred and business running costs. The profit before income tax of the year grew by 26% when weighed against the year 2017/18. The net profit after tax for the year under review too was robust: it grew by 25%. The earning per



share (EPS) of the year weighed against the paid-up capital base that grew by 53.4% was 38%, a satisfactory amount that was obtained in an economic and business environment that was tough and difficult.

These outstanding achievements were reflections of the unity spirit and collaborative efforts of the Board, Management and the entire staff of the Company. I would like to say thank you to all of them.

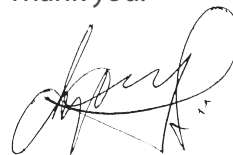
My congratulatory message and gratitude comes out crowned and adored most precious at this special season of our 25th Anniversary. Our Silver Jubilee is a landmark event in our Company's history and we, on Board of directorship, feel honored and privileged to witness this unique moment and feel lucky to come out with a bouquet of flowers to thank all those who contributed dearly and immensely to the success of our Company.

Lastly, I would like to seize this unique opportunity to thank my colleagues and friends on Board of directorship for the undivided support they gave me

throughout our tenure in office and for their commitment to the fulfillment of the objectives of the Company. Our togetherness and dedication made a difference; our Company, AIC, consolidated its leading market position in both Life and Non-Life in the industry. At this juncture, I would like to congratulate all for their invaluable contributions during their term as directors.

Lastly, I hereby present the Report of the Board of Directors and the Audited Financial Statements for the financial year that ended 30th June 2019 for your consideration and approval.

Thank you.



**Hambissa Wakwaya**

**Chairman, Board of Directors**

## REPORT OF THE BOARD OF DIRECTORS

### I. INTRODUCTION

It is with great pleasure and due respect that we present to our esteemed shareholders the annual report and the audited accounts for the fiscal year (FY) ended June 30, 2019. The Report, as usual, is a concise one highlighting the major accomplishments and challenges of the fiscal year 2018/19.

We have traversed a very long and arduous journey cruising through and over turbulent seas for quarter a century now. The fiscal year 2019/20 marks the 25th year of the birth of our Company, AIC. Moments like this call for and necessitate looking back.

Though there could be so many stories to tell during this special moment of Silver Jubilee Celebration, only the most outstanding achievements are recorded in this Annual Report of the Board of Directors.

AIC started operations with one branch and twelve employees back early in 1995. That number reached 48 full-fledged branches and six contact centers run by 583 permanent employees as at June 30, 2019. AIC has built its Headquarters, Awash Towers, together with its sister company, Awash Bank, in the central business district of the metropolis, Addis Ababa. A ground plus seven storey building with two basement floors is another landed property AIC owns located on the main road to Bole Medhanealem adjacent to St. Urael Church. A ground plus four storey building (under construction) on an area of 1083 sq meters is one of the landed properties AIC owns in Summit area, Bole Sub-city.

Added to these, a large flat on a ground floor of 600 sq meters on Africa avenue, Bole Sub city; and a building shop in Lideta are among the properties AIC owns. Other properties of the Company include: Warehouse in Kality, Recovery site in Kality, another Warehouse in Burayou and a newly owned Recovery site in Akaki area are mentionable. The Company's total investment in shares and landed properties has reached Birr 1.16 Billion as at the end of June 30, 2019.

The paid-up capital reached Birr 425,192,500 from a small amount of only Birr 4.9 million at inception. Total assets on December 31, 1995 was Birr 20.1 million and recorded Birr 2.496 billion as at June 30, 2019. Guided by a well crafted strategic plan, AIC has maintained its market leadership position among the sixteen private insurance companies in both Non-Life and Life business with an ever widening gap. Not only in total sales but also in market share, the Company has proven its market leadership in developing and adopting suitable information system and technology solutions in its service delivery. Its profitability too, another indicator of market leadership, is at the top; the 47% annualized average return on equity recorded by

the Company for the recent five years is an indication of the Company’s success as a leader in the industry.

On top of all, the Company has been contributing its part to the well-being of the society in many aspects among which is its contribution of Birr 146,916,000 in the form of profit tax alone supporting the efforts of the Government. It also discharged its Corporate Social Responsibility (CSR) by allocating and disbursing Birr 33.1 million during the last five years alone to benefit the needy communities in different parts of the country.

## II. THE BUSINESS ENVIRONMENT

### 1 THE GLOBAL ECONOMY

During the period covered by this annual report, the global economy registered weaker performance. According to IMF’s recent report (World Economic Outlook, April 2019), global growth “softened to 3.6 percent in 2018 and is projected to decline further to 3.3 percent in 2019”. This notable slow down was reflecting a confluence of factors that affected major economies.



AGM in Session

### 2 THE ETHIOPIAN ECONOMY

The Ethiopian economy, according to the Ministry of Finance’s (MoF) recent report to Parliament, recorded real GDP growth of 8.5 percent in 2018/19 (2011 E.C.) against the 11% target projection for the FY. The growth recovery was supported by the expansion in the industry and the services sectors and the agricultural sector’s revitalized performance. In the previous year, the economy grew by 7.7 percent (NBE) and the step up in growth during the period under report was supported by stronger confidence as the political uncertainty of previous years receded and external financial inflows including FDI temporarily ease external financing constraints and foreign exchange shortages.

### 3 THE INSURANCE INDUSTRY

The Ethiopian insurance industry, during the year under report, showed a decent 5.8 percent growth in Non-Life. A year before, its growth was 13.7 percent exhibiting sharp and further decline of close to 8 percent reflecting mainly the state of affairs that prevailed in both the national economy and the industry at large. The growth in Life business at industry level was 11.6 percent for the year ended June 30, 2019. In 2017/18, Life premiums grew by 28 percent.

Our Company's growth in Non-Life and Life was 14 percent and 53 percent respectively for the FY 2018/19. The previous year, our Company's growth was 11% and 27% in Non-Life and Life business respectively. The growth records of AIC were, therefore, strong as compared to both its own past and against the industry's performance.

### III. OPERATIONAL RESULTS

Operating in the foregoing trading environment, our Company has once again achieved satisfactory results during the year. Our Company's combined Life and Non-Life gross written premiums exhibited record growth of 18.3 percent reaching Birr 797.1 million as at the end of June 30, 2019. AIC retained 75 percent of the premiums it wrote in Non-Life during the fiscal year maintaining its last year's position. We will continue stepping up efforts to retain more in the years ahead in line with our capital strength and free reserve so that less and less would be remitted to reinsurers abroad.

The closer analysis of the performance of each classes of business shows that all classes registered positive growth during the year, the highest premium growth of 65% was recorded in the Engineering class of business. The lowest growth of 6% was recorded in Motor class.

Out of the total annual underwriting in Non-Life, Motor class's share dropped significantly to 57% as planned as at June 30, 2019. Last year, Motor class's share in the mix was 62%. "Others" class contributed 12 percent followed by Fire class whose share was 10 percent, the second and third largest in the mix. Coming back to the major cash outlay, the net claims incurred during the year was Birr 270.3 million out of which Motor alone consumed 83.4% or Birr 225.375 million in figures. The net claims ratio for all classes was 56% at June 30, 2019.

The financial year that ended 30th June 2019 produced yet another remarkable net profit before tax of Birr 176.18 million; showing remarkable increase of 26%. The net profit after tax for the year stood at Birr 160.26 million. The Directors recommend that the net profit of the year be declared as dividend. Shareholders may however plough back to settle their outstanding subscriptions or collect their dividends in cash.

Worth reporting to the shareholders of our Company would be the significant pick in our paid up capital. As at June 30, 2019, our capital reached Birr 425,192,500. The growth in the paid up capital was over 53 percent which, despite its importance in many aspects, heavily impacted our earnings per share (EPS) of the year under report. The fiscal year's EPS would, therefore, be Birr 188 per share or 38 percent return on paid-up capital.



## IV. MAJOR ACTIVITY HIGHLIGHTS

### 1. BRANCH EXPANSION

At the close of the fiscal year, our Company managed to open two new branches, one in Addis Ababa and the second in Bale Robe and upgraded Chiro contact office to a full-fledged branch. Added to these, two additional contact centers were opened to help augment our business and to cater to the community from easy and convenient proximity. Our physical channels have reached 54 in all including the Life Grand main branch.

### 2. HUMAN RESOURCE

Necessitated and justified by the volume of work and the expansion of our operations, the Company provided 122 additional employment opportunities during the fiscal year bringing the total number of permanent employees to 583. The Male Female gender mix was 54% to 46%.



*Staff with Board Directors*

In recognition of the immense benefits of an investment in human capital, the Company offered long-term and short-term training opportunities to its staff both locally and abroad, including through correspondences, so as to enhance their technical and conceptual skills. Those who received support for formal education were 24 and those who attended short-term courses were 484 during the fiscal year.

### 3. INVESTMENT

In an aim to diversify our portfolio, our Company committed additional funds during the year to ascertain continued creation of wealth for the shareholders.

In order to broaden its investment, the Company acquired landed property of 6854 sq meters at Birr 54,217,000 in Akaki Kaliti Sub-City during the FY. The other investments, of course, were additional investments in shares in various companies whose total amount was Birr 121,453,000 during the fiscal year.

The Board was, however, examining the viability of a number of other investment proposals during the year under report.

## V. OTHERS

### 1. CORPORATE SOCIAL RESPONSIBILITY

In order to relinquish our social responsibility as a corporate citizen, our Company donated over Birr 11.87 million to rehabilitate internally displaced people, to help support development programs of the federal and regional governments among which Addis Ababa river-side project of Addis Ababa City Government and Oromia Regional State Government's fund raising through sale of lottery tickets and the Development program of a city Administration are some among them. The whole effort of our engagement in CSR is to improve and impact the well-being of our society in some way possible involving in a range of activities.



*Staff Participating in the 'National Go Green Campaign'*

### 2. STATEMENT ON CORPORATE GOVERNANCE

Reported here are summary statements on various activities of the Board accomplished during FY 2018/19 so as to ensure compliance and to remain committed to the principles of corporate governance:

- a) Board Directors obtained trainings focusing on effective corporate governance practices.
- b) In the fiscal year, twelve regular and sixteen special Board meetings were held. Most Board Directors attended all meetings while some of them attended above the minimum requirement of 75% of the meetings. In these meetings, the Board considered Management reports and resolved on matters of strategic importance;



- c) The Board approved all the required policy documents, strategies, business plan and budget as per requirements of Insurance Corporate Governance Directives. Such documents were approved upon incorporating comments on the draft documents;
- d) Board sub-committees for Audit, Risk Management and Compliance, Business Development and Strategy, Human Resource Affairs as well as Investment and Projects Follow up held monthly meetings and submitted quarterly reports to the Main Board. Based on the reports, the Board gave guidance to the Management upon considering the reports of sub-committees;
- e) The Board decided on strategic investment projects upon undertaking in-depth consideration of investment proposals. Furthermore, the Board reviewed the implementation status of projects in which the Company invested based on progress reports submitted to it and gave appropriate guidance on same;
- f) The Board gave directions on the preparation and conduct of the 24th Ordinary and 9th Extraordinary General Meetings of Shareholders and followed up the timely registration and authentication of the minutes of the General Meetings. Guidance was also given to the Management for the necessary preparation to conduct the 25th Annual Ordinary General Meeting of Shareholders;
- g) The Board regularly monitored corporate performance based on qualitative and quantitative reports and attended semi-annual and annual management review meetings. Accordingly, the Board motivated the Management and staff, including through planned branch visits, to exert utmost efforts to maximize the results and the competitiveness of the Company in the industry;
- h) The Board reviewed off-site surveillance and on-site investigation reports of the supervisory authority and monitored the actions taken by the Management for rectification;
- i) The Board considered the proposal on the Transformation Project, vision-2030, submitted by the Management and gave strategic direction to the Management on the course of action to be followed. The status of the project would also be reviewed subsequently;
- j) The Board also approved the Management's proposal to celebrate the 25th Anniversary of the formation of Awash Insurance Company and Awash Bank and the Board was monitoring the implementation status based on the reports of the ad hoc committee formed for the purpose;
- k) The Board held midyear and annual assessments focusing on the effectiveness of the Board as a whole, Board sub-committees and individual Board Directors. From these exercises, important insights were obtained in order to improve the Board's effectiveness. The Board also conducted review of the implementation of its resolutions;

- l) As the Board Directors have completed the term of the incumbent Board, exit report is accordingly prepared and filed at the supervisory authority by outlining the incumbent Board’s performance, the major achievements during the term of the Board along with the major challenges and recommendations.

## VI. CHALLENGES AND PROSPECTS

### 1. CHALLENGES

The FY 2018/19 was unprecedented in many respects. Many dramatic developments unfolded and surfaced in both the political and economic fronts of the country. Ethiopia is witnessing an ambitious reform program that hopefully will realize the gradual handing over of the bridle of growth to the private sector.

On the other hand, the relapse of double digit inflation in the economy exacerbated by increasingly severe foreign exchange shortage, the impeding trade war between the two leading giant economies at the global scale could all bear negatively on the Ethiopia’s tempo of economic growth. The alarmingly increasing gap in living standards among the general population and youth unemployment, the fact that the public sector-led development strategy is reaching its limits exacerbating external imbalances and raising public debt vulnerabilities are some of the challenges the economy was facing. The sluggish performance of the export business has led the country to be classified as in ‘a high risk of external debt distress’. Industry specific challenges, whose reiteration have been left out this time to avoid boredom, have continued to manifest themselves and operate aggressively to the detriment of healthy and natural growth of the industry.

Additional challenges like continuous electric power interruptions, weak internet connectivity and similar others have had and will continue to have their own share of impacts on our services.



*Performance Review Meeting*

### 3. FUTURE PROSPECTS

Ethiopia’s economy is expected to continue to grow at above average growth rate as stated in the African Development Bank group’s report. It has already proved to be one of the strongest economies on the continent, according to the latest report of African Development Bank.





Recent developments brought to light that the country is looking into partial privatization of major public enterprises. The Government’s intentions to open key economic sectors to domestic and foreign private investments plus Ethiopia’s decision to join the African Continental Free Trade Agreement (ACFTA) and revitalized progress towards WTO membership are expected to support and spur renewed growth momentum in the medium term. Our Company is closely monitoring developments in order to participate in the partial privatization of the public enterprises.

