



ANNUAL REPORT 2012/13

A close-up photograph of a lion lying on its side on a dirt and grass savanna. The lion's head is in the lower-left foreground, and its body extends towards the right. The background is a blurred natural landscape.

YOUR TRUST OUR COMMITMENT

ANNUAL REPORT 2012/13





We Live
in
Commitment for reliable, fast and competitive
Remittance Service



WHAT'S INSIDE

04	Testimonials
05	LIB at a glance
06	Board of Directors
07	Management Team
08	Message from the Board Chairperson
10	Glimpse of Partners
11	Directors' Report
16	Events
20	Auditors' Report

VISION

To be the leading bank in Ethiopia

MISSION

We are committed to maximizing customers' satisfaction and share-holders value through quality and diversified banking service delivery, technological leadership and motivated employees.

- * Dedication to customer satisfaction;
- * Confidentiality;
- * Transparency;
- * Learning organization;
- * Professionalism;
- * Striving to empoloyess' satisfaction; and
- * Social responsibility

CORPORATE VALUES

TESTIMONIALS



Lion Roars in Fifth Year of Operation
 Profit after tax reaches 75.41m Br increasing by 72.2pc from the previous year

By ELLINI ABAYI
 FORTUNE STAFF WRITER

Shareholders at Lion International Bank (LIB) were happy to hear that the company had earned a profit after tax of 75.4 million Br in 2011/12 fiscal year, a 72.2pc increase from the previous year.

After this was announced, at the eighth annual shareholders meeting held at Sheraton Addis Hotel in the morning of Thursday October 25, 2012, shareholders expressed appreciation for the positive performance, although they asked the figure to be seen in light of the performance of other banks.

Earnings per Share (EPS) however, did not increase by as much the profit after tax for LIB, standing at 6.99 Br for a par value of 25 Br, whereas last year it was 4.40 Br. This was because of the big capital increase the company had undergone, according to Regus Gebregiabher, president of the bank.

Regus Gebregiabher (center), president and Abraham Gebremariam (right), board director of Lion International Bank show deference to Gebahan Neta (left), Vice Governor for financial institutions at the National Bank of Ethiopia.

2.1pc reduction as compared to the previous year.

In 2011/12 all banks had reported high foreign transaction gains, due to the devaluation of Birr against a basket of major currencies by 20pc in September 2010. The number had decreased significantly for most banks in 2011/12 fiscal year, but not that of Lion.

"The bank should be appreciated for achieving this level of income," Abdumena stated.

Negative credit: The bank's focus on financing export and import activities, due to the large amount of foreign reserve in the first two quarters of 2011/12, for this achievement.

Slight improvements were recorded for return on equities and assets, which had grown by 21.9pc and 3.55pc, respectively, a slightly better improvement as compared to last year.

Expenses for the bank are also managed well. Interest payments

CASHIER'S PAYMENT ORDER (CPO) No. 151008

Pay to the order of: የገንዘብ ለውጥ ማግኘት ለገቢ
 The sum of: ገንዘብ ለውጥ ማግኘት ለገቢ

Issued on the instruction of: በገንዘብ ለውጥ ማግኘት ለገቢ
 Account No. የገንዘብ ለውጥ ማግኘት ለገቢ

LION INTERNATIONAL BANK S.C. BRANCH

CASHIER'S PAYMENT ORDER (CPO) No. 151008

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LION INTERNATIONAL BANK S.C. BRANCH

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 71 በመቶ ብልጫ ያለው ትርፍ አስመዘገበ

SHAREHOLDERS' 8th ANNUAL ORDINARY G

LIB AT A GLANCE

111.3 M
PROFIT AFTER TAX

27.42%
ROE

4.02%
ROA

101,424
NUMBER OF DEPOSIT CUSTOMERS

36%
REVENUE GROWTH

1,774,449
CUSTOMER TRANSACTION

48
BRANCHES

1.03%
NON-PERFORMING LOANS



Our footprint is visible



BOARD OF DIRECTORS



Wasihun Geberu



Tsegaye Alemayoh



Berhanu G. Medhin (Ph.D.)
Chairperson



H/Sellassie Yehdego



Fissahatsion Arefayne
V/Chairperson



Abrham G/Amlak



Legesse Tegegn (Col.)



G/Medhin G/Hiwot



Berhanu Kebede



Tigist Girmay

MANAGEMENT TEAM



At the Back (from Left to Right):

Ato Sileschi Tigabu, Director – Finance; Ato Michael Aisedewoin, Director – Information Technology Service; Ato Daniel G/Egzabher, Director – Business Development & Corporate Planning; Ato Gebru Meshesha, VP – Corporate Services; **Ato Negusu G/Egzabher, President**; Ato Getachew Solomon, VP – Operations; Wro. Andinet Haregewoine, Manager – Legal Service; Ato Shiworkie Belete, Director – Internal Audit & Compliance

At the Front (from Left to Right):

Ato Wondwosen Gashaw, Manager – Property & General Service; Ato Michael Gezaz, Manager – Human Resource; Wro. Tekele Embaye, Director – International Banking; Ato Abraham Tilahun, Manager – Branch Operation Coordination; Ato Eskinder Dibekulu, Director – Credit; Ato Daniel Tekeste, Manager – Risk Management

MESSAGE FROM THE BOARD CHAIRPERSON

On behalf of the Board of Directors and on my own behalf, it is my great pleasure to report the continued institutional strength and higher record of profit of our bank, Lion International Bank S.C. (LIB), for the year ended June 30, 2013. Despite the global and domestic economic challenges that had direct and indirect impacts on the performance of the banking sector, the Year 2012/13 has been a year of success for LIB in many respects.

During the fiscal year, our bank has registered profit before tax of Birr 150.6 million, which surpassed the last year's performance by 44 percent. As a result, the Bank offers 31.48 percent earnings per share which hits a growth of 29.2 percent compared to that of last year's. This continued record high profit demonstrates that our bank is marching on its growth path to realize its tremendous potential fully. The Board of Directors of LIB recognizes the unparalleled support it received from you, esteemed shareholders and customers, and the efforts of management and staff exerted to realize the profit target; without such committed support, it would have been difficult to realize such an achievement.

In my previous annual report, I had declared the board's commitment to continue with its effort of strengthening the institutional base of our bank through a dynamic change process based on the concept of One Window Service. We believe that this concept is key to improve customer service and enhance profitability of our Bank. I am now very glad to report that the overwhelming majority of our branches are operating on the One Window Service delivery mode.

During the fiscal year, our Bank has effectively managed to disburse loans and advances of Birr 601.8 million which raised the outstanding loan balance to Birr 1.3 billion, registering an increase of 36 percent relative to the preceding year's performance. The Bank was also successful in maintaining the ratio of non-performing loans (NPLs) to total loans at 1.03 percent, which is much

below the National Bank of Ethiopia's (NBE) ceiling requirement of 5 percent and the industry average.

