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# THE UNITED INSURANCE COMPANY SC
<UNIC-ETHIOPIA>

# Annual Report 2012

## The United Insurance Company SC

### VISION

< UNIC-ETHIOPIA > aims to be the best insurance company anywhere, most professional, most commercial, and most responsible..

### MISSION

Provide complete insurance cover at economic rates, honest, prompt, and courteous claims services, to fully satisfy all its constituencies: Customers, Shareholders, Employees, Society and the Environment.

*Striving for Excellence*

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# BOARD OF DIRECTORS

**Ato Girma Wake**
Chairman

**Ato Zafu Eyessuswork Zafu**
Director

**Ato Moges Alemu**
Director

**Ato Abera Mulat**
Director

**Ato Taye Dibekulu**
Director

**Ato Ayele Yebasa**
Director

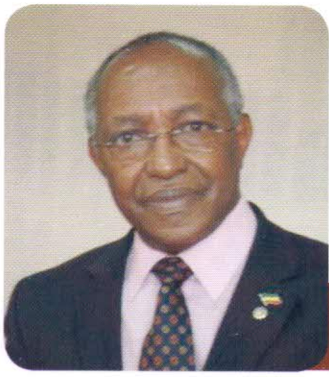
**W/o Ambanesh Kebede**
Director

**Ato Kidanemariam Abadi**
Director

**W/o Meseret Bezabih**
Managing Director

# EXECUTIVE MANAGEMENT

**W/o Meseret Bazabih**
Managing Director/CEO



**Ato Zafu Eyessuswork Zafu**
Technical Advisor

**Ato Ayele Yebasa**
DGM-Finance and Administration

**W/o Azalech Yirgu**
DGM-Life and Medexin

**Ato Fasil Asnake**
DGM-Legal Services

**W/o Zufan Abebe**
DGM-Operations

# NOTICE OF THE EIGHTEENTH ANNUAL GENERAL MEETING

IN ACCORDANCE WITH THE PROVISIONS OF ARTICLES 418 & 419 OF THE COMMERCIAL CODE OF ETHIOPIA 1960 AND ARTICLE 3(4) OF THE COMPANY'S ARTICLES OF ASSOCIATION, NOTICE IS HEREBY GIVEN TO ALL SHAREHOLDERS THAT THE **EIGHTEENTH ANNUAL GENERAL MEETING** OF THE UNITED INSURANCE COMPANY SC <UNIC-ETHIOPIA> WILL BE HELD AT THE **ADDIS ABABA HILTON** ON 11$^{TH}$ OCTOBER 2012 FROM 02:00 PM TO TRANSACT THE FOLLOWING BUSINESS:

1. To consider the Report of the Board of Directors;
2. To consider and approve the Accounts for the year ended 30 June 2012 and receive the Auditors' Report thereon;
3. To decide on the appropriation of net results of the Company's operations;
4. To elect and/or re-elect Directors;
5. To appoint/reappoint the Company's Auditors for the Financial Year 2012/2013 and to authorize the Board of Directors to fix their remuneration;
6. To approve sale and/or transfers of the Company's shares up to and including 30$^{th}$ June 2012;

**BY ORDER OF THE BOARD**

Israel Tekle
Secretary to the Board

Dated at Addis Ababa this first day of September 2012.

**NOTE:** A Shareholder entitled to attend and vote at the General Meeting may appoint a **PROXY** in his/her stead. A **PROXY** need not be a shareholder of the Company. To be valid, the enclosed **PROXY FORM** must be completed and presented to the Secretary of the Board at or before the General Meeting.

# CHAIRMAN'S LETTER TO SHAREHOLDERS

It is my pleasure to welcome you all, on behalf of the Board of Directors and on my own behalf, to the Eighteenth Annual General Meeting of Shareholders.

It is to be recalled that following our one-time experience (Financial Year Ending 30 June 2005) regarding the publication of the Company's Annual Reports, the Board of Directors had decided to postpone publishing the Report of the Directors and the Audited Accounts until after the Annual General Meeting. Since there had not been any repeat of that experience until now, the Board has decided that the Annual Report could be printed and presented to the Annual General Meeting but the Report may not be distributed to third parties until after its approval by such a Meeting.

On 30 June 2012, our Company concluded a financial year marked by successes in several critical areas that would make its stakeholders: Customers, Employees, Shareholders and the Society in which it operates particularly proud (details of which shall be given in the body of the main Report of Directors).

In preparing the accounts, the Company had taken into account all existing relevant laws and international accounting standards as are applicable to the Company's business. In accordance with Article 3(4) of the Company's Articles of Association as amended by the First Annual General Meeting of Shareholders which held on 12 October 1995, as well as in compliance with Directives issued by the Supervisory Authority, the National Bank of Ethiopia, this Report of the Directors and Accounts covers the financial year ended 30 June 2012.

In accordance with Articles 418 and 419 of the Commercial Code of Ethiopia 1960 and Article 3(4) of the Company's Articles of Association, I present, for your consideration and approval, as appropriate, the Report of the Directors, the Audited Financial Statements together with the Report of the External Auditors for the Financial Year ended 30 June 2012.

**GIRMA WAKE**
Chairman, Board of Directors & Annual General Meeting

# REPORT OF THE BOARD OF DIRECTORS

The Eighteenth Annual Report of Directors reviews the trading landscape with specific mention of the main events and elements which had and may have significant effects on the performance of the industry, the Company's operations during and results for the period under report as well as the prospects for the immediate future.

## TRADING ENVIRONMENT

Without a doubt, the increased tempo of economic activities spearheaded by huge government project initiatives had positively influenced the growth of market premiums from which our Company had its fair share. The implementation of the recently proclaimed Compulsory Third Party Motor Insurance had its own contribution to premium growth in the Motor class of business. Were it not for the absence of any market initiative for meaningful cooperation among domestic companies to share in most of the mega risks before exporting the business to insurers/reinsurers outside the country, the gross premiums written by the smaller domestic companies would have been even higher. Such a state of affairs notwithstanding, our Company achieved a respectable premium growth of nearly 48% and a rise of more than 60% in its Net Profit Before Tax.

But perhaps, our Company's deeper and lasting achievements occurred in areas other than insurance operations:

As announced at the 17th Annual General Meeting last year, your Board introduced a new Chief Executive Officer for our Company, Wo. Meseret Bezabih, whose designation by the Board of Directors as General Manager/CEO received approval from the Supervisory Authority in a record time of six (6) days. That event signalled the culmination of a carefully conceived, meticulously planned and effectively executed Management succession. The Board and Management of the Company, in pursuit of clearly perceived technical and marketing advantages, also agreed to retain, on contract basis, the outgoing CEO, as Technical Advisor.

It will be recalled that the 7th Extra-Ordinary General Meeting of Shareholders that preceded the 17th Annual General Meeting decided to increase the Company's Authorised Capital and offer 40,000 shares for subscription with the aim of raising the Paid UP Capital to E Br100 million. In accordance with the terms set out by that Meeting, the said shares were offered for subscription. After waiting up to 30th November 2011 for existing shareholders to exercise their pre-emptive rights to buy more shares, subscription was opened to other buyers on 1st December 2011. By 11 December 2011, all shares were effectively subscribed for fully.

Another interesting development during the financial year was the significantly increased willingness, if not enthusiasm, of many staff members to acquire shares of the Company, a positive demonstration of the growing interest of staff to have a say in the affairs of as well as share in the success their Company continues to register.

As Shareholders would remember, ownership on lease of one of the Company's landed properties, a parcel of land (over 10,000 square metres) located at Akaki-Kaliti, part of which was being used as a Recovery Site and another part was to be developed as a commercial property, was fiercely contested by the sub-city administration. Having approved that there was no good cause for the contest, our Company's rights were reinstated and development of the property commenced last July.

The Company's integrated systems computerization project having been completed the previous year, its ability to respond to Customer needs as well its own need for better informed and timely decision making have been conspicuously enhanced.

As reported last year, your Company and its staff responded positively to the national call for mobilization of resources for the Renaissance Dam by committing more than EBr13 million. The bonds for the staff had not been received up to the preparation of this Report.

### Status Report on Miscellaneous Matters Raised in Previous Reports

Every year, our Company's Annual Report of Directors attempts to indicate issues considered relevant to the industry along with proposals of measures that may need to be taken. Such issues are kept alive by repeating our comments until appropriate actions are taken by either the Supervisory Authority, the insurance companies or Government or all three as the case may be.