The Government’s daring and ambitious reform program that is aimed at catalyzing private investment and driving sustainable growth, as stated in the GTP II, would help accelerate growth. This reform program if pursued and implemented as per the commitment is expected to open the way for a market oriented approach to the economic management and could see the revitalization of the role of the private sector.

All of these will create better business environment and market opportunities for our industry and AIC alike in the year(s) ahead.

## VII. VOTE OF GRATITUDE

Quarter a century ago, as a start up business, we relied on most valued customers who trusted us, put their confidence in us and gave us the blessing to stay in the business for all these years. Seizing this opportunity, we would like to register our special gratitude to our customers for their non-stop support and patronage. Our shareholders too deserve our due respect for their unswerving support and for rallying behind their company. We thank you very much and deeply during this landmark event in our Company’s history.

The Board also wishes to record its appreciation for the association AIC enjoys with its reinsurers and the mutually advantageous business relations it has developed with both local and overseas intermediaries. Special credit is due to all the employees, our internal customers, who have played and continue to play a pivotal role in the Company’s success and growth.



*Recognition of Best Performing Branches*



*AIC Management After Performance Review Meeting*

On behalf of the Shareholders of AIC and on our own behalf, the Board would like to extend its thanks to the NBE, to the Management and staff of our sister company, Awash Bank, to all officials and officers in various Federal Government Offices for their backings in one form or another during the 25 years of our journey towards yet another height through achieving set objectives. We made it possible because of you; the success AIC registered wouldn't have been possible without your support and contributions.

THANK YOU  
&  
HAPPY SILVER JUBILEE ANNIVERSARY!

Hambissa Wakwaya  
Chairman, Board of Directors



**Awash Insurance Company S.C.**  
Annual IFRS Financial Statements  
**30 June 2019**

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

Directors, professional advisers and registered office

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#### Directors (as of 30 June, 2019)

Hambissa Wakwaya	Chairman	October 29 <sup>th</sup> 2016
Wole Gurmu	Vice Chairman	October 29 <sup>th</sup> 2016
Amsalu Bizuneh	Non-Executive Director	October 29 <sup>th</sup> 2016
Dr. Alemayehu Mechessa	Non-Executive Director	October 29 <sup>th</sup> 2016
Bacha Gina	Non-Executive Director	October 29 <sup>th</sup> 2016
Gudeta Ayele	Non-Executive Director	October 29 <sup>th</sup> 2016
Ayele Desalegn	Non-Executive Director	October 29 <sup>th</sup> 2016
Kebede Borena	Non-Executive Director	October 29 <sup>th</sup> 2016
Mekonnen Tadesse	Non-Executive Director	October 29 <sup>th</sup> 2016

#### Executive Management

Tsegaye Kemsu, FLMI	Chief Executive Officer
Gudissa Legesse	Chief of Operations
Ayele Yebassa	Chief of Resource Management
Taddese Roba	Director, Research & Business Development Directorate
Bekalu Tilahun	Director, Legal & Advisory Services Directorate
Mintesinot Desalegn	Director, Audit & Inspection Directorate
Jibat Alemneh	Director, General Insurance Claims Directorate
Frehiwot Alemayehu	Director, Underwriting & Branch Operations Directorate
Abel Tadesse	Director, Reinsurance Directorate
Dejene Tsegaye	Director, Management Information System Directorate
Mulatu Temesgen	Director, Human Capital Management Directorate
Adane Seyoum	Director, Finance & Accounts Directorate

#### Independent auditor

TAY Authorized Accountants and Auditors  
Obtained Certificate from Accounting and Auditing Board of Ethiopia Certificate No. ABF 00009  
Ethio- China Friendship Street  
Addis Ababa  
Ethiopia

#### Corporate office

Awash Towers  
Ras Abebe Aregay Street  
Addis Ababa,  
Ethiopia



# Awash Insurance Company S.C.

## Annual IFRS financial statements

For the year ended 30 June 2019

Directors, professional advisers and registered office

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### **Principal bankers**

Awash Bank  
Bank of Abyssinia  
Berhan International Bank  
Dashen Bank  
Enat Bank  
Commercial Bank of Ethiopia  
United Bank  
Oromia International Bank  
Wegagan Bank  
Nib Bank  
Cooperative Bank of Oromia  
Addis International Bank  
Abay Bank  
Debut Global Bank

### **Reinsurers/Reinsurance Brokers**

Africa Reinsurers Corporation  
Ethiopian Reinsurance Share Company  
J.B. Boda Insurance and Reinsurance Brokers PLC  
Zep Re (PTA Reinsurance Company)  
Apex Reinsurance Broker  
Afro Asian Insurance Service LTD  
K.E.K Reinsurance Brokers Africa Limited  
Fair Insurance & Reinsurance Broker  
Munich Reinsurance Company of Africa LTD.  
East Africa Reinsurance Company LTD.

### **Consulting Actuaries**

Actuarial Services (EA) Ltd.  
26th Floor, UAP Old Mutual Tower, Upper Hill Road, Upper Hill  
P. O. Box 10472 - 00100 Nairobi, Kenya  
Nairobi City, Kenya

Zamara Actuaries, Administrators and Consulatant Ltd., 10th Floor  
Plaza, Argwings Kodhek Road,  
P.O Box 52439(Nairobi 00200)  
Nairobi City, Kenya

### **Estate surveyor and valuer:**

African Business and Development Consultants (ABD- Consult) Plc.  
P.O Box 4478  
Addis Ababa  
Ethiopia

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Statement of Directors' Responsibilities

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In accordance with the Financial Reporting Proclamation No. 847/2014 and Insurance Business Proclamation No.746/2012, all reporting entities established in accordance with the Ethiopian law or operating in Ethiopia are to prepare financial statements in accordance with the International Financial Reporting Standards.

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 to 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 Company had complied with the provisions of the Insurance Business Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

The Management is responsible for the maintenance of accounting records that may be relied upon in the preparation of the financial statements as well as adequate systems of internal control.

The Board of Directors (the Board) submits to the Auditors the annual financial statements which have been prepared by the Management using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, Insurance Business Proclamation, Commercial Code of 1960 as well as the requirements of the Accounting and Auditing Board of Ethiopia and the relevant Directives issued by the National Bank of Ethiopia.

The Board 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.

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



Hambissa Wakwaya  
Chairman, Board of Directors  
September 30, 2019



Tsegaye Kemi, FLMI  
Chief Executive Officer  
September 30, 2019





TAY

Authorized Accountants and Auditors  
ተ.አ.ዋ.ይ. የተፈቀደላቸው የሂሳብ አዋቂዎች እና አዲተሮች

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF AWASH INSURANCE COMPANY S.C.**

***Opinion***

We have audited the financial statements of Awash Insurance Company S.C, which comprise the statement of the financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive Income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion , the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2019 and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

***Basisfor 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 Accounts (IESBA Code) together with the ethical requirments that are relevant to our audit of the financil statmetns in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key Audit Matters***

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



A member of Kreston International | A global network of independent accounting firms

Ethio-China Friendship Street, Wengelawit Tadesse Building 1<sup>st</sup> Floor  
Tel. (011) 442 1336, 442 0062, (011) 470 7092, (011) 470 7094 - Mob. (093) 001 4106, (091) 151 5038/39  
Fax (011) 442 1338 - e-mail: info@tayauditing.com - www.tayauditing.com - P.O. Box 1335 - Addis Ababa, Ethiopia

## ***Responsibilities of the Management and those Charged with Governance for the Financial Statements***

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the Company and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the Company report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.





- Conclude on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

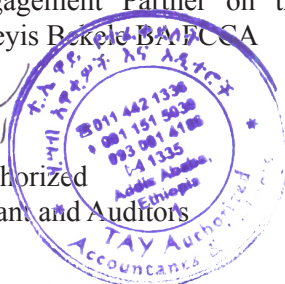
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

We have no comment to make on the reports of the Board of Directors so far as it relates to the financial statements and pursuant to Article 375 of the Commercial Code of Ethiopia 1960 we recommend approval of the financial statements

The engagement Partner on the audit resulting in this independent auditor’s report is Ato Yeheyis Bekele BAFCCSA

TAY Authorized  
Accountant and Auditors



Addis Ababa  
27 September 2019

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Statement of Profit or Loss and Other Comprehensive Income

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Gross premium income	6	797,046	674,111
Premiums ceded to reinsurers	6	(187,116)	(162,403)
<b>Net premiums</b>		609,930	511,708
Change in unearned income	27	(31,216)	(22,781)
<b>Net Earned premiums</b>	6-b	578,714	488,927
Fee and commission income	7	53,744	47,218
<b>Net underwriting income</b>		632,458	536,145
Claims expenses	10	(306,759)	(311,412)
Claims recovered from reinsurers	10	43,929	53,518
Gross change in contract liabilities	10	(71,526)	(27,942)
Change in contract liabilities ceded to reinsurers	10	11,847	1,661
<b>Net benefits and claims</b>		(322,509)	(284,175)
Underwriting expenses	11	(38,861)	(30,207)
Increase in life fund	27	(28,461)	(29,336)
<b>Underwriting profit</b>		242,627	192,427
Investment income	8	136,524	104,791
Other operating income	9	10,507	6,109
<b>Net income</b>		389,658	303,327
Finance costs	12	(633)	(42)
Other operating and administrative expenses	13	(95,279)	(75,993)
Employee benefits	14	(117,566)	(87,307)
<b>Profit before income tax</b>		176,180	139,985
Income tax expense	15	(15,920)	(11,817)
<b>Profit for the year</b>		160,260	128,168
<b>Other comprehensive income</b>			
Items that will not be subsequently reclassified into profit or loss:			
Fair Value adjustment of revalued properties()	13	(18,090)	(18,021)
deferred tax expense(30%)	15-d	5,427	5,406
		(12,663)	(12,615)
Remeasurement gain/(loss) on defined benefits obligations	31	(33)	412
		(12,696)	(12,203)
<b>Total comprehensive income for the year</b>		<b>147,564</b>	<b>115,965</b>
<b>Basic &amp; diluted earnings per share (Birr)</b>	33	0.38	0.46



Hambissa Wakwaya  
Chairman, Board of Directors  
September 30, 2019



Tsegaye Kemsu, FLMI  
Chief Executive Officer  
September 30, 2019


The notes to the financial reports are an integral part of these financial statements.


**Awash Insurance Company S.C.**  
**Annual IFRS financial statements**  
**For the year ended 30 June 2019**  
**Statement of Financial Position**

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>ASSETS</b>			
Cash and bank balances	16	746,548	644,414
Investment securities:			
– Available for sale	17	304,210	182,757
– Loans and receivables	17	10,004	10,003
Insurance receivables	18	-	-
Reinsurance assets	19	171,098	144,481
Other assets	20	123,010	113,865
Deferred acquisition cost	21 a	18,512	18,026
Salvage property held for sale	21b	25,280	12,970
Prepayments for leasehold land	22	9,958	7,043
Property, plant and equipment	23	760,216	746,853
Investment properties	24	258,916	247,604
Intangible assets	25	6,109	6,130
Statutory deposits	26	63,058	40,968
Deferred tax assets	15	-	-
<b>Total assets</b>		<b>2,496,920</b>	<b>2,175,114</b>
<b>LIABILITIES</b>			
Insurance contract liabilities	27	946,968	800,760
Provisions for claims under litigations	28	2,185	1,910
Insurance payables	29	77,978	60,834
Other liabilities	30	74,529	92,199
Defined benefit obligations	31	7,389	6,123
Deferred tax liability	15	207,922	213,349
Current income tax liabilities	15	15,920	15,288
<b>Total liabilities</b>		<b>1,332,891</b>	<b>1,190,464</b>
<b>EQUITY</b>			
Share capital	32	425,193	277,127
Share premium	32	778	778
Retained earnings	34	654,911	639,625
Legal reserve	35	83,146	67,120
<b>Total equity</b>		<b>1,164,029</b>	<b>984,650</b>
<b>Total equity and liabilities</b>		<b>2,496,920</b>	<b>2,175,114</b>

The notes to the financial reports are an integral part of these financial statements.


The financial statements and notes to the financial statements were approved and authorised for issue by the Board of Directors during its 199<sup>th</sup> Special Meeting held on September 30, 2019 and were signed by:

  
 Hambissa Wakwaya  
 Chairman, Board of Directors  
 September 30, 2019

  
 Tsegaye Kemsu, FLMI  
 Chief Executive Officer  
 September 30, 2019

**Awash Insurance Company S.C.**  
**Annual IFRS financial statements**  
**For the year ended 30 June 2019**  
**Statement of Change in Equity**

Notes	Share	Share	Retained	Legal	Total
	capital	premium	earnings	reserve	
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>As at 1 July 2017</b>	246,584	778	622,027	51,449	920,838
Additional shares issued	32	30,543	-	-	30,543
Dividends paid during the year	34	-	-	(78,325)	(78,325)
Directors' compensation	34	-	-	(900)	(900)
Profit for the year	34	-	-	128,168	128,168
Other comprehensive income					-
<i>Fair Value adjustment in OCI net of tax</i>					(12,615)
Remeasurement gain/(loss) on defined benefits obligations (net of tax)		-	-	412	412
<b>Total comprehensive income for the year</b>		-	-	<b>115,965</b>	-
					<b>115,965</b>
Prior year over/ (under) provision of legal reserve	32			(2,854)	2,854
Transfer to legal reserve	32			(12,817)	12,817
Transfer to regulatory risk reserve	34				
<b>As at 30 June 2018</b>	<b>277,127</b>	<b>778</b>	<b>639,625</b>	<b>67,120</b>	<b>984,650</b>
<b>As at 1 July 2018</b>	277,127	778	639,625	67,120	984,650
Additional shares issued	32	148,066	-	-	148,066
Dividends paid during the year	34	-	-	(114,451)	(114,451)
Prior year over/ (under) provision of current tax	34	-	-	-	-
Directors' compensation	34	-	-	(1,800)	(1,800)
Profit for the year	34	-	-	160,260	160,260
Other comprehensive income					-
<i>Fair Value adjustment in OCI net of tax</i>					(12,663)
Remeasurement gain/(loss) on defined benefits obligations (net of tax)		-	-	(33)	(33)
<b>Total comprehensive income for the year</b>		-	-	<b>147,564</b>	-
					<b>147,564</b>
Prior year over/ (under) provision of legal reserve	32			-	-
Transfer to legal reserve	34			(16,026)	16,026
<b>As at 30 June 2019</b>	<b>425,193</b>	<b>778</b>	<b>654,911</b>	<b>83,146</b>	<b>1,164,029</b>

  
Hambissa Wakwaya  
Chairman, Board of Directors  
September 30, 2019

  
Tsegaye Kemi, FLMI  
Chief Executive Officer  
September 30, 2019

The notes to the financial reports are an integral part of these financial statements.

