LION INTERNATIONAL BANK S.C.

Annual Report 2017/18

KEY TO SUCCESS

We ar

to make yo

Enjoy ou

e at your disposal
ur dreams come true!

r Diaspora Mortgage and Vehicle Loan

What's Inside

BOARD OF DIRECTORS

Tassew Woldehanna (Professor)
Chairperson;

Ato Beyene Belay
Chairperson; Audit Sub -committee

Ato Yirga Tadesse
V/Chairperson; & Members of Human Resource affairs

Wro. Nigist W/Selassie
Member; Audit Sub -committee

Hailekiros Gessesse (Ambassador)
Chairperson; Human Resource affairs and Business Development Subcommittee

Wro. Meaza Alemayehu
Member; Audit Sub -committee

Guush Berhane (PhD)
Member; Human Resource affairs and Business Development Subcommittee

Ato Rezene Hailu
Chairperson; Risk and Compliance Management Subcommittee

Ato Haile Berhe
Member; Human Resource affairs and Business Development Subcommittee

Tsegabrhan Mekonen (PhD)
Member; Risk and Compliance Management Subcommittee

Dr. Teweldebrhan Hailu
Member; Risk and Compliance Subcommittee

THE MANAGEMENT TEAM

Ato Getachew Solomon
President

Ato Gebru Meshesha
VP - Corporate Services

Ato Tekie Mekuria
VP - Operations

Ato Aklilu Hayelom
Director-Domestic Banking Service

Wro. Tsebele Hadush
Director - Credit

Ato Daniel Tekeste
Director-International Banking

Ato Hailay Haftu
Director - Business Dev't & Corporate Planning

Ato Shiworkie Belete
Director-Internal Audit

Ato Daniel G/Egziabher
Director - Risk & compliance Management

Ato Solomon Tesfaye
A/Director - Information Technology Services

Ato Gezahegn Dejene
A/ Director - Finance

Wro. Feven Biniam
Manager - Legal Service

Ato Michael Gezae
Manager-HumanResources

Ato Eshetu Fanta
Manager -Engineering

Ato Wondwosen Gashaw
Manager - Property & General Services

MISSION, VISION & VALUES

In as much as we are committed for the shareholders' value, we care for the satisfaction of the public's, partners', and employees' needs through service excellence, innovation, passionately focused team, sustainable practice, and providing diversified banking services to our patrons globally.

" To be the leading Bank in Ethiopia by 2035"

Integrity
Teamwork
Diversity
Social Reponsibility
Innovation & learning organization
Customer Satisfaction
Employee Satisfaction

MESSAGE FROM THE BOARD CHAIRPERSON

On behalf of the Board of Directors and my own, it is my pleasure to present the annual performance report and audited financial statement of Lion International Bank S.C. (LIB) for the year ended June 30, 2018.

The financial year under consideration was an eventful year filled with both remarkable achievements and challenges for the bank. The year 2017/18 was overshadowed by a flux of socio-economic and political events. The widespread civil unrest, the poor performance of the export sector, and the subsequent chronic shortages in foreign currency were among the major challenges that left the banking business in stringent circumstances.

On the other hand, despite these challenges, the sustained growth in the level of local deposits was an opportunity for the Banking business. This has enabled banks to increase their volume of loan disbursement and financing of business enterprises.

Despite all the challenges, Lion International Bank has managed to register remarkable growth in its key performance indicators. The Bank has registered a profit of Birr 390.8 million after tax, up by 69 percent from the previous year's performance. With respect to earnings per share (EPS) the bank has earned Birr 7.51 per share, which grew by 30 percent over the preceding year.

Moreover, the Bank has mobilized Birr 2.8 billion during the financial year, raising the outstanding total deposits to Birr 11.6 billion, reflecting a growth rate of 32 percent from the previous year. Total asset of the Bank has grown to Birr 14.3 billion, 31 percent higher than the preceding year; while total liability stood at 12.5 billion, which grew by 31 percent over the preceding year. Besides, the capital and reserve of the Bank has reached Birr 1.8 billion, a 30 percent increase from the previous year. The paid-up capital has also reached Birr 1.18 billion, witnessing a growth of 26 percent from the preceding year.

With a focused move to finance our esteemed business partners, our Bank has managed to disburse loans and advances of Birr 2.99 billion which raised the total outstanding loans balance to Birr 7.56 billion, registering 36 percent increase from the preceding year's performance. The Bank has been able to maintain the non-performing loans to total loans ratio (NPLs) at 3.14 percent, which is below the industry average for the year and the National Bank of Ethiopia's (NBE) five percent requirement.

Our Bank was able to prudently manage the hurdles and ensure sustained growth in operational and financial performances. The role of the Board and the management in vigilantly monitoring the situation and setting sound strategic directions to overcome the challenges was estimable. The dedication, commitment, and the right set of strategies put in place have contributed for the successes the bank has achieved in this rather challenging year for the sector. These were of course impossible without the enormous support and solid business relationships that the bank has established with its esteemed customers. As always, the bank highly regards and recognizes the continued business relationships and support that it received from its valued customers.

Once again, the growth in operational and financial performances was consistent with the milestones set in the bank's strategic plan. As mentioned above, successes did not however come without strong commitment and dedicated leadership. Strategic decisions were made to mitigate the challenges faced during the financial year. Hence, potential gaps have been promptly managed. The Management has exerted concerted efforts to mobilizing local deposits and carefully managing resource allocations. Efforts were also made to enhancing accessibility of the bank to customers through branch expansion and alternative channels like agency banking, Lion-Hellocash and carding banking services. Our branches have reached 190 during the end of the reporting period. Enhancing the accessibility of the bank to customers has contributed to the success.

In line with this, the Board of Directors has taken steps to strengthen corporate governance and institutional capabilities. To endure the growth of the bank and cope-up with the changes in the market, the Board has revised the organizational structure that served the bank for the last 10 years. The revised structure has expanded the positions for Vice Presidents from two to four, and Departments from 8 to 14, while Regional Coordination Offices rose to three. To make the bank's progress more resilient in the years to come and achieve its strategic goals, key strategic investments have been made in areas of information technology and human capital development.

The bank has also strengthened its risk management frameworks, and internal control systems to ensure ongoing compliance with regulatory requirements and internal policies and procedures. Understanding that effective risk management protects and benefits all stakeholders, the Board has made several important changes to this area of the bank so that risks are properly identified, evaluated, and measured. In this regard the Risk Management, Audit, and HR Affairs & Business Development Sub Committees established by and from among the Board have played significant roles to ensure that risks are well managed and the bank's corporate governance is in place.

I would assure you that the solid performance and growth achieved in the just ended financial year comes from an increased focus towards risk management and enhanced service delivery systems. The Board recognizes the need to further strengthening the oversight and risk management practices in the years to come. Our Board is committed to meeting the expectations of our regulators and protecting the interests of our shareholders, and serving our customers, and communities.

With all the concerted efforts and coordinated moves of the Board, the management and the employees of the bank, I am confident that, next fiscal year is going to be one of another success for the bank, our shareholders, and our esteemed customers. The Board will continue to have great roles in the long-term success of the bank.

On this occasion, the Board highly appreciates the commitment, relentless efforts, and belongingness of employees of the Bank. On behalf of the Board, I would like to say thank you for the results you achieved during the year!

I would also like to take this opportunity to extend my sincere gratitude to our customers. All our efforts are to maximize your satisfaction and meet your utmost expectations through efficient and quality banking services. The Board also recognizes the unparalleled endeavors made by the management, the staff, and stakeholders.

