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Lucy

INSURANCE S.C.

2022/23 ANNUAL REPORT

ሁሌም ከጎንዎ ነን!

13 Months by your side!

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Lucy

INSURANCE S.C

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13 Months by your side!

VISION, MISSION & CORE VALUES

VISION

To be one of the best five private insurance Companies in Ethiopia by 2030

MISSION

To provide dependable insurance services and Strives to satisfy its customers

TABLE OF CONTENT

BOARD OF DIRECTORS

Tesfaye Boru (Dr.)
Chairman, Board of Directors

Destalem Fitwi
V/ Chairman, Board of Directors

Demisse Tafesse
Directors

Getachew Abera
Directors

Kelemu Sinke
Directors

Simon Mechale
Directors

Solomon W/Yohannes
Directors

Tekeste Desta
Directors

Wende Wedajo
Directors

EXECUTIVE MANAGEMENT

Adefris Wesene
Chief Executive Officer

Negede Worku
D/CEO, Operations

Yodit Yimer
Director- Marketing & Business Dev't

Adissu Fekadu
Director- Underwriting & Branch Operations

Esayas Assefa
Director- Finance & Investment

Rediwan Abdulshikur
A/Director- Human Resources & Logistics

Solomon Zelalem
Manager- Legal Service

CHAIR PERSON'S STATEMENT

Dear valued Shareholders,

It is my pleasure to welcome you to the 11th Regular Annual General Meetings of shareholders of Lucy Insurance Share Company.

I, on behalf of the board of directors, am delighted to present to you the Annual Report and audited financial statement of the company for the Financial Year (FY) 2022/23. This year has been a remarkable year for all of us here at Lucy. We emerged more resilient and strengthened, and our confidence in our capabilities is reflected not only in the numbers but also in the trust that our clients have placed in us. I am grateful to our clients, partners, team members, and other stakeholders for their relentless collaboration to make this happen.

Last year, we were able to steer through the challenges of the unpredictable market conditions effectively and achieve strong growth. We did this by aligning to our clients' interest, implementing the strategic plan, focusing relentlessly on growth, and maintaining a strong operational rigor. This is a testament to the unwavering determination of our teams to help our clients and prove that we will be there by their side as our motto reflects.

During the year, the company has set in place different manuals and procedures to enhance the underwriting service. Efforts were made to diversify the business portfolio and increase the company's capabilities and competency in the market. Despite the challenging business environment and gloomy economic situation, however, we are pleased to report an encouraging performance in the year. Unlike the record for the past fiscal year and as promised during our previous shareholders meeting, we have delivered a notable profit record of birr 45.8 million during the fiscal year ended June 30, 2023 which is higher by 17% of last year's performance. Such success is registered due to the coordinated effort of the board, management, staff and stakeholders of our company. In addition, the effort to increase direct premium earning, control of expenses and institute prudent underwriting measures contributed a major share for the positive record during the completed fiscal year.

Our production continued to grow and our revenue earning also revealed a significant growth of 34% from the past year yielding a net premium of birr 215,453,535.6 million after reinsurance cession.

Due to the disciplined risk management and ability to price risks correctly, we are able to maintain a core underwriting profitability. Despite an increase on the spare parts and maintenance expenses, we have managed to maintain the claims ratio at 45%. Consequently, the premium production earned in the year remarkably elevated by 101% meeting the annual target.

We have also made our investment portfolio diversified and in a way, to place its share in the growth for the total income of the company. Investment income grew by 19% within a year. Lucy also continued to maintain expense discipline and maintain far lower expense of 58 million i.e. 8% lower than the budget. In parallel with the growth and expansion strategy, the board has provided a strong attention to investment in technology and to digitize the service and make Lucy ready to cope up with the digitalization era. The technology roadmap incorporating the direction from the national bank of Ethiopia is already prepared for review and future execution.

Dear Esteemed Shareholders,

In the coming year, we will continue to be engaged in numerous initiatives that contribute to the betterment of our company. Focusing on continuous growth and profitability, Enhancing the leadership team, the digital initiatives, excellent customer service and compliance will be our key contributors to success going forward. As per the strategic plan, the company is set to open ten branches in Addis Ababa and regional cities. With the opening of the new branches the company expects to increase its market share in the industry to 2%.

Finally, we would like to thank you again for your support and look forward your cooperation in boosting the capital towards the required level. We are grateful for the trust you place in us and we remain committed to bring in to reality the vision of the company.

I also extend my special thanks to the board, the management and staff for their continuous effort. In addition, we are grateful to the national Bank of Ethiopia, our clients and business partners for their trust in our company.

Tesfaye Boru (Dr.)
Chairman, Board of Directors.

FINANCIAL HIGHLIGHTS

Gross Written Premium

285 M 2022/23
212.7 M 2021/22
31%

Underwriting Surplus

104.4 M 2022/23
86.1 M 2021/22
21%

Claims Ratio

45% 2022/23
41% 2021/22
4%

Profit/loss

45.8 M 2022/23
39 M 2021/22
17 %

Total Liability

402 M 2022/23
370 M 2021/22
9 %

Total Asset

618.7 M 2022/23
529.6 M 2021/22
17 %

DIRECTORS' REPORT

ANNUAL REPORT BY BOARD OF DIRECTORS

On behalf of the board of directors, it is my pleasure to present the integrated Annual report and Audited financial statement of the company by external auditors for the financial year ended June 30, 2023.

In this brief report, the company's major all over activities and achievements for the year 2022/23 are covered.

I. The Business Environment

A. THE GLOBAL ECONOMIC SITUATION

The Global economy was uncertain in 2022/23 because of financial sector turmoil, high inflation, ongoing of Russia's invasion of Ukraine, and three years of COVID-19.

Global GDP growth in 2023 is projected to be 2.7%, the lowest annual rate since the global financial crisis, picking up modestly to 2.9% in 2024 according to the Organization for Economic Cooperation and Development (OECD's) June outlook. The OECD's leading indicators for developed economies remain disappointing, with US and Eurozone levels indicating a downturn while the UK trajectory points to a recovery. However, all three regions are still below the long-term trend in industrial production. According to the OECD's June 2023 outlook, UK GDP growth is expected to be modest at 0.3% in 2023 and rise moderately to 1.0% in 2024. Meanwhile, June 2023 European Central Bank projections anticipate GDP growth in the Eurozone to slow to 0.9% in 2023 (versus 3.5% in 2022) before rising to 1.5% in 2024 and 1.6% in 2025. By contrast, the emerging economies are showing the first signs of a rebound led by China, where industrial output growth was 3.5% year-over-year in May, decelerating from 5.6% in April (IMF, World Economic Outlook April and June 2023).

Manufacturing and services sector performances continue to tell two contrasting stories: the global services sector gained some momentum at the beginning of the second quarter of 2023, while the manufacturing sector contracted again, now showing a decline for three consecutive quarters. Factories have signaled increased production, yet deteriorating new orders and international trade flows raise concerns about demand. Nevertheless, there are some bright spots for manufacturing: input prices have been falling for the first time since 2020, while global supply chain pressures have eased in one of the biggest drops since 1998. (Global Economics Intelligence executive summary, June 2023).

The baseline forecast is for growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023, before settling at 3.0 percent in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7 percent in 2022 to 1.3 percent in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5

percent in 2023 with advanced economy growth falling below 1 percent. Global headline inflation in the baseline is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly.

B. THE DOMESTIC ECONOMIC SITUATION

With regard to the Ethiopian economic situation in the year 2022/23, although the rate of inflation will be as high as 24.1% according to AFRICAN DEVELOPMENT BANK - AFRICAN ECONOMIC OUTLOOK, the country will register GDP growth of 6% which is greater than that of many countries of the continent as Algeria i.e. 2.7%, Botswana 3.9%, Egypt 4.8%, Kenya 5.6%, Mauritius 4.6% and the like.

As per another source i.e. ETHIOPIA MACROECONOMIC AND TRADE PROFILE February 2023, the CESSATION OF HOSTILITIES signed in PRETORIA, SOUTH AFRICA on November 2, 2022 between the two warring parties i.e. the government and TPLF, the government believed that it will lead to GDP growth of 7.5% in the fiscal year 2022/23 which is higher than the forecast by IMF i.e. 5.3%. Nevertheless, the intensification of the conflict remains a downside risk to Ethiopia's growth outlook.

With reference to the UNDP (UNITED NATIONS DEVELOPMENT PROGRAM) projection for the year 2020-2023 issued in September 2022, the confluence of shocks Ethiopia has faced in recent years; some emerging from within the country and some from the global economy such as the COVID-19 pandemic that started in early 2020, followed by the conflict in Northern Ethiopia, continuing with the drought in southern Ethiopia, the RUSSIA - UKRAINE CONFLICT starting in February 2022 and a sharp drop in external financing during 2020-22, primarily driven by official development assistance (ODA), have led to slowing growth and development, supply disruptions, humanitarian crises, and heightened food insecurity. They also threaten to slow the pace of economic and other reforms that are vital for rapid recovery, peace building and the expansion of Ethiopia's development frontier. According to UNDP, growth will go down from 5% in 2021 to 3 % in 2022 and is followed by an increase to 4.8% in 2023 which is a ray of hope for all economic activities including the insurance sector.

Although living cost, inflation rate, cost of fuel, the political instability and other factors persisted, in the year 2022/23, the growth in country's economic activity and the insurance industry was encouraging and giving hope to small and large scale business.

The inflation, taken as a single factor, for instance, is a favorable condition for the insurance sector putting aside the other disadvantages it will result in. However, when it is coupled with the economic growth, the insurance industry yielded a better benefit from the economy in the year 2022/23.

C. THE INSURANCE SECTOR

Ethiopian Insurance Industry comprises 18 Insurance companies currently and Out of the 18, one is state-owned that seizes the biggest market share. As per recent data of the National Bank of Ethiopia (NBE) , about 40% of the Market share is possessed by the only state-owned company and the private companies share the rest 60%.

The 18 insurance companies' branches rose to more than 716. About 13% of the total branches are owned by Ethiopian Insurance Corporation (EIC) and 87% of the total branches are owned by private insurance companies. Moreover, as sources from NBE show competition is fierce in the city as 55.4 % of their branches are concentrated in Addis Ababa.

Due to the fact that the sector has not led by an independent body and the absence of enabling and favorable policies to grow the sector, the competition is fierce, throat-cutting and abnormal that was based on price cutting rather than the provision of quality insurance service. However, currently the minimum rate set by the NBE highly minimizes the price cutting competition among insurers and leads them to compete with quality service, which is a promising situation for the sector to grow with in a short period.

The other indicator for such abnormal competition which makes the playground uneven is the snatching of trained manpower among the players which is being increasingly used by many insurers as a weapon to defeat rivals.

Although the industry is characterized by such abnormal conditions, the highest amount of GWP was written in the year 2022/2023 i.e. birr 21.7 Billion in General Insurance.

In 2022/23 fiscal year the industry has registered a premium amount of birr 21.7 Billion in General Insurance Business and has increased by Birr 6.4 Billion or 42% over the previous year performance of Birr 15.3 Billion (2021/22).

Out of the industry total GWP, Lucy has produced a Gross Written Premium (GWP) of birr 285.1 million and has taken a 1.31% market share demonstrating a growth of Birr 72.3 Million or 34% over the preceding year's performance.