Deposit mobilization has been a particularly difficult task during the fiscal year. Our Bank was able to raise its total deposit to Birr 2.1 billion, registering a growth of 21 percent over the previous year. Total asset of the Bank stood at Birr 2.9 billion, showing an increase of 19 percent over the preceding year. The capital and reserve of the Bank has reached Birr 541.9 million, registering growth of 23 percent over last year status. The paid up capital has also reached Birr 374.9 million.

In order to be a winner in the stiff competition of the existing banking sector, the board and the management strongly believe in increasing the Bank's market share and accessibility to customers as key strategic tools. Accordingly, we have managed to increase the number of branches to 52. We have also increased number of International Money Transfer service providing agents to eight.



Imprinted for success

Dear Esteemed Shareholders,

As part of our continued commitment and effort to strengthen the institutional base of our bank, the Board of Directors along with the management team has taken several strategic measures to enable the Bank march forward with strengthened institutional base, among which the most notable include:

- Established the Northern Regional Office in Mekele town fully bestowed with responsibilities of the Head Office to coordinate and follow up the day to day activities of our branches operating in the northern part of our country, including the loan processing and approval function;
- Adopted an improved credit policy and centralized credit processing procedure that enhances competence and efficiency of the loan approval process of the Bank. Hence, to maximize efficiency of credit processing time, two central credit processing centers have been established in Addis Ababa and in the northern regional office – Mekele;
- In relation to credit approval process board considerably increased management's loan approval discretion limit;
- Implemented an improved salary scale to staff that enables our Bank to increase competitiveness in attracting qualified employees and improving our retention status.

The multifaceted successes registered would not have been realized without the all-round support we have received from shareholders and customers. It is my strong belief that your support will be elevated to higher level in the current fiscal year and beyond. I also want to express my respect and gratitude to our supervisory body, the National Bank of Ethiopia (NBE), and the Document Authentication and Registration Office for their professional guidance, collaboration and facilitation during the year.

I would like to extend my sincere gratitude to my colleagues, Board Members, for their devotion, valuable contributions and commitment to advance the bank towards achieving its vision "To be the Leading Bank in Ethiopia." I would also like to thank the members of management and the whole staff for their diligent and unreserved contributions to the successful accomplishment of the Bank; not only during this fiscal year, but for the entire three years I have served as Board Chair.

Finally, I call upon all stakeholders to renew and strengthen their commitment and work in unison so that our bank will record progressive improvements and fulfill its vision – "A leading Bank in Ethiopia"

I thank you,



Berhane Gebremedhin (PhD)
Chairperson, Board of Directors, ABESA



Connects you, the patrons, to what's worthy through quality service

GLIMPSE OF PARTNERS



The hotel that promotes luxury, comfort and style



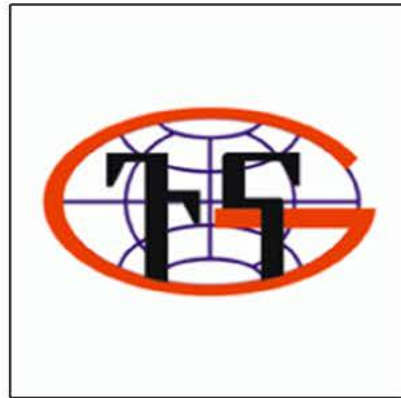
A world-class Hotel with a local face

HAILESLASSIE AMBAYE DERES IMPORT AND EXPORT

Lets the globe to savor Ethiopian coffee



A companion for construction



Strategic partner in Ethiopia



Travel in peace and comfort



Where luxury speaks



Where innovation displayed



We work with cherished names

DIRECTORS' REPORT

The Board of Directors is delighted to present the overview of Lion International Bank's sixth year operational performance (for the fiscal year ended on June 30, 2013) for its shareholders, associates, and patrons on the Ninth Annual General Assembly. The summarized annual report includes the progressive process noted in key banking operations, financial and non-finance performances. In this year, the Bank has once again bestowed a remarkable growth in spite of the challenges and sent a message that its growth is unstoppable!

Over the past year Lion International Bank operated with a grandeur that ousted the influence of the multiple challenges posed to limit it. The noteworthy performance aimed in keeping up the short and long term growth monument unto Lion ensures its leadership in the industry, landed the Bank to a tertiary spot in a gross profit growth among the private Banks. The imperatives behind this success are the belligerent, full of life and focused staff and the proactive step taken to reach out the partners.

Breathing Assets

Team LIB is the secret behind the blooming success of Lion, who are the prioritized assets that created a real life for the Bank in their breathing. The size of permanent team members has reached 689, which is 66 percent of the total workforce as most support jobs are outsourced to promote efficiency.

This figure along with the Bank's continuous progress implies that it is an owner of highly skilled and efficient staff in comparison to the peers and other Banks in the industry. As the Bank believes its breathing assets are the engine pieces and particles of operation and their personal expertise is fundamental, it has been investing much on trainings, skill building programs, formal education assistance and setting up virtual library.

Further the Bank once again bestowed its commitment of ensuring the welfare of its staffs by improving the salary & benefit scheme and enabling them to join the owners circle.

Reaching out Partners

The Bank has widened its accessibility without compromising its eminent service excellence. Seven new branches inaugurated in Jigjiga, Awash 7 kilo, Bole, Sarts, Bole Michael, Sheger, and Stadium enabled the Bank to reach out more partners and increased its convenience for patrons. Meanwhile, Mexico, Sarbet, Churchill, Dire Dawa, Bahir Dar, Togo-Wejallie, Mekele and Shashemene are on their way to maneuver.



The extended service hour pioneered by LIB till 7 pm for six days a week has continued to inspire and engage other Banks, from large to small sizes, in amending working hours. The one stop shopping, which was introduced in the prior year, has been rolled out in all city and majority of outlying branches; as progressiveness and learning is in the nucleus of LIB, this work process is now more polished than it was a year ago.



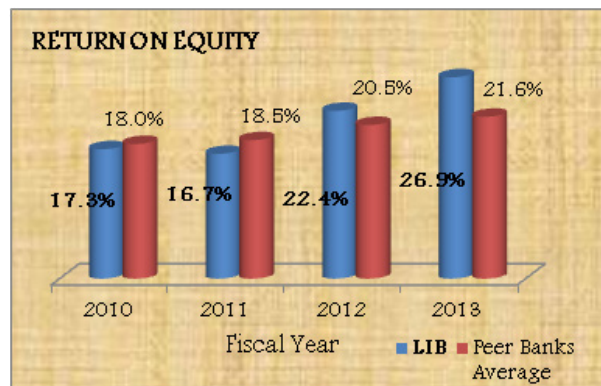
a year ago. Moreover, Lion is persisting on its effort of creating a better opportunity for its partners by enlarging the options they could access in both domestic and international banking operations.