The Board of Directors wishes to seize this occasion to pay special tribute to the Supervisory Authority for actions taken on certain issues, which hitherto formed part of the contents of this section of our Annual Report. As at the time this Report was being written, the revised insurance proclamation had already been passed by Parliament. Among other things, the provision of "No Premium No Cover" and the need for more robust capitalization of insurance companies are likely to be implemented during the current financial year. Under the circumstances, this Annual Report will contain no comments on "Trade Debtors' Balances".

### Compensation Scheme for Road Traffic Accident Victims

As reported last year, the law became operative from the start of Ethiopia's New Year 2004 or 12th September 2011. Overall, the scheme is being administered fairly well. However, a provision of Proclamation No. 559/2008 – Vehicle Insurance Against Third Party Risks which limits insurance companies' liabilities for Emergency Medical Expenses to E Br1,000.00 (Article 34 of the Proclamation), has left a serious gap that has given rise to very serious, and seemingly legitimate, complaints by many Customers. Closer scrutiny of the provision appears to suggest that Insureds who may cause accidental bodily injuries to third parties that would entail medical expenses exceeding the legal limit of E Br1,000.00 would be left to fend for themselves. And when you realize that medical expenses could run into tens of thousands of Birr, the financial burden could be beyond the means of many. Opinions vary as to the right solution. While some suggest the purchase of additional cover by Insureds, others believe that since the Insured has transferred the risk to the Insurers, medical expenses incurred under the aforementioned Proclamation at least up to the limit provided for Disabilities, should be covered by the Insurers subject, perhaps, to such payments being deducted from the final compensations payable to the injured and/or the legal heirs of the deceased. Alternatively, a provision to cater for a separate higher limit for medical expenses could be considered (which may entail payment of additional premiums). Equitable alternatives such as the foregoing or any other variant may have to be studied, an appropriate legislative amendment presented to Parliament and implemented quickly before the problem gets out of control.

### Increasing the Capital Requirement for Establishing Insurance Companies

Now that the revised Proclamation No.746/2012 had been put into effect from 22 August 2012, it anticipated that the Supervisory Authority, in accordance with the provisions under Article 19, will issue a directive requiring insurance companies to implement new, higher minimum capital thresholds to reflect the obvious higher risk exposures many of the existing companies have already assumed as well as to guide prospective investors wishing to establish new insurance companies in the future.

### The Dangers of Uneconomic Premiums

Unfortunately, the year under report did not bring much change regarding the price-driven competition strategy the insurance market followed in previous years. As in the past, our Company continued to consolidate the few remedial steps it took in earlier years. The ultimate industry solution appears likely to be forced on the industry by the claims experience of each player in the market. As a matter of fact, now that the use of granting unwarranted credits is effectively removed as a tool of competitive marketing, there is a clear danger that price-focused competition may become even more dangerous.

### Lack of Level Playing Field

As cited in reports of previous years, the uneven nature of the industry's playing field continues to perpetuate the prevailing market distortion. Those entities receiving special advantages continue to be deprived of the single most important benefit of a market-oriented economic regime - that of competition. Our decision to cease Membership of the Association, while not having the desired effect, may have deprived us of the opportunity to influence events from within. It was, therefore, in this spirit that the Company rejoined the Association.

### The Need for Establishing a Capital Market

This is the 14th year running, since Directors have been registering their belief that the establishment and operation of a well regulated equity market could enhance initiatives to establish new and expand/diversify existing businesses by providing venture capital and the flexibility to exit from or simply change investment portfolios. They continue to hold the view that such a market, driven by the private sector remains a viable complement to the government-driven Commodities Exchange Market already established.

### The Need to Increase Domestic Market Retention

In the absence of any sensible arrangement to deliberately raise market retention of risks written by insurance companies in the country, a substantial portion of the market premiums of the relatively larger risks will continue to be exported in the form of reinsurance premiums. Considering Ethiopia's growing need for investible resources, and in foreign exchange for that matter, to export premiums that could be safely retained within the country (without endangering claims paying ability), could be considered unwise and out rightly unfair to the national economy.

### The Need to Establish a National Reinsurance Company – ETHIOPIA RE

Starting with a presentation at the 2nd SIP Workshop back in October 2005, we have been advocating for the establishment of a national reinsurance company to be owned by the country's financial institutions with the Ethiopian Insurance Corporation serving as the lead Shareholder and organizer. Now that a professional reinsurer, Africa Re, has established a physical presence in our market, the time appears rather opportune for the Ethiopian insurance industry to revive the project idea and engage in more serious work to realize it.

## GENERAL

Following the decision of the Seventh Extra-Ordinary General Meeting of Shareholders, which was held on 28 October 2011, to increase the Company's paid-up capital to EBr100 million by offering for subscription 40,000 new shares, all the shares were fully subscribed for by 11 December 2011. As at the close of business of the year under report, the Company's paid-up capital had reached EBr79,621,949.

As part of its corporate social responsibility, your Company has continued to truly maintain its exemplary image as a fair and equal opportunity employer. On 30 June 2012, the Company's total staff complement stood at 225 employees compared to 198 the previous year. Out of the total, 204 or over 90% were regular and the rest were casual. Of the regular staff, 106 or 52% were female and 98 male while the casual workers comprised 16 women and 5 men. Out of the 225 staff members, 129 of them are holders of first degree and over while 34 are known to hold diplomas of various levels.

Work on the Company's computerization project having been completed the previous year, the financial statements as at 30 June 2012 were fully processed by and obtained from the system.The automated system had been rolled out to branches in Addis Ababa as well as outside.

For more understandable and pragmatic reasons, priority was given to the development of the Akaki-Kality landed property which necessarily delayed the undertaking of the Headquarters Building at Tewodros Square. Shareholders may wish to know, however, that construction would be started before the end of the current financial year.

Construction work at the Akaki-Kality site is well in progress and is expected to be ready for occupancy within the coming 12 months.

In accordance with the decisions of the 5th Extra-Ordinary Meeting of Shareholders to harmonize the tenure of Directors with the provisions of Article 350 (5) of the Commercial Code of Ethiopia, the tenure of three of the Directors would have expired by the time of the 18th Annual General Meeting of Shareholders. Accordingly, three Directors shall be elected/re-elected to replace those whose tenure would have expired.

## FINANCIAL PERFORMANCE AND RESULTS - NON LIFE

### Gross Premiums Written

At the close of business on 30 June 2012, the Company's Non-Life premium had reached EBr239,016,853 thus recording a remarkable increase of nearly 48% over the previous year. Premium growth was recorded by all classes of business except Marine Cargo/Transit, which recorded a decline of more than 30%.Though not large enough in volume to dramatically alter the over all premium level, the combined production of the "small premium" classes (Personal and Group Personal Accident, Workmen's Compensation and General Liability) grew by a staggering rate of more than 115%. No less remarkable was the nearly 111% premium increase recorded by the Engineering class. With the lion's share of nearly 59% of the Company's premium portfolio, the nearly 52% premium increase achieved from Motor class during the reporting year had the highest impact. Partly reflecting the high increase in the Engineering class, Pecuniary recorded a growth rate of slightly more than 40% for the year. The class of business which yielded the smallest component of the total premium portfolio mix, Fire & General Accident (2.93%), recorded the lowest growth of 11.5%.

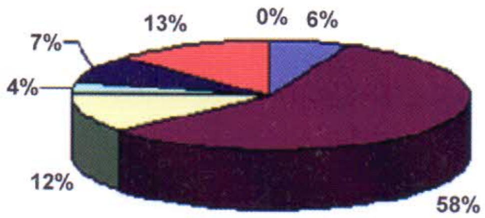
### Retention and Reinsurance

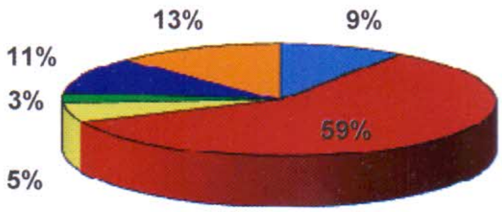
With a retained premium of EBr191,430,533 for the reporting year, compared to EBr130,707,070 for the previous year, the ratio of Retained to Written premiums remained almost the same for the two years (80.1% this year to 80.7% the previous year). As may have been expected, the lowest retention ratio was registered by the Engineering class of business. With very small variances, retention ratios in both years remained high in Motor, Marine Cargo/ Transit and the group of relatively "small premium" classes.