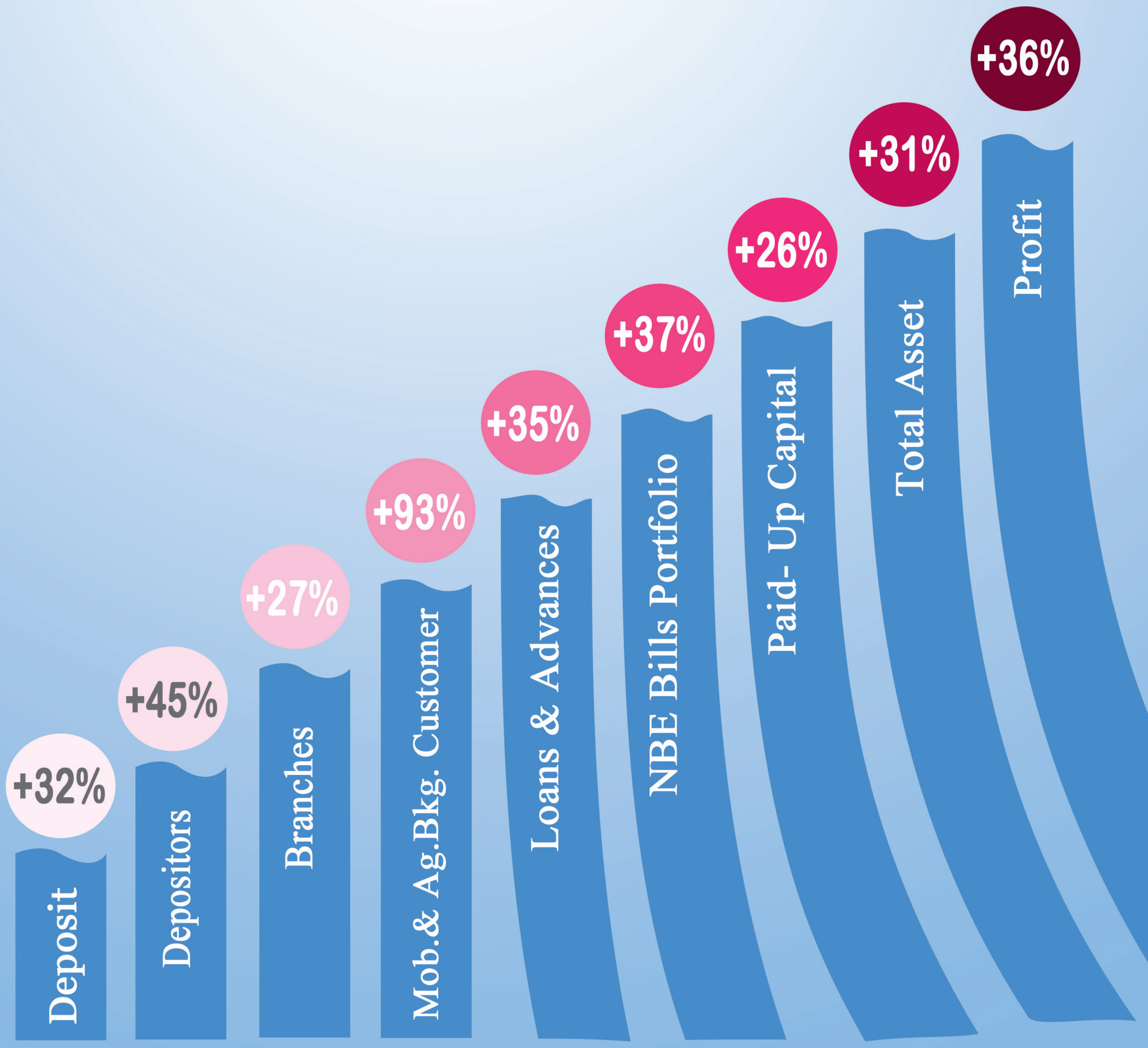
I would like to express my heartfelt gratitude to you all. I would also like to extend my gratitude to the National Bank of Ethiopia (NBE) and the Financial Intelligence Center (FIC) who have been supportive in all our moves and I would like to thank them for their fruitful engagements and collaborations.

Thank you.

Tassew Woldehanna (Prof.)
Board Chairperson

Growth at a Glance

Against Last Year Same Period



DIRECTORS' REPORT

The Board of Directors is pleased to present the Annual Report and Audited Financial Statements of the Bank for the fiscal year ended on June 30, 2018 to the 14th Annual Shareholders' General Meeting of the Bank. The annual report comprises summary of major operational, financial and non-financial performance achievements of the Bank recorded during the reporting period.

In the financial year 2017/18, Lion International Bank (LIB) has achieved a commendable results and progress in light of key financial and non-financial performance indicators as well as application of resources. This strong performance is attributable to the far sighted leadership of the Board and versatile actions of the Management, including relentless efforts of employees, shareholders, and customers that enabled the Bank ensure sustainable progress. Once again, the Bank has remained resilient amid the multifaceted challenges faced during the financial year and prompts a better prospect for the year to come.

Meanwhile, it is recalled that Ethiopia passed a financial reporting law in 2014 which requires the use of International Financial Reporting Standards (IFRS), which is a globally recognized set of Standards, by commercial businesses operating in Ethiopia under Proclamation No. 847/2014. Thus, Lion International Bank S.C. including all commercial banks have fully adopted IFRS and reported financial information to users since June 30/2016 as per the standards. In effect, it has been required to convert/ reproduce the previously issued Statement of Financial Position (SOFP) as of June 30/2016 and all the financial statements of 2016/207 as per the prescription of IFRS In addition, 2017/2018's statements have been prepared in line with IFRS as well.

On due course of the conversion/reproduction process, due to the fact that adjustments have been made on the previous financial statements, some data might have been affected. We, therefore, cordially remind our readers to consider the case if any discrepancy happens regarding previous years' data.

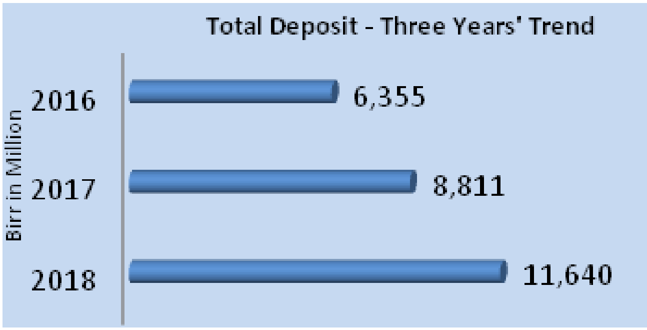
1. OPERATIONAL PERFORMANCE HIGHLIGHTS

The financial year 2017/18 reflects the best ever performance and consistent growth of the Bank in all operational areas. This performance is the result of comprehensive efforts exerted to mobilize local and foreign currency deposits, allocate funds to loans and advances, and secure foreign exchange funds for businesses in need of the resource:

1.1. Deposit

At the year-end, total deposits of the Bank reached a record high of Birr 11.6 billion, witnessing growth of 32 percent over that of the prior year. From the remarkable net mobilized Birr 2.8 billion in the financial year, the lion's share (81 percent) has come from saving deposits; which is a stable source of funds with relatively predictable costs, while, demand and time deposits held the remaining. The integrated approach and concerted effort of the bank has played the vital role in enhancing the deposit position that enabled it to ensure market share of 4.2 percent from all private banks.

The successful deposit mobilization endeavor was backed by the Bank's aggressive resource mobilization strategy, founded on widening customer base. On the back of increased market outreach, the Bank's customer base exhibited a robust growth of 45 percent over that of the preceding year. The number of total depositors of the Bank reached 590,637; of which 93 percent are saving depositors. This indicates that the Bank's deposit structure is firmly based on stable resource.

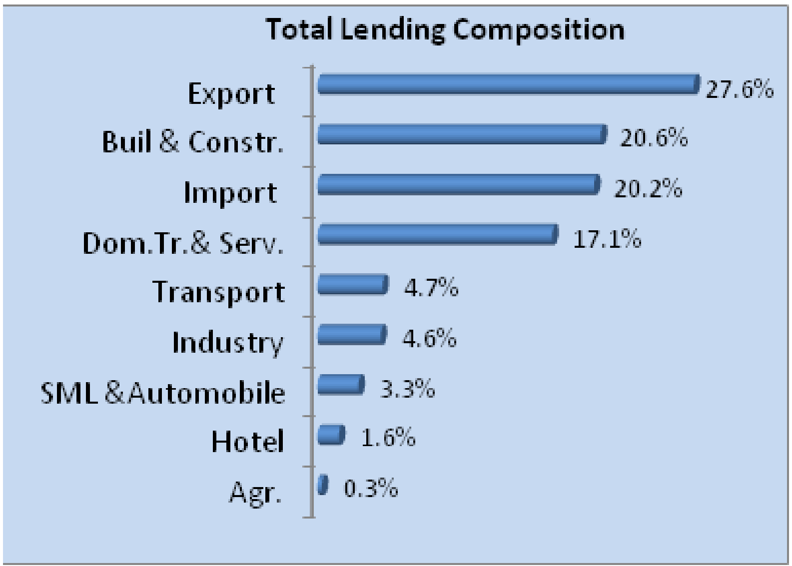


1.2. Credit Management

Parallel to the increase in deposit resources, the total outstanding loans & advances of the bank grew by 36 percent and reached Birr 7.56 billion over the preceding year's balance of Birr 5.57 billion. Excluding the amount invested in the form of NBE bills, the loan to deposit ratio of the bank at the end of the year used to be 65 percent.