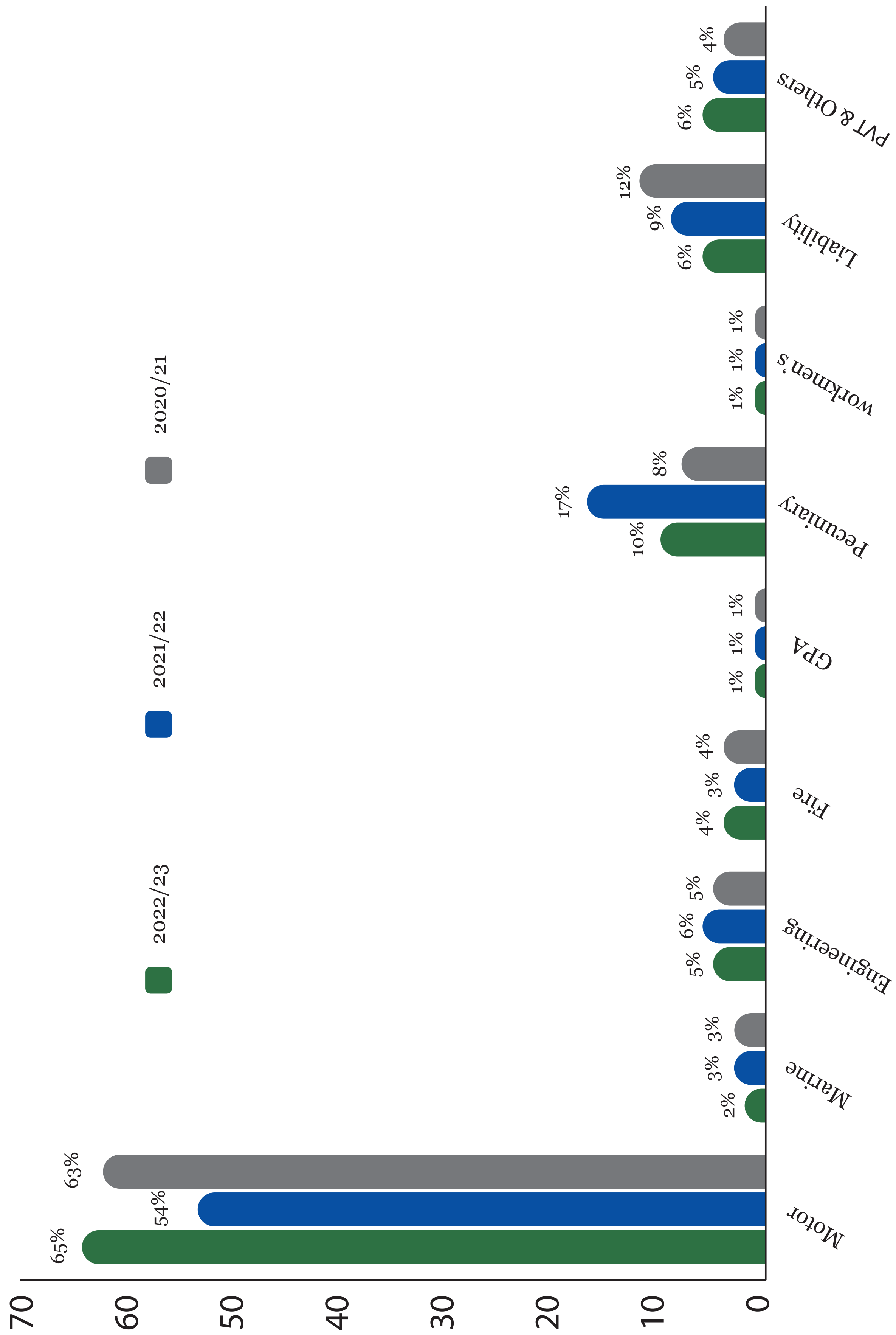
II. OPERATIONAL AND FINANCIAL PERFORMANCE FOR THE YEAR 2022/23

A. GROSS WRITTEN PREMIUM

During 2022/23 fiscal year, the company registered a Gross written premium (GWP) amount of Birr 285,089,511.00 from different classes of businesses. The performance is 101 % of the budget projected for the year. The performance is higher in Birr 72.3 million or 34 % from the preceding year of Birr 212.75 Million.

Motor class of business is 65 % of the total premium income, followed by Pecuniary, liability and PVT and others, Engineering, and fire and burglary with 10%, 6%, 5 % and 4 % respectively. The remaining classes of business other than the above mentioned contributed 8% of the total premium income.

The Graph below shows the premium portfolio mix for three consecutive years



B. CLAIMS /LOSS RATIO

The company's net claims incurred during the fiscal year was Birr 73,340,687.25 of which the motor class of business accounted for 99.7 %. The loss ratio for the reporting period was 45% and higher than by 4% from the previous year of 41%. The loss ratio for the motor class of business was 58% and has increased by 2% over the previous year.

The Table below illustrates comparative Net loss ratio by class of business in (000)

Class of Business	2022/23		Ratio	2021/22		Ratio	2020/21		Ratio
	Net Claims Incurred	Net Earned Premium		Net Claims Incurred	Net Earned Premium		Net Claims Incurred	Net earned premiums	
Motor	73,340.69	131,454.85	58%	55,512.43	100,061.45	56%	71,438.11	70,981.00	101%
Marine	(39,951.01)	4,198.70	0%	420.62	4,090.91	11%	100.05	3,486.00	3%
Engineering	3,556,093.86	3,473.34	104%	(1,610.65)	7,281.81	-21%	2,842.94	6,046.00	47%
Fire and Burglary	(162,193.50)	3,244.04	-4%	(1,264.79)	3,234.94	-39%	32.39	3,903.00	1%
Workmen's	310,292.38	2,429.21	10%	812.97	2,153.57	38%	953.60	2,152.00	44%
GPA	319,572.59	2,974.43	12%	446.40	2,085.12	22%	953.74	1,984.00	48%
Pecunary	(4,967,542.76)	9,229.16	-50%	(2,223.38)	4,849.47	-43%	6,183.55	6,964.00	89%
Liability	529,700.90	10,832.78	6%	4,571.99	14,469.40	32%	5,354.51	17,435.00	31%
PVT & Other	454,027.54	1,596.23	34%	(217.25)	281.84	-75%	395.24	553.00	71%
Total	73,340.69	169,432.74	45%	56,448.34	138,508.52	41%	88,254.12	113,505.00	78%

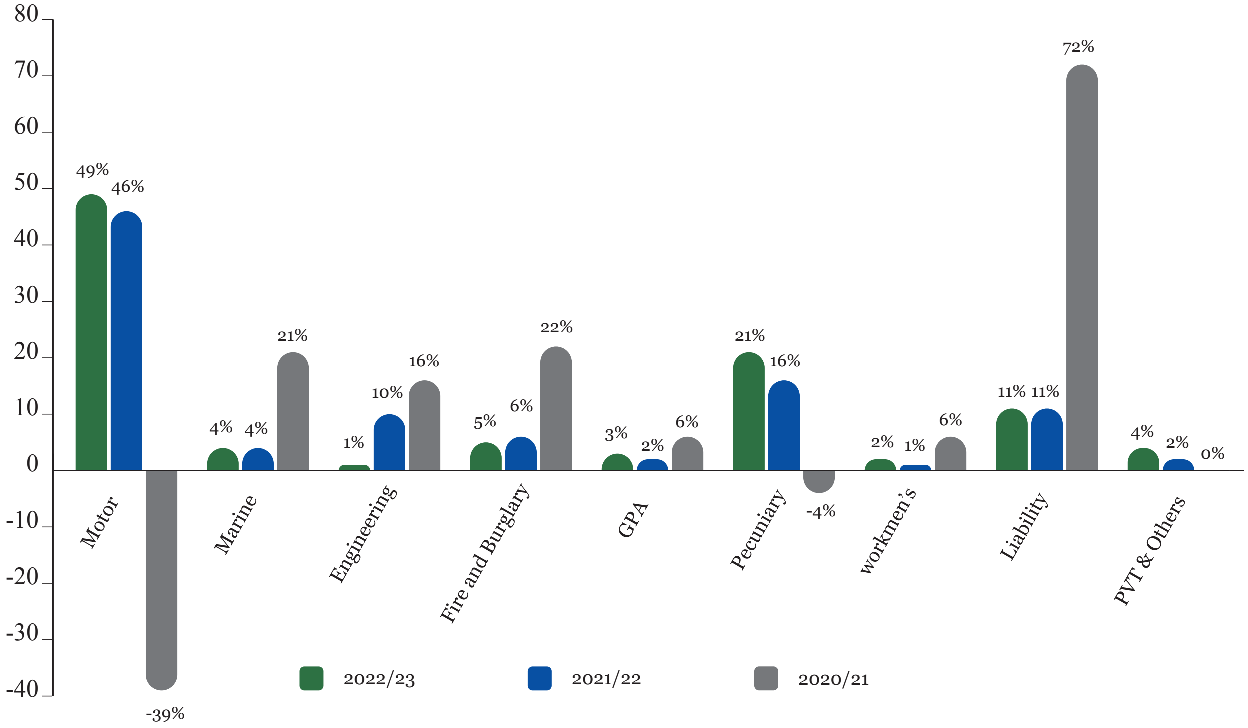
C. UNDERWRITING RESULT

The company has earned an underwriting profit of Birr 104.4 Million during the fiscal year and grown by 21% over the previous year of Birr 86.1 Million. Motor insurance has contributed the highest percentage share of 49%, followed by pecuniary, liability, fire and Burglary, marine, PVT and others in a descending order.

The Table below demonstrates comparative Underwriting result of three consecutive years by class of business in (000)

Class of Business	Actual as June				Growth/Fall		Actual as June				Growth/Fall	
	2022/23		2021/22		2022/23 vs 2021/22		2021/22		2020/21		2021/22 vs 2020/21	
	Amount	%age	Amount	%age	Amount	%age	Amount	%age	Amount	%age	Amount	%age
Motor	51,297.29	49%	39,884.27	46%	11,413.02	29%	39,884.27	46%	(5,553.24)	-39%	45,437.51	818%
Marine	4,498.25	4%	3,759.78	4%	738.47	20%	3,759.78	4%	2,952.65	21%	807.13	27%
Engineering	1,218.06	1%	9,009.19	10%	(7,791.13)	-86%	9,009.19	10%	2,235.90	16%	6,773.28	303%
Fire and Burglary	5,424.36	5%	5,455.65	6%	(31.29)	-1%	5,455.65	6%	3,177.53	22%	2,278.12	72%
GPA	2,886.17	3%	1,430.57	2%	1,455.60	102%	1,430.57	2%	846.98	6%	583.60	69%
Pecuniary	21,535.74	21%	13,681.56	16%	7,854.18	57%	13,681.56	16%	(537.89)	-4%	14,219.45	2644%
Workmen's	2,022.25	2%	1,114.44	1%	907.82	81%	1,114.44	1%	922.28	6%	192.16	21%
Liability	11,270.05	11%	9,748.97	11%	1,521.08	16%	9,748.97	11%	10,282.56	72%	(533.60)	-5%
Others	4,339.28	4%	2,066.36	2%	2,272.92	110%	2,066.36	2%	39.06	0%	2,027.30	5190%
Toatal	104,491.45	100%	86,150.78	100%	18,340.67	21%	86,150.78	100%	14,365.82	100%	71,784.95	506%

The Graph below displays the underwriting surplus contribution by class of business for three consecutive years



D. Investment

The company applied excellent cash management practices in monitoring cash flows and implementing investment income management strategies throughout the year to maximize investment return while maintaining adequate cash to meet its operating expenses and claims obligations. Thus, investment income grew by 19% to 26.4 million from the previous year amount of Birr 22.3 million.

E. Expenses

The total General and Administration expense of the company on the fiscal year of 2022/23 was Birr 86 million, higher than the previous year expense amount of Birr 71.1 million by 21%. From the total expense amount salary and wage accounted for Birr 32.9 million, employees benefit 13.1 million, interest and bank charges Birr 1.17 million, repair and maintenance Birr 3 million, depreciation expense Birr 7.3 million, rent expense Birr 6.2 million and other general administrative expenses accounted for Birr 22.6 million. The expense amount lowers from the budget by 8% or Birr 6.7 million.

F. Profit/Loss

The company has registered a profit before income tax of Birr 45.8 Million and grown by 17% from the preceding year profit of Birr 39 million. The company has also registered Birr 17.2 Million or 38% of the gross profit from the operation.

III. Statement of Financial Position

A. Assets

The balance sheet As of June 30, 2023 showed that the total assets of the company stood at Birr 618.7 million, of which Birr 174. 8 Million was cash deposited at different banks, 28.3 Million was statutory deposit, Birr 95.2 million reserve for reinsurance portion of technical reserves, Birr 83.9 million investment in banks and Ethiopian Reinsurance Company, and Birr 40.9 due from reinsurance, Birr 171.9 fixed assets net of accumulated depreciation, the rest is accounted for in other assets.