### Portfolio Mix

By and large, the pattern of the Company's premium mix in the year under report had remained pretty much the same as in the previous year. The small exception was in the Marine Cargo/Transit class whose share in the Mix fell by more than half, from 11.55% last year to only 5.44% this year. Two other classes of business, which registered falls in the proportion of their contributions to the portfolio mix, were Fire & General Accident and Pecuniary business (from 3.88% to 2.93% and from 13.35% to 12.68% respectively). The share of Motor was up by 1.6%, raising its share of the portfolio to nearly 58.92%. Unlike in the previous year when they recorded reductions, the proportions of the group of relatively "small-premium" classes (Personal/Group Personal Accident, Workmen's Compensation & General Liability) and Engineering registered positive variances of 46% and 43% respectively.

## COMPARATIVE PREMIUM STRUCTURE/PORTFOLIO MIX AS AT 30.06.12



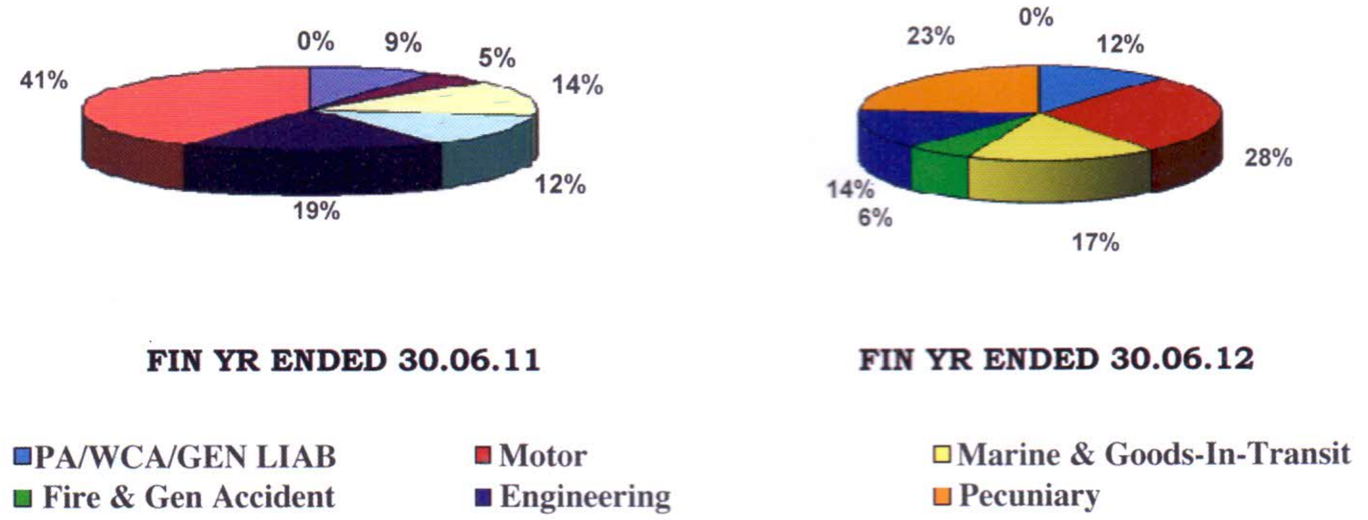

**FIN YR ENDED 30.06.11** **FIN YR ENDED 30.06.12**

- PA/GPA/WC & GL
- Motor
- Marine - Cargo/Tran-sit
- Fire & Gen Accident
- Engineering
- Pecuniary

## Claims and Profitability - Contribution to Underwriting Surplus/(Deficit)

In the year under report, the Company's over all claims experience recorded what could be considered a healthy development, from 71.30% to 64.13%. In absolute amounts, losses incurred for the year under report stood at EBr93,899,577 against a comparable figure of EBr71,981,040 while premiums earned rose from EBr100,954,545 to EBr146,428,481 during the same period. The positive developments in loss experience between the year under report and the previous year were evident in the group of "small premium" classes (from 66.04% to 31.95%), Motor (from 87.53% 77.22%) and Engineering (from 13.20% to 6.73%). On the other hand the loss ratios recorded surplus (EBr1,424,583 or 5.35%), despite its preponderance in the premium portfolio mix (57.32%), its contribution to Underwriting Surplus of EBr14,588,446 or 27.70% was the highest this year and more than ten times that of the previous year. The class of business which produced the highest surplus of EBr10,812,914 or 40.57% last year, Pecuniary, came second this year with EBr12,253,572 or 23.26%. Inspite of the fall in written premium, Marine Cargo/Transit ranked third in its contribution to surplus (16.84%) while Engineering, with slightly more than twice the premium of the previous year came fourth (making a contribution of only 14.52%). The main reason was of course the fact that the class of business continued to be characterized by substantial reinsurance cessions (more than 54%).

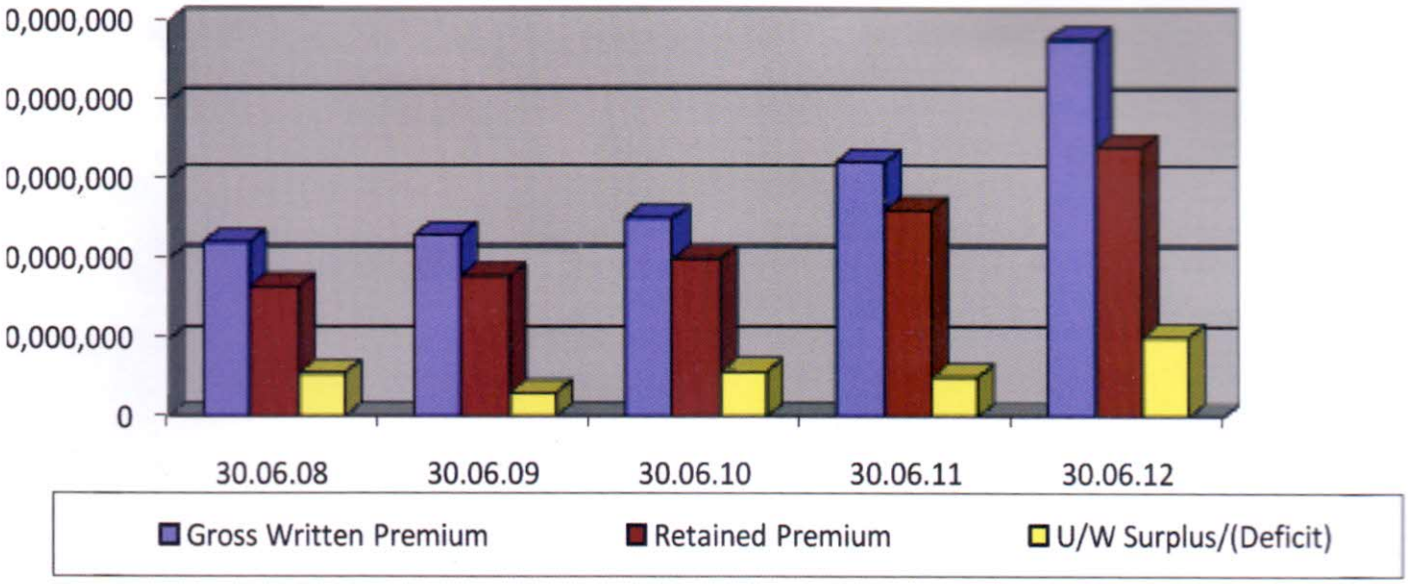
### COMPARATIVE UNDERWRITINGS SURPLUS/(DEFICIT) AS AT 30.06.12




for classes such as Marine Cargo/Transit, Fire & General Accident and Pecuniary deteriorated during the year (from 47.16% to 51.31%, from -0.84% to 28.18% and from -90.04% to -9.23% respectively.