In terms of diversification, the loan portfolio of the Bank was distributed across all sectors of the economy. The bank has financed sectors ranging from agriculture to industry, and from export/ import related to domestic trade and service in order to maintain healthy allocation of resources. Hence, loans and advances availed to Export accounted the major share of 27.6 percent, followed by Building and Construction (20.6 percent), Import (20.2 percent), Domestic Trade and Services (17.1 percent). The remaining 14.5 percent accounted for other sectors.

Despite the notable growth in the gross lending, the bank's policy to monitor the credit portfolio by identifying early warning signals and enhancing focus towards reviving defaults has helped it maintain non-performing loans at a ratio of 3.49 percent, much lower than the regulatory limit of 5 percent and that of most of the peer banks.



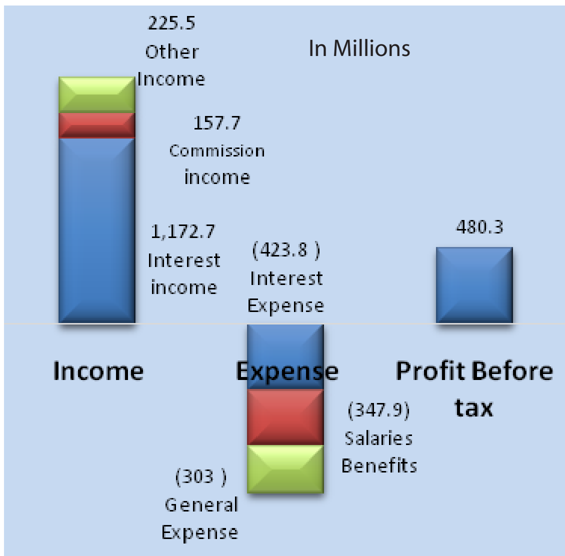
1.3. International Banking

The financial period under review was a year that the country's economy experienced pressure on foreign currency earnings, adversely affecting the performance of private banks in particular. Thus, LIB, coping with the global financial environment and the focus to make the most out of the available resource in the local context, the international banking operations has been able to generate 117.8 million U.S. Dollars during the financial year under review. The emphasis that was given for export has enabled the Bank to generate the major share (77 percent) of the total foreign currency inflow.

Lion International Bank has so far established business relationship with 13 international money transfer operators and currently a deal has been concluded to commence remittance service with RIA Financial Inc. Furthermore, the Bank has maintained correspondent banking relationship with five banks across the globe.

2. FINANCIAL PERFORMANCE HIGHLIGHTS

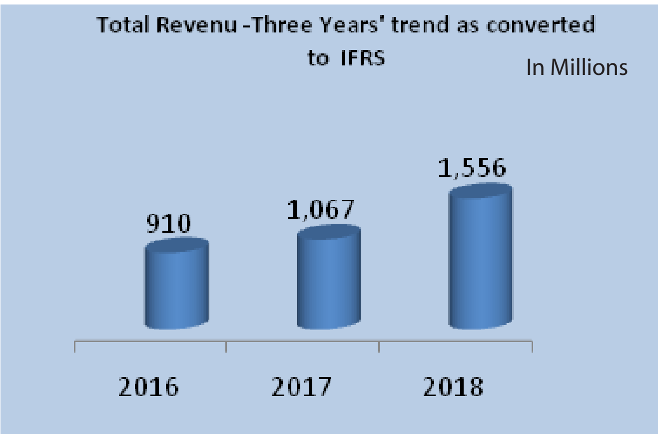
The financial performance of Lion International Bank for the financial year ended 30th June 2018 was so remarkable as the Bank has been able to registered the highest record of growth in revenue and profits. The Bank's financial performance in 2018 is characterized as commendable enough.



2.1 Revenue

Efficient management of the available resources has been the driving principle of the bank for the past consecutive years. At the end of the financial year, the total revenue of the bank was registered as an all time high record of Birr 1.56 billion, up by 46 percent over that of the previous year (Birr 1.07 billion). The increase in total revenue is mainly attributed to interest and commission incomes.

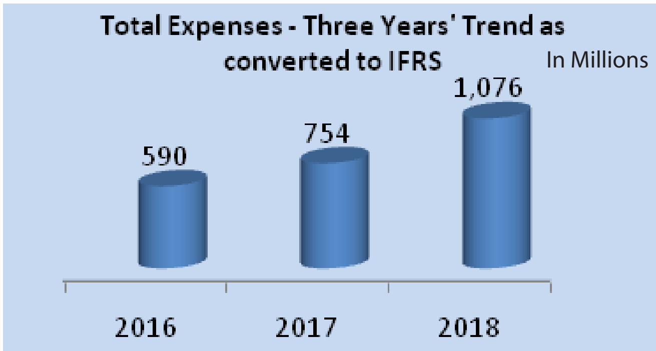
To remain resilient and absorb the impact of the multiple external challenges occurred during the year and keep the growth in motion, the bank kept on tapping its prime earnings (75 percent of the total income) from interest income, while the remaining 25 percent goes to commission, foreign exchange income, and other incomes. Total interest income accounted for Birr 1.17 billion, remaining as the major component of earnings, on the back of increased lending activities. The non-interest income accounted for Birr 383.2 million that mainly constituted by commission income and service charges.



2.2 Expenses

During the financial year, the bank has invested on financial, physical and human resources to generate the aforementioned revenue. Accordingly, the total expense of the Bank went up to Birr 1.08 billion, exhibiting a 43 percent increment over the previous year's level of Birr 753.7 million.

Out of the total operating expenses, non-interest expense including salaries & benefits and general expenses constituted 61 percent of the total; while the remaining 39 percent spent on interest expenses. The increase on non-interest expenses was mainly resulted from aggressive branch expansion and the subsequent increase in workforce of the bank. The soaring office rentals have also exacerbated the general expenses.



2.3 Profit

During the financial period, the bank registered the highest ever profit before tax and legal reserve of Birr 480.3 million with 54 percent increment over the previous year's Birr 312.8 million. The overall increment of the profit after tax Birr 390.8 million, is higher by 69 percent from the preceding year; and the surge in paid up capital by 26 percent resulted earnings per share to stand at Birr 7.55 that grew by 31 percent over the last year's EPS of Birr 5.78.

2.4 Assets

At the end of June 30, 2018, the asset size of the Bank scored Birr 14.3 billion, exceeding the preceding year's level by Birr 3.4 billion or 31 percent. The growth in assets is attributed mainly to the increase in loans and advances coupled with deposits with foreign banks and NBE bills purchased. Outstanding position of NBE bills stood at Birr 3.31 billion at the end of the financial year, up by 37 percent the preceding year's, reflecting the increase in fresh loans disbursement.