B. Liabilities

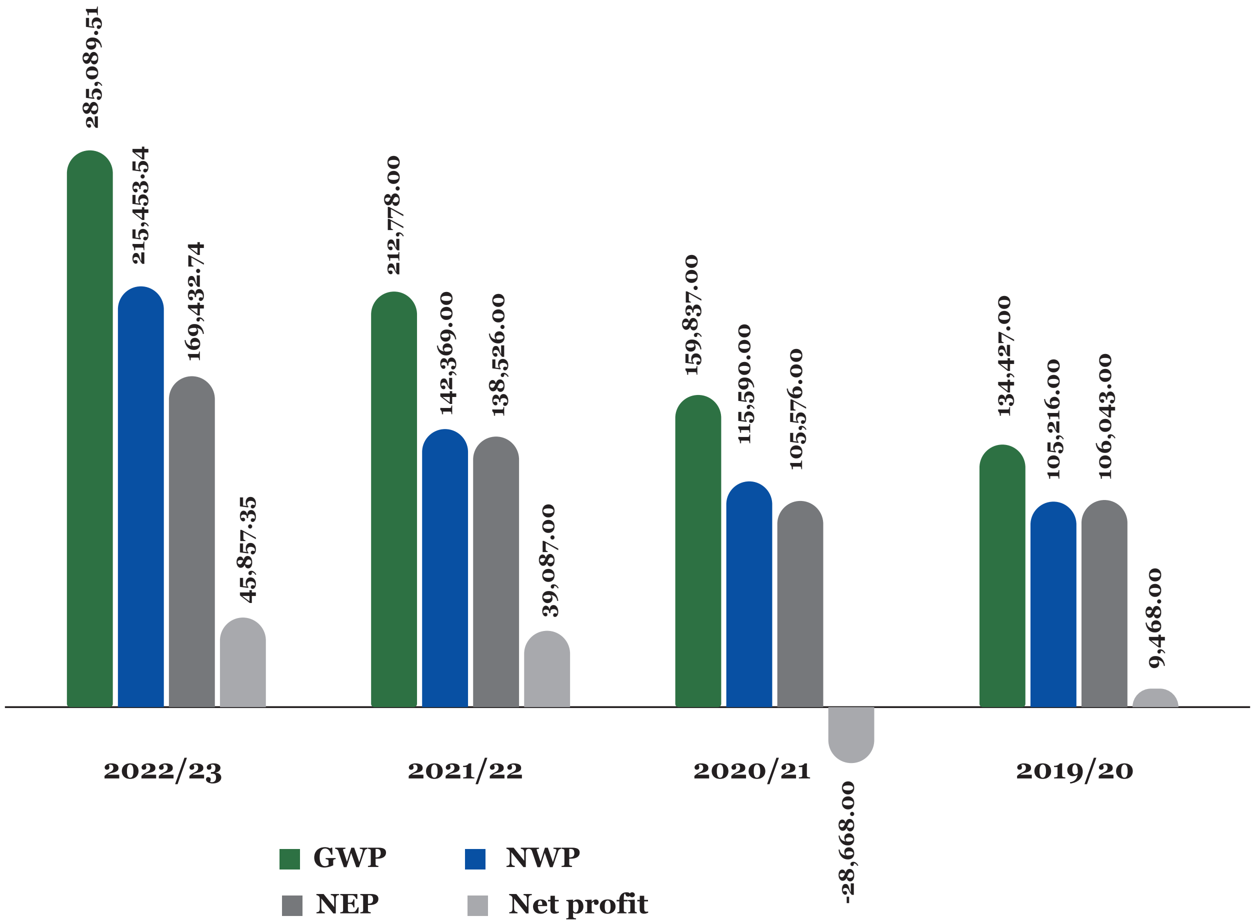
The total liability of the company has reached to Birr 402 million. From the major liability items Birr 73.2 million was due to reinsurers emanated from our reinsurance treaty, birr 285.8 was accounted for reserve for unexpired risk and outstanding claims including IBNER. Birr 11.7 million was reserve for reinsurance commission income and the rest is accounted for other current liability and accrued expenses.

C. Total Equity

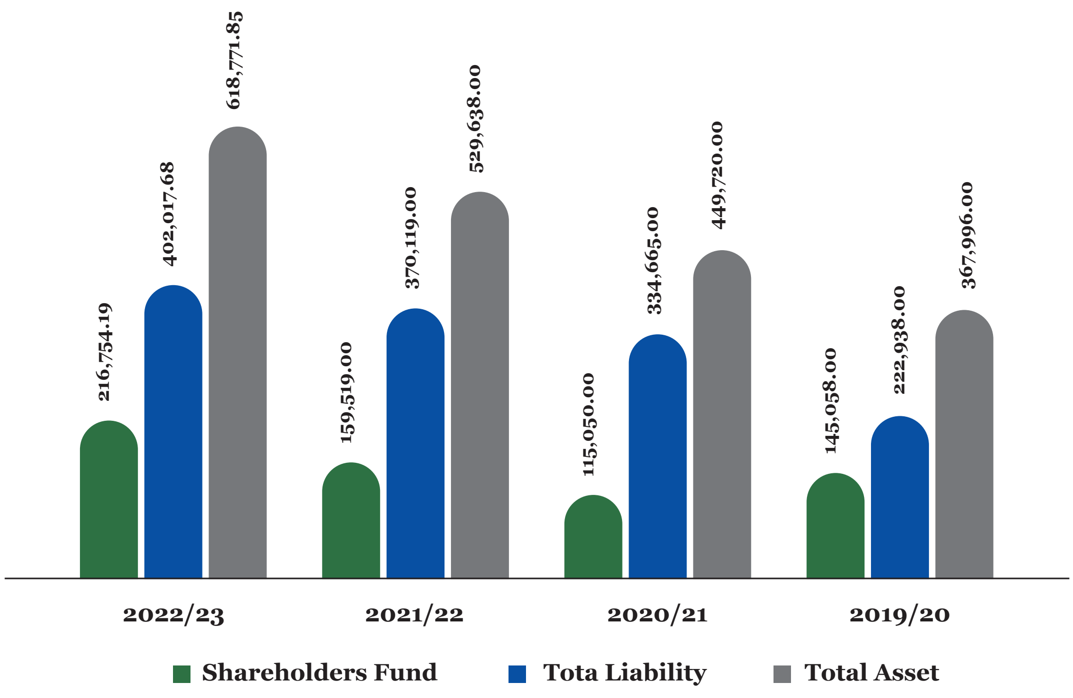
The company's total equity as of June 30, 2023 was Birr 216.7 Million of which Birr 160.2 was paid up capital section of the equity, Birr 1.9 Million was share premium, birr 14.8 Million legal reserve and Birr 39.7 million retained earnings for the fiscal year.

In Birr '000	2022/23	2021/22	2020/21	2019/20
Financial Results				
Gross Written premium	285,089.51	212,778.00	159,837.00	134,427.00
Net Written Premiu	215,453.54	142,369.00	115,590.00	105,216.00
Net Earned Premium	169,432.74	138,526.00	105,576.00	106,043.00
Net Profit/Loss Aftertax	45,857.35	39,087.00	-28,668.00	9,468.00
Financial Position				
Total Asset	618,771.85	529,638.00	449,720.00	367,996.00
Total Liability	402,017.68	370,119.00	334,665.00	222,938.00
Shareholders Fund	216,754.19	159,519.00	115,050.00	145,058.00

FINANCIAL RESULT



FINANCIAL POSITION



IV. Other Operational Performances

A. Human Resource

During 2022/23 fiscal year, the company had 233 workforces and of which 197 of them were permanent, 1 was in a fixed contract and 35 were outsourced. From the total number of manpower 115 or 58% are females and 83 or 42% are males. 78 operational and supporting staffs have been trained with insurance operation, finance, customer service and other areas.

B. MARKETING AND CORPORATE PLANNING

In the marketing and corporate planning aspect, the company has conducted the following activities.

I. RECRUITING SALES FORCE

12 sales agents have been recruited, trained and deployed to assist and develop the business as per the plan.

II. BRANDING AND PROMOTION

The branding work has been done in the headquarters; a broadcast promotion and other Different promotional materials have been prepared and distributed to enhance the company's image and brand.

III. LAUNCHING SOCIAL MEDIA ACCOUNTS

Social media accounts (Facebook and Telegram) have been created, launched and promoted on numerous platforms to increase the number of members and reach the wider customers.

IV. Event Organizing

The 10th Annual General and 8th Extraordinary General Meetings of Shareholders and other company events and campaigns have been organized successfully.

V. PREPARATION OF MANUALS, POLICIES AND PLANS

As per the requirements by National Bank of Ethiopia, the Annual Plan and Budget of the year 2023/24 was prepared and presented for the discussion and approval of the Board of Directors. In addition, the five years strategic plan of the company has been revised.

VI. Reporting

The periodic reports have been prepared and presented to Board of directors to show the overall performance status of the company in a continuous manner.

V. CHALLENGES

Even though the company has registered profit during the fiscal year, it has faced different challenges and the following are the major ones:-

- Intense competition in the insurance industry which is characterized by cutting premium rates / unethical price-based competition among the industry actors

- The Political instability and social unrest that has been challenging the country
- High inflation rate
- Continuous escalation of repair and spare part cost

VI. FUTURE STRATEGIC DIRECTIONS

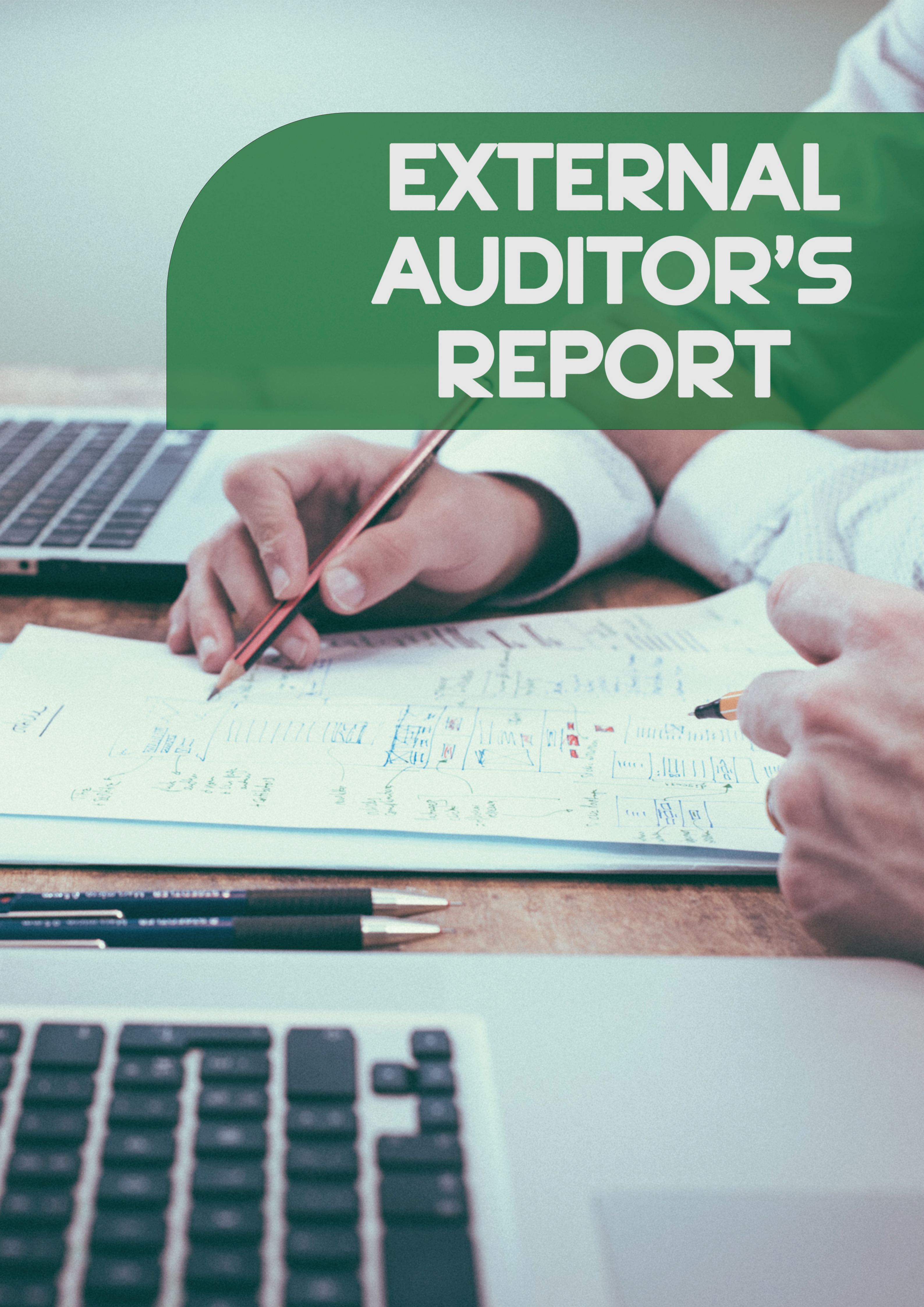
- Increase market coverage and accessibility
- Increase productivity and ensure sustainable profitability
- Deploying core insurance software/IT systems
- Develop human capital through continuous training
- Maintain claims to premium ratio with in the budget limit
- Enhance underwriting results by exercising prudence in both underwriting and claims –handling practices

VII. VOTE OF GRATITUDE

The board of directors wishes to thank everyone who contributed to the success of FY 2022/23. We also thank our company's most loyal customers for their sustained loyalty. For their trust in our company's service and providing assistance during difficult times, The Company greatly appreciates our customers for their unwavering support throughout the year and wishes to continue the strong business relation for mutual benefit.