Like in the previous year, every class of business written by the Company produced levels of underwriting surplus far more superior to those of the previous year. The end result of the over all improvement in the Company's loss experience during the year under report was, therefore, a remarkable increase of 97.66% in Underwriting Surplus (from EBr26,649,854 the previous year to EBr52,675,137 this year). Unlike the previous year, when the Motor class produced the lowest proportion of the year's

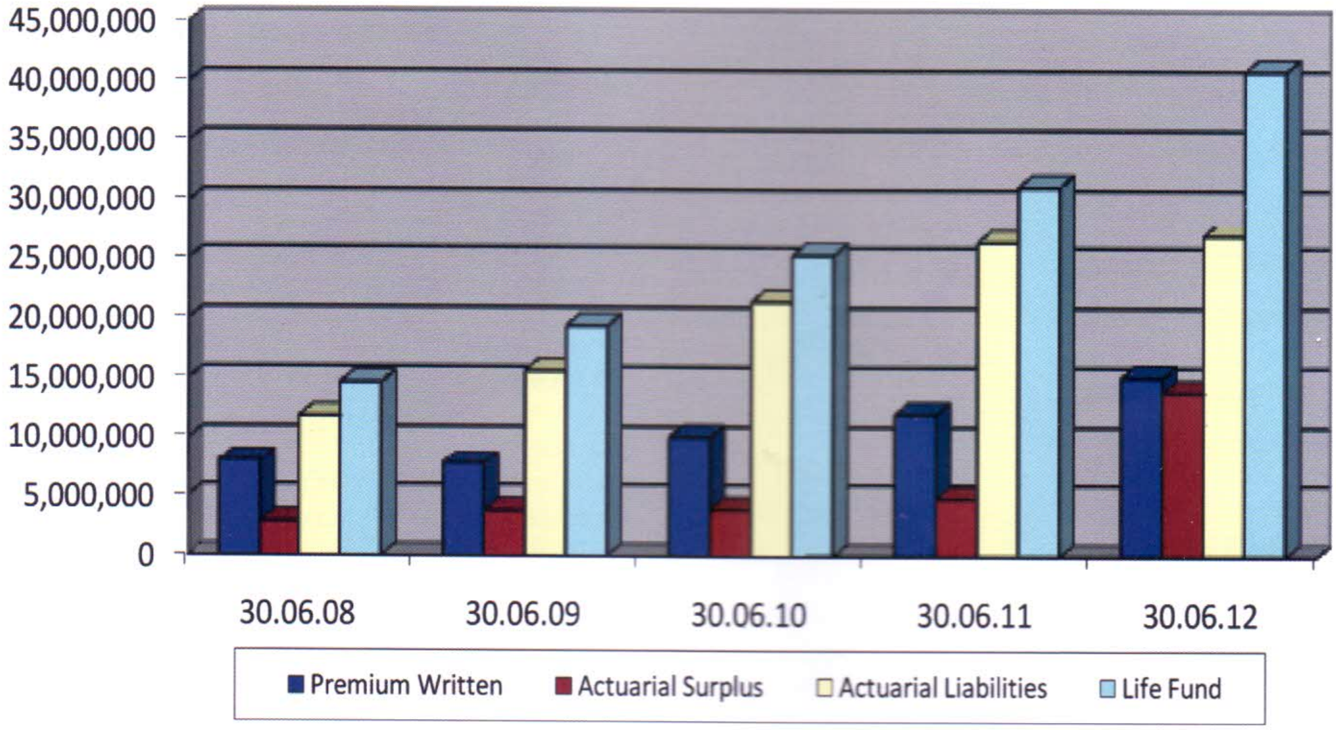
With a contribution to surplus of 11.67%, the group of "relatively small premium" classes recorded a higher in the year under report compared to 9.02% the previous year. Partly because of its relatively small size in the Company's portfolio mix as well as its high reinsurance dependence, the Fire & General Accident made the smallest contribution to surplus of 6.01%.




## LIFE & MEDEXIN - Premium Growth & Overall Performance

During the year under report, the Company's written premiums for Long-Term Insurance business recorded a growth of 25.77% to reach E Br15,199,870. In accordance with Company policy, the Life business was submitted to our Consulting Actuaries, M/S Alexander Forbes Financial Services (EA) Limited for valuation. The results have shown that the Company's Life business had progressed satisfactorily revealing values for the Life Fund, Actuarial Liabilities and Actuarial Surplus of EBr40,951,032, EBr27,035,269 and EBr13,915,763 respectively. At the conclusion of the valuation, it was recommended that 21.55% or EBr3,000,000 of the Surplus be transferred to the Company's Profit & Loss Account for distribution to shareholders and 2% of the basic sums assured be declared as Reversionary Bonus to holders of "With Profits" Life Policies for each completed year since the last valuation.

## LIFE & MEDEXIN BUSINESS




### Performance Development

With a premium growth rate of nearly 48% for the year (from EBr161,911,418 to EBr239,016,853) and almost a doubling of its Underwriting Surplus (from EBr26,649,854 to EBr52,675,137), your Directors believe our Company is performing well. These results were achieved while continuing to adhere to its basic philosophy of perseveringly prudent underwriting of risks, consistently professional and commercial in its practices.

While the commercial quality of an insurance company may be measured in several different ways, <UNIC-ETHIOPIA> had always chosen to be judged mainly by, (among others), the final results produced. In a market where enterprises doing identical business tend to produce financial statements in which the various elements are either denoted or classified differently, fair comparison may not be as simple or straight forward as one expects. Such a state of affairs notwithstanding, your Company's strive to achieve EXCELLENCE remains an ongoing preoccupation started almost 19 years ago.

The financial year's relatively robust Underwriting Surplus of EBr52,675,137 was augmented by substantially higher non-operating incomes from Interest and Dividends which, combined,accounted for 24.9% compared to31.4% in the previous year. However,the total income for the year under report was 70% higher than that of the previous year (EBr70,133,418 against EBr40,876,394). On the other hand, Total Expenses had also grown substantially (by 61.4%) to reach EBr29,443,973 compared to EBr18,243,028 the previous year. The highest, almost ten-fold increase occurred in the Provision for Doubtful Debts (from EBr705,393 the previous year to EBr6,981,024 this year). Predictably, with the growth of business and the increasing cost of doing business generally, Staff and General Administrative Expenses rose by 38.6% and 26.7% respectively.

The year under report produced a record Net Profit before Tax of EBr40,689,445 or 79.78% more than for the previous year. The amount was augmented by EBr3,000,000, the amount recommended for transfer to the Profit & Loss Account for distribution to shareholders by the Consulting Actuaries. After making the necessary provisions for Income Tax, Legal Reserves, Directors' Remunerations and Prior Year Adjustments, Net Profit before Appropriations stood at EBr30,338,727as compared to EBr25,126,241 the previous year. Earnings per Share grew by nearly 34% to reach EBr514.89 compared to Ebr384.98 the previous year.

## FUTURE PROSPECTS

With the promise of continued growth for the nation's economy, our Company is expected to register appreciable growth in written premiums. But perhaps the biggest game changer for the insurance industry, ours included, is the provision of Article 48 of the Revised Proclamation No. 746/2012 which translated into reality the long term promise to the industry of **No Premium No Cover** by the Supervisory Authority, National Bank of Ethiopia.

As remarked in its Report last year, your Board continues to view runway inflation as the biggest threat in the current budget year.

## VOTE OF THANKS

The Board of Directors, Management and Staff of <UNIC-ETHIOPIA> wish to express their deep gratitude to all the wonderful Customers of the Company for their continued support and patronage. The Board and Management also wish to record their appreciation for the association the Company enjoys with its reinsurers and the mutually advantageous business relations it has developed with both domestic and international brokers.

A special **thank you** is due to all its field officers who have played and continue to play a pivotal role in the Company's growth. They help it identify the needs of the insuring public on the one hand and they serve as its ambassadors on the other hand.

Last but not least, both on behalf of the Board and in my own name, I wish to confirm once again that the Company's Management and Staff demonstrated their commitment to the Company's continued strive for **EXCELLENCE:** in their professionalism, commercialism and strong espirit de corps without which the commendable results achieved would have not been possible.

**Girma Wake**
Chairman, Board of Directors

**Meseret Bezabih**
Managing Director/CEO

# Kokeb Moges & Co.

*Chartered Certified Accountants (UK)*

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS**
**OF THE UNITED INSURANCE COMPANY SC**

We have audited the financial statements of **The United Insurance Company SC <UNIC- ETHIOPIA>** for the year ended 30 June 2012, set out on pages 15 to 32, which are prepared under historical cost convention and the accounting policies on page 23 to 25.

**Respective responsibilities of Management and Auditors**

The Management of **<UNIC- ETHIOPIA>** is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with generally accepted auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the management in preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of its results and cash flows for the year then ended in accordance with the accounting policies adopted by the Company.