**Awash Insurance Company S.C.**  
**Annual IFRS financial statements**  
**For the year ended 30 June 2019**  
**Statement of Cash Flows**

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	36	196,031	136,828
Remeasurement of Employee Benefit	31	(33)	412
Income tax paid		(15,288)	(13,976)
<b>Net cash (outflow)/ inflow from operating activities</b>		<b>180,709</b>	<b>123,264</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities- equity investments	17	(121,453)	(1,598)
Additional investment in fixed deposit	16	(144,610)	(22,077)
Purchase of investment property	24	(766)	(53,958)
Purchase of intangible assets	20	(1,046)	(1,995)
Purchase of property, plant and equipment	21	(57,605)	(17,652)
Prepayments for leasehold land	22	(4,732)	
Proceeds from sale of property, plant and equipment	36	385	932
Interest received		73,026	57,320
<b>Net cash outflow from investing activities</b>		<b>(256,800)</b>	<b>(39,028)</b>
<b>Cash flows from financing activities</b>			
Dividend paid		(114,451)	(78,325)
Proceeds from issues of shares	32	148,066	30,543
<b>Net cash outflow from financing activities</b>		<b>33,615</b>	<b>(47,782)</b>
<b>Changes in cash and cash equivalents</b>		<b>(42,476)</b>	<b>36,454</b>
Cash and cash equivalents at the beginning of the year	16	126,704	90,250
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>(42,476)</b>	<b>36,454</b>
<b>Cash and cash equivalents at the end of the year</b>	16	<b>84,228</b>	<b>126,704</b>



Hambissa Wakwaya  
 Chairman, Board of Directors  
 September 30, 2019



Tsegaye Kemi, FLMI  
 Chief Executive Officer  
 September 30, 2019

The notes to the financial reports are an integral part of these financial statements.

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### 1 General information

Awash Insurance Company S.C. ("the Company") is a private commercial insurance company domiciled in Ethiopia. The Company was established on 1 October 1994 in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and subsequently by the Insurance Business Proclamation No.746/2012. The registered office is at:

Awash Towers  
Ras Abebe Aregay Street  
Addis Ababa,  
Ethiopia

The Company is principally engaged in the provision of general and life insurance services to clients in Ethiopian Market.

#### 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 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by Ethiopian laws including Insurance Business Proclamation No. 746/2012 and Financial Reporting Proclamation No. 847/2014 are 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 for the year ended 30 June 2019 are the second the Company has prepared in accordance with IFRS.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept except for investment properties, buildings and vehicles which are measured at fair value at deemed cost.

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 3.



# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

---

#### 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.

#### 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 replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through OCI and fair value through profit or loss.

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.

In September 2016 IFRS 4 was amended by Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts. These amendments address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. Accordingly, these amendments introduce two optional approaches: an overlay approach and temporary exemption from applying IFRS 9, deferral approach if an insurer's activities are predominantly connected with insurance. Accordingly the Company determined to choose temporary exemption until it apply IFRS 17 since its insurance contract liabilities is 84% of the total carrying amount of liabilities (excluding deferred taxes) as at 30,June 2019. Early adoption of the standard is permitted. The Company is yet to assess IFRS 9's full impact.

##### **IFRS 16 - Leases**

This standard was issued in January 2016 (effective 1 January 2019, 1 July 2019 for Company's financial year;). 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.

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### **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 (ie 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 2022 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.

##### *b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognised in profit or loss within other (loss)/ income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

#### **Foreign currency translation**

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as available for sale, are included in other comprehensive income.





# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### **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 and cash at bank.

#### **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.

###### **Subsequent measurement**

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

- Loans and receivables, and
- 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 insurance receivables, investment securities and other financial assets. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

---

#### **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 instruments. 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 held to maturity if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

#### **'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.

#### **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 AFS 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.

The Company may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from date of change in estimate.



# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### **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.

#### **Derecognition of financial assets**

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.

#### **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.

# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

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#### **Financial assets carried at amortised cost (continued)**

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.

#### **(i) Financial assets carried at amortised cost (continued)**

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

AFS 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.

# Awash Insurance Company S.C.

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#### 2.5.2 Financial liabilities

##### Initial recognition and measurement

All financial liabilities of the Company are classified as other financial liabilities at amortised cost.

They are recognised initially at fair value, net of directly attributable transaction costs and include insurance payables, dividend payables and other account payables.

##### Subsequent measurement

After initial measurement, the Company's financial liabilities are subsequently measured at amortised cost using the Effective Interest Rate (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.

##### Derecognition of financial liabilities

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 2.15. Premium ceded comprise gross written premiums. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

These are other receivables and prepayments. Other receivables are stated after deductions of amount considered bad or doubtful of recovery. These are loans and receivables other than investment securities, insurance trade receivables and reinsurance assets. When a debt is deemed not collectible, it is written-off against the related provision or directly to profit or loss account to the extent not previously provided for. Any subsequent recovery of written-off debts is credited to profit or loss.

The Company's other receivables are rent receivables, staff debtors and other account receivables.

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. They include prepaid rent, prepaid staff expenses and other prepaid office expenses.

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#### 2.8 Deferred acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The 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, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities.

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 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.

#### 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.



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#### Property, plant and equipment (continued)

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

Asset class	Depreciation (in years)	Residual value (%)
Buildings	50	5%
Lift	15	1%
Motor vehicles	10	5%
Furniture & fittings	10	1%
Computer equipment	7	1%
Office equipment	7	1%

The Company commences depreciation when the asset is available for use.

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. 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 Investment property

Property that is held for rent by the Company to earn rental income or for capital appreciation, or both, and is not occupied by the Company, are classified as investment properties.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Company and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The Company has opted to subsequently carry investment property at cost and disclose fair value. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Company's investment property is determined by the independent valuers who have recent experience in the location and category of the investment property being valued.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Earned rental income is recorded in profit or loss for the year within (other operating income). Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Investment properties are derecognised when they have been disposed.

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#### 2.12 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 in 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:

Intangible assets class	Useful lives (years)
Computer software	8

#### 2.13 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.

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.

For assets excluding goodwill, 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.



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#### 2.14 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.

#### 2.15 Insurance contracts

##### 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.

##### (i) 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.

##### (ii) 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. In such cases, there are no maturity or surrender benefits.

##### 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 under note 4.2, life insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated.

# Awash Insurance Company S.C.

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#### **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 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. The Company had the right to set-off reinsurance payables against the amount due from reinsurance in line with the agreed arrangement between both parties.

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's property or accident and 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 an annual 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 recognizes 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 amortized cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.5.

#### **Deferred income**

Deferred income represents a portion of commission received on reinsurance contracts which are booked during the financial year and are deferred to the extent that they are recoverable out of future revenue margins. It is calculated by applying the reinsurance commission income to the ratio of prepaid reinsurance to reinsurance cost.

#### **Receivables and payables related to insurance contracts**

Receivables and payables are recognized when due and measured on initial recognition at the fair value. Subsequent to initial recognition, insurance receivables and payables are measured at amortized cost, using the effective interest rate method as described in note 2.5 and 2.17. 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 recognizes 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.



# Awash Insurance Company S.C.

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#### **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 claims paid, and salvage property is recognized in recovery properties held for sale. 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 claims paid and are recognized in other assets. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

#### **2.16 Insurance contracts liabilities**

The recognition and measurement of insurance contracts have been set out under Note 2.15. Insurance contract liabilities arising from insurance contracts are determined as follows:

##### **(i) Non-life insurance contracts**

###### **(a) 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 2.15.

###### **(b) 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.

##### **(c) Reserving methodology**

Data segmentation: 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;
- Marine insurance business;
- Workmens' compensation insurance business;
- Engineering;
- Goods in transits;
- Public liability, pecuniary, Political Violence and Terrorism(PVT) and other miscellaneous insurances.

##### **(ii) Life insurance contracts**

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.

The reserves include Incurred But Not Reported (IBNR) and Unearned Premium Reserve (UPR).

# Awash Insurance Company S.C.

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#### **Reserving methodology**

Data segmentation: The data used for reserving is segmented into two classes as follows:

- Individual business; and
- Group business.

#### **2.17 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.

#### **2.18 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.

#### **2.19 Other payables**

Other 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.

#### **2.20 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.

#### **2.21 Retained earnings**

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

#### **2.22 Legal reserves**

In accordance with Article 22 sub articles (1) and (2), of Insurance Business Proclamation No 746/2012, 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.



# Awash Insurance Company S.C.

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#### **2.23 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.

#### **2.24 Revenue recognition**

##### **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.

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 and it's computed based on the 1/24th method as prescribed in the Directives of the National Bank of Ethiopia.

##### **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 incept. 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 is managed.

##### **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.

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#### **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.

#### **Dividend income**

This is recognised when the Company's right to receive the payment is established, which is generally when the shareholders approve and declare the dividend.

#### **2.25 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.

#### **2.26 Claims recovered from reinsurers**

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

#### **2.27 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.

#### **2.28 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.



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#### **2.29 Employee benefits**

##### **(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.

##### **(b) Defined contribution plan**

The Company operates two defined contribution plans;

- i) pension scheme in line with the provisions of Private Organisation Employees Pension Proclamation No. 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 8% and 15% by employees and the Company respectively based on the employees' salary.

Once the contributions have been paid, the Company retains no legal or constructive obligation to pay further contributions if the Fund does not hold enough assets to finance benefits accruing under the retirement benefit plan. The Company's obligations are recognized in the profit and loss account.

##### **(c) Defined benefit obligations**

The Company operates a defined benefit severance scheme in Ethiopia, where members of staff who have spent 5 years or more in service of the Company 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.

Company'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.

# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

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#### 2.30 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
- Financial instruments (including those carried at amortised cost) Note 4.7.3

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.

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 Company 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.





# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### **2.31 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 or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the efforts of all diluted potential ordinary shares.

#### **2.32 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 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.

##### **(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 utilized.

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 judgments, estimates and assumptions**

The preparation of the Company's financial statements requires Management to make judgments, 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
- Sensitivity analyses disclosures Note 4.5.2

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### 3.1 Judgments

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

##### ***Operating lease commitments -Company as lessee***

The Company has entered into lease of land and its office building. 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 land and office building, that it does not retain all the significant risks and rewards of ownership and accounts for the contracts as an operating lease.

#### 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 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 standard actuarial claims projection techniques: Chain Ladder.

The main assumption underlying this technique is that a Company's past claims development experience can be used to project future claims development and, hence, the ultimate claims costs. As such, the method extrapolates 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. 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 judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

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#### **(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.

#### **(c) 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 assesses 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 (cashflows) 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 experience on credit judgements, and all known relevant internal and external factors that may affect collectability;

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### **Impairment of insurance receivables (continued)**

- 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

#### **(e) 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 deems the reserves as adequate.

#### **(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 equipment based on the period over which the assets are expected to be available for use. Property, plant and equipment 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 equipment 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 Company is of the opinion that there is no impairment indicator on its non-financial assets as at the reporting date.

#### **(i) Fair valuation of investment properties**

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is determined by reference to observable market prices. The fair value of investment property does not reflect the related future benefits from this future expenditure. These valuations are performed by external appraisers. Assumptions are made about expected future cash flows and the discounting rates.



# Awash Insurance Company S.C.

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#### Notes to the Financial Statements

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#### **4 Insurance and financial risk management**

##### **4.1 Introduction**

Risk is inherent in the 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 operational and financial (credit, liquidity and market) risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Company's policy is to monitor those business risks through the the Company's strategic planning process.

##### **4.1.1 Risk management structure**

The Board monitors 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 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 submit reports to the Board regarding risk management issues and give timely directions.

The Company's Risk Management Unit is responsible for implementing and maintaining risk related procedures, for assessing and monitoring 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 and Compliance Committee and the relevant actions are taken to address exceptions and any areas of weakness. The unit works closely with the Management to ensure that procedures are compliant with the overall framework. The unit is functionally responsible to the Board. The risk management unit has also closer relation 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.

The Company's Finance and Accounts Directorate is responsible for managing the financial assets, financial liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

##### **4.1.2 Risk measurement and reporting systems**

The Cmpany'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 segments. 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.

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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#### 4.1.3 Risk mitigation

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

Risk control processes are identified and discussed in the quarterly risk report and Management Risk Committee meetings. Control processes are also regularly reviewed at Business Unit level and changes agreed with the Board.

#### 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. 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.

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.

#### Life insurance contracts

Life insurance contracts offered by the Company include: Individual riders, group term, group medical, group riders, endowment assurance, education endowments and individual mortgage protection.

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
- ▶ Morbidity risk – risk of loss arising due to policyholder health experience being different than expected
- ▶ Longevity risk – risk of loss arising due to the annuitant living longer 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 and type of risk insured.

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 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. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs.



# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

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

<b>30 June 2019</b>	<b>Gross Birr'000</b>	<b>Reinsurance Birr'000</b>	<b>Net Birr'000</b>
Individual life	62	-	62
Group life	1,979	(272)	1,708
Group medical	3,253	(163)	3,091
<b>Total life insurance</b>	<b>5,295</b>	<b>(434)</b>	<b>4,861</b>

<b>30 June 2018</b>	<b>Gross Birr'000</b>	<b>Reinsurance Birr'000</b>	<b>Net Birr'000</b>
Individual life	101	-	101
Group life	2,093	(105)	1,988
Group medical	2,055	(269)	1,785
<b>Total life insurance</b>	<b>4,248</b>	<b>(374)</b>	<b>3,874</b>

#### Key assumptions

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

##### ► 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.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

# Awash Insurance Company S.C.

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#### Notes to the Financial Statements

#### 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.

	Change in assumptions	Change in liability	
		30 June 2019	30 June 2018
		Birr'000	Birr'000
Mortality/morbidity rate	+10%	102,239	69,642
Investment return	+1%	100,627	68,351
Expenses	+10%	103,735	70,825
Lapse and surrenders rate	+20%	101,823	69,323

	Change in assumptions	Change in liability	
		30 June 2019	30 June 2018
		Birr'000	Birr'000
Mortality/morbidity rate	-10%	99,502	69,553
Investment return	-1%	102,195	71,035
Expenses	-10%	100,659	68,379
Lapse and surrenders rate	+20%	102,599	69,904

The above analysis are 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 – for example, change in interest rate and change in market values; and change in lapses and future mortality.