The board of directors would also like to give a sincere gratitude and appreciation to the national bank of Ethiopia, the company's esteemed customers, founders, shareholders, board members, management and staff members, reinsurers, sales agents, brokers and other stakeholders for their unreserved cooperation and support.

EXTERNAL AUDITOR'S REPORT



LUCY INSURANCE SHARE COMPANY
DIRECTORS,PROFESSIONAL ADVISORS AND REGISTERED OFFICE
FOR THE YEAR ENDED 30 JUNE 2023

Board of Directors ***(as of 30 June 2023)***

DR. Tesfaye Boru	President
Ato Destalem Fetewie	V/President
Ato Getachew Abera	Director
Ato Solomon W/Yohannes	Director
Ato Demessie Tafesse	Director
Ato Simon Mechale	Director
Ato Tekeste Desta	Director
Ato Kelemu Sinke (Engineer)	Director
Ato Wende Wedaje	Director

Executive Management Team ***(as of 30 June 2023)***

Ato Adefris Wesene	Chief Executive Officer
Ato Negede Worku	D/CEO, Operations
Ato Esayas Assefa	Director- Finance & Investment
Ato Adissu Fekadu	Director- Underwriting & Branch Operations
W/t Yodit Yimer	Director- Marketing and Business Developm
Ato Rediwan Abdulshikur	A/Director- Human Resources & Logistics
Ato Solomon Zelalem	Manager- Legal Service

Independent auditor

TMS plus Certified Audit Partnership
Chartered Certified Accountants (UK) & Authorised Auditors (Ethiopia)
Addis Ababa,
Ethiopia

Corporate office

Lucy Tower
Haile G/sellaise street,
Addis Ababa,
Ethiopia

Principal Bankers

Debub Global Bank
Awash International Bank
Commercial Bank of Ethiopia

Re-insurers & Brokers

African Reinsurance Coropration (AFRICA RE)
Ethiopian Reinsurance Share Company (ETHIO RE)
ZEP Reinsurance Corporation (PTA)
J.B Boda Reinsurance Brokers

LUCY INSURANCE SHARE COMPANY
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2023

The directors submit their report together with the financial statements for the year ended 30 June 2023, to the shareholders of Lucy Insurance Company S.C. This report discloses the financial performance and state of affairs of the Company.

Incorporation and address

Lucy Insurance Company (S.C) was incorporated in Ethiopia on 1 October, 2012 as a share company, and is domiciled in Ethiopia.

Principal activities

The principal activities of the Company is the underwriting of non-life insurance risk.

Results and dividends

The Company's results for the year ended 30 June 2023 are set out on page 4. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Gross premium written	285,090	212,778
Profit before income tax	45,857	39,087
Loss Brought Forward	-	(28,668)
Income tax credit	-	-
Profit for the year	45,857	10,418

Directors

The directors who held office during the year and to the date of this report are set out on page 4.

Ato Adefris Wesene
CEO

TMS Plus
Tafesse,Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)
HLB Ethiopia
Member Firm of HLB International
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK
Tel. 251-011-8961752 /011 6180638 Mob. 0911 229425 /0930 034356/0930 034357 Fax: 251-011 662 12 70/60
E-mail:- tafessef@gmail.com / tafessef@hotmail.com P.O.Box 110690 Addis Ababa - Ethiopia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lucy Insurance Share Company,which comprise the statement of financial position as at 30 June 2023, and the statement of 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 are presented fairly, in all material respects, or give a true and fair view of the financial position of the Company as at 30 June 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Management for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

TMS Plus
Tafesse,Shisema and Ayalew Certified Audit Partnership
Chartered Certified Accountants (UK) and Authorised Auditors (Ethiopia)
HLB Ethiopia
Member Firm of HLB International
THE GLOBAL ADVISORY AND ACCOUNTING NETWORK
Tel. 251-011-8961752 /011 6180638 Mob. 0911 229425 /0930 034356/0930 034357 Fax: 251-011 662 12 70/60
E-mail:- tafessef@gmail.com / tafessef@hotmail.com P.O.Box 110690 Addis Ababa - Ethiopia

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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.

Report on Other Legal and Regulatory Requirements

We have no comment to make on the report of the board directors and the proposal for distribution of profit submitted by the directors so far as it related to these financial statements and pursuant to Article 349 of the Commercial Code of Ethiopia 1234/2021 and hence we recommend approval of the financial statements.

Taf, Shi & Ay

Tafesse,Shisema and Ayalaw Certified Audit partnership (TMS PLUS)
Chartered Certified Accountants (UK) Addis Ababa
Authorized Auditors (Eth) 8 September 2023

ACTUARY CERTIFICATE

I have conducted an actuarial valuation of the general insurance liabilities and severance benefits of Lucy Insurance Company S.C.

The valuation was conducted in accordance with generally accepted actuarial principles. These principles require that prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the data provided and the financial statements by the Company.

In my opinion,

(i) The actuarial value of the liabilities in respect of all classes of general insurance business of the company reflect a fair value as at 30 June 2023;

(ii) The severance benefit liability as at 30 June 2023 can be incorporated in the financial statements in line with the International Accounting Standards 19.

Signed in my capacity as an employee of Actuarial Services(EA) Ltd.

Abed Mureithi
Fellow of the Institute and Faculty of Actuaries
Actuary

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1113 Kayahwe Rd, Off Galana Rd, Kilimani,
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LUCY INSURANCE SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2023

Currency:- Ethiopian Birr

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
ASSETS			
Cash and cash equivalents	14	66,753.37	45,586
Investment securities	14	136,503	76,970
- Available for sale	15	83,997	71,868
Trade and other receivables	16	2,753	4,628
Reinsurance assets	17	136,242	158,241
Deferred acquisition cost	18	9,582	7,956
Other assets	19	10,973	8,897
Deferred tax assets	13	-	-
Property, plant and equipment	20	171,969	155,492
Total assets		**618,772**	**529,638**
LIABILITIES			
Insurance contract liabilities	21	285,881	232,577
Deferred tax liabilities	13	2,814	2,600
Current income tax liabilities	13	-	-
Insurance payables	22	73,262	103,974
Deferred Commission income	22.1	11,796	11,205
Other liabilities	23	26,544	18,224
Retirement benefit obligation	24	1,720	1,538
Total liabilities		**402,018**	**370,119**
EQUITY			
Share capital	25	160,210	141,528
Share premium	26	1,950	1,664
Retained earnings	28	39,778	7,376
Other reserve	29	-	-
Legal reserve	30	14,816	8,952
Total equity		**216,754**	**159,519**
Total equity and liabilities		**618,772**	**529,638**

The notes to the financial statements 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 on 16 September 2023.

DR. Tesfaye Boru
(Chairman, Board of Directors)

Ato Adefris Wesene
CEO

LUCY INSURANCE SHARE COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
Gross premiums	5.1	240,694	185,802
Premiums ceded to reinsurers	5.2	(71,261)	(47,276)
Net premium income		169,433	138,526
Fee and commission income	6	26,350	18,313
Net underwriting income		195,782	156,839
Claims expenses	7	106,751	96,006
Claims recovered from reinsurers	7	(10,793)	(14,027)
Gross change in contract liabilities	7	(18,849)	(34,378)
Change in contract liabilities ceded to reinsurers	7	(2,129)	8,928
Net claims and loss adjustment expense		74,980	56,529
Underwriting expenses	8	16,311	14,159
Total underwriting expenses		91,291	70,688
Underwriting profit		104,491	86,151
Investment income	9	26,498	22,338
Other operating income	10	873	1,791
		27,372	24,129
Net income		131,863	110,280
Other operating and administrative expenses	11	(40,415)	(34,912)
Employee benefits expense	12	(45,590)	(36,281)
Impairment allowance on uncollectiable premium	16	-	-
Profit before income tax		45,857	39,087
Income tax credit	13	-	-
Profit for the year		**45,857**	**39,087**
Loss Brought forward		**-**	**(28,668)**
Other comprehensive income			
Items that will not be subsequently reclassified into profit or loss:			
Re-measurement gains on defined benefit plans (net of tax)	24	-	-
Deferred tax (liability)/asset	13		-
		-	-
Total comprehensive income for the year		**45,857**	**10,418**
Basic earnings per share (Birr)	27	298	75

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

LUCY INSURANCE SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
Cash flows from operating activities			
Cash generated from operations	31	50,516	45,778
proceeds from disposal of assets		-	1,558
Interest Income	9	(11,248)	(6,160)
Dividend Income	9	(11,234)	(12,367)
Income tax paid	13	1,585	1,439
		-	-
Net cash (outflow)/inflow from operating activities		**29,619**	**30,249**
Cash flows from investing activities			
Purchase of investment securities	15	(12,128)	(12,368)
Purchase of property, plant and equipment	20	(23,832)	(31,563)
Interest received	9	11,248	6,160
Dividend received	9	11,234	12,367
Net cash (outflow)/inflow from investing activities		**(13,478)**	**(25,404)**
Cash flows from financing activities			
Increase in restricted deposits	14	(6,565)	(1,500)
Proceeds from issues of shares	25	18,682	6,122
Increase in share premium	26	286	96
Dividends paid	28	(7,376)	-
Net cash (outflow)/inflow from financing activities		**5,027**	**4,718**
Net increase/(decrease) in cash and cash equivalents		21,168	9,562
Cash and cash equivalents at the beginning of the	14.1	45,586	36,023
Cash and cash equivalents at the end of the year	14.1	**66,753**	**45,586**

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

LUCY INSURANCE SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	Share capital Birr'000	premium Birr'000	Retained earnings Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2021		**135,406**	**1,568**	**(30,056)**	**0**	**8,132**	**115,049**
Profit for the year		-	-	39,087	-	-	39,087
Dividend paid	28	-	-	-	-	-	-
Proceeds from issue of shares	25	6,122	96	-	-	-	6,218
Prior year adjustment		-	-	-	-	-	-
income:		-	-	-	(0)	-	(0)
Deferred tax (liablity) / asset	28	-	-	(835)	-	-	(835)
Transfer to legal reserve	30	-	-	(820)	-	820	-
As at 30 June 2022		**141,528**	**1,664**	**7,376**	**-**	**8,951.61**	**159,519**
As at 1 July 2022		141,528	1,664	7,376	0	8,952	159,519
Profit for the year		-	-	45,857	-	-	45,857
Dividend paid	28	-	-	(7,376)	-	-	(7,376)
Proceeds from issue of shares	25	18,682	286	-	-	-	18,968
Prior year adjustment		-	-	-	-	-	-
Other comprehensive income:	29	-	-	-	(0)	-	(0)
Deferred tax (liablity) / asset	28	-	-	(214)	-	-	(214)
Transfer to legal reserve	30	-	-	(5,865)	-	5,865	-
As at 30 June 2023		**160,210**	**1,950**	**39,778**	**-**	**14,816**	**216,754**

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

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

1 General information

Lucy Insurance Company SC ("the Company) is a private commercial Insurance Company domiciled in Ethiopia. The Company was established on October 2012, in accordance with proclamation No. 86/1994 and the Commercial code of Ethiopia of 1960. The Company has been licensed by the National Bank of Ethiopia, the licensing body of Banks, Insurance and other Financial Institutions as per the power vested to it through Proclamation No 591/2008, the National Bank of Ethiopia Establishment (as amended) Proclamation. The registered office is at:

LUCY INSURANCE SHARE
Haile G/sellasie Road, Lucy Tower
Addis Ababa,
Ethiopia

The principal activitiy of the Company is to engage in the business of general insurance activities. Such services include provision of non life insurance service for both corporate and individual customers.

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

2.2 Basis of preparation

The financial statements for the year ended 30 June 2023 has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

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

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

2.2.1 Going concern

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

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 2023, 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:

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

IFRS 16 - Leases

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

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

IFRS 17 - Insurance contracts

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

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

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

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

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

2.3 Foreign currency translation

a) *Functional and presentation currency*

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

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.

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.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

b) Transactions and balances

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.

2.4 Property, plant & 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 profit or loss 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.

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

Asset class	Useful life	Residual value (%)
Motor vehicles	10	5
Computer and accessories	7	1
Office equipment	7	1
Furniture and fittings	10	1
Buildings	50	5

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 profit or loss 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.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

2.5 Intangible assets

Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). Deferred acquisition costs represents a portion of commission which are incurred during a financial year and are defered to the extent that they are recoverable out of future revenue margins. All other costs are recognised as expenses when incurred.