2.5 Capital

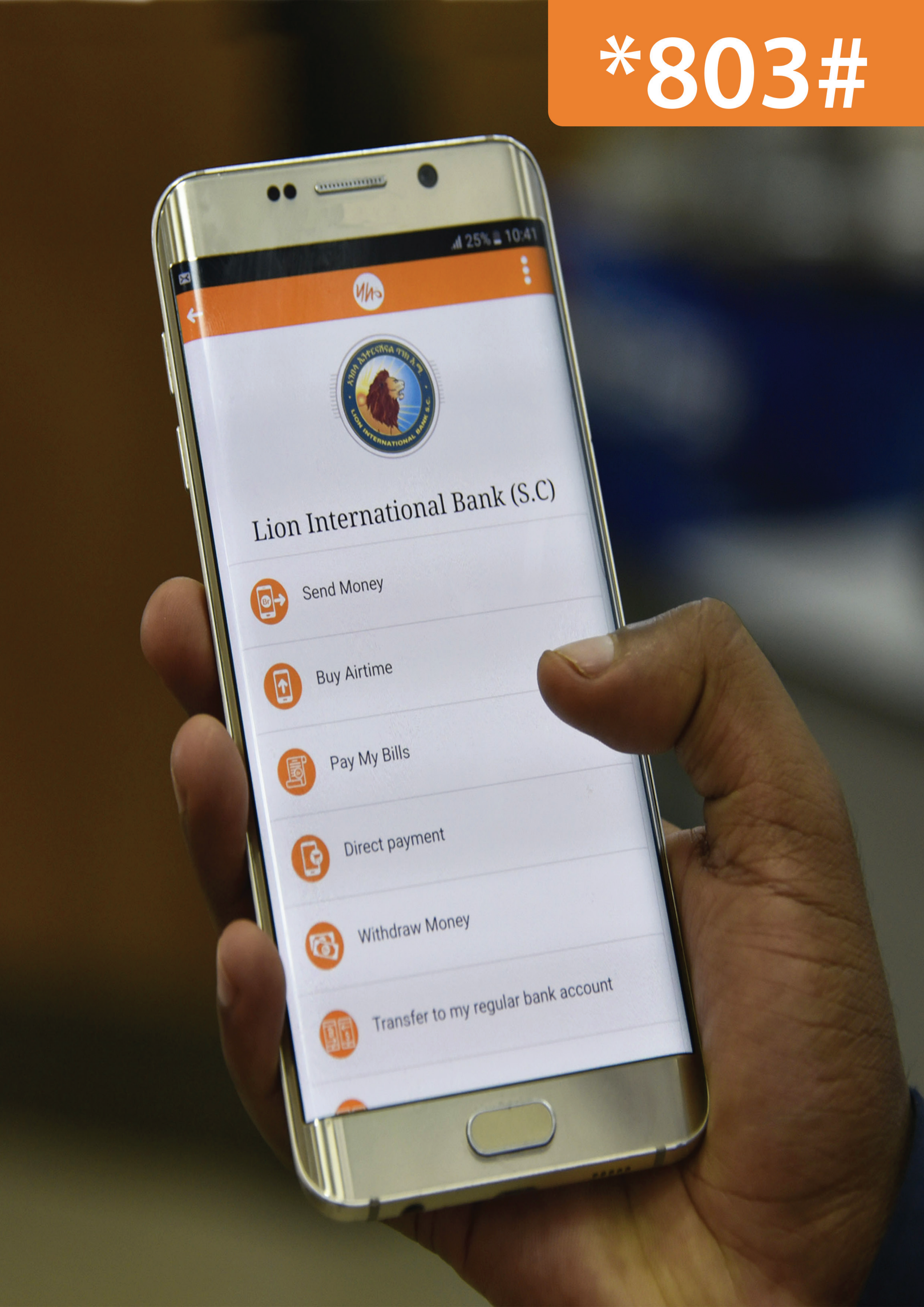
By the end of the financial year, the total capital and legal reserve of the Bank reached Birr 1.81 billion, reflecting a 30 percent growth year-on-year. Paid up capital of the Bank rose to Birr 1.2 billion as at end of June 2018, depicting a growth of Birr 246 million or 26 percent as compared with that of the last year same period. In order to fulfill the National Bank of Ethiopia's minimum paid-up capital requirement of Birr 2 billion by the end of June 2020, and to attain Birr 3 billion paid up capital as per the resolution of the 5th Shareholders' Extraordinary Meeting, the Board of Directors has set directions and schedules to sell new shares to existing shareholders and new buyers.

2.6 Balance Sheet

The balance sheet of the bank has exhibited a 31 percent increment in total asset during the year, rising from Birr 11.0 billion to Birr 14.3 billion. The outstanding balance of loans and advances accounted for 52 percent of the total assets structure; while NBE bill was 23.1 percent of the total assets. The total outstanding balance of NBE bills has reached Birr 3.31 billion, up by 37 percent over the previous year's standing of Birr 2.42 billion. This total amount was 28 percent of the total deposits and 45 percent of the total loans & advances of the bank. The 24 percent liquid asset to current liability ratio indicates that the bank has been better in converting the cash from various sources into return, and thus resilient enough to meet its obligations.

The growth of liabilities, in which 93 percent of the total amount belongs to customers' deposits, is the reflection of the notable efforts exerted in fund mobilization. By the end of the year, the total liabilities of the bank stood at Birr 12.5 billion, with 31 percent growth over the year.

The total paid up capital Birr 1.2 billion covers 65 percent of the total capital & reserve; while legal reserve and retained earnings jointly made up the remaining amount. The capital adequacy ratio of the bank stood at 16.57 percent, well above the minimum regulatory requirement of 8 percent, still reflecting the notable strength of the bank in progressively taking reasonable risks for matched returns.


*803#
Lion International Bank (S.C)
Send Money
Buy Airtime
Pay My Bills
Direct payment
Withdraw Money
Transfer to my regular bank account

3. ORGANIZATIONAL DEVELOPMENT

3.1. Human Capital Management

To ensure rapid growth and consistent quality services, working on human capital is vital for the Bank. The success of the Bank highly depends on the quality of its human resources; hence, the Bank continued upgrading the knowledge and skill of its human resource through programmed training and development.

In this regard, the Bank offered 56 short-term skill upgrading trainings to 3,023 clerical staff focusing on topics ranging from critical operational aspects to the contemporary digital financing to issues that determine the next strategic move of the bank such as system security, leadership, service excellence and compliance. On top of that, the Bank has sponsored 47 employees to pursue higher education including graduate programs on various business fields.

During the financial year, the Bank invested 2 percent of its recurrent expenditure on staff training and development.

The Bank, to effectively bring the new recruits onboard, has undertaken various successful induction and awareness creation sessions. The bank has a team of committed, self-motivated and empathic workforce, who strive to exceed customers' expectations. Hence, the team Lion is invaluable asset and the biggest driver of the commendable performance of the bank.

During the reporting period the size of the permanent employees reached 1,829, growing by 20 percent over the year. The Bank has also created opportunity for a total of 1,756 out sourced (non-permanent) employee from external agencies that made up a total of 3,585 employees. The size of permanent staff is 51 percent of the total workforce; while outsourced employees constituted the remaining 49 percent of the total.

3.2. Reaching Out Partners

Lion endeavors in serving its clients that got acquainted over the years with respect, excellence, loyalty and alternate choices. This is the culture that tunes the overall rhythm of reaching out communities it has yet to reach. Accordingly, the bank has been serving and will continue to do so for its potential customers via physical presence and alternative channels that would no longer compel people to physically visit branches to deal with their business.

3.2.1. Branch Expansion

With distinguished services, tailored to support the needs and wants of stakeholders at community and individual level, small businesses, medium and big investments; based on sound feasibility study, Lion has opened 40 new branches across the country, raising the total number of branches to 190. On top of that, the bank through its contemporary physical outlets shall carry on the endeavor of creating access and convenience to the public.

3.2.2. Anbesa-Hellocash Agency Banking

The past three years, LIB, using Lion-Hellocash agency banking services, has brought a new dynamism to the market; a service that provides banking facility to customers without physical presence and need to carry cash, with reliability equivalent to branch service.

Since the commercial launch of the service, the bank has been expanding the packages it is offering to customers. Lion-Hellocash basically provides services related to deposit, withdrawal, mobile money transfer, cash-in, cash-out, bill payment, mobile airtime top-up and others.

Anbesa-Hellocash service has been able to facilitate average transactions of Birr 40 million-value per quarter to customers including local and international organizations. Recently, on top of the regular service, the bank is facilitating a Value Fresh Food Voucher Program Payment Service to the World Food Program (WFP) projects at Amhara region and payroll payments to health workers under the United Nations Office for Project Service (UNOPS).

During the financial year 2017/18, the bank was able to increase the number of agents to 1,686, and to raise the number of customers' to 143,740. The Bank has also facilitated transactions of above Birr 160 million. To further expand the service, the Bank is introducing additional bill payment facility using QR (Quick Response) technology. QR codes store information in two dimensions and are designed to be read by a mobile phone camera. Thus, Lion-Hellocash customers using a Hellocash personal application (app) can make payments for the products and services they purchased from supermarkets, gas stations, or any service provider.

Moreover, Lion Bank has now integrated the Core Banking System (CBS) with the Helocash service. Lion-Hellocash customers, using *803#, can easily log into the service and transfer fund from their CBS regular account to Lion-Hellocash and vice-versa, including transferring fund from Hellocash account to third party CBS or Hellocash account By the end of the financial year, 8,148 (eight thousand one hundred and forty-eight) customers have successfully linked their regular account to Hellocash mobile account.

3.2.3. Card Banking

During 2017/18 financial year, the Bank has added additional 20 new ATM's to the market and distributed 14,408 Lion Cards that raised the number of ATMs to 29 and number of Lion cardholders to 26,000. As far as card banking is concerned, a total value of Birr 164 million transactions was processed.