#### Non- life insurance contracts

The Company principally issues the following types of general insurance contracts: motor, fire, engineering, liability, marine, general health, pecuniary, burglary, floriculture and Workmens' compensation. Health care 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.



# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

#### Notes to the Financial Statements

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

**30 June 2019**

	Claims reported			Claims reported but not incurred		
	Reinsurance		Net	Reinsurance		Net
	Gross			Gross		
Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	
Fire	4,745	(2,914)	1,831	5,321	(42)	5,279
Burglary	127	(9)	118	339	-	339
Motor	249,615	(24,019)	225,596	80,856	(13,992)	66,864
Marine	5,971	(3,507)	2,464	2,200	(41)	2,159
Goods in transits	1,726	(86)	1,640	943	(155)	788
Workmens' compensation	1,917	(74)	1,843	3,850	(226)	3,624
Group Personal Accident	3,487	(874)	2,613	1,479	(66)	1,413
Engineering	17,111	(10,536)	6,575	3,942	(1,271)	2,671
Public liability	8,294	(1,490)	6,804	5,827	(86)	5,741
Pecuniary	756	(353)	403	2,376	(1,129)	1,247
Floriculture	1,975	(1,782)	193	135	-	135
Political Violence & Terrorism	-	-	-	743	-	743
<b>Total non- life insurance</b>	<b>295,724</b>	<b>(45,644)</b>	<b>250,080</b>	<b>108,011</b>	<b>(17,008)</b>	<b>91,003</b>

**30 June 2018**

	Claims reported			Claims reported but not incurred		
	Reinsurance		Net	Reinsurance		Net
	Gross			Gross		
Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	
Fire	1,655	(935)	720	4,287	(34)	4,253
Burglary	132	(7)	125	380	-	380
Motor	207,758	(20,113)	187,645	74,386	(12,719)	61,667
Marine	8,312	(4,730)	3,582	2,468	(46)	2,422
Goods in transits	1,037	-	1,037	875	(144)	731
Workmens' compensation	2,028	(134)	1,894	1,815	(106)	1,709
Group Personal Accident	3,556	(847)	2,709	1,421	(63)	1,358
Engineering	7,753	(4,441)	3,312	2,696	(869)	1,827
Public liability	5,060	(1,787)	3,273	2,648	(39)	2,609
Pecuniary	1,211	(353)	858	3,197	(1,519)	1,678
Floriculture	2,102	(1,919)	183	176	-	176
Political Violence & Terrorism	-	-	-	226	-	226
<b>Total non- life insurance</b>	<b>240,604</b>	<b>(35,266)</b>	<b>205,338</b>	<b>94,575</b>	<b>(15,539)</b>	<b>79,036</b>

#### Geographical concentration

The geographical concentration of the Company's non–life insurance contract liabilities is in Ethiopia. This is the country where the business is written.

# Awash Insurance Company S.C.

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#### Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs and claim numbers for each accident year.

#### Sensitivities

	Change in assumption	Change in liability	
		30 June 2019	30 June 2018
		Birr'000	Birr'000
Average claim cost	+10%	118,461	116,746
Average number of claims	+10%	118,461	116,746

	Change in assumption	Change in liability	
		30 June 2019	30 June 2018
		Birr'000	Birr'000
Average claim cost	-10%	(118,932)	(78,417)
Average number of claims	-10%	(118,932)	(78,417)

#### Claims Development Table

The following Tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Gross non-life insurance contract outstanding claims provision for 2019:

Accident year	2014	2015	2016	2017	2018	2019	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
2014	115,987	139,616	160,255	201,657	226,311	315,164	
2015	179,784	207,273	242,973	299,409	333,751		
2016	187,714	216,718	249,695	317,261			
2017	190,194	221,668	255,108				
2018	192,236	223,632					
2019	194,387						
Current estimate of cumulative claims	194,387	223,632	255,108	317,261	333,751	315,164	1,639,304
IBNR			1,785	6,302	19,147	80,644	107,877
Cumulative payments to date	(74,861)	(205,069)	(231,165)	(270,648)	(278,006)	(283,699)	(1,343,448)
Liabilities recognised in the balance sheet (note 27)	119,526	18,563	25,728	52,915	74,891	112,109	403,732

Gross non-life insurance contract outstanding claims provision for 2018:

Accident year	2014	2015	2016	2017	2018	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
2014	140,490	165,896	193,974	266,881	308,297	
2015	186,528	214,132	255,289	325,530		
2016	191,021	221,124	257,231			
2017	192,183	223,234				
2018	194,098					
Current estimate of cumulative claims	194,098	223,234	257,231	325,530	308,297	1,308,391
IBNR			8,697	14,952	70,926	94,576
Cumulative payments to date	(82,897)	(205,069)	(231,165)	(270,648)	(278,006)	(1,067,786)
Liabilities recognised in the balance sheet (note 27)	111,201	18,165	34,764	69,835	101,217	335,182

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Gross non-life insurance contract outstanding claims provision for 2017:

Accident year	2014	2015	2016	2017	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
2014	141,522	169,998	209,472	305,471	
2015	188,647	219,413	270,715		
2016	194,735	226,560			
2017	195,958				
Current estimate of cumulative claims	195,958	226,560	270,715	305,471	998,704
IBNR	1,234	2,240	14,369	70,518	88,361
Cumulative payments to date	(72,853)	(205,069)	(231,165)	(270,648)	(779,735)
Liabilities recognised in the balance sheet (note 27)	124,339	23,731	53,919	105,341	307,330

Gross non-life insurance contract outstanding claims provision for 2016:

Accident year	2014	2015	2016	Total
	Birr'000	Birr'000	Birr'000	Birr'000
2014	161,823	199,567	265,502	
2015	201,035	239,505		
2016	206,736			
Current estimate of cumulative claims	206,736	239,505	265,502	711,743
IBNR	656	7,308	44,248	52,212
Cumulative payments to date	(55,074)	(205,069)	(231,165)	(491,308)
Liabilities recognised in the balance sheet (note 27)	152,318	41,744	78,585	272,647

## 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.

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

30 June 2019	Notes	Available-For-Sale	Loans and receivables	Total
		Birr'000	Birr'000	Birr'000
Cash and cash equivalents		-	746,548	746,548
Investment securities:	16			
– Available for sale		304,210	-	304,210
– Loans and receivables	17	-	10,004	10,004
Reinsurance assets	18	-	171,098	171,098
Other assets	19	-	105,908	105,908
	20			
<b>Total financial assets</b>		304,210	1,033,558	1,337,768

# Awash Insurance Company S.C.

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30 June 2018	Notes	Available- For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and cash equivalents		-	644,414	644,414
Investment securities:	16			
– Available for sale		182,757	-	182,757
– Loans and receivables	17	-	10,003	10,003
Reinsurance assets	18	-	144,481	144,481
Other assets	19	-	94,542	94,542
	20			
<b>Total financial assets</b>		<b>182,757</b>	<b>893,440</b>	<b>1,076,197</b>

#### 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 2019 Birr'000	30 June 2018 Birr'000
Cash and cash equivalents	746,548	644,414
Investment securities:		
– Available for sale	304,210	182,757
– Loans and receivables	10,004	10,003
Reinsurance assets	171,098	144,481
Other assets	105,908	94,542
	<b>1,337,768</b>	<b>1,076,197</b>

# Awash Insurance Company S.C.

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#### 4.3.1 Credit quality analysis

##### (a) Cash and cash equivalents

The credit quality of cash and bank balances and short-term investments are neither past due nor impaired at as 30 June 2019, and 30 June 2018; 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 fixed income and money market instruments. The Company further manages its exposure to credit risk through counterparty risk via established limits as approved by the Directive issued by NBE. All fixed income investments are measured for performance on a quarterly basis and monitored by management. The credit risk exposure associated with money market investments is low.

##### (c) Credit quality of reinsurers 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.

##### (d) Credit quality of other financial assets

30 June 2019	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	impaired Birr'000	Total Birr'000
<b>Insurance receivables:</b>				
Due from contract holders	-	-	22,456	22,456
Due from agents	-	-	-	-
Less: Impairment allowance (note 19a)			(22,456)	(22,456)
<b>Net</b>	-	-	-	-
<b>Other assets</b>				
Rent receivables	-			
Other account receivables	18,691	-	1,516	20,207
Receivable of claims from third party	51,057			51,057
Accrued interest receivable	-			-
Staff debtors	36,160		3,933	40,093
	105,908	-	5,449	111,357
<b>Gross</b>				
Less: Impairment allowance (note 19a)			(5,449)	(5,449)
<b>Net</b>	105,908	-	-	105,908

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	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	impaired Birr'000	Total Birr'000
<b>30 June 2018</b>				
<b>Insurance receivables:</b>				
Due from contract holders	-	-	22,456	22,456
Due from agents	-	-	-	-
<b>Gross</b>	-	-	22,456	22,456
Less: Impairment allowance (note 19a)			(22,456)	(22,456)
<b>Net</b>	-	-	-	-
	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	impaired Birr'000	Total Birr'000
<b>Other assets</b>				
Rent receivables	-			
Other account receivables	43,662	-	1,516	45,178
Accrued interest receivable	30,827			30,827
Staff debtors	-			-
	20053		1,438	21,491
<b>Gross</b>	94,542	-	2,954	97,496
Less: Impairment allowance (note 19a)			(2,954)	(2,954)
<b>Net</b>	94,542	-	-	94,542



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#### ***Insurance receivables - neither past due nor 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 in this category are receivables from contract holders (government customers) that are past due for less than 30 (thirty) days.

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

#### **Other loans and receivables**

Other receivables balances constitute, rent receivables, other account receivables and staff debtors. The Company has an internal system of assessing the credit quality of other receivables through established policies and approval systems. The Company constantly monitors its exposure to these receivables via periodic performance review. The Company further manages its exposure to credit risk through deduction of transactions at source. The exposure to credit risk associated with other receivables is low.

#### **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 companies of homogeneous assets in respect of losses that have been incurred but have not been identified on receivables subject to individual assessment for impairment.

	<b>30 June 2019 Birr'000</b>	<b>30 June 2018 Birr'000</b>
Due from contract holders	22,456	22,456
Other loans and receivables	5,449	2,954
Total allowance for impairment	<b>27,905</b>	<b>25,410</b>

#### **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.

Liquidity risk management in the Company is solely determined by Management, which bears the overall responsibility for liquidity risk. 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.

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#### 4.4.1 Management of liquidity risk

Cash flow forecasting is performed by the Finance and Accounts Directorate. The Directorate 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 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.

	Less than 90 days- 1			Total
	90 days	year	Over 1 year	
	Birr'000	Birr'000	Birr'000	Birr'000
<b>30 June 2019</b>				
Insurance contract liabilities	946,968			946,968
Insurance payables	77,978			77,978
Other liabilities	60,834	8,843		69,677
<b>Total financial liabilities</b>	<b>1,085,780</b>	<b>8,843</b>	<b>-</b>	<b>1,094,623</b>
	Less than 90 days	90 days- 1	Over 1 year	Total
	Birr'000	Birr'000	Birr'000	Birr'000
<b>30 June 2018</b>				
Insurance contract liabilities	800,760			800,760
Insurance payables	60,834			60,834
Other liabilities	133,245	14,309		147,554
<b>Total financial liabilities</b>	<b>994,839</b>	<b>14,309</b>	<b>-</b>	<b>1,009,148</b>

#### 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.

The Company does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

#### 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.



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#### 4.5.2 Management of market risk

Market risk is monitored by the Risk Management Unit 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) or contractually repriced ( floating 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 modeled 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.

The Company is also exposed to the risk of changes in future cash flows from fixed income securities arising from the changes in interest rates.

the Table below sets out information on the exposures to fixed and variable interest instruments.

	Fixed Birr'000	Non- interest bearing Birr'000	Total Birr'000
<b>30 June 2019</b>			
<b>Assets</b>			
Cash and cash equivalents	746,548	-	746,548
Investment securities:			-
– Available for sale	-	304,210	304,210
– Loans and receivables	10,004	-	10,004
Insurance receivables		-	-
Reinsurance assets	171,098	-	171,098
Other assets	105,908	-	105,908
<b>Total</b>	<b>1,033,558</b>	<b>304,210</b>	<b>1,337,768</b>
<b>Liabilities</b>			
Insurance contract liabilities	946,968	-	946,968
Insurance payables	77,978	-	77,978
Other liabilities	69,677	-	69,677
<b>Total</b>	<b>1,094,623</b>	<b>-</b>	<b>1,094,623</b>
<b>30 June 2018</b>			
<b>Assets</b>			
Cash and cash equivalents	644,414	-	644,414
Investment securities:			-
– Available for sale	-	182,757	182,757
– Loans and receivables	10,003	-	10,003
Insurance receivables		-	-
Reinsurance assets	144,481	-	144,481
Other assets	94,542	-	94,542
<b>Total</b>	<b>893,440</b>	<b>182,757</b>	<b>1,076,197</b>
<b>Liabilities</b>			
Insurance contract liabilities	800,760	-	800,760
Insurance payables	60,834	-	60,834
Other liabilities	147,554	-	147,554

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#### **(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 development of the business.

##### **4.6.1 Margin of Solvency ratio**

According to the Licencing and Supervision of Insurance Business Margin of Solvency (MOS) Directives No. SIB/45/2016 of the National Bank of Ethiopia, an insurer carrying on general business shall keep admitted capital amounting to the highest of 25% of its technical provisions, or 20% of the net written premiums in the last preceding financial year, or the minimum paid capital. An insurer carrying on long term insurance business shall keep admitted capital amounting to the higher of 10% of technical provisions or the minimum paid up capital.



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MOS ratio is the excess of assets over liabilities maintained for general and long term insurance business. Admissible assets and liabilities stated below is in accordance with the MOS Directives No. SIB/ 45/ 2016.