Subsequent to initial recognition, this DAC asset is amortised over the expected life of the contracts as a constant percentage of expected premiums. 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 method and are treated as a change in an accounting estimate.

The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. DACs are derecognised when the related contracts are either settled or disposed off.

2.6 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.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

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

2.7 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.

2.7.1 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, the Company's financial assets are classified into two categories:
• Loans and receivables
• Available-for-sale financial investments

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

a) *Loans and receivables*

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

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

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

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

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to income statement in impairment loss on financial instrument. Interest earned whilst holding AFS financial instruments 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 to held to maturity if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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

Derecognition of financial assets

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

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

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

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Impairment of financial assets (Contd)
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.

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.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

(i) Financial assets carried at cost

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

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

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

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

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

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.

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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

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

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

2.7.2 Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. The Company's financial liabilities include insurance contract liabilities, insurance payables, and other liabilities.

Subsequent measurement

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

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a) **Financial liabilities at amortised cost**

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

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

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

Derecognition of financial liabilities

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

2.7.3 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.

2.8 Other assets

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

(a) Prepayments

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

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(b) Other receivables

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

2.9 Cash and cash equivalents

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

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

2.1 Insurance contracts

2.10.1 Classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

2.10.2 Recognition and measurement

The Company's insurance contracts are short term insurance contracts. This classification is based on the duration of risk and whether or not the terms and conditions are fixed.

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Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. 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 (business interruption cover).

Short-duration life insurance contracts protect the Company's customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependents 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 policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company. the Company does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions)

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2.10.3 Liability Adequecy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs (DAC) assets. 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).

2.10.4 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 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

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

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's property or casualty insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Company for the related claim, the difference is amortised over the estimated remaining settlement period.
The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets.

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2.10.5 Receivables and payables related to insurance contracts and investment contracts

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

The impairment loss is calculated under the same method used for these financial assets.

2.10.6 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). the Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

2.11 Revenue recognition

a) *Gross premiums*

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 is effective. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated using the 1/24th method as prescribed by Licensing and Supervision of Insurance Business Directive No SIB/17/98. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

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b) Reinsurance premiums

Gross general reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

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

c) Fees and commission income

Insurance 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.

d) Investment income

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

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

2.12 Gross benefits and claims

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.

2.13 Reinsurance claims

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

2.14 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.

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

The company operates two defined contribution retirement benefit schemes for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. In a defined contribution plan, the actuarial risk falls 'in substance' on the employee. Which Includes;

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

The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of this scheme are held in separate trustee administered funds, which are funded by contributions from both the employee and the company. The contributions are recognised as employee benefit expense in the profit or loss in the year they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.15 Fair value measurement

The Company measures financial instruments classified as available-for-sale at fair value at each year end. 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 4.8.1 and Notes 3
- Quantitative disclosures of fair value measurement hierarchy Note 4.8.2

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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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.

2.15 Fair value measurement (Contd)

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.

2.16 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.

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2.17 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. The excess of the issue price over the par value is recorded in the share premium reserve.

2.18 Earnings per share

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

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

2.19 Dividends

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

2.20 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.

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2.21 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 utilised.

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

3 Significant accounting judgements, estimates and assumptions

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

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

• Capital management Note 4.7
• Financial risk management and policies Note 4.3
• Sensitivity analyses disclosures Note 4.2

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3.1 Judgements

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

Operating lease commitments -Company as lessee

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

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.

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Non-life insurance (which comprises general insurance and healthcare) contract liabilities

The liability for non-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.

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortised to the consolidated statement of profit or loss over time. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment write-offs to the consolidated statement of profit or loss. The main assumptions used relate to investment returns, expenses, lapse and surrender rates and discount rates.

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

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

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

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Impairment losses on insurance receivables

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

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

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

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

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

Liabilities arising from insurance contracts

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

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Impairment losses on available-for-sale equity financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

The Company's available-for-sale equity financial assets were assessed for impairment during the year and there was no identified objective evidence of impairment.

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 4.8.2 for further disclosures.

Income taxes

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

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

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4 Insurance and financial risk management

4.1 Introduction

The Company's activities expose it to a variety of financial risks, including insurance risk, financial risk, credit risk, and interest rates risk. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate 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 Company's strategic planning process.

4.1.1 Risk management structure

The Board of Directors have the ultimate responsibility for establishing and ensuring the effective functioning of the risk management program of the Company.

The Risk committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and risk tolerance limits for the Board's approval. It is also responsible for reviewing and assessing the adequacy of risk management policies and framework in identifying , measuring, monitoring and controlling risk and the extent to which these are operating effectively including providing periodic reports on risk management activities.

The Chief Executive Officer (CEO) is responsible for establishing and maintaining a climate of risk awareness and intelligence, as well as, developing governance mechanisms that effectively monitor risks.

The Company's policy is that risk management processes throughout the Company are assessed periodically by the management. This will help to adequately capture risk exposure, aggregate exposure of risk types and incorporate short run as well as long run impact on the Company.

4.1.2 Risk measurement and reporting systems

4.1.3 Risk mitigation

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

Risk control processes are identified and discussed in the quarterly risk report of the Risk Committee meetings. Control processes are also regularly reviewed and changes agreed with the Board.

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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 Company is involved in only non-life insurance activities.

Non- life insurance contracts

The Company principally issues the following types of general insurance contracts: fire, accident and health, motor, Workmen compensation, marine cargo and goods in transit, pecuniary, general liability, engineering, others and all risks.

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

30 June 2023	**Gross liabilities Birr'000**	**e liabilities Birr'000**	**Net liabilities Birr'000**
Fire	6,491	4,213	2,278
Accident and Health	1,066	45	1,021
Motor	161,943	14,493	147,450
W/C Ordinary	2,116	225	1,891
Marine Cargo and Goods in Transit	4,996	1,653	3,343
Pecuniary	74,818	54,414	20,404
General Liability	10,458	4,174	6,285
Engineering	14,176	7,534	6,642
Others	9,815	8,528	1,288
Total non-life insurance contract liabilities	285,881	95,280	190,601
30 June 2022			
Fire	4,552	2,450	2,102
Accident and Health	1,348	63	1,285
Motor	116,452	9,855	106,597
W/C Ordinary	1,829	922	907
Marine Cargo and Goods in Transit	5,138	2,072	3,065
Pecuniary	74,601	57,693	16,908
General Liability	13,040	4,730	8,310
Engineering	9,593	6,891	2,702
Others	6,024	4,756	1,269
Total non-life insurance contract liabilities	232,577	89,432	143,145

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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, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

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

It should be noted that movements in these assumptions are non–linear.

		Change in liability	
		30 June	30 June
liabilities	**Change in assumptions**	**Birr'000**	**Birr'000**
Average claim cost +10%	+10%	21,814	21,814
Average number of claims +10%	+10%	21,814	21,814
liabilities			
Average claim cost	-10%	17,848	17,848
Average number of claims	-10%	17,848	17,848
IBNR		19,796	19,796
Outstanding claims		100,990	100,990
Actual gross liabilities		120,786	120,786

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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. The cumulative claims estimates and cumulative payments are translated to euros at the rate of exchange that applied at the end of the accident year.

Gross non–life insurance contract outstanding claims provision for 2023:

Accident year	2016 **Birr'000**	2017 **Birr'000**	2018 **Birr'000**	2019 **Birr'000**	2020 **Birr'000**	2021 **Birr'000**	2022 **Birr'000**	2023 **Birr'000**
2016	18,792	34,567	36,748	72,339	52,715	51,253	57,625	73,618
2017	10,393	17,732	33,630	36,279	36,538	30,197	26,724	
2018	1,584	6,181	2,957	1,619	2,935	4,002		
2019	1,060	905	663	1,340	792	-		
2020	1,582	179	1,382	1,484	-	-		
2021	15	40	285					
2022	163	-						
	-	-	-	-	-	-		
Cumulative Paid Claims	**33,589**	**59,604**	**75,665**	**113,061**	**92,980**	**85,452**	**84,349**	**73,618**
Outstanding Claims Reporte	1,056	-	38	17,532	19,085	21,174	9,018	35,200
IBNR	-	-	9	57	337	1,916	10,152	13,741
Ultimate Claims Projected	**34,645**	**59,604**	**75,712**	**130,650**	**112,402**	**108,542**	**103,519**	**122,559**

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4.3 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.

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

30 June 2023	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and cash equivalents	14	-	66,753	66,753
Investment securities				-
- Available for sale	15	83,997		83,997
Trade and other receivables	16	-	2,753	2,753
Reinsurance assets	17	-	136,242	136,242
Total financial assets		83,997	205,748	289,745

30 June 2022	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and cash equivalents	14	-	45,586	45,586
Investment securities				-
- Available for sale	15	71,868	-	71,868
Trade and other receivables	16	-	4,628	4,628
Reinsurance assets	17	-	158,241	158,241
Total financial assets		71,868	208,455	280,323

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4.4 Credit risk

Credit risk is the risk of financial loss, despite realization of collateral security or property, resulting from the failure of a debtor to honor its obligations to the company. It Includes investment activities (where the Company invests in bonds, debentures, or other credit instruments) and reinsurance arrangement of the Company.

4.4.1 Management of credit risk

Credit risk management is the process of controlling the impact of credit risk- related events on the company. Thus management involves identification, understanding and quantification of the degree of risks of loss and the consequent taking of appropriate measures. Obligors often appear both in the loan portfolio and as counterparties (and even if they don't, the factors driving the respective defaults appear in both), a proper analysis of credit risk often leads to having to consider the loan portfolio and the counterparty within the same analysis rather than being able to analyze those two separately and aggregating the results. This makes credit risk one of the most difficult and expensive to analyze, and it is important that key staff involved is aware of the difficulties and how to address them. The major risk that arises from a weakening of the credit portfolio is the impairment of the capital or liquidity. Therefore, the quality of an institution`s credit portfolio contributes to the risks borne policy holders (liquidity) and shareholders (capital impairment).

4.4.2 Concentration of credit risk

The credit risk of the Company have been concentrated in the following key areas of activities.

(a) Investing/lending activities

The Company faces these risks when it extends bond policies without collateral Of course when making investments in any bonds, debentures or other evidences of indebtedness, the insurer is taking on a credit risk. Clearly, such investment area is a major source of credit risk.

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4.4 Credit risk (Contd)

(b) Reinsurance

Insurers, especially general insurers, often rely heavily on their reinsurers for claim reimbursement. The credit risk arising in the reinsurance area can be very significant, making it critically important for insurers to establish formal policies with regard to the selection of reinsurers.

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Cash and cash equivalents	66,753	45,586
Investment securities		
- Available for sale	83,997	71,868
Trade and other receivables	2,753	4,628
Reinsurance assets	136,242	158,241
Total maximum exposure	289,745	280,323

4.4.3 Credit quality analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired at as 30 June 2021 and 30 June 2020 are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia.

(b) Credit quality of trade and other receivables

30 June 2023	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individuall y impaired Birr'000	Total Birr'000
Insurance receivables				
Due from policy contract holders				-
Due from Co-insurers	2,046			2,046
Due from agents, brokers and intermediaries				-
	2,046	-	-	2,046
Other loans and receivables				
Other receivables	-		-	-
Staff debtors	707			707
Gross amount	707	-	-	707
Less: Specific impairment allowance (note 16.1)				-
	707	-	-	707
	2,753	-	-	2,753

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4.4.3 Credit quality analysis (Contd)

30 June 2022	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Insurance receivables				
Due from policy contract holders	-	-	-	-
Due from Co-insurers	2,879	-	-	2,879
Due from agents, brokers and intermediaries	-	-	-	-
	2,879	-	-	2,879
Other loans and receivables				
Other receivables	1,050	-	-	1,050
Staff debtors	699	-	-	699
Gross amount	1,749	-	-	1,749
Less: Specific impairment allowance (note 16.1)	-	-	-	-
	1,749	-	-	1,749
	4,628	-	-	4,628

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(i) Trade and other receivables - neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Receivables in this category are past due for less than 30 (thirty) days. The exposure to credit risk associated with other loans and receivables is low.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Neither past due nor impaired	2,753	4,628
	2,753	4,628

4.4.3 Credit quality analysis (Contd)

(c) Reinsurance assets

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

4.4.4 Allowance for impairment

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Other receivables	-	-
Total allowance for impairment	-	-

4.5 Liquidity risk

Liquidity refers to the company’s ability to meet its current obligations. Liquidity is a measure of the ability of a debtor to pay his debts as and when they fall due. It is usually expressed as a ratio or a percentage of current liabilities. Liquidity risk is the measure of probability that a company’s cash resources will be insufficient to meet current or future cash needs.