3.2.4. Internet Banking

The bank has been diligently working to exceed the expectation of customers and enhance their convenience by deploying technology based delivery channels, mobile and internet banking. Primary activities are underway for the pre-launching project of the internet banking service.

3.2.5. Banking Transaction - Notification System

Customers need to be connected to their account information in real-time. The SMS alert gives notification upon cash withdrawal or deposit, loan disbursement, chque clearance, direct debits or credits, loan repayment and remittance.

Existing customers are already signed up for the service with their existing respective accounts or will instantly be part of the service as soon as one opens account in any of LIB branches. By texting SMS 'Reg' to 8813 customers can be registered in the system to have access to account balance, mini statement and foreign exchange enquiry. With this they will have one more choice to manage their accounts and investments without being physically to branch offices.

4. RISK MANAGEMENT

Risk Management is at the heart of Lion International bank's operation and it endeavors constantly to improve its risk management framework. The Board of Directors is responsible to ensure effective risk management in the Bank, where it has defined appropriate risk governance structures and practices by establishing specialized Board Sub-Committees namely: Audit, Risk Management, and HR Affairs and Business Development committees. These specialized committees are fully mandated by the Board to periodically review the bank's operation and reinforce 'the tone at the top'.

Understanding effective risk management protects and benefits all stakeholders. In this regard, in order to maintain strong corporate risk management in the Bank, the Board and senior management have developed and implemented Risk Management Framework and Risk Management Program. The Risk Management Framework and Program are fully integrated into the bank's overall risk management processes.

Accordingly, the Board periodically reviews the internal audit and risk management reports and regularly oversees senior management's actions to ensure the policies, processes and systems are functioning effectively at all decision levels. The risk appetite and tolerance limits approved and reviewed by the Board are also major tools of the operational risk management function.

Hence, at the end of 2017/18 budget year, the bank was in compliance with its defined risk appetite. All regulatory requirements were fulfilled in conformity with those stipulations to protect the bank, and conventional risk measures show that the risk inherent in the bank's operations is well managed.

5. WAY FORWARD

LIB is undertaking ongoing projects on core-banking upgrading. Most of the projects are finalized and some expected to be finalized during the upcoming financial year. The upgrade will enhance customer service; improve management information system and overall synchronization of operational activities of the Bank.

Implementation of Internet Banking service is one of the major projects to be finalized in the upcoming year. Our Card Banking Phase II project is under way. Mandatory six products have been successfully tested and passed the national requirement. Currently card banking services like fund transfer to own account, fund transfer to other account within LIB, and access to mini statement will be operational in the 2018/19 FY.

Hello-Cash interoperability with other banks is another project that the bank is working on. Following the NBE's direction, the Bank is working on enhancing the interoperability of Lion hello-cash services among hello-cash user banks through the ETH-Switch platform. The service will provide our hello-cash customers access to easily make fund transactions with people who are customers of other banks.

During the upcoming financial year, investment on human capital is expected to intensify. Technical skill upgrading focused on short-term trainings and educational assistance to employees to pursuing higher education in graduate and undergraduate programs will continue.

The bank to endure the strategic shift it is carrying out, cope up the present market changes, and ensure efficient and competitive services it has redesigned the organizational structure. Accordingly, the redesigned structure, which is to be implemented soon, will uplift the positions of Vice Presidents from two to four, Departments from 8 to 14, and Regional Coordination Offices to three. The new organizational structure is believed to enhance effectiveness of the management by stretching out its capacity, and utilizing the utmost competence of employees.

Preparation is underway to construct a 2B+G+15 Regional Coordination Office building at Mekelle town. A consultant has been hired and the preliminary technical works like soil test, topographic surveying, preliminary design development and other related activities are ongoing. Selection of contractor and preliminary construction work will begin on the upcoming fiscal year. Simultaneously, Preparation is also underway to purchase a building for Head Quarter at Addis Ababa.

The overall comprehensive initiatives of the bank are expected to strengthen the growth momentum to sustain a commendable performance; and reinforce competency, earning capacity, asset quality, and efficiency of the Bank.

Board of Directors
June 30, 2018

Enjoy our Fast and Reliable Service

AUDITORS' REPORT

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

License for the Banking Business
Banking Business Proclamation No. 84/1994

Directors *(As of June 30, 2018)*

Tassew Woldehanna Kahsay (Prof.)	Chairperson	(Appointed 29/10/2016)
Yirga Tadesse Matewos	Vice Chairperson	(Appointed 29/10/2016)
Rezene Hailu W/Gebriel	Non-Executive Director	(Appointed 29/10/2016)
Beyene Belay Berhe	Non-Executive Director	(Appointed 29/10/2016)
Guush Berhane Tesfay (Dr.)	Non-Executive Director	(Appointed 29/10/2016)
Hailekiros Gssesse Tedla (Ambassador)	Non-Executive Director	(Appointed 29/10/2016)
Haile Berhe Kinfe	Non-Executive Director	(Appointed 29/10/2016)
Meaza Alemayhu Fissha	Non-Executive Director	(Appointed 29/10/2016)
Nigist W/Selassie Gebrekiros	Non-Executive Director	(Appointed 29/10/2016)
Teweldebrhan Hailu Abrha (Dr.)	Non-Executive Director	(Appointed 29/10/2016)
Tsegabrhan Mekonen Wubie (Dr.)	Non-Executive Director	(Appointed 29/10/2016)

Executive Management (As of June 30, 2018)

Getachew Solomon Gessesse	President	(Appointed 23/10/2014)
Tekie Mekuria Dinku	VP- Operation	(Appointed 02/02/2015)
Gebru Meshesha Kahsay	VP-Corporate Services	(Appointed 29/06/2013)
Aklilu Hayelom Godefay	Director - Domestic Banking Service Department	(Appointed 08/10/2014)
Tsebele Hadush G/Giorgis	Director - Credit Department	(Appointed 08/10/2014
Daniel G\Egziabher Teferi	Director - Risk and Compliance Management Department	(Appointed 10/10/2016)
Sheworkie Belete Woldeyes	Director - Internal Audit Department	(Appointed 01/07/2013)
Gezahegn Dejene Haile	Acting Director - Finance Department	(Appointed 26/10/2017)
Daniel Tekeste Kidane	Director - International Banking Department	(Appointed 07/11/2015)
Hailay Haftu Abreha	Director - Business Development and Corporate Planning Department	(Appointed 13/12/2016)
Solomon Tesfaye Hailemariam	Acting Director - Information Technology Department	(Appointed 25/06/2015)
Feven Binyam Kelem	Manager - Legal Service Division	(Appointed 25/10/2016)

Independent auditor

AMA-HAI Chartered Certified Accountants & Auditors
Chartered Certified Accountants
Meskel Flower Road,Aster Surafel Building 2nd Floor, Room No. 205
Tel- +251-11-6552471/251-11470 0388/96,
Fax-251-11-470 0394, Po.Box-13735
Addis Ababa,Ethiopia

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

Registred office

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Tel-(+251) 11 662 60 00/60
Fax: (+251) 11 662 59 99
P.O.Box: 27026/1000
E-mail: info@anbesabank.com
Website:- www.anbesabank.com
Addis Ababa, Ethiopia

Principal bankers

National bank of Ethiopia
Sudan Avenue, Addis Ababa, Ethiopia
Tel:+251-11 551 7430
Fax:+251-11 551 4588
P.O.Box : 5550
E-Mail: nbe.edpc@ethionet.et
Website:-www.nbe.gov.et
Addis Ababa, Ethiopia

Enat Bank S.C

Infront of Yordanos Hotel, Enat Building, Addis Ababa, Ethiopia
Tel:+251-11 515 8274
Fax:+251- 11 515 1338 / +251- 11 550 4948
P.O.Box : 18401
E-Mail:info@enatbanksc.com
Website:www.enatbanksc.com
Addis Ababa, Ethiopia

Bunna International Bank S.C

Arat Killo (Near Berhanenaselam Printing Press), Addis Ababa, Ethiopia
P.O.Box : 1743 Code 1110
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E-Mail: info@bunnabanksc.com
Website:-www.bunnabanksc.com
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United Bank S.C

Kirkos sub-city, Sierra Leone St, Mekwor Plaza Building, Addis Ababa, Ethiopia
Tel: +251-11 465 5222 / +251-11 465 5240
Fax:+251-11 465 5243
P.O.Box:19963
E-Mail:hibretbank@ethionet.et
Website:www.unitedbank.com.et
Addis Ababa, Ethiopia