Financial Performance

Lion International Bank has had a resounding financial return for a fifth straight year, underpinned by the endeavor to promote holistic efficiency and aim for a long-term growth. The Bank has gained a net profit before tax of Birr 150.6 million, a record high profit compared to the Bank's accomplishment in the preceding years and a 44 percent growth from last year. It is remarkable as it was achieved under challenging macroeconomic context that tested the Bank's capability to prevail and within this Lion is one of the very few Banks that maintained its profit growth monument.

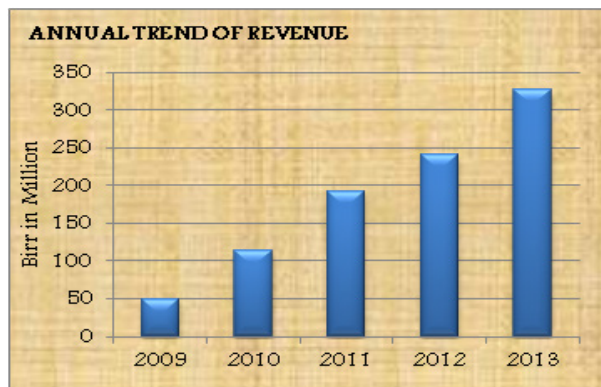
The matched growth of net profit and paid-up capital has increased earnings per share by 29.2 percent from the preceding year status to 31.48 percent.

Lion's sound financial performance has deepened its roots in strategic allocation and utilization of resources which is reflected in the progressive return on equity and asset of the Bank. These performance indicators illustrate that the Bank has been following the right direction in accordance with its risk appetite and the reward it has been earning that even outdo the peer Banks average.



Revenue

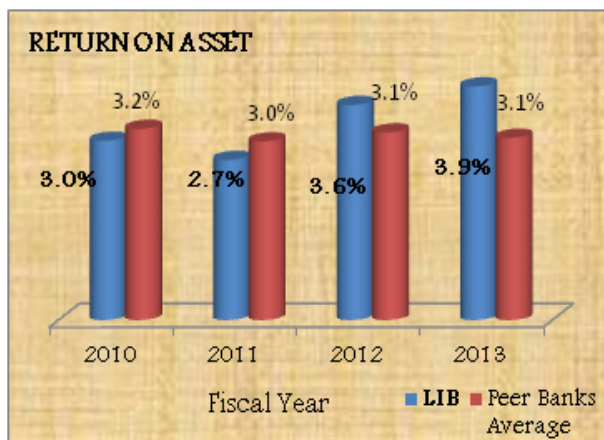
Lion generated gross revenue of Birr 327.6 million, a 36 percent increment from the preceding fiscal year. The growth of gross revenue continued its increasing trajectory in light of the formative years. This remarkable growth is built upon solid grounds as the Bank once again maintained its tradition of having diversified and balanced revenue structure. Thus, 52 percent of the gross revenue is collected from interest income while the remaining 48 percent is from non-interest income sources.



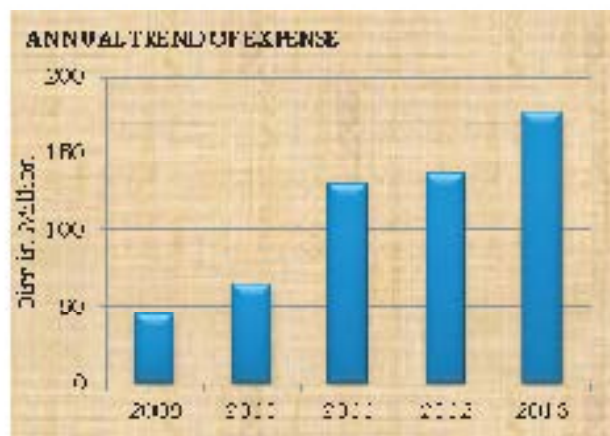
Expense

The Bank has invested on human, material, and financial resources amounting Birr 177.1 million to collect the above revenue.

The spending, which is tuned by a philosophy of efficiency coupled with flexible business response, has been supporting the Bank's strategic move of branch expansion, rolling out the one stop shopping to the remaining branches, upgrading the IT infrastructure, and new studies.



Accordingly, the spending on non-interest expense dominates the total expense by 68 percent as the expense for interest amounts 32 percent.



Balance Sheet

The balance sheet of the Bank has exhibited a 20 percent increase from the previous year. The total asset, which dominated by loans & advances after provision (44 percent), cash & bank balance (27 percent) and marketable securities (21 percent), has reached Birr 2.9 billion. The 50 percent liquid asset to total asset ratio reflects that the Bank generated the profit within comfortable risk limit.

The growth of the liability side in which 89 percent of the total amount came from customers' deposit is the reflection of the notable effort made in fund mobilization. By the end of the year, the total liability of the Bank has reached Birr 2.4 billion. The share capital consist 65 percent of the capital & reserve item; while legal reserves, retained earnings and profit makes up the remaining amount. At the end of June 2013, the capital adequacy ratio of the Bank has reached 23 percent, which is above the minimum requirement of NBE (8 percent) and reflection of the distinguished strength of the Bank in taking out reasonable risks for paralleled returns.

Wealth Management

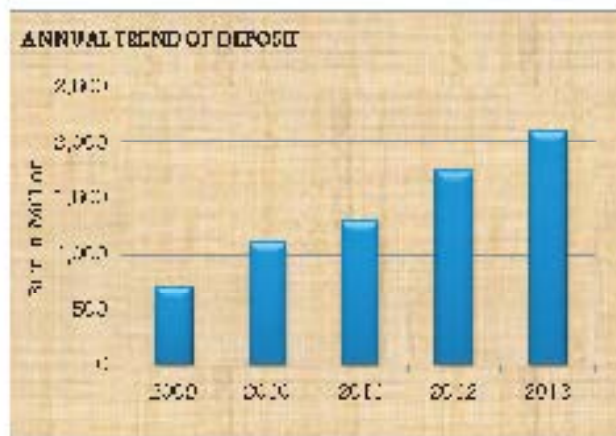
Lion International Bank has been registering consistent growth in all of the three critical banking operations. This sustainable performance is the

result of judicious handling in collecting deposits, facilitating loans and availing services attached with foreign funds.

Deposits

The Bank is as always, focused on presenting excellent, sturdy, and responsible service which contributes its mite to the dynamism of the financial industry while addressing the expectation of its patrons. During the year under review, major impetus was given to sustainable collection of resources in order to match the demand of partners. Accordingly, the total deposit has reached Birr 2.1 billion with more than 101,400 customers. The average size of Lion's deposit is about Birr 20,700 per depositor since the customer base widened along with deposit increment.

The deposit structure continued in confirm that the Bank still has a strategic advantage for more reliable resource as saving deposit holds the principal share of 60 percent, while demand and fixed time deposits follows by 30 percent and 9 percent.