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4.5.1 Management of liquidity risk

The Finance and Investment Division is responsible to prepare and produce financial reports together with performance evaluation ratios and comparative statements on the basis of finance manual, standard reporting formats and regulatory body requirements, which include:

a) Notifying regularly the cash position and the expected commitments of the company
b) Proposing appropriate investment opportunities in line with insurance supervision directives.
c) Liability settlements shall be undertaken on the basis of cash flow of the company
d) Finance Department will be responsible to report, monitor, evaluate and implement decisions affecting liquidity in line with the finance manual performance standards and reporting formats.

4.5.2 Measurement of liquidity risk

Liquidity risk is primarily measured as the ratio of current liability to liquid assets. It is expected that the ratio should at all times be less than or equal to 1.05 (105%) i.e. the maximum tolerance liquidity rate the company should keep on hand is one birr for one birr and five cents obligation or liability.

In addition, the Company should maintain than 60% of admitted asset should be maintained at bank deposits and treasury bills. Based on forecasted cash flow statement of the year, the Company may arrange appropriate form of bank loan facility such as bank overdraft to make funds available for those times where cash flow short falls are predicted.

4.6 Market risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as premium rates, interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The main market risk arises from trading activities and equity investments. The Company is also exposed to interest rate risk in the books.

Investment risk is the risk that earnings for the Company arising from its insurance entities may be adversely impacted by changes in the value of investments and that the profile of investments may be inappropriate to match the profile of liabilities.

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

4.6.1 Management of market risk

Market risk is managed by the Business Development Department and Finance & Investment Department subject to inputs from the Board of directors, to identify any adverse movement in the underlying variables.

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
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4.6 Market risk (Contd)

4.6.2 Measurement of market risk

The principle adopted in the management of investments is to closely match assets to the nature and term of insurance liabilities where possible. Total capital held in each entity reflects the results of internal models of economic capital, and takes into account business growth plans, as well as the likelihood of not being able to demonstrate an appropriate level of solvency.

Market risk is measured on the basis of investment capital or need of the Company. Investment is made on evaluating the investee companies and the type of investment. Investment risk is measured on the basis of security of the investees, liquidity consideration, and interest rate offer, and investment period, rate of return and proposal documents.

Investment is not be made if the investee company does not fulfill the above noted measurement factors. Investments is also made with special guidelines of the Board of Directors of the Company

4.6.3 Monitoring of market risk

Market risk is monitored by performing regular asset liability matching exercises, monitoring market volatility, comparing actual performance with benchmark performance, and tracking errors and durations of fixed interest assets. Market risk is further monitored by measuring and comparing the actual risk exposure in terms of economic capital to an approved limit, based on a value-at-risk calculation. Hence, the Company has taken the following measures to ensure that market risk is adequately monitored.

a) Equity investments are made often by conducting a thorough study and assessment,
b) Equity investments are acquired from companies where the return is not less 10%,
c) Investment will not exceed in concentration more than 20% in one Company and the total amount will not exceed 10 million Birr,
d) To adjust for price fluctuations, a revaluation of on-balance sheet assets will be carried every two years
e) The risk profile of every investment is made after the closing of accounts every year and action is taken based on appropriate recommendations
f) Technological related risks will be evaluated to see if the area of investment is prone to risks
g) Every investment proposal need to be approved by Board of Directors,

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates.

The Company's exposure to the risk of changes in market interest rates relates primarily to it's financial obligations and financial assets with fixed interest rates. The Company's investment portfolio is comprised of Ethiopian government bonds and cash deposits.

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30 June 2023	Fixed	interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and bank balances	66,545	208	66,753
Investment securities			-
- Available for sale		83,997	83,997
Trade and other receivables		2,753	2,753
Reinsurance assets		136,242	136,242
Total	66,545	223,199	289,744
Liabilities			
Insurance payables		11,796	11,796
Other liabilities		12,658	12,658
Total	-	24,455	24,455

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4.6 Market risk (Contd)

30 June 2022	Fixed	interest bearing	Total
	Birr'000	Birr'000	Birr'000
Assets			
Cash and bank balances	45,451	135	45,586
Investment securities			-
- Available for sale		71,868	71,868
Trade and other receivables	-	4,628	4,628
Reinsurance assets	-	158,241	158,241
Total	45,451	234,872	280,323
Liabilities			
Insurance payables	-	11,205	11,205
Other liabilities	-	9,599	9,599
Total	-	20,804	20,804

(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 primarily transacts in Ethiopian Birr and its assets and liabilities are denominated in the same currency. The Company is therefore not exposed

(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.

4.7 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.

4.7.1 Margin of Solvency

According to the Licensing 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.

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.

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		30 June 2023 Birr'000	30 June 2022 Birr'000
Admissible assets	**A**		
Cash and bank balances		66,753	45,586
Investment securities			
- Available for sale		136,503	76,970
- Loans and receivables		83,997	71,868
Trade and other receivables		2,753	4,628
Reinsurance assets		136,242	158,241
Deferred tax assets		-	-
Other receivables		3,191	1,704
Property, plant and equipment		169,524	153,566
		598,962	512,563
Admissible liabilities	**B**		
Insurance contract liabilities		285,881	232,577
Deferred tax liabilities		2,814	2,600
Current income tax liabilities		-	-
Insurance payables		73,262	103,974
Other liabilities		26,544	18,224
		388,502	357,375
Excess (admitted capital)- (A-B)	**C**	210,461	155,188
Net premium (Preceding Year)	D	138,526	105,920
Technical provision	E	285,881	232,577
Solvency margin			
Limit of net premium i.e. 20% of net premium	**F**	27,705	21,184
Limit of technical provision i.e. 25% of technical provision	**G**	71,470	58,144
Minimum Paidup Capital	**H**	60,000	60,000
Since C>G - Positive Solvency		138,991	95,188

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4.8 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.

4.8.1 Valuation models

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

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

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

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

In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

4.8.2 Financial instruments not measured at fair value

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

4.8.3 Fair value methods and assumptions

Trade receivables and other receivables are carried at cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

4.8.4 Valuation technique using significant unobservable inputs – Level 3

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

4.8.5 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.

4.9 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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		30 June 2023 Birr'000	30 June 2022 Birr'000
5	**Net premiums**		
5.1	**Gross premiums on insurance contracts**		
	Gross premium written	285,090	212,778
	Movement in unearned premium	(44,396)	(26,975)
	Total gross premiums	240,694	185,802
5.2	**Premiums ceded to reinsurers on insurance contracts**		
	Non-life insurance	(69,636)	(70,409)
	Change in unearned premiums provision	(1,625)	23,133
	Total premiums ceded to reinsurers	(71,261)	(47,276)
	Total net premiums	169,433	138,526
6	**Fee and commission income**		
	Policyholder administration services		
	Reinsurance commission income	21,653	12,482
	Profit commision	4,697	5,831
	Total fees and commission income	26,350	18,313
7	**Net benefits and claims**		
a	**Claims expenses**		
	Gross claims paid	106,751	96,006
b	**Claims recovered from reinsurers**		
	Claims ceded	(10,793)	(14,027)
c	**Gross change in contract liabilities**		
	Change in insurance contract outstanding claims provision	2,118	(16,854)
	Change in other technical provision (IBNR)	1,446	631
	Loss recognised as a result of liability adequacy test	-	-
	Claims recovery	(22,413)	(18,155)
		(18,849)	(34,378)
d	**Change in contract liabilities ceded to reinsurers**		
	Change in insurance contract outstanding claims provision	(2,129)	8,928
		(2,129)	8,928
	Net claims and loss adjustment expense	74,980	56,529

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		30 June 2023 Birr'000	0 June 2022 Birr'000
8	**Underwriting expenses**		
	Sales commissions	13,133	10,007
	Reinsurance faculative commission	3,178	4,152
		16,311	14,159
9	**Investment income**		
	Dividend income on equity investments	11,234	12,367
	Interest income on cash and short-term deposits	11,248	6,160
	Interest income on statutory deposits	1,887	1,622
	Rent income	2,130	2,189
	Total investment income	26,498	22,338
10	**Other operating income**		
	Gain on disposal of Property, plant and equipment	-	1,424
	Sundry income	873	366
		873	1,791
11	**Other operating and administrative expenses**		
	Rental expenses	6,250	5,673
	Repair and maintenance	3,030	2,640
	Advertising and publication	1,473	1,670
	Communication	829	935
	Printing and stationery	5,196	3,048
	Entertainment	788	552
	Travelling and transportation expenses	487	273
	Insurance	1,519	981
	Office cleaning and supplies	194	112
	Legal and professional fees	-103	158
	Board fees	1,420	1,415
	Audit fees	84	182
	Subscription and membership fees	324	521
	Depreciation on property and equipment (note 20)	7,355	5,488
	Bank charges	1,174	4,728
	Fuel, petrol and lubricant	4,528	2,089
	Share costs expenses	104	347
	IFRS cost for implementation	271	177
	Payment for Penality	515	158
	Sundry expenses	4,978	3,767
		40,415	34,912

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		30 June 2023 Birr'000	0 June 2022 Birr'000
12	**Employee benefits expense**		
	Salaries and wages	32,927	26,673
	Staff allowances	904	857
	Pension costs – Defined contribution plan	3,418	2,778
	Severance costs – Defined benfit plan	182	499
	Other staff expenses	8,160	5,474
		45,590	36,281

		30 June 2023 Birr'000	0 June 2022 Birr'000
13	**Company income tax and deferred tax**		
13.1	**Current income tax**		
	IFRS Accounting Profit	45,857	39,087
	Add : Disallowed Expense		
	Entertainment Expense	788	552
	Provision for Annual Leave Expense	523	642
	Provision for Severance Expense	182	499
	Provision For Doubtful Debts	969	-
	Penality & Fines	515	158
	Depricatiion as per company policy (IFRS)-(Note20)	7,355	5,488
		56,189	46,425
	Less : Allowable income/Expense		
	Deprication for tax purpose	(12,679)	(5,283)
	Dividend income taxed at source	(11,234)	(12,367)
	Interest income taxed at source	(13,135)	(7,782)
		(37,048)	(25,432)
	Taxable Profit	19,142	20,993
	Loss brought forward	(23,037)	(44,030)
		(3,895)	(23,037)
	Current tax @ 30%	-	-

LUCY INSURANCE SHARE COMPANY
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13 Company income tax and deferred tax (Contd)

13.3 Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in profit or loss ("p or l), in equity

Deferred income tax assets/(liabilities):	**At 1 July 2022 Birr'000**	**Credit/ (charge) to profit or Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2023 Birr'000**
Property, plant and equipment	3,062	-	269	3,330
Post employment benefit obligation	(461)	-	(55)	(516)
Total deferred tax assets/(liabilities)	2,600	-	214	2,814

Deferred income tax assets/(liabilities):	**July Birr'000**	**Credit/ Birr'000**	**Credit/ Birr'000**	**2022 Birr'000**
Property, plant and equipment	2,077	-	985	3,062
Post employment benefit obligation	(312)	-	(150)	(461)
Total deferred tax assets/(liabilities)	**1,765**	**-**	**835**	**2,600**

Deffered tax Liability	**30 June 2023 Birr'000**	**2022 Birr'000**
Plant, Property & Equipment - carrying amount (IFRS)	171,969	155,492
Plant, Property & Equipment - tax base	160,868	145,287
Plant, Property & Equipment - Temorary difference	11,101	10,205
Deffered tax liablity - @ 30%	3,330	3,062
Severance pay - carrying amount	1,720	1,538
Severance pay - tax base	-	-
Severance pay - Temporary difference	1,720	1,538
Change in Deffered tax asset - @ 30%	516	461
Deffered tax (liablity) asset - @ 30%	**2,814**	**2,600**

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	30 June 2023 Birr'000	0 June 2022 Birr'000
14 Cash and cash equivalents		
Cash in hand	207.50	135
Deposits with local banks	66,545.87	45,451
Fixed time deposits	108,127	55,159
Restricted deposits with National Bank of Ethiopia	28,376	21,811
	203,256	122,556

Fixed time deposit have an average maturity of 12 months, and are made depending on the cash requirment of the company.The average interest rate on the deposits is 15.78%. The carrying amount reasonably approximate fair value at reporting date.