We have no comment to make on the report of your Board of Directors so far as it relates to the financial statements and pursuant to Article 375(2) of the Commercial Code of Ethiopia, and recommend approval of the financial statements.

Kokeb Moges & Co

Kokeb Moges & Co.
Chartered Certified Accountants (UK)
Authorized Auditors in Ethiopia

Addis Ababa
10 October 2012

**P. O. Box 33645 Addis Ababa, Ethiopia**
**Telephone 251-11-515-07-52**

**THE UNITED INSURANCE COMPANY SC**
**BALANCE SHEET**
**AS AT 30 JUNE 2012**

| | Notes | General Insurance | Long term Insurance | Total | Currency: Birr 30.06.11 |
|---|---|---|---|---|---|
| **ASSETS EMPLOYED** | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and bank balances | | 60,858,604 | 231,208 | 61,089,812 | 34,287,195 |
| Bank deposits at interest | | 157,784,723 | 31,242,120 | 189,026,843 | 144,051,180 |
| Debtors, deposit and prepayments | 1(j),2 | 64,578,659 | 790,634 | 65,369,293 | 46,008,647 |
| Due to reinsurers | | - | 6,381,244 | 6,381,244 | - |
| Current account with Life Operations | | 4,449,772 | (4,449,772) | - | - |
| | | 287,671,758 | 34,195,434 | 321,867,192 | 224,347,022 |
| CURRENT LIABILITIES | | | | | |
| Outstanding claims | 1(c),3 | 85,839,058 | 36,559 | 85,875,617 | 71,452,383 |
| Profit tax payable | 4 | 6,004,408 | - | 6,004,408 | 1,020,400 |
| Due to reinsurers | | 25,956,969 | 5,640,114.00 | 31,597,083 | 13,329,409 |
| Other creditors, accruals & provisions | 5 | 21,653,610 | 506,678 | 22,160,288 | 18,491,937 |
| | | 139,454,045 | 6,183,351 | 145,637,396 | 104,294,129 |
| NET CURRENT ASSETS | | 148,217,713 | 28,012,083 | 176,229,796 | 120,052,893 |
| NON-CURRENT ASSETS | | | | | |
| Deferred charges | 1(f) | 24,763 | - | 24,763 | 24,763 |
| Investment | 1(i),6 | 34,925,000 | 13,275,300 | 48,200,300 | 40,224,438 |
| Leasehold land | 7 | 3,164,727 | - | 3,164,727 | 3,237,128 |
| Fixed Assets | 1(e),8 | 21,151,910 | 150,965 | 21,302,875 | 18,853,113 |
| Statutory deposit | 9 | 11,365,042 | 600,000 | 11,965,042 | 8,366,345 |
| | | 70,631,442 | 14,026,265 | 84,657,707 | 70,705,787 |
| NET TOTAL ASSETS | | 218,849,155 | 42,038,348 | 260,887,503 | 190,758,680 |
| **FINANCED BY** | | | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Land lease payable | 10 | 1,115,717 | - | 1,115,717 | 1,190,098 |
| TECHNICAL PROVISIONS | | | | | |
| Unearned premiums | 1(b) | 86,267,708 | - | 86,267,708 | 61,229,789 |
| Other Technical Provisions | 1(d) | 5,266,615 | - | 5,266,615 | 2,788,595 |
| Life Fund | 1(g),16 | - | 37,904,614 | 37,904,614 | 31,262,155 |
| Profitability bonus for Life Policy holders | | - | 133,734 | 133,734 | 133,734 |
| | | 91,534,323 | 38,038,348 | 129,572,671 | 95,414,273 |
| SHAREHOLDERS' FUNDS | | | | | |
| Paid-up share capital | 11 | 75,766,949 | 4,000,000 | 79,766,949 | 55,775,632 |
| Share Premium | | 4,516,000 | | 4,516,000 | 1,008,600 |
| Legal reserve | 12 | 15,577,439 | - | 15,577,439 | 12,243,836 |
| Profit & loss account | | 30,338,727 | - | 30,338,727 | 25,126,241 |
| | | 126,199,115 | 4,000,000 | 130,199,115 | 94,154,309 |
| TOTAL NON CURRENT LIABILITIES, TECHNICAL PROVISIONS & SHAREHOLDERS' FUNDS | | 218,849,155 | 42,038,348 | 260,887,503 | 190,758,680 |

| | |
|---|---|
| Girma Wake | Meseret Bezabih |
| Chairman, Board of Directors | General Manager/CEO |

**THE UNITED INSURANCE COMPANY SC**
**PROFIT AND LOSS ACCOUNT AND**
**APPROPRIATION OF PROFIT**
**FOR THE YEAR ENDED 30 JUNE 2012**

**Currency: Birr**

| | Notes | | | 30.06.11 |
|---|---|---|---|---|
| NET PROFIT BEFORE TAX - GENERAL INSURANCE | | | 40,689,445 | 22,633,366 |
| PROFIT FROM LONG TERM INSURANCE | | | 3,000,000 | 1,650,000 |
| | | | 43,689,445 | 24,283,366 |
| PROVISION FOR PROFIT TAX | 4 | | (7,454,679) | 2,047,553 |
| NET PROFIT AFTER TAX | | | 36,234,766 | 26,330,919 |
| TRANSFER TO LEGAL RESERVE | 12 | | (3,623,477) | 2,058,581 |
| | | | 32,611,289 | 18,527,232 |
| PROFIT BROUGHT FORWARD | | 25,126,241 | | 24,006,381 |
| ADD:SHARE PREMIUM AVAILED FOR DISTRIBUTION | | 1,008,600 | | |
| LESS: DISTRIBUTED DIVIDEND | | (23,945,817) | | (15,078,570) |
| DIRECTORS' REMUNERATION | 15 | (1,852,724) | | (2,328,802) |
| | | | 336,300 | 6,599,009 |
| | | | 32,947,589 | 25,126,241 |
| LESS:PRIOR YEAR ADJUSTMENTS | 20 | | (2,608,862) | - |
| NET PROFIT BEFORE APPROPRIATIONS | | | 30,338,727 | 25,126,241 |
| APPROPRIATIONS | | | - | - |
| BALANCE CARRIED TO BALANCE SHEET | | | 30,338,727 | 25,126,241 |
| Earnings per share | 21 | | 514.89 | 384.98 |

**THE UNITED INSURANCE COMPANY SC**
**GENERAL INSURANCE BUSINESS**
**PROFIT AND LOSS ACCOUNT**
**FOR THE YEAR ENDED 30 JUNE 2012**

| | Notes | | 30.06.11 |
|---|---|---|---|
| **INCOME** | | | |
| Underwriting surplus | 1(a) | 52,675,137 | 26,649,854 |
| Interest income | | 8,403,562 | 5,180,076 |
| Dividend income | | 7,878,376 | 7,650,317 |
| Rent income | | 454,571 | 359,827 |
| Other income-miscellaneous | | 721,772 | 1,036,320 |
| ***Total income*** | | 70,133,418 | 40,876,394 |
| **EXPENSES** | | | |
| Employees' salaries & benefits | 14 | 6,839,888 | 4,934,568 |
| Directors' fixed emoluments | 15 | 53,550 | 37,800 |
| Depreciation & amortization | | 3,932,709 | 3,247,961 |
| Provision for doubtful debts | | 6,981,024 | 705,393 |
| Audit fee | | 62,129 | 37,950 |
| Financial expenses | | 269,569 | 358,588 |
| General & administrative expenses | 17 | 11,305,104 | 8,920,768 |
| ***Total expenses*** | | 29,443,973 | 18,243,028 |
| NET PROFIT BEFORE TAX | | 40,689,445 | 22,633,366 |

**THE UNITED INSURANCE COMPANY SC**
**GENERAL INSURANCE BUSINESS**
**REVENUE ACCOUNT**
**FOR THE YEAR ENDED 30 JUNE 2012**

**Currency: Birr**

| | Notes | | 30.06.11 |
|---|---|---|---|
| Gross written premiums | | 239,016,853 | 161,911,418 |
| Less: Premium ceded | | 67,550,453 | 44,810,258 |
| Net written premium | | 171,466,400 | 117,101,160 |
| Less: Change in uneanred premium | | 25,037,919 | 16,146,614 |
| Net earned premium | | 146,428,481 | 100,954,546 |
| Add: Commission from Re-insurers | | 19,964,133 | 13,605,910 |
| | | 166,392,614 | 114,560,456 |
| Less: | | | |
| Net claims incurred | | 93,899,577 | 71,981,040 |
| Commissions | | 10,141,024 | 10,752,909 |
| Increase in technical provisions | 13 | 2,478,018 | 63,303 |
| Other technical expenses | | 7,198,858 | 5,113,350 |
| | | 113,717,477 | 87,910,602 |
| Underwriting surplus transferred to profit & loss account | 1(a) | 52,675,137 | 26,649,854 |

## Appendix E: Actuary's Solvency Certificate

**The United Insurance Company (S.C.)**

**Actuarial Valuation as at 30 June 2012**

**Actuary's Solvency Certificate**

I, James Israel Omanyala Olubayi of Alexander Forbes Financial Services (EA) Limited, Landmark Plaza, $10^{th}$ 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 2012 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 **The United Insurance Company (S.C.)** in respect of policies of valuation adopted by me has been arrived at using a professionally sound and prudent basis; and

b) that I am satisfied that the value of assets adopted by me are, on the basis of the auditors certificate appended to the balance sheet, fully of the value so adopted.