		<b>30 June 2019 Birr'000</b>	<b>30 June 2018 Birr'000</b>
<b>Admissible assets</b>	A		
Cash and bank balances		746,548	644,414
Investment securities:			
– Available for sale		304,210	182,757
– Loans and receivables		10,004	10,003
Property, plant and equipment		760,216	746,853
Investment property		258,916	247,604
Other assets net of prepayments		100,459	91,588
Statutory deposit		63,058	40,968
		<b>2,243,411</b>	<b>1,964,187</b>
<b>Admissible liabilities</b>	B		
Insurance contract liabilities		946,968	800,760
Insurance payables		77,978	60,834
Other liabilities		74,529	92,199
Deferred tax liability		207,922	221,000
Current income tax liabilities		15,920	15,288
		<b>1,323,317</b>	<b>1,190,081</b>
<b>Excess (admitted capital)- (A-B)</b>	C	<b>920,094</b>	<b>774,106</b>
<b>Net premium (Preceding year)</b>	D	<b>511,708</b>	<b>461,858</b>
<b>Solvency margin</b>			
Limit of net premium i.e 20% of net premium		102,342	92,372
Required Minimum of paid up capital		189,394	160,152
Since C>D - Positive Solvency Margin	(C-D)	408,386	312,248
<b>Solvency ratio</b>		<b>2.16</b>	<b>1.95</b>

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#### 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 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 following Table summarises the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	30 June 2019		30 June 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	Birr'000	Birr'000	Birr'000	Birr'000
<b>Financial assets</b>				
Cash and cash equivalents	746,548	746,548	644,414	644,414
Investment securities:				
– Available for sale	304,210	304,210	182,757	182,757
– Loans and receivables	10,004	10,004	10,003	10,003
Reinsurance assets	171,098	171,098	144,481	144,481
Other assets	105,908	105,908	94,542	94,542
<b>Total</b>	<b>1,337,768</b>	<b>1,337,768</b>	<b>1,076,197</b>	<b>1,076,197</b>
<b>Financial liabilities</b>				
Insurance contract liabilities	946,968	946,968	800,760	800,760
Insurance payables	77,978	77,978	60,834	60,834
Other liabilities	69,677	69,677	147,554	147,554
<b>Total</b>	<b>1,094,623</b>	<b>1,094,623</b>	<b>1,009,148</b>	<b>1,009,148</b>

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#### **4.7.3 Fair value methods and assumptions**

##### ***Investment securities***

Government bonds are classified as loans and receivables and are measured at amortised cost using the EIR method. This means the amortised cost is determined as the fair value of the bond at inception plus interest accrued using the Effective Interest Rate.

#### **4.7.4 Valuation technique using significant unobservable inputs – Level 3**

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

#### **4.7.5 Transfers between the fair value hierarchy categories**

During the three reporting periods 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 basis.

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#### 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

#### 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. All contracts in this segment are

**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 Operations Committee for the reporting segments for the year ended 30 June 2019 is as follows:

#### a Assets and liabilities for each segment at 30 June 2019

	Non- life		Life		Total	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>ASSETS</b>						
Cash and bank balances	541,217	477,018	205,331	167,396	746,548	644,414
Investment securities:						
– Available for sale	260,492	155,536	43,718	27,221	304,210	182,757
– Loans and receivables	6,002	6,002	4,002	4,001	10,004	10,003
Reinsurance assets	171,098	144,481	-	-	171,098	144,481
Other assets	119,121	105,596	3,889	8,269	123,010	113,865
Deferred acquisition cost	18,512	18,026	-	-	18,512	18,026
Salvage property held for sale	25,280	12,970	-	-	25,280	12,970
Prepayments for leasehold land	9,958	7,043	-	-	9,958	7,043
Property, plant and equipment	759,175	745,967	1,041	886	760,216	746,853
Investment properties	258,916	247,604	-	-	258,916	247,604
Intangible assets	5,063	6,130	1,046	-	6,109	6,130
Statutory deposits	60,808	38,718	2,250	2,250	63,058	40,968
Account with Life/NonLife	(11,774)	(4,480)	11,774	4,480	-	-
Deferred tax assets	-	-	-	-	-	-
<b>Total assets</b>	<b>2,223,868</b>	<b>1,960,611</b>	<b>273,051</b>	<b>214,503</b>	<b>2,496,919</b>	<b>2,175,114</b>
<b>LIABILITIES</b>						
Insurance contract liabilities	763,583	646,823	183,385	153,937	946,968	800,760
Provisions for claims under litigations	2,185	1,910	-	-	2,185	1,910
Deferred income tax						
Insurance payables	67,822	54,114	10,156	6,720	77,978	60,834
Other liabilities	72,772	91,467	1,757	732	74,529	92,199
Defined benefit obligations	7,389	6,123	-	-	7,389	6,123
Deferred tax liability	207,915	213,316	7	34	207,922	213,349
Current income tax liabilities	14,103	13,888	1,816	1,401	15,920	15,288
<b>Total liabilities</b>	<b>1,135,770</b>	<b>1,027,640</b>	<b>197,121</b>	<b>162,824</b>	<b>1,332,891</b>	<b>1,190,463</b>
<b>Equity</b>						
Share capital	410,193	262,127	15,000	15,000	425,193	277,127
Share premium	778	778	-	-	778	778
Retained earnings	603,775	610,417	51,136	29,208	654,911	639,625
Legal reserve	73,353	59,649	9,793	7,471	83,146	67,120
<b>Total equity</b>	<b>1,088,099</b>	<b>932,971</b>	<b>75,930</b>	<b>51,679</b>	<b>1,164,029</b>	<b>984,650</b>
<b>Total equity and liabilities</b>	<b>2,223,869</b>	<b>1,960,611</b>	<b>273,051</b>	<b>214,503</b>	<b>2,496,920</b>	<b>2,175,114</b>

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**b Profit or loss for each category for the year ended 30 June 2019**

	Non-life		Life		Total	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>Revenue</b>						
Gross premiums (note i)	690,797	604,584	106,249	69,527	797,046	674,111
Premiums ceded to reinsurers (note i)	(175,658)	(151,990)	(11,458)	(10,413)	(187,116)	(162,403)
	515,139	452,594	94,791	59,114	609,930	511,708
Change in unearned income (note 27)	(31,216)	(22,781)	-	-	(31,216)	(22,781)
	483,923	429,813	94,791	59,114	578,714	488,927
Fee and commission income	51,290	44,827	2,454	2,391	53,744	47,218
Investment income	107,578	81,073	28,946	23,718	136,524	104,791
Other operating income	10,485	5,991	22	118	10,507	6,109
	653,276	561,704	126,213	85,341	779,489	647,045
<b>Expenses</b>						
Claims incurred	(270,298)	(246,656)	(52,211)	(37,519)	(322,509)	(284,175)
Underwriting expenses	(34,279)	(25,620)	(4,582)	(4,587)	(38,861)	(30,207)
Other operating and administrative expenses	(207,519)	(159,443)	(5,959)	(3,899)	(213,478)	(163,342)
Increase in life fund	-	-	(28,461)	(29,336)	(28,461)	(29,336)
	141,180	129,985	35,000	10,000	176,180	139,985
<b>Profit before income tax</b>	141,180	129,985	35,000	10,000	176,180	139,985
Income tax expense	(14,103)	(11,781)	(1,816)	(35)	(15,920)	(11,817)
	127,077	118,204	33,184	9,965	160,260	128,168

**i) Insurance premiums**

	30 June 2019			30 June 2018		
	Gross written premium	Reinsurers premium	Net written premium	Gross written premium	Reinsurers premium	Net written premium
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>General insurance</b>						
Fire	72,648	(40,541)	32,107	58,201	(36,558)	21,643
Burglary	4,588	(1,999)	2,589	4,425	(2,359)	2,066
Motor	395,643	(34,599)	361,044	376,360	(41,909)	334,451
Marine	35,300	(10,099)	25,201	23,930	(8,162)	15,768
Goods in transits	12,983	(2,294)	10,689	11,475	(3,461)	8,014
Workmens' compensation	16,544	(807)	15,737	14,774	(1,542)	13,232
Group Personal Accident	20,069	(8,175)	11,894	18,986	(4,472)	14,515
Engineering	59,197	(45,181)	14,016	33,610	(19,683)	13,926
Public liability	26,559	(6,534)	20,025	21,854	(8,403)	13,451
Pecuniary	32,972	(13,529)	19,443	30,974	(15,961)	15,013
Floriculture	1,787	(1,791)	(5)	1,895	(1,489)	405
Political Violence & Terrorism	11,558	(10,109)	1,449	7,249	(8,533)	(1,284)
Others	950			875		
	690,797	(175,659)	514,188	604,608	(152,532)	451,201

	30 June 2019			30 June 2018		
	Gross written premium	Reinsurers premium	Net written premium	Gross written premium	Reinsurers premium	Net written premium
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>Life insurance</b>						
Individual life	6,267	(250)	6,016	3,547	(98)	3,449
Group life	38,777	(7,818)	30,960	26,430	(8,434)	17,996
Group medical	61,205	(3,390)	57,814	39,550	(1,881)	37,669
	106,249	(11,458)	94,790	69,527	(10,413)	59,114

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	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>6 Net premiums</b>		
<b>a Gross premium on insurance contracts</b>		
<b>Gross written premium (note 5b (i))</b>		
Life insurance	106,249	69,527
Non-life insurance	683,167	597,944
Coinsurance premium income	7,630	6,640
<b>Total gross written premium</b>	<b>797,046</b>	<b>674,111</b>
Change in unearned premiums provision (note 27)	(46,436)	(31,642)
<b>Gross premium income</b>	<b>750,610</b>	<b>642,469</b>
<b>b Premiums ceded to reinsurers on insurance contracts (note 5b (i))</b>		
-Life insurance	(11,458)	(10,413)
-Non-life insurance	(164,914)	(148,119)
-Coinsurance premium expenses	(10,744)	(3,871)
Change in unearned premiums provision (note 27)	15,220	8,861
<b>Total premiums ceded to reinsurers</b>	<b>(171,896)</b>	<b>(153,542)</b>
<b>Total net premiums</b>	<b>578,714</b>	<b>488,927</b>

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

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>7 Fee and commission income</b>		
Policy administration	11,840	9,374
Reinsurance commission income	41,904	37,844
<b>Total fees and commission income</b>	<b>53,744</b>	<b>47,218</b>

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

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>8 Investment income</b>		
Rental income from investment properties (note 22)	7,745	6,631
Available for sale:		
- Dividend income	55,752	41,421
- Interest income	72,274	55,001
Cash and short-term deposits		
- Interest income savings	753	1,738
<b>Total investment income</b>	<b>136,524</b>	<b>104,791</b>



# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>9 Other operating income</b>		
Gain on disposal of property, plant and equipment	347	837
Sundry income	10,160	5,272
<b>Total other operating income</b>	<b>10,507</b>	<b>6,109</b>

Sundry income includes income earned from sales of recoveries which are claim non specific policies.

Claims recoveries of specific policies that relate to the net realisable value of salvaged property included as an allowance in the measurement of the insurance claims paid.

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>10 Net benefits and claims</b>		
<b>a Claims expenses</b>		
Life insurance contracts (note 27b)	55,595	37,797
Non-life insurance contracts (note 27a)	283,704	277,884
Change in recoveries salvage properties	(12,310)	7,073
Change in subrogation reimbursements	(20,230)	(11,342)
<b>Total claims expenses</b>	<b>306,759</b>	<b>311,412</b>
<b>b Claims recovered from reinsurers</b>		
Life insurance contracts (note 27b)	(4,371)	(1,885)
Non-life insurance contracts (note 27a)	(39,558)	(51,633)
<b>Total Claims expenses recoverable</b>	<b>(43,929)</b>	<b>(53,518)</b>
<b>c Gross change in contract liabilities</b>		
Change in life insurance contract liabilities (note 27b)	987	1,607
Change in non-life insurance contract outstanding claims provision (note 27a)	55,117	21,636
Change in non-life insurance contract IBNR provision (note 27a)	13,434	6,215
Losses recognised as a result of liability adequacy test	1,714	696
Change in claims under litigations (note 28)	274	(2,212)
<b>Total gross change in contract liabilities</b>	<b>71,526</b>	<b>27,942</b>
<b>d Change in contract liabilities ceded to reinsurers</b>		
Change in non-life insurance contract IBNR provision	(1,469)	(901)
Change in non-life insurance contract outstanding claims provision	(10,378)	(760)
	(11,847)	(1,661)
<b>Net benefits and claims</b>	<b>322,509</b>	<b>284,175</b>

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>11 Underwriting expense</b>		
Commission paid	39,347	35,078
Changes in deferred acquisition cost (note 21)	(486)	(4,871)
	38,861	30,207

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>12 Finance costs</b>		
Interest expense on bank overdraft	633	42
	633	42

**Awash Insurance Company S.C.**  
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Notes to the Financial Statements

**13 Other operating and administrative expenses**

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Rental expenses	13,475	11,897
Stationery and office supplies	8,376	5,664
Auditor's remuneration	173	196
Legal and other consultancy fees	4,054	2,708
Communication	3,595	3,953
Amortisation of leasehold land (note 2')	176	177
Recovery of Impairment loss on receivables	127	(1,033)
Other expenses	9,833	7,109
Donations	5,040	10,210
Gift and sponsorship	9,290	1,630
Fees and commission expenses	23	18
Fuel and lubricants	2,410	1,712
Bank charges	1,690	1,749
Depreciation on property and equipment (note 23)	29,899	29,319
Depreciation on investment property (note 24)	3,783	4,084
Fair Value adjustment (OCI)	(18,090)	(18,021)
Advertisement	10,530	2,531
Subscription	381	528
Amortisation of intangible assets (note 25)	1,067	249
Directors emoluments	1,164	432
Repairs and maintenance	4,687	7,302
Travel expenses	2,180	1,638
Insurance cost	1,416	1,941
	<b>95,279</b>	<b>75,993</b>

**14 Employee benefits expense**

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Salaries and wages	90,726	69,574
Medical expenses	1,219	38
Life insurance expense	4,981	3,770
Staff training	3,728	2,506
Defined contribution costs- employers' contribution	10,941	7,081
Defined benefit costs- severance pay (note 31)	1,267	3,226
Other staff cost and allowances	4,704	1,112
	<b>117,566</b>	<b>87,307</b>

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### 15 Company income and deferred tax

##### a Current income tax

	30 June 2019 Birr'000	30 June 2018 Birr'000
Company income tax	15,920	11,817
Prior year (over)/ under provision		3,471
Capital gains tax		
Tax on foreign deposit interest		
Deferred income tax/(credit) to profit or loss		
Total charge to profit or loss	15,920	15,288
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive income	15,920	15,288

##### b 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 2019 Birr'000	30 June 2018 Birr'000
Profit before tax	176,180	139,985
Income taxed at source		
- Interest income from deposits	(73,027)	(55,001)
- Income from on dividend	(55,752)	(43,159)
-Adustement of taxable depreciation	(5,164)	(6,094)
-Non-deductible expenses	10,828	3,658
Total taxable Income	53,065	39,390
Tax calculated at statutory tax rate of 30 %	15,920	11,817

Depreciation for Company income tax for fixed assets acquired after the effective date of ncome Tax Proclamation No. 979/2016 & Council of Ministers Regulation 410/2017 Art. 67 is calculated by diminishing system other than buildings while fixed assets acquired prior to the above mentioned proclamation date is depreciated as follows.

i. Fixed assets with positive balance in a depreciation basis in the pool at a commencement of the Proclamation, are depreciated at the following rates per annum.