Bank of Abyssinia

Legehar Own HQ Buildling, Addis Ababa, Ethiopia
Tel: +251-11 551 4130 / +251-11 558 3667
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E-Mail: abyssinia@ethionet.et
Website:www.bankofabyssinia.com
Addis Ababa, Ethiopia

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

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Xicheng District, Beijing,
Beijing Province 100818
Tel: (86) 010-66596688
Fax: (86) 010-66016871
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E-mail: Citibank@shareholders-online.com
Website: www.boc.cn
Beijing, China

Bank of Africa /Djibuti/
10 place Lagarde - BP 88 - Djibouti
Phone : (253) 35 30 16
Fax : (253) 35 16 38
E-mail: secretariat@boamerrouge.com
Website: www.boamerrouge.com
Djibouti,Djibouti

CAC International Bank
HO, Djibouti, De Marsile St.
Tel: 00253 21 35 63 63,00253 21 35 10 29
Fax: 00253 21 35 67 55
P.O. Box:1868
Email: info@cacintbank.com
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E-mail: info@commerzbank.com
Website: www.commerzbank.com
Frankfurt, Germany

Bank of Beriut (USD)
Foch street, Beirut Central District, Beirut
Head Office, Riyad El Solh Street
Tel No. +961 1 972972, +961 1 983999,+9613188661
Email:beirut@arabbank.com
Web site: www.bankofbeirut.com
Beirut, Lebanon

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

The Board of Directors submit their report together with the financial statements for the year ended 30 June 2018, to the members of Lion International Bank S.C. ("Lion Bank or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

Lion International Bank S.C was established in Ethiopia on 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.

Principal activities

The Bank`s principal activity is commercial banking.

Results and dividends

The Bank's results for the year ended 30 June 2018 are set out on statement of profit or loss and other comprehensive income. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	30 June 2018 Birr'000	30 June 2017 Birr'000
Net operating income	1,032,816	748,076
Profit / (loss) before tax	480,331	312,838
Tax (charge) / credit	(89,566)	(81,209)
Profit / (loss) for the year	390,766	231,629
Other comprehensive profit / (loss) net of taxes	(16,680)	922
Total comprehensive profit / (loss) for the year	**374,086**	**232,551**

Directors

The directors who held office during the year and to the date of this report are set out on directors and professional advisors section of this report.

Tassew Woldehanna (Prof.)
Chairperson, Board of Directors
Addis Ababa, Ethiopia

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

"The Commercial Code of Ethiopia, 1960 and the Banking Business Proclamation No. 592/2008 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the financial year and of the operating results of the Bank for that year. The Directors are also required to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Bank's president is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards (IFRS) adopted by the Government of Ethiopia and in the manner required by the Commercial Code of Ethiopia of 1960, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Bank is required to keep such records as are necessary to:"

a) exhibit clearly and correctly the state of its affairs;

b) explain its transactions and financial position; and

c) enable the National Bank to determine whether the Bank had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation the aforementioned Proclamation.

The Bank's president accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, Banking Business Proclamation, Commercial code of 1960 and the relevant Directives issued by the National Bank of Ethiopia.

"The President is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.

The President further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control."

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

Signed on behalf of the Directors by:

Tassew Woldehanna (Prof.) Chairperson, Board of Directors 30 October 2018	Getachew Solomon (Ato) President 30 October 2018

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Ama - Hai Chartered Certified Accountants & Auditors

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LION INTERNATIONAL BANK S. C.

Opinion

We have audited the accompanying financial statements of Lion International Bank S. C. which comprise the Statement of Financial Position as of 30 June 2018 and the related Statement of Profit & Loss and Other comprehensive income, Statement of Change in equity and Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of Lion International Bank S. C. as of 30 June 2018 and of its financial performances and 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. Our responsibilities under those standards are further described in the Auditor's responsibility 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) together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Email: haigeb2004@yahoo.com
amanuel.bahta@yahoo.com.

Mesekle Flower Road, Aster Surafel Bld 2nd floor, Room No. 205

Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the audit of 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 decision of users taken on the basis of these financial statements.

Reporting on other legal requirements

As required by the Commercial Code of Ethiopia, based on our audit we report as follows:

i) Pursuant to Article 375 (1) of the Commercial Code of Ethiopia 1960 and based on our review of the board of directors' report, we have not noted any matter that we may wish to bring to your attention;

ii) Pursuant to article 375 (2) of the Commercial Code of Ethiopia we recommend the financial statements for approval

Addis Ababa

October 30, 2018

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Chartered Certified Accountants

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000
Interest income	5	1,172,711	775,377
Interest expense	6	(423,825)	(240,712)
Net interest income		**748,886**	**534,665**
Fee and commission income	7	157,675	137,993
Fee and commission expense	7	-	-
Net fees and commission income		**157,675**	**137,993**
Net foreign exchange income	8	53,080	50,478
Other operating income	9	123,575	78,286
Total operating income		1,083,216	801,422
Loan impairment charge	10	(50,092)	(53,348)
Impairment losses on other assets	11	(308)	2
Net operating income		1,032,816	748,076
Employee benefits	12	(347,852)	(257,104)
Amortisation of intangible assets	19	(4,261)	(1,722)
Depreciation of property and equipment	20	(20,772)	(16,908)
Other operating expenses	13	(179,599)	(159,504)
Profit before tax		480,331	312,838
Income tax expense	14	(89,566)	(81,209)
Profit after tax		390,766	231,629
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations	23	(16,680)	922
Deferred tax (liability)/asset on remeasurement gain or loss			
		(16,680)	922
Total comprehensive income for the period		**374,086**	**232,551**

The accompanying notes are an integral part of these financial statements.

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Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
ASSETS				
Cash and balances with banks	15	3,018,746	2,678,906	1,835,337
Loans and advances	16	7,374,041	5,434,319	4,280,691
Investment securities:				
- Available for sale	17	27,032	25,733	25,733
- Loans and receivables	17	3,311,509	2,420,801	1,702,363
Other assets	18	416,090	263,748	178,829
Property,plant and equipment	20	149,332	120,872	98,469
Intangible Assets	19	17,659	19,339	3,508
Deferred income tax	14	5,189	-	-
Total assets		**14,319,598**	**10,963,718**	**8,124,930**
LIABILITIES				
Deposits from customers	21	11,639,588	8,810,827	6,354,993
Current income tax	14	90,441	77,314	83,724
Other liabilities	22	739,227	668,105	624,927
Deferred income tax	14	-	840	1,347
Retirement benefits obligation	23	41,470	19,604	16,027
Total liabilities		**12,510,726**	**9,576,690**	**7,081,019**
EQUITY				
Share capital	24	1,184,180	938,230	642,490
Share premium		6,050	6,050	-
Legal reserve	27	372,029	274,337	207,222
Special reserve	28	15,181	12,029	7,093
Retained earnings	26	225,346	144,247	180,735
Regulatory risk reserve	29	21,846	11,213	6,371
Other reserves	30	(15,758)	922	-
Total equity		**1,808,872**	**1,387,028**	**1,043,911**
Total equity and liabilities		**14,319,598**	**10,963,718**	**8,124,930**

The accompanying notes are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 30 October 2018 and were signed on its behalf by:

Tassew Woldehanna (Prof.)
Chairperson, Board of Directors

Getachew Solomon(Ato)
President

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

	Notes	Share capital Birr'000	Share premium Birr'000	Legal reserve Birr'000	Special reserve Birr'000	Regulatory risk reserve Birr'000	Other reserves Birr'000	Retained earnings Birr'000	Total Birr'000
As at 1 July 2016		642,490	-	207,222	7,093	6,371	-	180,735	1,043,911
Profit for the period		-	-	-	-	-	-	231,629	231,629
Other comprehensive income:		-	-	-	-	-	-		
Re-measurement gains on defined benefit plans (net of tax)	14	-	-	-	-	-	922	-	922
Transfer to legal reserve	27	-	-	67,114	-	-	-	(67,114)	-
Transfer to special reserve		-	-	-	4,936	-	-	(4,936)	-
Transfer to regulatory risk reserve	28	-	-	-		4,842	-	(4,842)	-
Declared dividend		-	-	-	-	-	-	(191,224)	(191,224)
Prior year adjustment		(5)			1	-		-	(4)
Contribution to subscribed capital		295,745	6,050	-	-	-	-		301,795
Total comprehensive income for the period		**295,740**	**6,050**	**67,114**	**4,937**	**4,842**	**922**	**(36,488)**	**343,118**
As at 30 June 2017		**938,230**	**6,050**	**274,337**	**12,029**	**11,213**	**922**	**144,247**	**1,387,029**
As at 1 July 2017		938,230	6,050	274,337	12,029	11,213	922	144,247	1,387,029
Profit for the period								390,766	390,766
Other comprehensive income:									-
Re-measurement gains on defined benefit plans (net of tax)	14						(16,680)	-	(16,680)
Transfer to legal reserve	27			97,691				(97,691)	-
Transfer to special reserve					3,152			(3,152)	-
Transfer to regulatory risk reserve	28					10,633		(10,633)	-
Declared dividend								(198,191)	(198,191)
Prior year adjustment					-			-	-
Contribution to subscribed capital		245,950	-						245,950
Total comprehensive income for the period		**245,950**	**-**	**97,691**	**3,152**	**10,633**	**(16,680)**	**81,098**	**421,845**
As at 30 June 2018		**1,184,180**	**6,050**	**372,029**	**15,181**	**21,846**	**(15,758)**	**225,346**	**1,808,873**