International Banking

Notwithstanding the challenges, particularly from the global macro-economic context and the competition that came along, the Bank has made an outstanding effort to boost its foreign exchange inflow and was able to collect \$ 65 million in the fiscal year. Of the total collection, 37 percent is from export, 33 percent is from cash purchase,



from exports, 33 percent is related to cash purchase, 15 percent belongs to incoming transfer and 12 percent is from remittance, which ultimately constitute 97 percent of the total amount from operational sources.

To enhance the option of partners, the Bank entered into agency agreement with three international money transfer companies, i.e., Iftin, Tawakal, and Kulan, in addition to the already existing five agents.

Credit Management

Believing in the dictum “Credit delayed is credit denied” Lion has been in the forefront in terms of credit decisions and delivery, while balancing related credit risks. To maintain this tradition in accordance to the growing market, the Bank has approved and is ready to launch an improved Credit Processing Center [CPC].

The Bank is also proud to keep in balance the interest of its patrons while discharging its corporate responsibilities by contributing its mite in purchasing NBE’s bill, which has reached 29 percent of the total deposit at the end of June 2013, while utilizing its maximum lending capacity. The total lending of the Bank has reached Birr 1.3 billion with



36 percent growth from the previous year. The loan to deposit ratio at the end of the year was 63 percent. Sector-wise diversification of loans along with the number of borrowers has shown a favorable significant shift.

The Bank has financed from Agriculture to Construction sectors and from Export related business to Imports in order to maintain a healthy distribution whilst supporting the demand of the eligible customers; yet, emphasis was given to export related businesses as they are important sources of foreign currency and other investments.

The Bank’s policies to monitor the credit portfolio by identifying early warning signals and focus to revive defaults has helped the Bank to maintain low non-performing loans ratio of 1.03 percent. Although there is a slight pick-up from the previous year, it is still much lower than NBE’s maximum limit of 5 percent and peer Banks average of 3.26 percent.

Risk Management

In view of ensuring the achievement of strategic objectives in the face of the prevailing dynamic business environment, it would be of paramount importance to have in place a sound and robust risk management framework. Equally important, the risk oversight functions of the Executive Management and the Board of Directors plays an indispensable role to make sure that the Bank’s risk profile is contained within tolerable and acceptable level. In light of this and being mindful of regulatory requirements, the Bank has developed and embarked on a Comprehensive Risk Management Program. In essence, the Bank has been managing and monitoring the various types of risks it is exposed to, based on risk tolerance limits that are defined in conformity with the overall risk appetite of the Bank.

The Management as well as the Board level Risk Committee have been reviewing and monitoring the risk exposure level of the Bank. In general, the Bank’s Risk Management Framework follows the principle of “three lines of defense”: the first line consists of the business owner, who are responsible for the day-to-day management, identification and direct control of all associated business risks and for implementing processes and



policies and procedures; the second line of defense is the Bank's oversight function, primarily consisting of mainly the Risk and Compliance Management function; while the third lines of defense are the Bank's audit function and that of external auditors, responsible for independently assessing **the adequacy and effectiveness of key controls and** ensuring compliance with policies and procedures. At this juncture, the aforementioned mechanisms ascertain that the Bank is marching in the right track; however, the roadway is not a bonanza street.

Forward

Lion starts 2013-14 FY with admirable shape **in balance sheet, staff fortitude and direction.** **Though we face fierce competition and continuous** challenges from the external environment, the performance in the concluded year has been a lesson that prevailing against the odds is possible if we maintain our determination and focus.

With this attitude, the Bank is set to launch initiatives that put its might to upgrade its technological front. Lion is committed to invest in technology to close up the gap it has with other banks and advance to **simplify banking for its partners.** **The Bank will also** pursue to reach out more partners by expanding the sphere of its branches and improve the work processes to meet their respective expectation.

With an aim to reward and retain its breathing assets, the Bank shall introduce programs and trainings that enable the employees to achieve the highest level of job satisfaction and in the process the Bank shall attain its intrinsic endeavor of growing inside out.

No new territory can be occupied without belligerence; no new opportunity can be seized **without audacity and prudence.** **This is the spirit** that Lion International Bank carries forward for the new operational year.

The Board of Directors
3rd November 2013



SHAREHOLDER'S MEETING



MANAGEMENT MEETING



TRAINING



*You wouldn't be late
to be served here*



We wait you till 7:00 pm



ANNUAL REPORT 2012/13

AUDITORS' REPORT

Six days a week

ANNUAL REPORT 2012/13





አማ - ኃይ የተመሰከረላቸው የሂሳብ አዋቂዎችና ኦዲተሮች
Ama - Hai Chartered Certified Accountants & Auditors

Partners
Amanuel Bahta, FCCA (U.K.)
Haileselassie G/kidan, FCCA (U.K.)

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS OF LION INTERNATIONAL BANK SH. CO.

We have audited the accompanying financial statements of Lion International Bank Sh. Co. which comprise the Balance Sheet as of 30 June 2013, the Income Statement and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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



 **TEL.:** 251 11 655 24 71/251 11 515 33 08/14

 **MOB.:** 251 911 24 34 05/251 911 50 95 45

 **P.O BOX:** 13735

FAX: 251 11 515 27 29 አዲስ አበባ ኢትዮጵያ

Addis Ababa, Ethiopia

Email: hailegeb@ethionet.et

amanuel.bahta@yahoo.com

Olympia, SA Building 11th Floor, Room No. 407/3



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

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

Unqualified opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Lion International Bank Sh. Co. as of 30 June 2013, and of its financial performances and its cash flows for the year then ended and are prepared in accordance with International Financial Reporting Standards.

We have no comments to make on the report of the Board of Directors of the Bank in so far as it relates to these financial statements and pursuant to Article 375 of the Commercial Code of Ethiopia 1960 we recommend approval of these financial statements.