- Buildings 5%, using straight-line method,
- Computers, information systems, software products and data storage equipments 25%,
- All other Assets 20%

ii. Depreciable assets acquired on or after the commencement of the proclamation are depreciated by applying the following rates per annum against the net book value of the assets.

- Buildings 5%, using straight-line method,
- Computers, information systems, software products and data storage equipments 20%,
- All other Assets 15%

**Awash Insurance Company S.C.**  
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	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>c Current income tax liability</b>		
Balance at the beginning of the year	15,288	13,976
Charge for the year:		
Company Income tax expense	15,920	11,817
Prior year (over)/ under provision	-	3,471
Payment during the year	(15,288)	(13,976)
Balance at the end of the year	15,920	15,288

**d 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 for the Company has not been recognised because it is not probable that future taxable profits will be available against which they can be utilised.

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>The analysis of deferred tax assets/(liabilities) is as follows:</b>		
To be recovered after more than 12 months	202,495	207,943
To be recovered within 12 months	5,427	5,406
	207,922	213,349

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:

<b>Deferred income tax assets/(liabilities):</b>	<b>At 1 July 2018</b>	----- <b>(charge) to profit or loss</b>	<b>Credit/ (charge) to equity</b>	<b>30 June 2019</b>
	<b>Birr'000</b>	<b>Birr'000</b>	<b>Birr'000</b>	<b>Birr'000</b>
Property, plant and equipment	213,349			213,349
Provisions			(5,427)	(5,427)
Tax losses charged to profit or loss				-
Post employment benefit obligation				
<b>Total deferred tax assets/ (liabilities)</b>	213,349	-	(5,427)	207,922

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### 16 Cash and bank balances

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash in hand	8,359	5,664
Cash at bank	65,360	100,784
Short term deposits with banks	10,509	20,256
Fixed time deposits with local banks	662,320	517,710
	<u>746,548</u>	<u>644,414</u>

Cash and bank balances are all current.

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 2018 Birr'000	30 June 2018 Birr'000
Cash and cash equivalents		
Cash in hand	8,359	5,664
Cash at bank	65,360	100,784
Short term deposits with banks	10,509	20,256
	<u>84,228</u>	<u>126,704</u>

#### 17 Investment securities

##### Available for sale

Equity investments	304,210	182,757
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##### Loans and receivables

Ethiopian Government saving bonds	10,004	10,003
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	30 June 2018 Birr'000	30 June 2018 Birr'000
Current	304,210	182,757
Non- current	10,004	10,003
	<u>314,214</u>	<u>192,760</u>

The Company holds equity investments in the following entities;

	30 June 2019 Amount of shares '000		30 June 2018 Amount of shares '000	
Awash International Bank S.C	266,969	4.4%	150,000	5%
Ethiopian Reinsurance Company	28,723	3%	25,000	3%
BIS Vegetables and Agro industry	800	1%	800	1%
Sheger Investment Hotel and Tourism S.C	400	10%	400	10%
Addis- Africa International CEC	1,509	0.3%	909	0.3%
Oda Share Company S.C.	5,809	9.7%	5,648	10%
	<u>304,210</u>		<u>182,757</u>	

# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

#### Notes to the Financial Statements

These investments are unquoted equity securities measured at cost less impairment.

#### 18 Insurance receivables

Due from contract holders  
Insurance agents

Impairment loss on due from contract holders

**Net amount**

A reconciliation of the allowance for impairment loss for insurance receivables is as follows:

**At 1 July**  
Charge for the year (note 13)  
Recoveries

**As at 30 June**

#### 19 Reinsurance assets

Recoverable from reinsurers  
Reinsurance recoverable on outstanding claims  
Short-term insurance contracts:  
– Claims reported and loss adjustment expenses  
– Claims incurred but not reported (IBNR)  
Long-term insurance contracts:  
– Outstanding claims provision  
Prepaid reinsurance

Impairment provision

Current  
Non-current

	30 June 2019	30 June 2018
	Birr'000	Birr'000
	22,456	22,456
	-	-
	22,456	22,456
	(22,456)	(22,456)
	-	-

	30 June 2019	30 June 2018
	Birr'000	Birr'000
	22,456	22,456
	-	-
	-	-
	22,456	22,456

	30 June 2019	30 June 2018
	Birr'000	Birr'000
	30,315	30,825
	45,644	35,266
	17,008	15,539
	434	374
	77,697	62,477
	-	-
	171,098	144,481

	30 June 2018	30 June 2018
	Birr'000	Birr'000
	30,315	30,825
	140,783	113,656
	171,098	144,481

# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

#### Notes to the Financial Statements

The Company conducted an impairment review of the reinsurance assets and no impairment is required in respect of these assets as the Company has the right to set-off reinsurance assets against reinsurance liabilities on settlement. The carrying amounts disclosed above is in respect of the reinsurance of investment contracts approximate fair value at the reporting date.

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>20 Other assets</b>		
<b>Other loans and receivables:</b>		
Rent receivables	-	-
Other account receivables	18,691	43,662
Subrogation reimbursements	51,057	30,827
Accrued interest receivable		
Staff debtors	36,160	20,053
	<b>105,908</b>	<b>94,542</b>
<b>Other non financial assets</b>		
Prepaid staff expense	1,481	1,481
Withholding tax receivable	8,348	7,605
Value added tax receivable	451	460
Prepayments	12,271	12,731
	<b>22,551</b>	<b>22,277</b>
<b>Less impairment loss on other receivables:</b>		
Impairment loss on other accounts receivables	(1,516)	(1,516)
Impairment loss on staff debtors	(3,933)	(1,438)
	<b>(5,449)</b>	<b>(2,954)</b>
	<b>123,010</b>	<b>113,865</b>
	<b>30 June 2018</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Current	123,010	113,865
Non- current		
	<b>123,010</b>	<b>113,865</b>

A reconciliation of the allowance for impairment losses for other receivables, is as follows:

	<b>30 June 2018</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
<b>At 1 July</b>	2,954	2,954
Charge for the year	-	-
Recoveries	2,495	-
<b>As at 30 June</b>	<b>5,449</b>	<b>2,954</b>

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### 21 a Deferred acquisition cost

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

	30 June 2018 Birr'000	30 June 2018 Birr'000
Fire	2,085	2,944
Burglary	103	345
Motor	8,280	7,381
Marine	1,011	1,096
Goods in transits	576	630
Workmens' compensation	514	611
Group Personal Accident	1,252	987
Engineering	2,284	1,639
Public liability	1,142	936
Pecuniary	1,117	1,326
Floriculture	66	100
Political Violence and Terrorism	82	30
	18,512	18,026

The movement in deferred acquisition costs is as follows:

	30 June 2018 Birr'000	30 June 2018 Birr'000
<b>As at 1 July</b>	18,026	18,026
Additions during the year (note 9)	486	-
Amortisation during the year		
<b>As at 30 June</b>	18,512	18,026

#### 21 b Salvage property held for sale

Salvage property held for sale

	30 June 2018 Birr'000	30 June 2018 Birr'000
	25,280	12,970

The movement in salvage properties held for sale is as follows:

	30 June 2018 Birr'000	30 June 2018 Birr'000
<b>As at 1 July</b>	12,970	12,970
Additions during the year	12,310	-
<b>As at 30 June</b>	25,280	12,970

These assets represent salvage properties that are fully or partially damaged and fully compensated to the policy holder by the company. These assets are recognized and classified as held held for sale in the financial statement by their carrying amount and fair value less cost of disposal as per IFRS 5.

The Company's Management intention regarding these assets is to dispose through public auction. These assets will not be held for more than a year from the date of compensation and their carrying value will only be recovered through disposal rather than continuing use.

#### 22 Prepayments for leasehold land

**As at 1 July**  
Addition/adjustment during the year  
Amortization/adjustment for the year

	30 June 2018 Birr'000	30 June 2018 Birr'000
	8,622	6,876
	3,153	1,746
	(1,817)	(1,579)
<b>As at 30 June</b>	9,958	7,043



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23 Property, plant and equipment	Furniture and fittings	Office equipment	Buildings	Lifts	Motor vehicles	Computer equipment	Construction in progress	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
<b>Cost</b>								
At 1 July 2018	10,783	7,081	648,240	36,180	91,179	11,044	19,222	823,729
Additions	824	1,438	(1,443)	1,443	0	1,642	53,701	57,605
Disposals/Adjustemen	58.30	(140.84)	-	-	(467)	(178.96)	-	(729)
Reclassification	-	-	(14,266)	-	-	-	-	(14,266)
At 30 June 2019	11,665	8,378	632,531	37,623	90,712	12,507	72,923	866,339
<b>Accumulated depreciation</b>								
At 1 July 2018	(4,991)	(4,332)	(26,180)	(5,512)	(27,413)	(8,448)	-	(76,876)
Charge for the year	(1,019)	(783)	(14,406)	(4,086)	(10,247)	(1,067)	-	(31,609)
Disposals/Adjustemen	(127.95)	(454.81)	-	(1)	428	937.40	-	782
Reclassification	-	-	1580	-	-	-	-	1,580
At 30 June 2019	(6,138)	(5,570)	(39,006)	(9,599)	(37,232)	(8,578)	-	(106,123)
<b>Net book value</b>								
At 30 June 2018	5,792	2,749	622,060	30,668	63,766	2,596	19,222	746,853
At 30 June 2019	5,527	2,808	593,525	28,024	53,480	3,929	72,923	760,216

Transfers from property, plant and equipment relates to buildings recognised under property, plant and equipment which are held to earn rental income and fall under the Company's definition of an investment property.

# Awash Insurance Company S.C.

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### For the year ended 30 June 2019

#### Notes to the Financial Statements

	<b>Building Birr'000</b>	<b>Construction in progress Birr'000</b>	<b>Total Birr'000</b>
<b>24 Investment property</b>			
<b>Cost:</b>			
At 1 July 2018	201,526	53,958	255,484
Additions	198	(2,389)	(2,191)
Reclassification	14,266		14,266
Transfer out of investment properties under construction	2,958		2,958
Revaluation surplus/ (deficit)			
At 30 June 2019	<u>218,948</u>	<u>51,569</u>	<u>270,517</u>
<b>Accumulated depreciation:</b>			
At 1 July 2018	7,880	-	7,880
Charge for the year	2,141	-	2,141
Reclassification	1,580		1,580
At 30 June 2019	<u>11,601</u>	<u>-</u>	<u>11,601</u>
<b>Net book value</b>			
At 30 June 2018	193,646	53,958	247,604
At 30 June 2019	<u>230,549</u>	<u>51,569</u>	<u>258,916</u>

#### a Amounts recognised in profit or loss for investment property

	<b>30 June 2019 Birr'000</b>	<b>30 June 2018 Birr'000</b>
Rental income (note 10)	7,745	6,631
Direct operating expenses from property that generated rental income		
	<u>7,745</u>	<u>6,631</u>

#### b Fair value measurement of the Company's investment properties

The Company's investment property is measured at fair value. These properties include those held for rental purposes. There are currently no restrictions on the realisability of these properties.

Investment property is initially measured at cost including transaction costs and subsequently measured at depreciated cost (less any accumulated impairment losses). Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 50 years. The fair value of investment properties has been disclosed as required.

The fair value of the Company's investment property as at the reporting date and has been arrived at by independent professional and qualified estate surveyors and valuers. These valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the replacement cost concept which approximates the estimated amount for which a property should exchange on the date of valuation between knowledgeable willing parties in an arm's length transaction after proper marketing, prudently and without compulsion. This implies a market comparable approach that reflects the recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

# Awash Insurance Company S.C.

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#### c Fair value hierarchy

Details of the Company's investment properties and information about the fair value hierarchy are as follows:

Carrying amount	30 June 2019		30 June 2018	
	Birr'000		Birr'000	
<b>Level 2</b>		258,916		247,604
	<b>Software development cost</b>	<b>Software cost</b>	<b>Total</b>	
	<b>Birr'000</b>	<b>Birr'000</b>	<b>Birr'000</b>	
<b>25 Intangible Assets</b>				
<b>Cost</b>				
<b>As at 30 June 2018</b>		8,537		3,841
Additions	1,046			4,696
Transfers				-
<b>As at 30 June 2019</b>	<b>1,046</b>	<b>8,537</b>		<b>8,537</b>
<b>Amortisation</b>				
<b>As at 30 June 2018</b>		(2,407)		(2,158)
Additions		(1,067)		(249)
<b>As at 30 June 2019</b>		<b>(3,474)</b>		<b>(2,407)</b>
<b>Net book value</b>				
As at 30 June 2018				<b>6,130</b>
As at 30 June 2019	<b>1,046</b>	<b>5,063</b>		<b>6,109</b>

#### 26 Statutory deposits

This relates to the amount deposited with National Bank of Ethiopia in line with Article 20 of the Insurance Business Proclamation No. 746/2012. The law requires that in respect of each main class of insurance, the insurer carries an amount equal to 15% of the Company's paid up capital in cash or government securities.