The accompanying notes are an integral part of these financial statements.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000
Cash flows from operating activities			
Cash generated from operations	31	1,349,651	1,565,148
Income tax paid		(82,467)	(88,127)
Defined benefit paid		(603)	(533)
Net cash (outflow)/inflow from operating activities		**1,266,581**	**1,476,488**
Cash flows from investing activities			
Purchase of intangible assets	19	(2,581)	(17,553)
Purchase of property, plant and equipment	20	(50,772)	(40,210)
Reclassification of stock to property, plant and equipment		1,516	899
Proceeds from Disposal property, plant and equipment		638	60
Purchases of investment securities		(892,007)	(718,438)
Net cash (outflow)/inflow from investing activities		(943,207)	(775,242)
Cash flows from financing activities			
Proceeds from issues of shares		245,950	295,745
Share premium received		-	6,050
Dividends paid		(229,481)	(159,473)
Net cash (outflow)/inflow from financing activities		16,469	142,322
Net increase/(decrease) in cash and cash equivalents		**339,843**	**843,568**
Cash and cash equivalents at the beginning of the year	15	2,678,906	1,835,338
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	15	**3,018,746**	**2,678,906**

The accompanying notes are an integral part of these financial statements.

Lion's Diaspora Mortgage Loan– the Perfect Link between You and Your Dream Home!

Save 50% of your investment in foreign currency
Lion Bank will fill the rest.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

1 General information

Lion International Bank SC ("Lion Bank or the Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on 2nd October 2006 in accordance with the provisions of the Commercial code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. The Bank registered office is at:

Yeka sub city, Kebele 12,
House No. New,
Lex Plaza Building
Addis Ababa, Ethiopia

The Bank is principally engaged in the provision of diverse range of financial products and services to a wholesale, retail and SME clients base in Ethiopian Market.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation

The financial statements for the period ended 30 June 2017 have 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 for the period ended 30 June 2018 are the first the Bank has prepared in accordance with IFRS. Refer to note 39 for information on how the Bank adopted IFRS.

"The financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for the following;

- available-for-sale financial assets, certain classes of property, plant and equipment and investment property – measured at fair value.
- assets held for sale – measured at fair value less cost of disposal, and
- defined benefit pension plans – plan assets 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)."

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

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 Bank'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 Bank'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 Bank 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 2017, 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 Bank, except the following set out below:

IFRS 9 - Financial Instruments

"In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through Profit or loss.

The basis of classification depends on the Bank's business model and the contractual cash flow characteristics of financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018 and early adoption is permitted. The Bank is yet to assess IFRS 9's full impact."

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

IFRS 15 - Revenue from contracts with customers

"IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank is yet to fully assess the expected impact on this standard."

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. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. it also substantially carries forward the lessor accounting requirements in IAS 17. The Bank is yet to fully assess the expected impact of this standard.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

"The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation or; (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation."

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

2.3. Investment in associates

The Bank has no any investments in associate entities. So there is no recording for investments in associates.

2.4 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 Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr (Birr).

b) Transactions and balances

"Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank'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(mid rate:the average of buying and Selling rate) of 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.

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."

2.5 Recognition of income and expenses

"Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Bank, earns income from interest on loans given for Domestic Trade and Services, Building and Construction, Manufacturing & Production, Agriculture,Export,Import,Transportation & Communication,Hotel & Toursim,Emeregency Staff Loan and Staff Mortgage Loans, and interest on returns investments in form of shares,deposit with other banks,purchase of NBE Bills. In addtion, the bank earns fees and commssion income and other income from Letter of Credits, Letter of gurantees and other operational activities."

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Accounting and Auditing Board of Ethiopia

Ama-Hai Chartered Certified Accountants & Auditors

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2.5.1 Interest and similar income and expense

"For all financial instruments measured at amortised cost and interest bearing financial assets classified as available– for–sale interest income or expense is recorded using the Effective Interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss."

2.5.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income such as commission on letters of credit, on guarantee and on local transfers and transactions are recognised as the related services are performed.

"When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relates mainly to transaction and service fees are expensed as the services are received."

2.5.3 Foreign exchange revaluation gains or losses

"These are gains and losses arising on settlement and translation of monetary assets and liabilities denominated in foreign currencies at the functional currency's spot rate of exchange at the reporting date. This amount is recognised in the income statement and it is further broken down into realised and unrealised potion.

The monetary assets and liabilities include financial assets within the foreign currencies deposits received and held on behalf of third parties etc."

2.6 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.

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2.6.1 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 Bank commits to purchase or sell the asset.

Subsequent measurement

"For purposes of subsequent measurement, financial assets are classified into four categories:

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 Bank's loans and receivables comprise of Transport and Communication, Export loans, Import loans, Manufacturing and Production, Building Construction, Domestic Trade & Services, Emergency Staff Loan, Staff Mortgage Loans,Agriculture loan and Hotel & Tourism sectors."

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

"AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held–for–trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI 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 investment. Interest earned whilst holding AFS financial investments is reported as interest and similar income using the EIR method. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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The Bank evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount 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 profit or loss. Refer to the information below under reclassification.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank 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 Bank 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.

The Bank may reclassify a non–derivative trading asset out of the 'held–for–trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate."

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 Bank's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Bank 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 Bank has transferred substantially all the risks and rewards of the asset, or

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

When the Bank 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 Bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank 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 Bank 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 Bank could be required to repay."

Impairment of financial assets

The Bank 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 group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

"For financial assets carried at amortised cost (such as loans and receivables), the Bank 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 Bank 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.

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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.

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

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. 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 Bank'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 Bank."

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 Bank 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 instruments

"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

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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."

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral valuation

"The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash via Bank guarantees and real estate. The fair value the collateral is generally assessed using cost approch, at a minimum, at inception and based on the Bank's reporting schedule.

To the extent possible, the Bank uses its own civil Engineers data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models."

Collateral repossessed

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The Bank's policy is to determine whether a repossessed asset should be sold or is best used for its internal operations. Assets that are determined better to be sold are immediately transferred to other assets categories at their valuation price,Engineering estimation using selling approach, at the repossession date in line with the Bank's policy.Assets determined to be used for internal operations are initially recognised at the lower of their repossessed value or the carrying value of the original secured asset and included in the relevant assets depending on the nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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2.6.2 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 Bank's financial liabilities include deposits from customers and other liabilities including cashpayment orders, blocked accounts, local transfers payable, exchange commission etc. Interest expenditure is recognised in interest and similar expense."

Subsequent measurement

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

Financial liabilities at amortised cost

"Financial instruments issued by the Bank, 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 Bank 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 effective interest rate (EIR). Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

The Bank's financial liabilities carried at amortised cost comprise of customer deposits, margin held on letter of credit,and other liabilities."

Derecognition of financial liabilities

"Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

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

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2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Bank 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 Bank has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as Bankruptcy or the termination of a contract.

2.7 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 and restricted balances with National Bank of Ethiopia."

2.8 Property, plant and Equipment

"Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group 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	Depreciation rate (% or years)
Buildings	50 years
Elevator	15 years
Motor vehicles	10 years
Computer and Related Items	7 years
Long-Lived Furniture & fittings	20 years
Medium-Lived Furniture & fittings	10 years
Long-Lived Equipment	20 years
Medium-Lived Equipment	10 years
Short-Lived Equipment	5 years

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"The Bank commences depreciation when the asset is available for use. Land is not depreciated."