..........................................

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

**Nairobi**

**September 2012**

**THE UNITED INSURANCE COMPANY SC**
**LONG TERM INSURANCE BUSINESS**
**REVENUE ACCOUNT**
**FOR THE YEAR ENDED 30 JUNE 2012**

| | Notes | | 30.06.11 |
|---|---|---|---|
| **INCOME** | | | |
| Life assurance fund at 30 June 2011 | | 31,352,155 | 23,657,327 |
| Outstanding claims at 30 June 2011 | | 251,581 | 594,296 |
| Net premium income | | 5,614,059 | 4,367,527 |
| Commissions income | | 3,105,904 | 3,247,829 |
| | | 40,323,699 | 31,866,979 |
| LESS: | | | |
| Life assurance fund at 30 June 2012 | | 37,904,614 | 31,352,155 |
| Outstanding claims at 30 June 2012 | | 36,559 | 251,581 |
| Net claims paid | | 1,279,334 | 798,083 |
| Commission expense | | 407,238 | 549,838 |
| Policy holders' dividend | | 47,684 | - |
| Other outgo | | 7,009 | 7,372 |
| | | 39,682,438 | 32,959,029 |
| Gross operating Income | | 641,261 | (1,092,050) |
| Other income | | | |
| Interest and others | | 4,020,064 | 2,349,734 |
| | | 4,661,325 | 1,257,684 |
| **EXPENSES** | | | |
| Employees' salaries and benefits | | 665,775 | 355,195 |
| Directors' fixed emoluments | 15 | 9,450 | 25,200 |
| Depreciation and amortization | | 41,057 | 43,027 |
| Audit fee | | 10,964 | 23,000 |
| Actuaries' fee | | 90,000 | 70,000 |
| Financial expenses | | 17,279 | 4,773 |
| General and administrative expenses | 17 | 826,800 | 1,541,532 |
| | | 1,661,325 | 2,062,727 |
| **Profit appropriated** | | 3,000,000 | (805,043) |

**THE UNITED INSURANCE COMPANY SC**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 30 JUNE 2012**

Currency: Birr

| | Notes | | | 30.06.11 |
|---|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 18 | | 69,188,777 | 31,424,294 |
| RETURNS ON INVESTMENTS & SERVICING OF FINANCE | | | | |
| Share premium availed for distribution | | 1,008,600 | | |
| Interest, rent income & dividend received | | 18,928,640 | | 16,652,191 |
| Dividend paid | | (24,504,687) | | (16,148,191) |
| | | | (4,567,447) | 504,000 |
| TAXATION | | | | |
| Profit tax paid | | (1,020,400) | | (1,732,726.00) |
| Withholding tax-Current year | | (1,450,271) | | (1,027,153) |
| | | | (2,470,671) | (2,759,879) |
| INVESTING ACTIVITIES | | | | |
| Investment | | (7,975,862) | | (2,273,019) |
| Disposal of fixed asset | | 78,449 | | 41,975 |
| Acquisition of fixed assets | | (6,374,985) | | (4,550,801) |
| | | | (14,272,398) | (6,781,845) |
| Net cash inflow before financing | | | 47,878,261 | 22,386,570 |
| FINANCING | | | | |
| Proceeds from sales of shares | | 27,498,717 | | 8,122,886 |
| Deposit at the National Bank of Ethiopia | | (3,598,697) | | (1,112,728) |
| | | | 23,900,020 | 7,010,158 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 19 | | 71,778,281 | 29,396,728 |

**THE UNITED INSURANCE COMPANY SC**
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2012**

Currency: Birr

| | Paid up Capital | Share premium | Legal Reserve | Retained Earnings |
|---|---|---|---|---|
| **Balance as as 1 July 2010** | 48,357,447 | 303,900 | 10,185,255 | 24,006,380 |
| Proceeds from sales of shares | 7,418,185 | 704,700 | - | - |
| Amount reinvested from profit | | | | (3,658,547) |
| Dividend and remuneration paid | - | - | - | (13,748,825) |
| Net profit for the year | - | - | - | 20,585,813 |
| Transfer to legal reserve | - | - | 2,058,581 | (2,058,581) |
| | 7,418,185 | 704,700 | 2,058,581 | 1,119,860 |
| **Balance as at 30 June 2011** | **55,775,632** | **1,008,600** | **12,243,836** | **25,126,240** |
| **Changes for 2011/2012** | | | | |
| Prior year adjustment | | | (289,874) | (2,608,862) |
| Premium availed for distribution | | (1,008,600) | | 1,008,600 |
| Amount reinvested from profit | 10,756,138 | - | | (10,756,138) |
| Proceeds from sales of shares | 13,235,179 | 4,516,000 | | |
| Dividend and remuneration paid | - | - | | (15,042,403) |
| Net profit for the year | - | - | - | 36,234,766 |
| Transfer to legal reserve | - | - | 3,623,477 | (3,623,477) |
| | 23,991,317 | 3,507,400 | 3,333,603 | 5,212,486 |
| **Balance as at 30 June 2012** | **79,766,949** | **4,516,000** | **15,577,439** | **30,338,726** |

# NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

## 1. SIGNIFICANT ACCOUNTING POLICIES

The Company had adopted the following major accounting policies for its financial statements, which are prepared under the historical cost convention and are consistently applied in preparing the present accounts. As the Company commenced to transact life assurance business since 1st September 1997, separate accounts are also prepared for this line of business.

### (a) Revenue Account

The revenue account surplus is net of reinsurance, provision for unearned premiums, claim paid, outstanding claims and other technical provisions [see (b), (c) and (d) below.]

### (b) Unearned Premiums

The provision for unearned premiums represents premiums relating to periods beyond the balance sheet date, and is calculated on a time basis using the 24th method of the net premium retained in line with Directive No. S/B/17/98 issued by the National Bank of Ethiopia.

### (c) Outstanding Claims

This represents provision for the cost of incidents notified on or before the balance sheet date, estimated on the basis of currently available information as well as provisions for claims incurred but not reported (IBNR) up to the balance sheet date. IBNR is applied only to non-life insurance. Differences arising from subsequent settlements of outstanding claims and any recoveries made from previous payments are shown in the revenue accounts of the period in which the settlements and recoveries are made except recoveries from bonds.

### (d) Other Technical Provisions

These are amounts provided to help meet the costs of any future loss accumulations arising from specified natural and man-made perils, and are determined by cumulating to the balance sheet date the excess of income over outgo in respect of those perils. This class of account also includes provisions held for 15% of claims in dispute in line with Directive No.SIB/24/2004 of the National Bank of Ethiopia.

### (e) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed as per the Income Tax Proclamation No. 286/2002, which requires application of straight-line method for buildings & constructions on cost and pooling system for the others. Accordingly, the depreciation rates per annum are as follows:

(i) Computers 25% pooling
(ii) All other business assets 20% pooling
(iii) Buildings and Constructions 5% straight line method

### (f) Deferred Charges

These represent the unamortized portions, at the balance sheet date, of costs incurred in connection with establishment costs, the cost of stationery on hand at the end of the period and other costs with benefits accruing to the Company for periods extending over one year.

All such costs are amortized individually on straight-line basis at ten percent (10%), whereas the cost of stationery items is charged to expenses when consumed.