The statutory deposit below includes 63,057,750 (2018: Birr 40,968,500) out of it Birr 63,010,000 is transferred to Ethiopian Government Saving Bond for Great Renaissance dam. The Bond bears interest income of 6% per annum.

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Statutory deposits	63,058	40,968

The movement during the year is as follows:

	30 June 2018	30 June 2018
	Birr'000	Birr'000
<b>As at 1 July</b>	40,968	36,725
Additions	23,725	6,390
Interest received on statutory deposit invested in Government Bond	(3,972)	(3,231)
Interest receivable on statutory deposit invested in Government Bond	2,337	1,084
<b>As at 30 June</b>	<b>63,058</b>	<b>40,968</b>

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Although the minimum balance required to be set aside is 63,709, 950 (2018: Birr 41, 569,050), accrued interest receiveable on the statutory deposit transferred to Ethiopian Government Savings Bond of 1,940,057 (2018: Birr 1,083,544 ) have been included in the disclosure .

	30 June 2019	30 June 2018
	Birr'000	Birr'000
<b>27 Insurance contract liabilities</b>		
<b>Gross</b>		
<b>Short-term insurance contracts:</b>		
– Claims reported and loss adjustment expenses	295,721	240,605
– Claims incurred but not reported IBNR	108,011	94,577
Outstanding claims provision	403,732	335,182
– Unearned premiums	349,324	302,888
– Unallocated loss adjustment expense	10,093	8,379
	763,149	646,449
<b>Long-term insurance contracts:</b>		
– Life insurance fund	178,524	150,063
– Outstanding claims provision	5,295	4,248
	183,819	154,311
<b>Total insurance liabilities, gross</b>	946,968	800,760
<b>Reinsurers assets</b>		
<b>Short-term insurance contracts:</b>		
– Claims reported and loss adjustment expenses	45,644	35,266
– Claims incurred but not reported (IBNR)	17,008	15,539
Outstanding claims provision	62,652	50,805
– Unearned premiums (note ii)	77,697	62,477
	140,349	113,282
<b>Long-term insurance contracts:</b>		
– Outstanding claims provision	434	374
<b>Total reinsurers' share of insurance liabilities</b>	140,783	113,656
<b>Net</b>		
<b>Short-term insurance contracts:</b>		
– Claims reported and loss adjustment expenses	250,077	205,339
– Claims incurred but not reported (IBNR)	91,003	79,038
Outstanding claims provision	341,080	284,377
– Unearned premiums (note b)	271,627	240,411
	622,800	533,167
– Unallocated loss adjustment expense	10,093	8,379
	622,800	533,167
<b>Long-term insurance contracts:</b>		
– Life insurance fund	178,524	150,063
– Outstanding claims provision	4,861	3,874
	183,385	153,937
<b>Total insurance contract liabilities, net</b>	<b>806,185</b>	<b>687,104</b>
	<b>30 June 2018</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Current	627,661	537,041
Non- current	178,524	150,063
	<b>806,185</b>	<b>687,104</b>

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 Company's net liability for insurance contracts was tested for adequacy by Actuarial Services (Actserve) Ltd., an

**Awash Insurance Company S.C.**  
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**Movements in insurance liabilities and reinsurance assets**

**a insurance**

	30 June 2019			30 June 2018		
	Gross Birr'000	Reinsurance Birr'000	Net Birr'000	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
<b>(i) Outstanding</b>						
<b>At 1 July</b>	335,182	(50,805)	284,377	277,662	(44,604)	233,058
Notified claims	55,116	(10,378)	44,738	21,636	(760)	20,876
IBNR	13,434	(1,469)	11,965	6,216	(901)	5,315
<b>As at 30 June</b>	403,732	(62,652)	341,080	305,514	(46,265)	259,249
<b>At 1 July</b>	335,182	(50,805)	284,377	277,662	(44,604)	233,058
Cash paid for claims settled in year (note 8)	(283,704)	39,558	(244,146)	(277,884)	51,633	(226,251)
Increase in liabilities:						
– Arising from current-year claims	65,698	(17,218)	48,481	162,819	(9,354)	153,464
– Arising from prior-year claims	286,535	(34,187)	252,347	172,586	(43,940)	128,646
<b>As at 30 June</b>	403,711	(62,652)	341,059	335,182	(46,265)	288,917

**(ii) Provisions for unearned premiums**

**30 June 2019**

	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
Fire	38,229	(18,991)	19,238
Burglary	2,754	(1,200)	1,554
Motor	195,301	(9,471)	185,830
Marine	21,155	(5,457)	15,698
Goods in transits	7,079	(1,251)	5,828
Workmens' compensation	9,520	(464)	9,056
Group's personal accident	10,350	(4,004)	6,346
Enginnering	27,051	(20,288)	6,763
Liability	13,150	(3,235)	9,915
Pecuniary	17,953	(7,366)	10,587
Floriculture	231	(230)	1
Political Violence & Terrorism	6,551	(5,740)	811
	<b>349,324</b>	<b>(77,697)</b>	<b>271,627</b>

**30 June 2018**

	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
Fire	30,924	(17,484)	13,440
Burglary	2,632	(1,403)	1,229
Motor	180,371	(9,218)	171,153
Marine	14,712	(4,349)	10,363
Goods in transits	6,509	(1,963)	4,546
Workmens' compensation	8,257	(390)	7,867
Group's personal accident	10,665	(2,487)	8,178
Enginnering	17,505	(8,970)	8,535
Liability	9,717	(3,736)	5,981
Pecuniary	16,275	(8,378)	7,897
Floriculture	539	(432)	107
Political Violence & Terrorism	4783	(3,667)	1116
	<b>302,889</b>	<b>(62,477)</b>	<b>240,412</b>

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

	30 June 2019			30 June 2018		
	Gross Birr'000	Reinsurance Birr'000	Net Birr'000	Gross Birr'000	Reinsurance Birr'000	Net Birr'000
<b>At 1 July</b>	302,888	(62,477)	240,411	271,246	(53,616)	217,630
Change in unearned income	46,436	(15,220)	31,216	31,642	(8,861)	22,781
<b>As at 30 June</b>	<b>349,324</b>	<b>(77,697)</b>	<b>271,627</b>	<b>302,888</b>	<b>(62,477)</b>	<b>240,411</b>

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end.

#### b Long-term insurance contracts:

##### i) Life insurance funds

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>At 1 July</b>	150,063	128,766
<b>Increase in individual life funds</b>		
Adjustment of opening balance	-	16
Net premiums received (note 6)	94,791	59,114
Investment income	28,946	23,718
Other income	22	118
Claims paid (note 8)	(55,595)	(37,797)
Claims recovered from reinsurers (note 8)	4,371	1,885
Management expenses	(5,959)	(3,899)
Net commission paid/ (received)	(2,128)	(2,196)
Changes in outstanding claim (note ii)	(987)	(1,607)
Distribution to shareholders	(35,000)	(10,000)
	28,461	29,336
<b>As at 30 June</b>	<b>178,524</b>	<b>150,063</b>

The Company did not cede any of these liabilities to its reinsurers.

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Actuarial liabilities	102,195	69,597
Actuarial surplus	111,329	90,450
Distribution to shareholders	(35,000)	(10,000)
<b>Life fund</b>	<b>178,524</b>	<b>150,063</b>

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ii) **Outstanding claims provision**

**At 1 July**  
 Changes in outstanding claim (note 8)  
**As at 30 June**

<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Birr'000</b>	<b>Birr'000</b>
3,874	2,267
987	1,607
<b>4,861</b>	<b>3,874</b>

**28 Provisions for claims under litigations**

**At 1 July**  
 Provisions made during the year  
**As at 30 June**

<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Birr'000</b>	<b>Birr'000</b>
1,910	4,122
275	(2,212)
<b>2,185</b>	<b>1,910</b>

**29 Insurance payables**

Due to reinsurers  
 Payable to local insurance  
 Due to agents

<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Birr'000</b>	<b>Birr'000</b>
65,572	51,567
10,404	6,490
2,002	2,777
<b>77,978</b>	<b>60,834</b>

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

**30 Other liabilities**

**Other financial liabilities**

Dividend payable  
 Directors' Compensation  
 Other account payables

<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Birr'000</b>	<b>Birr'000</b>
8,843	14,309
1,800	900
4,423	11,029
<b>15,066</b>	<b>26,238</b>

**Other non financial liabilities**

Deferred income  
 Withholdings Tax Payable  
 Provident/Pension Fund Payable  
 Unearned rental income  
 Leave pay  
 Accruals  
 Value Added Tax (VAT)  
 Dividend tax payable  
 Payroll tax payable  
 Advance premium deposit

21,591	17,735
1,085	758
256	1,876
3,279	3,611
9,192	7,531
17,211	23,650
2,439	2,464
1,072	426
1,651	7,078
1,687	832
<b>59,463</b>	<b>65,961</b>

**Gross amount**

<b>74,529</b>	<b>92,199</b>
---------------	---------------

Current  
 Non-current

<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Birr'000</b>	<b>Birr'000</b>
74,529	92,199
-	-
<b>74,529</b>	<b>92,199</b>

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

### 31 Defined benefit obligations

The Company operates an unfunded severance benefit plan for its employees who have served the Company and are below the retirement age (i.e. has not met the requirement to access the pension fund). The Severance Benefit Entitlement is provided under the Proclamation No. 377/2003.

#### Description of the plan:

If an employee is terminated due to redundancy, in the first year, the pay is thirty times the average daily wages of the last week of service. If less than one year service, severance pay is calculated in proportion to the period of service.

For more than one year service, payment is increased by a third of the benefit for every additional year of service provided that the total amount does not exceed twelve month's wage of the employee.

This benefit is also entitled to employees in the event of death in service, voluntary resignation and disability after 5 years of service.

#### Key Risks

The key risks associated with the severance benefit entitlement are as follows:

1. The benefits are linked to salary and consequently have an associated risk to increases in salary.
2. The benefits are defined as per the Labour Proclamation. Amendments to the Labour Proclamation could change these benefits and materially change the costs of the Company.
3. The severance benefit is unfunded with no separate assets, investment risk would therefore not arise.
4. Severance benefits is payable where an employee's contract of employment is terminated by the initiation of the employer against the provision of Law. The actual cost to the Company of the benefits is therefore subject to the demographic movements of employees.

Below are the details of movements and amounts recognised in the financial statements:

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>A Liability recognised in the financial position</b>		
Defined benefit obligations	7,389	-
<b>B Amount recognised in the profit or loss</b>		
Current service cost	1,787	1,031
Interest cost	140	692
	1,927	1,723
<b>C Amount recognised in other comprehensive income:</b>		
Remeasurement (gains)/losses arising from changes in the financial assumptions	(379)	(412)
Remeasurement (gains)/ losses employee benefit	-	-
Tax credit /(charge)	-	-
	(379)	(412)
The movement in the defined benefit obligation over the years is as follows:		
	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>At 1 July</b>	6,123	5,014
Current service cost	1,787	1,031
Interest cost	140	692
Remeasurement (gains)/ losses	(379)	(412)
Benefits paid	(283)	(202)
<b>As at 30 June</b>	7,389	6,123



# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### D Assumptions

The significant actuarial assumptions were as follows:

i) Financial assumption: long term average

	30 June 2019	30 June 2018
	Birr'000	Birr'000
Discount Rate (p.a)	13.5%	12.75%
Rate of Pension Increase (p.a)	15%	15%

ii) Mortality in Service

The rate of mortality assumed for employees are those according to the A1949/52 as published by the Institute of Actuaries. These rates combined are approximately summarized as follows:

Age	Mortality rate	
	Male	Female
20	11.10%	11%
25	11.20%	11%
30	11.60%	11%
35	13.20%	12%
40	18.80%	15%
45	33.00%	23%
50	59.90%	42%
55	103.50%	75%
60	172.00%	127%

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed that resignation rates decrease by 1% for each age from 15% at age 20 (and below) to 0% at age 60.

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

	Impact on defined benefit 30 June 2019					30 June 2018	
	Scenario 1 Base	Scenario 2 Discount Rate Increased by 1%	Scenario 3 Salary Rate Decreased by 1%	Scenario 4 Discount Rate Increased by 1%	Scenario 5 Salary Rate Decreased by 1%	Impact of an increase	Impact of a decrease
						Birr'000	Birr'000
Discount rate	13.50%	14.50%	13.50%	12.50%	13.50%	12.75%	12.75%
Salary increase rate	15.00%	15.00%	16.00%	15.00%	14.00%	16%	14%
Net liability at start of period	6,123	6,123	6,123	6,123	6,123	5,013	5,013
Expense recognised in PL	1,927	1,927	1,927	1,927	1,927	1,723	1,723
Expense recognised in OCI	(378)	(856)	166	177	(856)	70	(832)
Employer contributions	(283)	(283)	(283)	(283)	(283)	(202)	(202)
Net liability at end of period	7,389	6,911	7,934	7,944	6,912	6,605	5,702

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.

#### 32 Share capital

Subscribed  
600,000 ordinary shares of Birr 500 each

	30 June 2019	30 June 2018
	Birr'000	Birr'000
	600,000	300,000

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The Company was registered and had secured license number 003 from the National Bank of Ethiopia on 1st October 1994 to engage in General and Long Term Insurance businesses. Total subscribed shares at the balance sheet date was (2019: Birr 600,000,000) out of which (2019: Birr 425,192,500) was paid.

The paid up capital of the Company is as shown below:

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Non- life	410,193	231,584
Life	15,000	15,000
	<b>425,193</b>	<b>246,584</b>

Share premium represents the excess of contributions received over the nominal value of shares issued.

### 33 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.

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
Profit attributable to shareholders	160,260	128,168
Weighted average number of ordinary shares in issue	425,193	277,127
Basic & diluted earnings per share (Birr)	0.38	0.46

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 2017: nil) hence the basic and diluted loss per share have the same value.