Maturity analysis	30 June 2023 Birr'000	0 June 2022 Birr'000
Current	66,753	45,586
Non- current	136,503	76,970
	203,256	122,556

Restricted deposits with National Bank of Ethiopia represents deposits made with National Bank of Ethiopia (NBE) in accordance with Article 20 of Proclamation No 746/2012. The Company has a policy of maintaining the deposits at 15% of the paid up capital. The current balance represents the amount deposited up to June 30, 2020 and NBE Directive number SIB/54/2021 also insurance insurance companies to maintain 15% of net income after tax to purchase Ethiopian Development bank Bond that matures in 3 year.

LUCY INSURANCE SHARE COMPANY
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14.1 Cash and cash equivalents

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

	30 June 2023 Birr'000	0 June 2022 Birr'000
Cash in hand	208	135
Deposits with local banks	66,546	45,451
	66,753	45,586

15 Investment securities

	30 June 2023 Birr'000	0 June 2022 Birr'000
Available for sale:		
Equity Investments	83,997	71,868
	83,997	71,868
Loans and receivables:		
Ethiopian Government bonds		
	-	-
	83,997	71,868

Maturity analysis	30 June 2023 Birr'000	0 June 2022 Birr'000
Current		-
Non-Current	83,997	71,868
	83,997	71,868

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The Company holds equity investments in the following entities;

	30 June 2023		30 June 2022	
	Number of shares '000	Percentage of ownership	Number of shares '000	Percentage of ownership
Debub Global Bank S.C	16017	0.95%	14,283	0.68%
Addis International Bank S.C	10134	0.77%	8,511	0.66%
Bunna International Bank S.C	26659	0.75%	23,111	0.75%
Ethiopian Reinsurance S.C	6297	0.96%	4,804	0.40%
Abay Bank S.C	19313	0.45%	16,248	0.48%
Enat Bank S.C	5389	0.33%	4,911	0.26%
Capital Financial Exellence center	188	0.10%	-	0.00%
	83,997		71,868	

These investments are unquoted equity securities measured at cost.

The fair value of the unquoted equity securities carried at cost cannot be reliably estimated as there are no active market for these financial instruments; they have therefore been disclosed at cost less impairment.

Ethiopian government bonds are classified as loans and receivables because management's intention is to hold these investments to maturity and they are not held for trading, managed on a fair value basis or quoted in an active market.

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		30 June 2023 Birr'000	0 June 2022 Birr'000
16	**Trade and other receivables**		
	Insurance receivables		
	Due from policy contract holders	-	-
	Due from Co-insurers	2,046	2,879
	Due from agents, brokers and intermediaries	-	-
	Gross amount	2,046	2,879
	Less: Specific impairment allowance		
		2,046	2,879
	Other loans and receivables		
	Other receivables	-	1,050
	Staff debtors	707	699
	Gross amount	707	1,749
	Less: Impairment allowance (note 16.1)	-	-
		707	1,749
	Gross amount	**2,753**	**4,628**

Maturity analysis	30 June 2023 Birr'000	2022 Birr'000
Current	2,753	4,628
Non- current		-
	2,753	4,628

16.1 Impairment allowance on uncollectable premium from clients

A reconciliation of the provision for uncollectable premium from clients, is as follows:

	30 June 2023 Birr'000	30 June 2022 Birr'000
At 1 July	-	-
Charge for the year (note 16)	-	-
Recoveries	-	-
At 30 June	-	-

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		30 June 2023 Birr'000	2022 Birr'000
17	**Reinsurance assets**		
	Reinsurance recoverable on outstanding claims (note 17.1)	58,434	50,961
	Reserve for unexpired risk for cession (note 17.2)	36,845	38,470
	Gross amount	95,280	89,432
	Recoverable on claims paid & Re-Insurance Commission	40,962	68,809
		136,242	**158,241**
	Less: Specific impairment allowance	-	-
		136,242	**158,241**

LUCY INSURANCE SHARE COMPANY
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		30 June 2023 Birr'000	0 June 2022 Birr'000
17.1	**Reinsurance recoverable on outstanding claims & Re-insurance Commissions**		
	Recoverable on claims - Incurred but not yet reported	12,644	7,300
	Recoverable on outstanding claims	45,790	43,662
		58,434	50,961
	The movement in reinsurance recoverable on outstanding claims as:		
	Balance at beginning of the year	50,961	55,918
	Recoveries during the year		
	Increase (decrease) in recoverable during the year	7,473	-4,957
	Balance at end of year	58,434	50,961
17.2	**Reserve for unexpired risk for cession**		
	The movement in reserve for unexpired risk for cession is analysed as follows:		
	Balance at beginning of the year	38,470	15,337
	Cost incurred during the year	(1,625)	23,133
	Amortised during the year	-	-
	Balance at end of year	36,845	38,470
18	**Deferred acquisition cost**		
	Fire	651	436
	Accident and Health	37	39
	Motor	5,240	2,373
	W/C Ordinary	129	87
	Marine Cargo and Goods in Transit	237	412
	Pecuniary	2,138	2,787
	General Liability	640	785
	Engineering	362	940
	Others	148	97
		9,582	7,956

LUCY INSURANCE SHARE COMPANY
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This represents commission on unearned premium relating to the unexpired tenure of risk.

		30 June 2023 Birr'000	0 June 2022 Birr'000
19	**Other assets**		
	Sundery debtors	166	264
	Non-Current asset held for sale	2,355	3,505
	Advance profit tax (note19.1)	3,025	1,440
	Prepayments	5,428	3,687
		10,973	8,897
	Maturity analysis		
	Current	5,380	4,945
	Non- current	5,594	3,951
		10,973	**8,897**

		30 June 202 Birr'000	30 June 2022 Birr'000
19.1	**Advance profit tax**		
	Balance at the beginning of the year	1,439	989
	charge for the year:	-	-
	Capital gains tax	-	-
	Prior year (over)/under provision	-	-
	Collection of Advance profit tax	(1,439)	(989)
	Withholding tax paid - current year	3,025	1,439
	Adjustment during the period		
	Balance at the end of the year	3,025	1,439

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		Building and Partition Birr'000	Motor vehicles Birr'000	Computer and accessories Birr'000	Office equipment Birr'000	Furniture and fittings Birr'000	Total Birr'000
20	**Property, plant and equipment**						
	Cost						
	As at 1 July 2021	105,832	28,641	3,924	3,805	3,084	145,287
	Additions	27,689	2,708	376	391	399	31,563
	Disposals	-	(1,260)	-	-	-	(1,260)
	Reclassification	-	-	-	-	-	-
	As at 30 June 2022	133,521	30,089	4,300	4,196	3,483	175,590
	As at 1 July 2022	133,521	30,089	4,300	4,196	3,483	175,590
	Additions	6,712	12,895	1,398	1,941	887	23,832
	Disposals	-	-	-	-	-	-
	Reclassification	-	-	-	-	-	-
	As at 30 June 2023	140,233	42,984	5,698	6,137	4,370	199,422
	Accumulated depreciation						
	As at 1 July 2021	377	10,124	2,410	1,595	1,230	15,736
	Charge for the year	1,408	2,850	468	434	327	5,488
	Disposals	-	(1,126)	-	-	-	(1,126)
	As at 30 June 2022	1,785	11,848	2,878	2,030	1,557	20,098
	As at 1 July 2022	1,785	11,848	2,878	2,030	1,557	20,098
	Charge for the year	2,664	3,369	437	517	368	7,355
	Disposals	-	-	-	-	-	-
	As at 30 June 2023	4,449	15,217	3,315	2,547	1,925	27,453
	Net book value						
	As at 1 July 2021	**105,455**	**18,517**	**1,514**	**2,210**	**1,855**	**129,551**
	As at 30 June 2022	**131,736**	**18,241**	**1,422**	**2,166**	**1,926**	**155,492**
	As at 30 June 2023	**135,784**	**27,767**	**2,383**	**3,590**	**2,445**	**171,969**

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		30 June 2023 Birr'000	0 June 2022 Birr'000
21	**Insurance contract liabilities**		
	Non-life insurance contracts		
	- Claims reported and loss adjustment expenses	103,108	100,990
	- Claims incurred but not reported IBNR	26,213	19,796
	Note 21.1	129,321	120,786
	– Unallocated loss adjustment expense	3,888	3,515
	- Unearned premiums (note 21.2)	152,672	108,276
	Total insurance liabilities, gross	285,881	232,577
	Recoverable from reinsurers		
	Non-life insurance contracts		
	- Claims reported and loss adjustment expenses (note 17.1)	45,790	43,662
	- Claims incurred but not reported IBNR (note 17.1)	3,888	3,515
	- Unearned premiums (note 17)	77,808	107,279
	Total reinsurers' share of insurance liabilities	127,486	154,456
	Non-life insurance contracts		
	- Claims reported and loss adjustment expenses	57,317	57,328
	- Claims incurred but not reported IBNR	22,325	16,282
		79,642	73,610
	– Unallocated loss adjustment expense	3,888	3,515
	- Unearned premiums	74,864	997
	Total insurance contract liabilities, net	158,395	78,121
	Maturity analysis		
	Current	158,395	78,121
	Non- current		
		158,395	78,121

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

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21 Insurance contract liabilities (Contd)

Movements in insurance liabilities and reinsurance assets is detailed below:

	30 June 2023			30 June 2022		
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
	Gross	Reinsurance	Net	Gross	e	Net
21.1 Claims and loss adjustment expenses						
At 1 July	120,786	47,176	73,610	132,857	55,918	76,939
Notified claims & IBNR	2,118	2,129	(11)	(16,854)	(8,928)	(7,926)
Change in Incurred but not repoı	6,417	373	6,044	4,783	186	4,597
Total at beginning of year	**129,321**	**49,678**	**79,642**	**120,786**	**47,176**	**73,610**
Cash paid for claims settled in year						
Increase in liabilities:						
- Arising from current-year clain	84,338	(10,793)	73,545	75,003	(14,027)	60,976
- Arising from prior-year claims	-	-	-	-	-	-
	84,338	(10,793)	73,545	75,003	(14,027)	60,976
As at 30 June	**213,658**	**38,885**	**153,187**	**195,789**	**33,149**	**134,586**

21.2 Provisions for unearned premiums

	Gross	Reinsurance	Net	Gross	e	Net
Unearned premium provision						
At 1 July	108,276	(33,694)	74,582	66,511	(10,561)	55,950
Increase in the period	44,396	1,625	46,021	41,765	(23,133)	18,632
Release in the period				-	-	-
As at 30 June	**152,672**	**(32,069)**	**120,603**	**108,276**	**(33,694)**	**74,582**

These provisions represent the liability for short-term insurance contracts for which the Company's obligations are not expired at year-end. The unexpired risk provision relates to the casualty insurance contracts for which the Company expects to pay claims in excess of the related unearned premium provision.

LUCY INSURANCE SHARE COMPANY
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		Birr'000	**Birr'000**
22	**Insurance payables**		
	Due to reinsurers	73,262	103,974
	Due to sales agents and brokers	-	-
		73,262	103,974
22.1	Deffered Commission income		
	At the beginning of the year	11,205	3,962
	Net Increase / (decrease)	591	7,243
	At the end of the year	11,796	11,205
23	**Other liabilities**		
	Financial liabilities		
	Premium receivable in advance	-	-
	Pension fund payable	476	429
	Sales agents and brokers	6,004	5,414
	Sundry payables	6,179	3,755
		12,658	9,599
	Other non financial liabilities		
	Withholding tax and Valued added tax payables	455	612
	Employee income tax payable	824	682
	Accrual for leave liability	3,392	3,081
	Accruals	8,125	3,134
	Dividend payable	1,091	1,117
		13,886	8,625
	Long term Loan	-	-
	Gross amount	26,544	18,224
	Maturity analysis		
	Current	23,153	15,143
	Non- current	3,392	3,081
		26,544	18,224
		-	-

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The carrying amounts of deposits received from reinsurers and outstanding purchase of investment securities disclosed above approximate fair value at the reporting date. All amounts of deposits received from reinsurers and outstanding purchase of investment securities are payable within one year.

		30 June 2023 Birr'000	0 June 2022 Birr'000
24	**Retirement benefit obligation**		
	Defined benefits liabilities:		
	– Severance benefit plan (note 24.1)	1,720	1,538
	Liability in the statement of financial position	1,720	1,538
	Income statement charge included in personnel expenses:		
	– Severance benefit plan (note 24.2)	1,019	1,141
	Total defined benefit expenses	1,019	1,141
	Remeasurements for:		
	– Severance benefit plan (note 24.3)	(46)	328
		(46)	328

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

Retirement benefit obligation

The severance benefit plan is an unfunded defined benefit scheme.