**(g) Life Fund**

The actuarial valuation of the Life Insurance Fund is required to be undertaken annually during the first five years after commencement of such business and at least once every three years thereafter. Until this is done, the profit or loss on this business for a given financial year is transferred to the Life Insurance Fund. Transfers of any profits from the Life Insurance Fund to Profit and Loss Account are made on the recommendation of the actuaries following actuarial valuation.

**(h) Land Leasehold**

The Company amortizes the cost of land lease over the lease period.

**(i) Investments**

The Company's investments are stated at cost of acquisition.

**(j) Provision for doubtful debts**

Provision for doubtful debts is maintained on the basis of Directive (SIB/26/2004) issued by the National Bank of Ethiopia as follows:

(i) 25% of the Trade Debtor's balances outstanding for 91-180 days from the effective date of the policy;
(ii) 50% of the Trade Debtor's balances outstanding for 181-360 days from the effective date of the policy;
(iii) 75% of the Trade Debtor's balances outstanding for over 360 days from the effective date of the policy.

**(k) Investment income**

Investment income is stated net of relevant taxes. Interest income is recognized in the period in which it is earned. Dividend is recognized in the period in which it is declared.

## 2. DEBTORS, DEPOSITS AND PREPAYMENTS

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Trade Debtors | 46,062,878 | 22,910 | 46,085,788 | 39,664,167 |
| Staff Debtors | 265,766 | - | 265,766 | 1,906,733 |
| Deposit and Prepayment | 12,190,889 | 4,213 | 12,195,102 | 581,089 |
| Accrued Interest Receivable | 3,511,528 | 730,338 | 4,241,866 | 2,522,976 |
| Sundry Debtors | 2,547,598 | 33,173 | 2,580,771 | 1,333,682 |
| | 64,578,659 | 790,634 | 65,369,293 | 46,008,647 |

2.1 Trade Debtors of Br 46,062,878 is net of provisions for doubtful debts of Birr 23,753,885.

2.2 Deposit and prepayments include Br 10,316,348, an advance payment effected to Magercon PLC in connection with at Akaki-Kality site.

## 3. OUTSTANDING CLAIMS

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Life – Group Term | - | 36,559 | 36,559 | 251,581 |
| Personal Accident | 946,109 | - | 946,109 | 2,381,730 |
| Workmen's Compensation | 2,121,823 | - | 2,121,823 | 2,552,572 |
| Motor | 72,934,904 | - | 72,934,904 | 60,435,568 |
| Marine Cargo & Transit | 5,621,504 | - | 5,621,504 | 2,403,455 |
| Fire & General Accident | 530,484 | - | 530,484 | 513,805 |
| Engineering | 1,315,837 | - | 1,315,837 | 1,400,668 |
| General Liability | 444,336 | - | 444,336 | 83,088 |
| Pecuniary | 1,924,061 | - | 1,924,061 | 1,429,917 |
| | 85,839,058 | 36,559 | 85,875,617 | 71,452,384 |

Out of the total outstanding claims of Br 85,839,058 for general insurance, Br 14,642,848 relates to provisions for claims incurred but not reported (IBNR).

## 4. PROFIT TAX PAYABLE

a. This amount is arrived at as follows

| | | 30.06.11 |
|---|---|---|
| Profit before tax | 43,689,445 | 22,633,366 |
| Add: Disallowable expenses | 1,373,821 | 751,324 |
| | 45,063,266 | 23,384,690 |
| | - | |
| **Less: Income taxed at source** | | |
| Dividend income (Life and Non-life) | (10,429,876) | (10,130,942) |
| Interest on bank deposits (Life and Non-life) | (9,784,459) | (6,108,775) |
| Board Directors' incentive at the United Bank | - | (319,797) |
| **Taxable profit** | 24,848,931 | 6,825,176 |
| Provision for tax (30%) | 7,454,679 | 2,047,553 |
| Prepaid Profit tax (Life 183,873, Non Life Br 1,266,398) | (1,450,271) | (1,027,153) |
| **Profit tax payable** | 6,004,408 | 1,020,400 |

b. Taxation assessments have been made by the Ethiopian Revenue and Customs Authority (ERCA) in respect of profit, VAT, withholding taxes up to 30 June 2007.

## 5. OTHER CREDITORS, ACCRUALS AND PROVISIONS

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Sundry creditors | 5,613,978 | 81,938 | 5,695,916 | 4,897,251 |
| Commission payable | 8,318,953 | - | 8,318,953 | 7,976,944 |
| Provisions | 2,974,758 | 172446 | 3,147,204 | 2,228,882 |
| Accrued charges | 475,013 | 252,294 | 727,307 | 321,806 |
| Dividend payable | 4,270,908 | - | 4,270,908 | 2,977,054 |
| | 21,653,610 | 506,678 | 22,160,288 | 18,401,937 |

Sundry creditors include, among other items, Br1,857,795 debtors with credit balances, Br326,748, deferred income on policies incepted after 30.06.2012, Br1,221,712 balance due to various claimants not yet collected, and Br114,372 retention fee payable to the contractor for the Company's Building at Bahir Dar. Provisions include Br2,130,439 for staff leave and bonus pay, Br700,000 for possible expenses in connection with the Annual General Meeting of Shareholders and Customers' Evening.

## 6. INVESTMENTS

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| **Equity Investment** | | | | |
| United Bank SC | 24,250,000 | 7,875,000 | 32,125,000 | 32,125,000 |
| Share premium at United Bank SC | 375,000 | 125,000 | 500,000 | 500,000 |
| Raya Beer SC | | 5,000,000 | 5,000,000 | 2,250,000 |
| Share premium at Raya Beer SC | - | 250,000 | 250,000 | - |
| Habesha Cement SC | 5,000,000 | - | 5,000,000 | 5,000,000 |
| Share premium at Habesha Cement SC | 300,000 | - | 300,000 | 300,000 |
| **Government bond** | 5,000,000 | | 5,000,000 | - |
| **Loans to life policy holders** | - | 25,300 | 25,300 | 49,438 |
| | 34,925,000 | 13,275,300 | 48,200,300 | 40,224,438 |

The Company acquired a Government bond amounting to Br 5,000,000, which bears 3% interest per annum and matures in 2016.

## 7. LEASEHOLD LAND

Leasehold periods for the land acquired at Bahir Dar and Kality are 60 and 50 years respectively.

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Cost or valuation | | | | |
| Bahir Dar | 707,400 | - | 707,400 | 707,400 |
| Kaliti | 3,264,729 | - | 3,264,729 | 3,264,729 |
| | 3,972,129 | - | 3,972,129 | 3,972,129 |
| Accumulated Amortization | | | | |
| Bahir Dar | 158,400 | - | 158,400 | 146,610 |
| Kaliti | 649,002 | - | 649,002 | 588,391 |
| | 807,402 | - | 807,402 | 735,001 |
| NET BOOK VALUE | 3,164,727 | | 3,164,727 | 3,237,128 |

## 8. FIXED ASSETS

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| Motor vehicles | 13,300,365 | 275,000 | 13,575,365 | 10,605,441 |
| Furniture and equipment | 3,317,546 | 91,613 | 3,409,159 | 3,466,380 |
| Computer and accessories | 7,914,214 | 58,824 | 7,973,038 | 6,975,081 |
| Building at Bahir Dar | 5,737,019 | - | 5,737,019 | 5,737,019 |
| Land and property at Tewodros Square | 4,250,592 | - | 4,250,592 | 2,799,484 |
| Land and property at Kaliti | 2,329,542 | - | 2,329,542 | 2,208,522 |
| | 36,849,278 | 425,437 | 37,274,715 | 31,791,927 |
| **Accumulated Depreciation** | | | | |
| Motor vehicles | 7,422,259 | 183,455 | 7,605,714 | 6,461,320 |
| Furniture and equipment | 2,374,801 | 56,317 | 2,431,118 | 2,561,566 |
| Computer and accessories | 3,968,270 | 34,700 | 4,002,970 | 2,387,219 |
| Building & construction | 1,932,038 | - | 1,932,038 | 1,528,709 |
| | 15,697,368 | 274,472 | 15,971,840 | 12,938,814 |
| **Net Book Value** | 21,151,910 | 150,965 | 21,302,875 | 18,853,113 |

Computers and accessories include Br5,975,053, being cost of software, hardware, servers, installation, implementation, networking and other related costs in connection with an integrated insurance management information system implementation project.