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	30 June 2019			30 June 2018		
	Undistributable retained earning	distributable Retained earnings	Total Birr'000	Undistributable retained earning	distributable Retained earnings	Total Birr'000
<b>34 Retained earnings</b>						
<b>At 1 July</b>	490,162	149,463	639,625	502,365	119,662	622,027
Prior year under classification of distributable retained earnings	7,527	(7,527)				
Prior year over/ (under) provision of legal reserve		-	-		(2,854)	(2,854)
Prior year over/ (under) provision of current tax		-	-		(3,471)	(3,471)
Retained earnings net of deferred tax	497,689	141,936	639,625	502,365	113,336	615,701
Dividend declared		(114,451)	(114,451)		(78,325)	(78,325)
Profit for the year		160,260	160,260		128,168	128,168
Other comprehensive income	(12,696)		(12,696)	(12,203)		(12,203)
Transfer to legal reserve		(16,026)	(16,026)		(12,817)	(12,817)
Transfer to directors' incentive		(1,800)	(1,800)		(900)	(900)
<b>As at 30 June</b>	<b>484,993</b>	<b>169,919</b>	<b>654,911</b>	<b>490,162</b>	<b>149,463</b>	<b>639,625</b>

	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>35 Legal reserve</b>		
<b>At 1 July</b>	67,120	51,449
Prior year (over)/ under provision of legal reserve		2,854
Transfer from retained earnings	16,026	12,817
<b>As at 30 June</b>	<b>83,146</b>	<b>67,120</b>

# Awash Insurance Company S.C.

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#### Notes to the Financial Statements

#### 36 Cash generated from operating activities

	30 June 2019 Birr'000	30 June 2018 Birr'000
Profit before income tax	176,180	139,985
<b>Adjustments for non cash items:</b>		
Depreciation on property and equipment (note 18)	29,899	29,319
Depreciation on investment property (note 18)	3,783	4,061
Fair value adjustment on deemed cost (note 13)	(18,090)	(18,021)
Amortisation of intangible assets (note 18)	1,067	249
Amortisation of leasehold land (note 18)	176	177
Gain on disposal of property, plant and equipment	(347)	(837)
Adjustment on property, plant and equipment	(185)	
Provision for claims under litigations (note 28)	275	(2,212)
Defined benefit obligations (note 31)	1,266	1,109
Interest income	(73,027)	(56,739)
<b>Changes in working capital:</b>		
-Increase/(decrease) in reinsurance assets	(26,617)	58,229
-Increase in other assets	(9,145)	(63,154)
-Increase in deferred acquisition cost	(486)	(4,870)
-Increase in Salvage property held for sale	(12,310)	7,073
-Increase in statutory deposits	(22,090)	(4,243)
-Increase in insurance contract liabilities	146,208	91,473
-Increase in insurance payables	17,144	(72,411)
-Increase in other payables	(17,670)	27,640
	196,031	136,828

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Proceeds on disposal	385	932
Net book value of property, plant and equipment disposed (Note 24)	(79)	(95)
Gain/(loss) on sale of property, plant and equipment	306	837

#### 37 Related party transactions

The Company is owned by several diverse shareholders without ultimate parent company.

A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:

	Nature of relationship	30 June 2019 Birr'000	30 June 2018 Birr'000
<b>a Transactions with related parties</b>			
Loans to related parties			
	Chief and Senior Executive Officers		
- Loans to key management personnel		9,188	3,128

The following transaction were entered into with the Company's related parties.

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### b Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Company. The compensation paid or payable to key management is shown. There were no sales or purchase of goods and services between the Company and key management personnel as at 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Salaries and other short-term employee benefits	9,657	8,152
Post-employment benefits	4,232	3,267
Leave Pay	2,014	1,479
Sitting allowance		
Other expenses		
	13,889	11,419

#### c Employees details

The average number of persons in the Company during the year was as follows:

	30 June 2019 Number	30 June 2018 Number
Chief and Senior Executive Officers	12	12
Management	59	59
Non- management	512	470
	583	541

ii) The table below shows the number of employees (excluding directors and senior Executive offices), who earned over Birr 10,000 as emoluments in the year and were within the bands stated.

	30 June 2019 Birr'000	30 June 2018 Birr'000
10,000 - 30,000	59	59
30,001 - 50,000	-	-
50,001 - 100,000	-	-
Above 100,000	-	-
	59	59

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### 38 Contingent liabilities

##### *Claims and litigation*

The Company, like all other insurers, is subject to litigation in the normal course of its business. The Company does not believe that such litigation will have a material effect on its profit or loss and financial condition.

The Company, together with other industry members, will participate on litigations mainly relating to the insurance coverage contained in the casualty insurance contracts it issued. If the courts continue in the future to expand the intent and scope of coverage contained in the insurance contracts issued by the Company, as they have in the past, additional liabilities would emerge for amounts in excess of the carrying amount held. These additional liabilities cannot be reasonably estimated but could have a material impact on the Company's future results. The liabilities carried for these claims as at this year end are reported in Note 27 and are believed to be adequate based on known facts and current law.

#### 39 Commitments

##### *Operating lease commitments - Company as lessee*

The Company leases various properties under non-cancellable operating lease agreements. The lease terms are between two

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>Birr'000</b>	<b>Birr'000</b>
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	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

#### 40 Events after reporting period

In the opinion of the Board of 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 2019 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

#### 41 Actuarial valuations

The latest available actuarial valuation of the life business was performed as at 30 June 2019. The book value of the life funds as at that date was Birr 178,523,547 over its net actuarial liabilities. The valuation of the Company's life business funds as at 30 June 2019 was carried out by Zamara (consultants and actuaries).

The valuation was done on the following principles:

# Awash Insurance Company S.C.

## Annual IFRS financial statements

### For the year ended 30 June 2019

#### Notes to the Financial Statements

#### Individual life assurances and annuities

- i The valuation method and basis for the Individual life assurances can be summarized as a Gross Premium Valuation (GPV) method on policy by policy basis.
- ii The method entails making monthly projections of all items of future outgo and income on a policy by policy basis. The future outgo comprises of all future expected contractual benefits and expenses, including bonuses and surrenders.
- iii The Gross Premium Valuation reserves are then computed by deducting the present value of future income from the present value of future outgo at the prescribed valuation rate of interest.
- iii Negative reserves are possible in cases where the premium basis is stronger than the valuation basis. All negative reserves were zeroised on a policy by policy basis.

#### Group life

- i For group term assurances and Group Medical assurances, the reserve has been determined as the sum of:
  - \* The Unearned Premium Reserve (UPR) calculated using the 365th method that assumes the risk profile is spread evenly over the year.
  - \* The Incurred But Not Reported (IBNR) claims reserve calculated assuming a 3months annual premiums. The IBNR provision shall be the higher of 10% of the Net Earned Premium and or the result obtained under the claim triangulation returns specified under the GIDB-C form in the actuarial valuation report.
- ii In establishing the total actuarial liabilities, a prudent approach of not making any deductions from the liabilities in respect of reassurances ceded was adopted.

#### Assumptions

- iii The Gross Premium Valuation reserves are then computed by deducting the present value of future income from the present value of future outgo at the prescribed valuation rate of interest.

Mortality assumptions were based on the KE 07-10 mortality tables for assured lives with a loading of 150%.

The valuation rate of interest assumed was 10% p.a.

The Fixed Per Policy expense assumption was E Birr 3,000 Per annum.

The Expense inflation rate assumed was 13.7%.

The commission assumptions for Individual life policies were as follows;

Type of product	Commission rate (%)		
	1st year	2nd year	3rd year
5 years endowment	10	3	3
10 years endowment	25	3	3
15 years endowment	35	5	5
20 years endowment	50	10	-

## Actuary's Solvency Certificate

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Awash Insurance Company S.C.

Actuarial Valuation as at 30 June 2019

### Actuary's Solvency Certificate

I, James Israel Omanyala Olubayi of Zamara Actuaries, Administrators and Consultants Limited, Landmark Plaza, 10th Floor, Argwings Kodhek Road, P O Box 52439, Nairobi 00200, Kenya, being a fully qualified Actuary and having conducted an actuarial valuation of the Life Fund as at 30 June 2019 using generally acceptable actuarial principles do hereby certify as under: -

- a) that in my opinion the value placed upon the aggregate liabilities relating to the long-term insurance business of **Awash Insurance Company S.C** in respect of policies of valuation adopted by me has been arrived at using a professionally sound and prudent actuarial basis;
- b) that I am satisfied that the value of assets adopted by me are, on the basis of the auditor's certificate appended to the balance sheet, fully of the value so adopted; and
- c) that the actuarial valuation revealed an actuarial surplus of E Birr 111,328,814.



.....  
**James I. O. Olubayi**  
**Fellow of the Institute of Actuaries**

Nairobi, Kenya  
September 2019





Review Meeting Sessions

**ለንብረቱ ግምት፣ ለሕይወቱ ዋጋ የሚሰጥ ሁሉ  
አዋሽ ኢንሹራንስ ኩባንያን ይመርጣል!!**

**ቅርንጫፎቻችን  
Our Branches**

S.No	Branches	Telephone	Fax
1	Bole Grand Main	(011) 661 4420/70	(011) 661 4419
2	Addis Ababa Main	(011) 156 00 96	(011) 155 9997
3	Adama Main	(022) 111 1215	(022) 112 1282
4	Ghimbie	(057) 771 0657	(057) 771 1022
5	Dire Dawa	(025) 111 4362	(025) 111 8165
6	Jimma	(047) 111 2196	(047) 112 3458
7	Merkato	(011) 276 0040	(011) 276 1577
8	22 Mazoria	(011) 662 5751	(011) 662 5750
9	Bishoftu	(011) 433 6262	(011) 433 6263
10	Gotera	(011) 466 3338	(011) 466 3337
11	Kolfe	(011) 278 4100	(011) 278 4101
12	Ambo	(011) 236 2758	(011) 236 2558
13	Piazza	(011) 111 8276	(011) 111 8277
14	Kazanchis	(011) 550 9865	(011) 550 9865
15	Shagar	(011) 667 0026	(011) 667 0027
16	Life Grand Main	(011) 557 0266	(011) 557 0281
17	Gofa Mazoria Main	(011) 466 1267	(011) 466 1268
18	Nifas Silk	(011) 442 15 25	(011) 443 1291
19	Dilla	(046) 331 2450	(046) 991 0910
20	Nakamte	(057) 661 3203	(057) 661 8513
21	Shashamane	(046) 110 3679	(046) 110 3678
22	Finfinne Grand Main	(011) 557 0280	(011) 557 0281
23	Tekle Haimanot	(011) 277 3082/83	(011) 277 3082
24	Gerji	(011) 651 6590	(011) 647 6646
25	Mekelle	(034) 440 2761	(034)440 2769
26	Lideta	(011) 554 2400	(011) 554 2399
27	Hawassa	(046) 221 2028	(046) 221 4218
28	Gulalle	(011) 278 7400	(011) 278 7401
29	Central Merkato	(011) 213 4923	(011) 275 8633
30	Dil Gebeya	(011) 320 4183	(011) 320 4184
31	Wallo Sefer	(011) 552 6050	(011) 552 6091
32	Sebategna Akababi	(011) 276 0041	(011) 276 0172
33	Kaliti	(011) 442 2013	(011) 442 2013
34	Sarbet	(011) 320 0402	(011) 442 2023
35	Alemgena	(011) 367 9094	(011) 367 9135
36	Bahir Dar	(058) 220 8224	(058) 220 8197
37	Dessie	(033) 454 0445	(033) 454 0415
38	Birbirsa	(011) 264 4690	(011) 264 4690
39	Megenagna	(011) 667 4516	(011) 667 4533
40	CMC	(011) 667 6126	(011) 667 6322
41	Oda	(011) 554 2041	(011) 554 8686
42	Walisoo	(011) 366 4435	(011) 366 4505
43	Bule Hora	(046) 443 1053	(046) 443 1052
44	Labu	(011) 471 3358	(011) 471 3535
45	Arba Minch	(046) 181 4876	(046) 181 9710
46	Chiro	(025) 551 3621	(025) 551 3010
47	Bale Robe	(022) 244 6924	(022) 244 3747
48	Debela Gutema	(011) 273 7058	(011) 273 7342

**አዋሽ ባለቤት የተሟላ ዋስትና አለ!  
Where there is Awash, there is peace of mind!**



Landed Properties in Different Sub-Cities



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AWASH INSURANCE COMPANY S.C.

You are in good hands with Awash for your Life, Property and Liability Insurance services

### አጠቃላይ የንብረት ኢንሹራንስ

ኩባንያችን ከሚሰጣቸው የንብረትና የሕጋዊ ኃላፊነት ኢንሹራንስ አገልግሎቶች ዋና ዋናዎቹ፡-

- የልዩ ልዩ ተሽከርካሪዎች፣
- የእሳት ቃጠሎና ተዛማጅ አደጋዎች፣
- በኃይል ቤት በመስበር ለሚፈጸም ስርቆት / ዝርፈያ፣
- በመርከብ፣ በየብስና በአዩር ለሚጓዙት እቃዎች፣
- የአሰሪ ግዴታ፣
- የአደጋ (የግለሰብና የቡድን)፣
- አጠቃላይ የምሕንድስና፡-
  - o (የቦይለር፣ የማሽን ወዘተ)፣
- የሕጋዊ ኃላፊነት፣
- የገንዘብ (በካዥና በጉዞ ላይ)፣
- የእምነት ማጉደል፣
- ፕሌት ግላስ፣
- የቦንድ (የሥራ አፈፃፀም፣ የአቅርቦት፣ የጥገና እና የቅድሚያ ክፍያ ቦንድ)፣
- የፍሎሪካልቸር ዋስትና፣

... እና በርካታ ሌሎች የኢንሹራንስ አገልግሎቶችን ከአዋሽ በተሟላ ሁኔታ ያገኛሉ።

### General Insurance

The Major Products are the following:

- Motor;
- Fire and Lightning and allied perils;
- Burglary and House-breaking;
- Marine Cargo;
- Workmen's Compensation;
- Personal and Group-Personal Accident;
- Engineering:
  - o Boilers,
  - o Contractors' All Risks,
  - o Erection All Risks,
  - o Contractors' Plant and Machinery,
  - o Electronic Equipment,
  - o Machinery Breakdown and others.
- Public Liability;
- Money in Safe and in Transit;
- Fidelity Guarantee;
- Plate Glass;
- Bonds(Bid, Performance, Advance)
- Floriculture Insurance;

... and many others are available with AWASH!



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+251-115-57 0167  
8980



contactcenter@awashbank.com  
www.awashbank.com



Awash Tower, Ras Abebe Aregay St.  
Addis Ababa