Addis Ababa
September 25, 2013

Ama - Hai
Chartered Certified Accountants

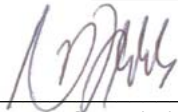


LION INTERNATIONAL BANK SH. CO.
BALANCE SHEET
AS AT 30 JUNE 2013

ASSETS	Notes	CURRENCY: BIRR	
		2012	
Cash & balance with banks	2h, 3	520,896,736	529,517,476
Reserve with National Bank of Ethiopia		108,000,000	158,000,000
National Bank of Ethiopia bills	4	523,212,000	346,517,000
Treasury Bill		90,000,000	-
Foreign bank deposits	5	171,447,944	351,569,077
Loan & advances	2d, 6	1,300,957,658	955,619,914
Stock of supplies	7	<u>2,412,144</u>	<u>2,588,093</u>
Other assets	8	88,355,565	<u>87,779,635</u>
Time deposit at National Bank of Ethiopia		93,188,000	-
Deferred charges	2i, 9	5,883,028	6,723,421
Investment	10	9,059,574	2,287,574
Plant, property & Equipment	2e, 11	<u>29,020,108</u>	<u>22,429,528</u>
Total assets		<u>2,942,432,757</u>	<u>2,463,031,718</u>
LIABILITIES, CAPITAL AND RESERVES			
LIABILITIES			
Deposits from customers	12	2,105,863,493	1,736,656,583
Other liabilities	13	191,143,536	158,843,081
Margin held on letters of credit		64,179,583	96,506,657
Provision for taxation	24	<u>39,300,860</u>	<u>29,299,558</u>
Total liabilities		<u>2,400,487,472</u>	<u>2,021,305,879</u>
CAPITAL AND RESERVES			
Paid up capital	14	374,935,939	335,968,803
Legal reserve	15	67,501,510	39,677,483
Retained earning	16	<u>99,507,836</u>	<u>66,079,553</u>
Total capital and reserves		<u>541,945,285</u>	<u>441,725,839</u>
Total liabilities, capital and reserves		<u>2,942,432,757</u>	<u>2,463,031,718</u>




Berhanu G/Medhin (Phd)
Chairman, Board of Directors


Negusu G/gziabiher (Ato)
President



LION INTERNATIONAL BANK SH. CO.
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

INCOME	Notes	CURRENCY:	
		BIRR	2012
Interest income	17	168,961,597	115,711,928
Less: Interest Expenses	18	<u>(55,789,902)</u>	<u>(40,131,704)</u>
Net Interest Income		113,171,695	<u>75,580,224</u>
Commission, fees and charges	19	61,215,394	45,028,422
Net gain from dealing in foreign currencies	2g,20	27,856,003	26,547,641
Other income	21	<u>39,009,151</u>	<u>32,325,175</u>
		<u>128,080,548</u>	<u>103,901,238</u>
Net operating income		241,252,243	<u>179,481,462</u>
Provision for doubtful debts other than loans & advances		-	(169,926)
Provision for doubtful loans and advances		<u>(2,063,528)</u>	<u>(5,237,821)</u>
Net interest and other income after provisions for doubtful accounts		239,188,715	<u>174,073,715</u>
<u>OPERATING EXPENSES</u>			
Salaries and benefits		46,835,220	37,098,178
General & administration	22	40,898,013	31,382,235
Directors fee	23	747,200	794,884
Audit fee & expenses		<u>111,046</u>	<u>94,000</u>
Total operating expenses		<u>(88,591,479)</u>	<u>(69,369,297)</u>
NET PROFIT FOR THE YEAR		150,597,236	104,704,418
PROVISION FOR TAXATION	24	<u>(39,301,130)</u>	<u>(29,299,558)</u>
		111,296,106	75,404,860
LEGAL RESERVE	15	<u>(27,824,027)</u>	<u>(18,851,215)</u>
NET PROFIT AFTER TAXATION & LEGAL RESERVE		<u><u>83,472,079</u></u>	<u><u>56,553,645</u></u>
EARNING PER SHARE OF BIRR 25	25	<u>7.87</u>	<u>6.09</u>



**LION INTERNATIONAL BANK SH. CO.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2013**

	CURRENCY: BIRR	
	2012	
OPERATING ACTIVITIES		
Net profit for the year	150,597,236	104,704,418
Amortization of deferred charges	2,256,407	2,637,906
Depreciation	3,288,768	3,779,171
Prior year adjustment	1,799	-
Return on investment (divided income)	<u>(279,000)</u>	-
Operating (loss) before working capital changes	<u>155,865,210</u>	<u>111,121,495</u>
Decrease (Increase) in stock of supplies	175,949	2,420,758
Increase in other assets	(575,930)	(59,523,845)
Increase in loans and advances	(347,401,270)	(294,331,233)
Provision for doubtful loans and advances	2,063,528	5,237,822
Provision for doubtful debts other than loans & advances	-	169,926
Increase in deposits from customers	369,206,910	439,283,563
Increase in other liabilities	32,300,453	49,179,639
(Decrease) Increase in margin held on letter of credit	(32,327,074)	66,466,130
Profit tax & withholding tax paid	(29,299,828)	(18,058,370)
Dividend paid	<u>(50,045,595)</u>	<u>(29,918,102)</u>
Net cash generated from operating activities	<u>(55,902,857)</u>	<u>160,926,288</u>
INVESTING ACTIVITIES		
Acquisition of fixed assets	(9,879,348)	(6,200,452)
Increase on differed charges	(1,416,014)	-
Acquisition of NBE bills	(176,695,000)	(181,574,000)
Acquisition of treasury Bills	(90,000,000)	-
Disposal at fixed assets	-	67,880
Investment in share	(6,772,000)	(1,258,000)
Return on investment (Dividend received)	<u>279,000</u>	-
Net cash used in investing activities	<u>(284,483,362)</u>	<u>(188,964,572)</u>
FINANCING ACTIVITIES		
Payments for subscribed shares	<u>38,967,136</u>	<u>43,317,843</u>
Net cash generated from financing activities	<u>38,967,136</u>	<u>43,317,843</u>
Net (Decrease)/Increase In Cash And Cash Equivalents	(145,553,873)	126,401,054
Cash and cash equivalents at beginning of the year	<u>1,039,086,553</u>	<u>912,685,499</u>
Cash and cash equivalents at end of the year	<u>893,532,680</u>	<u>1,039,086,553</u>
CASH AND CASH EQUIVALENTS		
Cash on hand	430,095,606	391,426,166
Cash and balances with National Bank of Ethiopia	291,989,130	296,091,310
Cash and balances with foreign banks	<u>171,447,944</u>	<u>351,569,077</u>
	<u>893,532,680</u>	<u>1,039,086,553</u>



**LION INTERNATIONAL BANK SH. CO.
STATEMENT OF CHANGE IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED 30 JUNE 2013**

	<u>Paid up Capital</u>	<u>Legal Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance as at 30 June 2012	335,968,803	39,677,483	66,079,553	441,725,839
Dividend paid	-	-	(50,045,595)	(50,045,595)
Contribution to subscribed capital	38,967,136	-	-	38,967,136
Net profit for the year	-	-	83,472,079	83,472,079
Prior year adjustment	-	-	1,799	1,799
Transfer to legal reserve	-	<u>27,824,027</u>	-	<u>27,824,027</u>
Balance as at 30 June 2013	<u>374,935,939</u>	<u>67,501,510</u>	<u>99,507,836</u>	<u>541,945,285</u>



LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. BACKGROUND

Lion International Bank (S.C) was formed in Ethiopia in 02 October 2006 and is registered as a public shareholding company in accordance with Licensing and Supervision of Banking Business Proclamation No. 84/1994 and Commercial Code of Ethiopia 1960.

The Bank's principal activity is commercial banking.