## 9. STATUTORY DEPOSIT

This is an amount deposited in cash with the National Bank of Ethiopia in satisfaction of Article 9 of the Licensing and Supervision of Insurance Business Proclamation No. 86/1994 which stipulates that "every insurer shall, in respect of each main class of insurance business he carries on in Ethiopia, deposit and keep deposited with the Bank, an amount equal to fifteen percent (15%) of his paid up capital, in cash or Government Securities" as part of security arrangements for the benefit of policy holders as a body.

## 10. LAND LEASE PAYABLE

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Land lease payable | 1,859,529 | - | 1,859,529 | 1,859,529 |
| Less: Down payment 06/07 | (371,906) | - | (371,906) | (371,906) |
| Installments paid | (371,906) | - | (371,906) | (297,525) |
| | 1,115,717 | - | 1,115,717 | 1,190,098 |

## 11. SHARE CAPITAL (PAR VALUE @ BIRR 1,000 EACH)

| | No. OF SHARES | AMOUNT | 30.06.11 |
|---|---|---|---|
| Authorized | 250,000 | 250,000,000 | 50,000,000 |
| Subscribed | 100,000 | 100,000,000 | 60,000,000 |
| Fully paid | 55,775 | 79,766,949 | 55,775,632 |

The amount stated as subscribed capital represents the total outcome of the provisions of Resolution No. UNIC/AGM17/03/2011 of the 7th Extra-Ordinary meeting of shareholders which was held on 27 October 2011 as stipulated under Article 8, 9 and 13 of the Article of Association of the Company.

## 12. LEGAL RESERVE

This is a reserve constituted in accordance with Article 12 of Proclamation No. 86/1994 Licensing and Supervision of Insurance Business, and is built up by the transfer of ten percent (10%) of annual profits after tax until the amount of the reserve equals the amount of the paid up capital.

## 13. INCREASE IN TECHNICAL PROVISION

The provisions represent:

| | | 30.06.11 |
|---|---|---|
| Increase in provision for natural and man made perils as per 1 (d) | 2,478,019 | 63,303 |

## 14. EMPLOYEES' SALARIES AND BENEFIT

Employee's salaries and benefits directly attributable to the Company's Non-Life operations are charged to the Revenue Account as follows:

| | | 30.06.11 |
|---|---|---|
| Total employees salaries and benefits | 13,870,199 | 10,292,140 |
| Less : Apportioned to Life Operations | (190,423) | (423,004) |
| | 13,679,776 | 9,869,136 |
| Employees salaries and benefits transferred to Revenue Account (50%) | (6,839,888) | (4,934,568) |
| Balance on Profit and Loss Account (50%) | 6,839,888 | 4,934,568 |

## 15. DIRECTORS' REMUNERATION

In accordance with Article 5 of the Company's Articles of Association and Resolution No. UNIC/AGM03/05/97 of the Third Annual General Meeting of Shareholders inviting the Board of Directors to propose an incentive scheme that would link such remuneration to the profitability of the Company, and its adoption by the AGM, a fixed sum of Br63,000 (Br37,800 for Non-Life and Br25,200 for Life) and 7.5% of Net Profit after Tax and Legal Reserve are to be paid to the Directors as profit incentive.

## 16. ACTUARIAL VALUATIONS

An Actuarial valuation of the Company's Life Business as of 30 June 2012 was carried out by our consulting actuaries, M/S Alexander Forbes Financial Services (EA) Limited. The valuation revealed after establishing prudent mathematical reserves, an actuarial surplus of Br13,915,763 being the difference between the Life Fund of Br40,951,032 and actuarial liabilities amounting to Br27,035,269. The actuaries recommend 21.55% (totaling Br3,000,00) for distribution from surplus to shareholders for the year ended 30 June 2012 and a reversionary bonus of 2% of the basic sum assured(Br47,684) to "With Profit" ordinary life policies for each completed policy year over the inter-valuation period.

## 17. GENERAL & ADMINISTRATIVE EXPENSES

| | GENERAL INSURANCE | LONG TERM INSURANCE | TOTAL | 30.06.11 |
|---|---|---|---|---|
| Shareholders' meeting expenses | 918,642 | 91,525 | 1,010,167 | 513,726 |
| Advertising and promotions | 1,300,906 | 144,251 | 1,445,157 | 918,922 |
| Stationeries, printing & office supplies | 1,063,856 | 150,315 | 1,214,171 | 1,272,063 |
| Rent | 3,893,565 | 58,246 | 3,951,811 | 3,502,643 |
| Communication | 1,158,676 | 51,126 | 1,209,802 | 1,038,459 |
| Transport and travel | 1,362,708 | 47,394 | 1,410,102 | 1,245,435 |
| Repairs and maintenance | 770,521 | 4,357 | 774,878 | 589,223 |
| Property insurance | 204,647 | 4,816 | 209,463 | 132,393 |
| Professional services other than audit | 65,816 | - | 65,816 | 113,909 |
| Other general and admin. expenses | 565,767 | 274,770 | 840,537 | 1,333,267 |
| | 11,305,104 | 826,800 | 12,131,904 | 10,660,040 |

## 18. RECONCILATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATION

| | | 30.06.11 |
|---|---|---|
| Profit for the year | 43,689,445 | 22,633,366 |
| Prior year adjustment | (2,898,735) | - |
| Interest and dividend income | (20,647,530) | (16,919,341) |
| Depreciation and amortization | 3,919,175 | 3,759,939 |
| (Increase )/Decrease in debtors(excluding interest receivable) | (17,641,756) | (20,365,385) |
| Increase (Decrease) in amount due from reinsurers | (6,381,244) | 492,813 |
| Increase (Decrease) in amount due to reinsurers | 18,267,674 | (659,232) |
| Increase in outstanding claims | 14,423,234 | 15,449,968 |
| Increase in technical provisions | 34,158,398 | 23,904,745 |
| Increase in other creditors, accruals and provisions | | |
| (excluding dividends and tax thereon) | 2,374,497 | 3,201,803 |
| Decrease in land lease payable | (74,381) | (74,382) |
| Net cash inflow from operations | 69,188,777 | 31,424,294 |

## 19. CASH AND CASH EQUIVALENT

| | 2012 | 2011 | CHANGE | 30.06.11 |
|---|---|---|---|---|
| Cash & bank balances | 61,089,812 | 34,287,195 | 26,802,617 | 668,337 |
| Bank deposits at interest | 189,026,843 | 144,051,180 | 44,975,663 | 28,728,391 |
| | 250,116,655 | 178,338,375 | 71,778,280 | 29,396,728 |

## 20. PRIOR YEAR ADJUSTMENT

This adjustment refers to tax and tax related payments that were made to the Ethiopian Revenue and Customs Authority (ERCA) following taxation assessments for two years to 30 June 2007. The payments related largely to the following classes of tax.

The payments relate largely to two classes of tax:

(a) It was to be recalled that after the Company's accounts for the financial year ended 30 June 2005 which revealed some profits were duly audited and presented to the Supervisory Authority, the National Bank of Ethiopia. The Bank issued written instructions ordering the Company to charge all claims paid under Financial Guarantee Bonds issued by it to claims expense even when Management was certain to make recoveries within the following financial year. As a consequence, the Company's year-end account recorded a loss. On the other hand, the Federal Inland Revenue Authority (FIRA) would not accept the accounts prepared in accordance with the instructions of the Supervisory Authority and instead carried out its tax assessments based on the profits initially reported to them. As a consequence, the Company had to pay profit tax when its accounts showed a loss.

(b) The Value Added Tax Proclamation No. 285/2002 states that activities such as "rendering of financial services are exempted from VAT'. Disposal of salvages on which total loss had been paid being part and parcel of rendering insurance services, the Company did not collect VAT on such transactions for a long time. FIRA has given its own interpretation of the law saying that only insurance premiums are exempted from VAT. The strong protest by insurance companies notwithstanding, our Company had to pay VAT it did not collect.

## 21. EARNINGS PER SHARE

Earnings per share is calculated by dividing net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

## 22. CAPITAL COMMITMENT

The Company has a remaining capital commitment of Br 30,949,046 in connection with Akaki-Kality site construction work.

## 23. COMPARATIVE FIGURES

In order to facilitate comparison, certain figures as at 30.06.11 were rearranged in these accounts.

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# THE UNITED INSURANCE COMPANY SC

<UNIC-ETHIOPIA>

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**THE UNITED INSURANCE COMPANY SC**
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