The key financial assumptions are the discount rate and the rate of salary increases. The provision was based on an independent actuarial valuation performed by Actuarial Services East Africa Limited using the projected unit credit method.

The Company does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallise.

LUCY INSURANCE SHARE COMPANY
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(i) Severance benefit plan

The benefits under the Scheme are defined in the Labour Proclamation No.1156/2019 effective from 05 September 2019 , which was an update from the previous Labour Proclamation No. 377/2003 and Labour Proclamation Amendment No. 494/2006 effective dates 26 February 2004 and 29 June 2006 respectively.The key change as noted from the new Labour Proclamation No. 1156/2019 is the additional benefits as follows:
Where a contract of employment is terminated when the undertaking ceases
operation permanently due to bankruptcy or for any other cause, the worker shall be paid an amount equal to the worker's average daily wage of the last week of service multiplied by 60.
Where a worker dies before receiving severance pay, his dependents will be paid:
- 2 months wages for funeral expenses
- A sum of 5 times the annual salary of the deceased and shall be paid in
lump sum 50% to the spouse, 10% each child and 10% each parent. The total amount of the dependents' benefit should add up to 100%

	30 June 2023 Birr'000	0 June 2022 Birr'000
24.1 Liability recognised in the financial position (note 24.4)	1,720	1,538

24.2 Amount recognised in the profit or loss	30 June 2023 Birr'000	0 June 2022 Birr'000
Current service cost	800	991
Interest cost	220	150
	1,019	1,141
24.3 Amount recognised in other comprehensive income:		
Remeasurement (gains)/losses arising from changes in demographic assumptions	(46)	328
	(46)	328
Deferred tax (liability)/asset on remeasurement gain or loss		
	(46)	328
24.4 Changes in the present value of the defined benefit obligation		
At the beginning of the year	1,538	1,039
Current service cost	800	991
Interest cost	220	150
Remeasurement (gains)/losses arising from changes in demographic assumptions	(46)	328
Past service cost	-	-
Benefits paid	(792)	(970)
At the end of the year	1,720	1,538

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Retirement benefit obligation (Contd)

24.5 The principal assumptions used in determining defined benefit obligations

	30 June 2023 Birr'000	0 June 2022 Birr'000
Discount rate (p.a)	14.30%	14.25%
Long term salary increases (p.a)	12.3%	12.3%

(i) Discount rate

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

The Company therefore opted to use a discount rate of 14.3% (30 June 2023: 14.3%) based on the prevailing commercial banks lending rate as advised by the Association of Ethiopian Insurers.

(ii) Long term salary increases

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

(iii) Mortality rate

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

	30 June 2023		30 June 2022	
	Males	Females	Males	Females
20	0.111%	0.111%	0.111%	0.111%
25	0.112%	0.111%	0.112%	0.111%
30	0.116%	0.113%	0.116%	0.113%
35	0.132%	0.120%	0.132%	0.120%
40	0.188%	0.147%	0.188%	0.147%
45	0.330%	0.231%	0.330%	0.231%
50	0.599%	0.420%	0.599%	0.420%
55	1.035%	0.750%	1.035%	0.750%
60	1.720%	1.272%	1.720%	1.272%

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NOTES TO THE FINANCIAL STATEMENTS
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Retirement benefit obligation (Contd)

(iv) Withdrawals from service

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

	30 June 2023		30 June 2022	
	Males	Females	Males	Females
20	15%	15%	15%	15%
25	12%	12%	12%	12%
30	6%	6%	6%	6%
35	2.5%	2.5%	2.5%	2.5%
40	1.8%	1.8%	1.8%	1.8%
45	1%	1%	1%	1%
50	0%	0%	0%	0%
55	0%	0%	0%	0%
60	0%	0%	0%	0%

(v) Ill-health / Disability

	30 June 2023		30 June 2022	
	Males	Females	Males	Females
20	0.040%	0.040%	0.040%	0.040%
25	0.040%	0.040%	0.040%	0.040%
30	0.040%	0.040%	0.040%	0.040%
35	0.040%	0.040%	0.040%	0.040%
40	0.063%	0.050%	0.063%	0.050%
45	0.110%	0.080%	0.110%	0.080%
50	0.200%	0.140%	0.200%	0.140%
55	0.350%	0.250%	0.350%	0.250%
60	0.570%	0.420%	0.570%	0.420%

24.6 Quantitative sensitivity analysis for significant assumption

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

		30 June 2023		30 June 2022	
	Change in assumption	Impact of an increase	Impact of a	Impact of an increase	Impact of a decrease
		Birr'000	Birr'000	Birr'000	Birr'000
Discount rate	(+/-)1%	(91,303)	104,191	(53,896)	60,806
Long term salary increases	(+/-)1%	99,723	(88,314)	58,285	(52,067)
Base scenario figures		1,537,921	1,537,921	1,039,406	1,039,406
Changed discount rate figures		1,446,618	1,642,113	985,510	1,100,211
Changed longterm salary rate figures		1,637,645	1,449,607	1,097,691	987,339

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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.

Retirement benefit obligation (Contd)

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

	30 June 2023 Birr'000	30 June 2022 Birr'000
Within the next 12 months (next annual reporting period)	0	0
Between 1 to 5 years	8	6
Above 5 years	1,711	1,531
	1,720	1,538

24.7 Risk exposure

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

(i) *Liquidity risk*

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

(ii) Life expectancy

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

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	2023 Birr'000	2022 Birr'000
25 Share capital		
Authorised:		
Ordinary shares of Birr 1000 each	200,000	200,000
Issued and fully paid:		
Ordinary shares of Birr 1000 each	160,210	141,528

The current paid up capital is 160,210 (2022: Birr 141,528)

	2023 Birr'000	2022 Birr'000
26 Share premium		
At the beginning of the year	1,664	1,568
Additions through issuance of shares	286	96
	1,950	1,664

The share premium represents excess of share prices over the par value. This amount awaits the resolution of the General Assembly whether it can be distributed to the shareholders.

27 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.

	2023 Birr'000	2022 Birr'000
Profit attributable to shareholders	45,857	39,087
Loss brought forward	-	(28,668)
Weighted average number of ordinary shares in issue	153,886	139,075
Basic earnings per share (Birr)	298	74.91

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LUCY INSURANCE SHARE COMPANY
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		2023	2022
		Birr'000	Birr'000
28	**Retained earnings**		
	At the beginning of the year	7,376	-30,056
	Profit/ (loss) for the year	45,857	39,087
	Transfer to Legal reserve	(5,865)	(820)
	Prior year Adjustments regarding to Deffered taxation	2,600	1,765
	Deferred Taxation on Temporary Difference	(2,814)	(2,600)
	Dividends paid	(7,376)	
	At the end of the year	39,778	7,376
29	**Other reserve**		
	At the beginning of the year	(0)	-0
	Re-measurement gains on defined benefit plans (net of tax)	-	-
	Deferred Taxation	-	-
	At the end of the year	(0)	(0)
30	**Legal reserve**		
	At the beginning of the year	8,951	8,132
	Transfer from profit or loss	5,865	820
	At the end of the year	14,816	8,951

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		Notes	30 June 2023 Birr'000	30 June 2022 Birr'000
31	**Cash generated from operating activities**			
	Profit before tax		45,857	39,087
	Adjustments for non- cash items:			
	Depreciation of property, plant and equipment	20	7,355	5,488
	Advance profit tax deducted from profit tax	13.2	(1,585)	(1,439)
	Gain on disposal of PPE.	10	-	(1,424)
	Retirement benefit obligations	24	182	499
	Changes in working capital:			
	-Decrease/ (increase) in loans and receivables including insurance receivables	16	1,875	12,844
	-Decrease/ (Increase) in reinsurance assets	17	21,999	(56,020)
	-Decrease/ (increase) in deferred acquisition cost	18	(1,626)	(2,050)
	-Decrease/ (increase) in deferred commission inco	22	591	7,243
	-Decrease/ (increase) in other assets	19	(2,077)	1,502
	-Decrease/ (Increase) in fixed time deposits	14	(52,968)	13,174
	-Increase/ (decrease) in Insurance contract liabiliti	21	53,304	14,723
	-Increase/ (decrease) in insurance payables	22	(30,712)	60,207
	-Increase/ (decrease) in other liabilities	23	8,320	(48,054)
			50,516	45,778

32 Related party transactions

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

LUCY INSURANCE SHARE COMPANY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

32 Related party transactions (Contd)

32.1 *Key management compensation*

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

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

The compensation paid or payable to key management for shown below. There were no sales or purchase of goods and services between the Company and key management personnel as at 30 June 2021.

	30 June 2023 Birr'000	30 June 2022 Birr'000
Salary payment	4,050	3,504
Leave Pay	630	409
Post-employment benefits	446	385
Representation allowance	228	192
	5,353	4,490

33 Directors and employees

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

Chief and Senior Executive Staff	7	7
Managmant	29	30
Non - Managmant	161	153
	197	190

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34 Contingent liabilities

The company's contingent liabilities as at the date of this report:

30 June 2023 Nil
Nil
30 June 2022 Nil
Nil

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 financial condition.

35 Commitments

The Company has no commitments, not provided for in these financial statements as at the date of this report. (30 June 2023)

36 Operating lease commitments - Company as lessee

The Company leases various properties under cancellable operating lease agreements. The lease terms are less than one year.

37 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Company as at 30 June 2023and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

SHAREHOLDERS'

10th ORDINARY & 8th EXTRAORDINARY ANNUAL GENERAL MEETING

QUARTER
PERFORMANCE REVIEW MEETING

BRANCH MANAGERS'

TRAINING

LUCY INSURANCE SHARE COMPANY

HEAD OFFICE & BRANCHES' ADDRESS

No.	Branch	Telephone Land Line	Fax
1	Head Office	Phone 011 4 67 17 84 Fax 011 4 67 18 96	+251-114-67-18-96
2	Head Office Branch	+ 251- 114-70-34-07/12	+251-114-67-18-96
3	Merkato Branch	+251-112-75-57-47	+251-112-75-71-90
4	Megenagna Branch	+251-116-67-43-93	+251-116-67-38-25
5	Stadium Branch	+251-115-58-17-24	+251-115-58-17-19
6	Bole Branch	+251-115-57-34-75	+251-115-57-34-78
7	Kality Branch	+251-114-71-75-15	+251-114-71-74-96
8	22 Mazoriya Branch	+251-116-61-17-01	+251-116-40-01-97
9	Piassa Branch	+251-111-26-75-51	+251-111-26-77-72
10	Yerer Branch	+251-116-67-61-50	+251-116-67-61-82
11	Kera Branch	+251-114-70-22-28	+251-114-70-12-54
12	Lideta Branch	+251-115-57-88-00	+251-115-57-52-85
13	Bole Medhanialem Branch	+251-116-39-38-47	+251-116-39-29-27
14	Yosef Branch	+251-114-70-90-55	+251-114-70-88-78
15	Addisu gebeya branch	+251-111-54-72-06	+251-111-54-73-56
16	Lebu branch	+251-118-13-39-88	
17	CMC Branch	+251-118-13-42-21	+251-118-13-38-64
18	Beklobet branch	+251-114-70-39-77	+251-114-70-39-78
19	Arat Killo Branch	011-12-65-510	011 1 26 55 33
20	Habtegiorgis Branch	011 17 06 561	011 4 70 61 65
21	Adeye Abeba Branch	251 11 69 02 333	011 4 67 18 96
22	Figa Branch	251 11 66 60 888	011 4 67 18 96
23	Ayer Tena Branch	09 21 57 51 12	011 4 67 18 96
24	Goro Branch	09 13 64 94 04	011 4 67 18 96
25	Betel Branch	011 36 97 052	011 4 67 18 96
26	Bole Bulbula Branch	09 60 90 70 80	011 4 67 18 96
27	Gulele Finans Branch	251 11 27 37 778	011 4 67 18 96
28	Lambert Branch		011 4 67 18 96
29	Lemi Kura Branch		011 4 67 18 96

No.	Branch	Telephone Land Line	Fax
1	Adama Branch	251-221-11-18-53	251-221-12-73-12
2	Hawassa Branch	251-462-12-35-71	251-462-12-26-09
3	Mekelle Branch	251-342-41-61-17	251-342- 41-89-85
4	Wolaita Sodo Branch	251-461-80-88-88	251-461-80-85-30
5	Bahirdar Branch	251-583-20-51-73	251-583-20-71-17
6	Debrebirhan branch	251-118-13-38-64	251-11637-54-71
7	Diredawa Branch	09 31 50 48 15	011 4 67 18 96

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INSURANCE S.C.

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