The registered address of the bank is Yeka sub city, Kebele 12, House No. New Plaza Building, Addis Ababa.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Bank are stated below:-

a) *Statement of compliance*

The financial statements have been prepared in accordance with International Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board.

The financial statements are presented in Ethiopian Birr.

b) *Basis of preparation*

The financial statements are prepared on historical cost basis. Financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost, except for foreign currencies which are stated at closing date selling exchange rate.



LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

c) *Financial instruments*

(i) Classification

A financial instrument is any contract that rises to a financial asset for the bank and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except fixed assets, deferred charges and shareholders equity.

The major financial instrument of the Bank is originated loans and advances.

Originated loans and advances are loans and receivables created by the Bank providing money to a debtor. Originated loans and receivables comprise deposits and other balances due from banks and loans and advances to customers.

(ii) Recognition of financial instruments

The Bank initially recognizes financial assets and liabilities on its balance sheet on the date it becomes a party to the contractual provision of the instrument. Any gains and losses arising from changes in value of the asset are recognized from this date. When the Bank becomes a party to the contractual terms comprising a loan and as a consequence has the legal right to receive principal and interest payments on the loan, it controls the economic benefits associated with the loan. Normally, a bank becomes a party to the contractual provisions that comprise a loan (i.e., acquires legal ownership of the loan) on the date of the advance of funds or payment to third party. As a result, a commitment to lend funds is not recognized as an asset on the balance sheet.



LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

(iii) *De-recognition of financial instruments*

All financial assets are derecognized when the Bank loses control over the contractual rights that comprise the assets. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished.

(iv) *Measurement of financial instruments*

The Bank measures all financial instruments initially at cost, including transaction costs.

d) *Loans and advances*

Loans and advances are financial instruments originated by the Bank by providing money to the debtors. The loans and advances are stated at cost less impairment losses.

Impairment losses comprise specific provisions against debts identified as bad and doubtful and general provision against losses which are likely to be present in any loans and advances portfolio. The Bank follows the National Bank of Ethiopia Supervision of Banking Business Directive number SBB 43/2008 in determining the extent of provision for impairment losses. The Directive classifies loans and advances into the following:

(i) *Pass loans*

Loans and advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. In general, loan and advances, which are fully secured, both as to principal and interest, by cash or cash substitute, is classified under this category regardless of past due status or other adverse credit factors.

LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

(ii) Special mention

Any loan or advance past due 30 days or more, but less than 90 days is classified under this category.

(iii) Substandard

Non-performing loans or advances past due 90 days or more but less than 180 days is classified under this category.

(iv) Doubtful

Non-performing loans or advances past due 180 days or more but less than 360 days is classified as doubtful.

(v) Loss

Non-performing loans or advances past due 360 days is classified as loss.

As per this directive, the provision for impairment losses is determined as follows:

<u>Loan Category</u>	<u>Extent of Provision Required</u>
1. Pass loans	1% of outstanding loan balances
2. Special mention loans	3% of the outstanding loan balances
3. Substandard loans	20% of the net loan balance (Note)
4. Doubtful loans	50 % of the net loan balance
5. Loss loans	100% of the net loan balance

Note

Net loan balance is outstanding loan balance less net Recoverable Value of collaterals.



LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on straight line bases at the following rate.

	%
Building	5
Vehicles	20
Furniture, fittings & equipment	10
IT equipment	10

f) Revenue recognition

Interest income and expense in the income statement are recognized on accrual basis.

Fees and commission income arise on financial services provided by the bank and are recognized when the services are provided to customers.

g) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets denominated in foreign currencies, which are stated at historical cost, are translated at the selling exchange rates ruling at 30 June 2013. Foreign exchange differences arising on translations are recognized in the income statement.

h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand balances and balances with the National Bank of Ethiopia, due from domestic and foreign banks on demand.



LION INTERNATIONAL BANK SH. CO. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

i) *Deferred charges*

These are the total expenses incurred by the bank less interest earned on its savings account and time deposit during the establishment period, costs incurred during opening new branches and cost of new banking software (Delta Software). This balance is amortized over five years.

3. CASH AND BALANCE WITH BANKS

		CURRENCY: BIRR	
		2012	
Cash on hand	430,095,606	391,426,166	
NBE-payment and settlement account	<u>90,801,130</u>	<u>138,091,310</u>	
	<u>520,896,736</u>	<u>529,517,476</u>	

4. NATIONAL BANK OF ETHIOPIA BILLS

This represents cost of Bills acquired from the National Bank of Ethiopia in accordance to the directives on the Establishment and operation of National Bank of Ethiopia Bills market No MFA/NBEBILLS/001/2013. Maturity period of the bills is five years.

5. DEPOSIT WITH FOREIGN BANK

BHF Bank Frankfurt	27,111	24,398
CommerZ Bank AG - Frankfurt	<u>171,420,833</u>	<u>351,544,679</u>
	<u>171,447,944</u>	<u>351,569,077</u>

6. LOANS AND ADVANCES

Analysis by period of maturity

Maturities are expressed in terms of the original loan period to the repayment date:

Loans and advances due:

Within one year	481,672,614	353,189,516
After but within five years	747,456,286	167,800,700
After five years	<u>88,935,863</u>	<u>449,673,276</u>
	1,318,064,763	970,663,492
Less: Provision for doubtful debts	<u>(17,107,105)</u>	<u>(15,043,578)</u>
	<u>1,300,957,658</u>	<u>955,619,914</u>



LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

Analysis by sector		CURRENCY: BIRR
		2012
Export loans	130,689,170	75,756,706
Import loans	501,743,246	407,986,980
Manufacturing & production	47,091,728	19,596,444
Building construction	116,184,612	81,234,928
Domestic trade	377,213,240	274,837,416
Staff emergency & mortgage loan	9,868,787	4,374,015
Agricultural loan	34,155,401	28,844,155
Merchandise loan	48,651,499	23,764,961
Hotel & tourism	52,467,080	54,267,887
	1,318,064,763	970,663,492
Less: Provision for doubtful debts	(17,107,105)	(15,043,578)
Loans and advances, net	<u>1,300,957,658</u>	<u>955,619,914</u>

7. STOCK OF SUPPLIES

Negotiable instrument	879,389	1,508,200
General supplies	678,014	582,420
Stock, non supplies	15,467	12,827
Others	507	507
Fixed asset in store	838,767	484,139
	<u>2,412,144</u>	<u>2,588,093</u>

8. OTHER ASSETS

Prepayments	16,309,095	15,625,862
Sundry	14,860,079	7,019,938
Accrued income	6,192,996	3,750,870
Other receivables	45,314,747	55,704,317
Acquired property (Note below)	6,106,074	6,106,074
	88,782,991	88,207,061
Less: Provision for doubtful debts	(427,426)	(427,426)
	<u>88,355,565</u>	<u>87,779,635</u>

Note

Acquired properties represent properties that have been held as loan collateral, and acquired by the bank in accordance to a proclamation No. 97/1998.



LION INTERNATIONAL BANK SH. CO. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

9. DEFERRED CHARGES

		CURRENCY: BIRR 2012
Balance at 30 June 2012	14,452,834	14,452,834
Add: Additions during the year	1,416,014	-
	15,868,848	14,452,834
Less: Amortization		
Balance at 30 June 2012	7,729,413	5,091,507
Current year amortization	<u>2,256,407</u>	<u>2,637,906</u>
	<u>(9,985,820)</u>	<u>(7,729,413)</u>
	<u>5,883,028</u>	<u>6,723,421</u>

10. INVESTMENT

EthSwitch S.C.	5,030,000	1,258,000
Lion Insurance Co. S.C.	4,000,000	1,000,000
SWIFT	<u>29,574</u>	<u>29,574</u>
	<u>9,059,574</u>	<u>2,287,574</u>

The bank had subscribed and paid 160,000 shares of Birr 25 per share, in Lion Insurance Co. The bank had also purchased one share of Birr 29,574 (2,540 Euro) from Society of Worldwide Interbank Financial Telecommunication (SWIFT) and subscribed and paid 5030 shares of Birr 1000 per share, in Ethswitch S.C.



**LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

11. PLANT, PROPERTY & EQUIPMENT

<u>COST</u>	<u>BALANCE AT 30 JUNE 2012</u>	<u>ADDITIONS</u>	<u>CURRENCY: BIRR</u>	
			<u>BALANCE AT 30 JUNE 2013</u>	
Motor vehicles	9,244,791	2,952,583	12,197,374	
Furniture and fittings	6,873,994	2,098,569	8,972,563	
Office & other equipment	7,280,353	2,161,236	9,441,589	
IT equipments	11,288,732	2,666,960	13,955,692	
Building premise	4,500,033	-	4,500,033	
	<u>39,187,903</u>	<u>9,879,348</u>	<u>49,067,251</u>	
 DEPRECIATION				
			<u>CURRENCY: BIRR</u>	
			2012	
Motor vehicles	8,757,753	213,088	8,970,841	
Furniture and fittings	2,032,609	801,520	2,834,129	
Office & other equipment	1,994,929	819,509	2,814,438	
IT equipments	3,680,486	1,229,649	4,910,135	
Building premise	292,598	225,002	517,600	
	<u>16,758,375</u>	<u>3,288,768</u>	<u>20,047,143</u>	
NET BOOK VALUE	<u>22,429,528</u>		<u>29,020,108</u>	

12. DEPOSITS FROM CUSTOMERS

Payable on demand		2012	
Private sector	586,339,218	564,152,731	
Public enterprises	3,014,836	7,394,679	
Non bank financial	6,179,566	10,691,561	
Co-operatives & association	19,078,194	6,077,224	
	<u>614,611,814</u>	<u>588,316,195</u>	
Saving deposits			
Private sector	1,163,991,970	943,891,098	
Public enterprise	1,779,539	2,790,502	
Non-Bank financial institution	5,140,261	13,334,689	
Co-operatives & association	111,330,103	88,746,989	
	<u>1,282,241,873</u>	<u>1,048,763,278</u>	
Foreign currency deposits	16,045,274	2,094,712	
	<u>16,045,274</u>	<u>2,094,712</u>	
Time deposits			
Private sector	141,536,656	63,482,398	
Non-Bank financial institution	46,927,876	20,600,000	
Diaspora deposit	4,000,000	5,200,000	
Central government	-	8,000,000	
Public enterprise	500,000	200,000	
	<u>192,964,532</u>	<u>97,482,398</u>	
Total deposits from customers	<u>2,105,863,493</u>	<u>1,736,656,583</u>	



LION INTERNATIONAL BANK SH. CO. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

13. OTHER LIABILITIES

		CURRENCY: BIRR
		2012
Cash payment orders	66,790,272	86,823,587
Blocked accounts	20,726,537	15,853,483
Provision for annual leave	2,937,766	2,117,547
Local transfers payable	16,280,181	13,849,949
Exchange commission	6,426,872	6,866,070
Taxes and stamp duty charges	1,074,992	1,282,192
Miscellaneous payable	41,686,923	1,406,947
Retention payable	15,474	15,474
Retention on foreign currency	14,297,892	6,059,645
Accruals	11,864,462	8,500,375
Others	237,630	131,121
Unearned LG Commission	124,164	3,531,974
Provident & pension fund	79,892	100,660
Foreign transaction payable	2,466,072	4,581,203
Temporary customer account	5,165,121	7,722,854
Other bank cheque	969,286	-
	191,143,536	158,843,081

14. PAID UP CAPITAL

Balance at 30 June 2012	335,968,803	292,650,960
Add: Shares paid during the year	<u>38,967,136</u>	<u>43,317,843</u>
	374,935,939	335,968,803

The banks subscribed capital is birr 432,514,364 and according to commercial code of Ethiopia article 338 a capital subscribed by a share company must be fully paid within five years of its subscription however, as at 30 June 2013 the bank's paid up capital is only Birr 374,935,939.

15. LEGAL RESERVE

Article 13(4) of the licensing and supervision of banking proclamation No. 84/1994 provides that 25% of the net profit after taxation shall be transferred to legal reserve account until the balance reaches the paid-up capital.

Balance at 30 June 2012	39,677,483	20,826,268
Add: Current year reserve	<u>27,824,027</u>	<u>18,851,215</u>
	67,501,510	39,677,483

16. RETAINED EARNINGS

Balance at 30 June 2012	66,079,553	39,444,010
Prior year adjustment	1,799	-
Dividend declared	(50,045,595)	(29,918,102)
Add: Net profit for the year	<u>83,472,079</u>	<u>56,553,645</u>
	99,507,836	66,079,553



**LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

17. INTEREST INCOME

		CURRENCY: BIRR
		2012
Interest on loans and advances	150,562,794	107,615,205
Interest on deposits	24	14,658
Interest on treasury & NBE bills	<u>18,398,779</u>	<u>8,082,065</u>
	<u>168,961,597</u>	<u>115,711,928</u>

18. INTEREST EXPENSES

Fixed deposits	10,799,192	5,551,913
Saving and demand deposits	<u>44,990,710</u>	<u>34,579,791</u>
	<u>55,789,902</u>	<u>40,131,704</u>

19. COMMISSION, FEES AND CHARGES

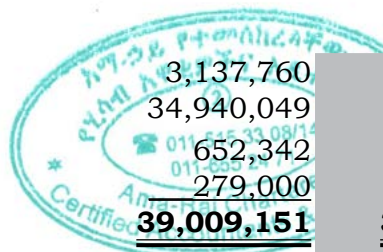
On letter of credit	16,393,277	20,133,124
On letter of guarantee	37,017,818	16,871,517
On local transfers and transactions	<u>7,804,299</u>	<u>8,023,781</u>
	<u>61,215,394</u>	<u>45,028,422</u>

20. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

Gain on foreign exchange	58,484,683	47,926,458
Loss on foreign exchange	<u>(30,628,680)</u>	<u>(21,378,817)</u>
	<u>27,856,003</u>	<u>26,547,641</u>

21. OTHER INCOME

Telephone & telegraph charge	3,137,760	3,032,774
Service charge on L/C, IBC & TT	34,940,049	28,391,627
Others	652,342	900,774
Dividend	<u>279,000</u>	<u>-</u>
	<u>39,009,151</u>	<u>32,325,175</u>



**LION INTERNATIONAL BANK SH. CO.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2013**

22. GENERAL & ADMINISTRATION EXPENSES

		CURRENCY: BIRR
		2012
Deprecation	3,288,767	3,779,171
Inspection & circulation fee	9,171	26,648
Amortization	2,256,407	2,637,907
Office rent	14,470,593	9,885,930
Stationery and printing	2,681,986	2,499,409
Communication	2,591,641	2,950,963
Correspondent charges	26,265	10,771
Advertisement and promotion	3,233,949	2,103,724
Insurance	1,939,235	1,260,856
Repair and maintenance	1,205,373	1,509,449
Fuel and lubricants	573,802	649,583
Traveling & per diem	612,294	426,072
Electricity and water	286,364	231,982
Subscription and membership fees	104,381	103,743
Wages	2,887,473	895,631
Postage expenses	136,278	74,374
License fee	82,201	258,022
Transportation	443,773	257,599
Entertainment	197,322	74,687
Inauguration	42,432	83,010
Cleaning supplies	119,276	75,580
Supplies	241,101	143,903
Others	-	224,213
Maintenance, support & consultancy fee	654,706	257,430
Transportation of currencies	2,363,934	886,242
Legal fees	21,121	27,160
Stamp duty tax	5,085	3,242
Miscellaneous	423,083	44,934
	40,898,013	31,382,235

23. DIRECTORS FEE

Meeting allowance	247,200	244,884
Annual directors fee	500,000	550,000
	747,200	794,884



The annual directors fee represents the maximum limit allowed by the National Bank of Ethiopia on its directive No. SBB/49/2013. However, this fee is subject to approval by the shareholders general assembly.

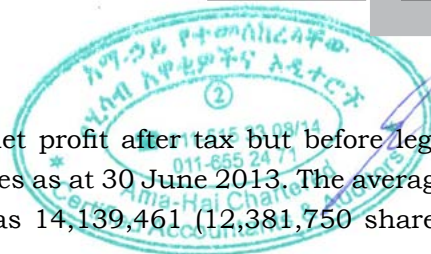
**LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

24. PROVISION FOR TAXATION

		CURRENCY: BIRR 2012
Net profit before taxation for the year	150,597,236	<u>104,704,418</u>
Add: Non-allowable expense		
Depreciation in accordance with bank's policy	3,288,768	3,779,171
Entertainment	197,322	74,687
Provision for doubtful debts other than loans & advance	-	169,926
Amortization of deferred charge as per bank policy	<u>2,256,407</u>	<u>2,637,906</u>
	5,742,497	<u>6,661,690</u>
Less: Allowable expense & deposit income		
Depreciation in accordance with tax proclamation No. 286/2002	5,529,960	4,285,237
Interest income on deposits as per tax proclamation No 286/2002 Article 36, sub Article 3 (Note 17)	18,398,803	1,318,953
	8,096,723	8,096,723
Dividend income taxed at source	279,000	-
Amortization of deferred charge sue as per tax law	<u>1,128,203</u>	1,318,953
	<u>(25,335,966)</u>	<u>(13,700,913)</u>
Taxable profit	<u>131,003,767</u>	97,665,195
Provision for taxation (30%)	39,301,130	29,299,558
Less: Withholding tax	<u>(270)</u>	-
	<u>39,300,860</u>	<u>29,299,558</u>

25. EARNING PER SHARE

Earning per share is calculated by dividing net profit after tax but before legal reserve divided by average number of outstanding shares as at 30 June 2013. The average number of outstanding shares as at 30 June 2013 was 14,139,461 (12,381,750 share as at 30 June 2012) shares of Birr 25 par value.



**LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

CURRENCY: BIRR

26. CONTINGENT LIABILITIES & COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letter of credit, guarantees and acceptance and forward foreign exchange contracts which are designed to meet the requirements of the Bank's customers to ward third parties. Commitments represent the Bank's commitments approved unutilized facilities and other commitments of the Bank.

		2012
Contingent liabilities		
Letters of credit (Note (a))	237,387,628	405,192,342
Guarantees issued (Note (b))	<u>608,593,957</u>	<u>477,832,235</u>
	<u>845,981,585</u>	<u>883,024,577</u>
Contingent liabilities		
Undrawn loans and advances approved but not drawn	<u>9,233,600</u>	<u>32,825,000</u>

Note (a)

The Bank has a lien on the goods imported through letter of credit as the suppliers are required to send shipping documents directly to the bank.

Note (b)

The risk exposure involved in connection with the performance guarantees issued is managed in the following manner.

- The bank has held collaterals and letters of undertaking in respect of most guarantees issued to its customers;
- Concerning guarantees issued on clean basis, upon issuance of guarantees customers are obliged to deposit advance payments and subsequent collections from their clients into a current account maintained with Bank itself under joint control of the Bank and the customer, whereby payments from such a joint account are made with the consent of the Bank and only in respect of related guaranteed contracts.



**LION INTERNATIONAL BANK SH. CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

CURRENCY: BIRR

27. RISK MANAGEMENT

This note provides details of the Bank's exposure of risk and describes the methods used by management to manage such risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and foreign exchange risk.

Credit risk

Credit risk, both on and off balance sheet, is managed and monitored in accordance with defined credit policies and procedures. The credit worthiness of each counterpart is evaluated and appropriate credit limits are established. To reduce individual counter party credit risk the Bank ensures, whenever necessary, that all loans are secured by acceptable forms of collateral. Although the bank has not yet established credit limits across industries and products, it needs to review its credit exposure. The bank loans are diversified against various sectors as shown in Note 5 to the financial statements.

Liquidity risk

Liquidity risk arises in the general funding activities of the Bank and the management of positions. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in appropriate time frame. The bank has a reasonable funding base. Funds are raised mainly from customers' deposits.

Foreign exchange risk

Foreign exchange risks are controlled by maintaining major currencies whose exchange rate against the reporting currency has always been appreciating. The Bank settles foreign exchange transactions of customers at the exchange rate ruling on the date of the transactions. Hence, the customers bear the cost of the increase in exchange rates.

28. MEMORANDUM ACCOUNTS

		2012
Inward bills for collection-acceptance and sight	18,195,904	7,722,54
Outward bills for collection local and foreign	5,165,121	35,415,557