Capital work-in-progress(both Property,Plant & Equipment and Intangabiles) is not depreciated as these assets are not yet available for use. They are disclosed when reclassified during the year.

"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 disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.9 Non-current assets (or disposal groups) held for sale and discontinued operations

"Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss."

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2.10 Impairment of non-financial assets

"The Bank 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 Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank 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."

2.11 Other assets

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

a) Prepayment

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 Bank’s other receivables are rent receivables and other receivables from debtors.”

2.12 Fair value measurement

“The Bank measures financial instruments classified as available-for-sale at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are, summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.7.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.7.2
- Financial instruments (including those carried at amortised cost) Note 4.7.3”

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

• In the principal market for the asset or liability, or
• In the absence of a principal market, in the most advantageous market for the asset or liability.
The principal or the most advantageous market must be accessible to by the Bank.”

“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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank 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 Bank's management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above."

2.13 Employee benefits

"IAS 19 prescribes the accounting for all types of employee benefits except share-based payment, to which IFRS 2 applies. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 requires an entity to recognise:

- A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- An expense when the entity consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The Bank operates some post-employment schemes, including both defined benefit and defined contribution and post employment benefits.

(a) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under IAS 19, when an employee has rendered service to an entity during a period, the entity recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense) and as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

"Though the Bank operates two defined pension plan, it is not in the scope of IAS 19;

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 Bank respectively;

ii) Provident fund contribution, funding under this scheme is 8% and 12% by employees and the Bank respectively;

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Based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss in the period in which they relate.

(b) Defined benefit plan

A defined benefit plan is any post-employment benefit plan other than a defined contribution plan. Under IAS 19, an entity uses an actuarial technique (the projected unit credit method) to estimate the ultimate cost to the entity of the benefits that employees have earned in return for their service in the current and prior periods; discounts that benefit in order to determine the present value of the defined benefit obligation and the current service cost; deducts the fair value of any plan assets from the present value of the defined benefit obligation; determines the amount of the deficit or surplus; and determines the amount to be recognised in profit and loss and other comprehensive income in the current period.

The liability or asset recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past-service costs are recognised immediately in income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(c) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment. An entity recognises a liability and expense for termination benefits at the earlier of the following dates:

- When the entity can no longer withdraw the offer of those benefits; and
- When the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

It is recognised when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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The Bank has not yet had such scheme in relation to termination benefits due to resignation before normal retirement date, or whenever an employee accepts voluntary redundancy.

(d) Profit-sharing and bonus plans

The Banks recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14 Provisions

Provisions are recognised when the bank 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 Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as other operating expenses.

2.15 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.

2.16 Earnings per share (EPS)

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

2.17 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.

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Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of t leased items are operating leases. Operating lease payments are recognised as an expense in the income statem on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period which they it is incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.18 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 for each jurisdiction 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.

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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.

Deferred tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Bank'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 Bank's exposure to risks and uncertainties includes:
- Capital management Note 4.6
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.5.2

3.1 Judgements

In the process of applying the Bank'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 - Bank as lessee

The Bank has entered into commercial property leases. The Bank 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 Bank 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 Bank. Such changes are reflected in the assumptions when they occur.

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Impairment losses on loans and receivables

The Bank reviews its loan portfolios for impairment on an on-going basis. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. For individually significant financial assets that has been deemed to be impaired, management has deemed that cashflow from collateral obtained would arise within 24 months where the financial asset is collaterised.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Financial risk management section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. See note 3.2 for more information.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.7.2 for further disclosures.

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Defined benefit plans

The cost of the defined benefit pension plan, long service awards, gratuity scheme and post-employment medical benefits and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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 wide range of international business relationships and 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.

Development cost

The Bank capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The development costs that were capitalised by the Bank relates to those arising from the development of computer software.

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4 Financial risk management

4.1 Introduction

Risk taking is an inherent element of banking business and profit is reward for successful risk taking. Linked to this, the Bank is endeavoring to in place robust risk management framework that are a believed to achieve optimization of risk-reward tradeoff. The most important risks that the Bank has indentified in course of its operations includes credit risk, liquidity risk, market risk and operational risk.

4.1.1 Risk management structure

The Board Risk Committee, a subset of the Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. It also has the responsibility to monitor the overall risk process within the Bank.

The Management has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is also responsible for managing risk decisions and monitoring risk levels.

The Risk Management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Board Risk Management Committee to ensure that procedures are compliant with the overall framework. The Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. It carries out an assessment of risk periodically to monitor the Bank's independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported, where necessary, to the Board Risk Committee for relevant actions to be taken in areas of weakness.

Bank Treasury is responsible for managing the Bank's financial assets, financial liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit Function discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

4.1.2 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected regions. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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4.1.3 Risk mitigation

Risk controls and mitigants, identified and approved for the Bank, are documented for existing and new processes and systems.

The adequacy of these mitigants is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortised cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

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

30 June 2018	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and balances with banks	15	-	3,018,746	3,018,746
Loans and advances	16	-	7,374,041	7,374,041
Investment securities:				-
- Available for sale	17	27,032		27,032
- Loans and receivables	17		3,311,509	3,311,509
Other assets	18		208,558	208,558
Total financial assets		27,032	13,912,854	13,939,886

30 June 2017	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and balances with banks	15	-	2,678,906	2,678,906
Loans and advances	16	-	5,434,319	5,434,319
Investment securities:				-
- Available for sale	17	25,733		25,733
- Loans and receivables	17	-	2,420,801	2,420,801
Other assets	18	-	94,871	94,871
Total financial assets		25,733	10,628,897	10,654,630

1 July 2016	Notes	Available-For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
Cash and balances with banks	15	-	1,835,337	1,835,337
Loans and advances	16	-	4,280,691	4,280,691
Investment securities:				-
- Available for sale	17	25,733	-	25,733
- Loans and receivables	17	-	1,702,363	1,702,363
Other assets	18	-	49,518	49,518
Total financial assets		25,733	7,867,909	7,893,642

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4.3 Credit risk

Credit risk is the probability that a counterparty of the Bank will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. The Bank is exposed to credit risk due to activities such as loans and advances, government securities, deposits due from banking institutions, credit enhancement provided such as financial guarantees and letter of credit.

The Bank adopts a conservative approach to credit risk. Where appropriate, the Bank intervenes in the economy and provides guarantees in the financial system to prevent systemic risk.

4.3.1 Management of credit risk

In measuring credit risk of loans and receivables to various counterparties, the Bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counter party/ obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. Our credit exposure comprises wholesale and retail loans and receivables which are developed to reflect the needs of our customers. The Bank's policy is to lend principally on the basis of our customer's repayment capacity through quantitative and qualitative evaluation. However we ensure that our loans are backed by collateral to reflect the risk of the obligors and the nature of the facility.

In the estimation of credit risk, the Bank estimate the following parameters:"

(a) Probability of Default

This is the probability that an obligor or counterparty will default over a given period, usually one year. This can be calculated on portfolio by portfolio basis or collectively depending on availability of historical data.

(b) Loss Given Default

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

(c) Exposure at Default

This represents the amount that is outstanding at the point of default. Its estimation includes the drawn amount and expected utilisation of the undrawn commitment at default.

4.3.2 Impairment assessment

The Bank assesses its impairment for the purpose of IFRS reporting using a two-way approach which are Individual assessment and portfolio assessment.

(a) Individual assessment

The Bank reviews and revises existing impairment triggers for each loan asset portfolio to ensure that a trigger identifies a loss event as early as possible, which would result in the earliest possible recognition of losses within the IFRS framework. The Bank then estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

(b) Collective assessment

Loans and receivables that are not specifically impaired are assessed under collective impairment. For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to contractual terms.

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(b) Collective assessment (Contd)

The Bank generally bases its analyses on historical experience. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

4.3.3 Credit related commitments risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

4.3.4 Maximum exposure to credit risk before collateral held or credit enhancements
(a) Types of credit exposure

The Bank's maximum exposure to credit risk at 30 June 2018, 30 June 2017 and 30 June 2016 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Cash and balances with banks	2,014,063	1,870,276	1,174,881
Loans and advances	7,374,041	5,434,319	4,280,691
Investment securities:		-	-
- Available for sale	-	-	-
- Loans and receivables	3,311,509	2,420,801	1,702,363
Other assets	208,558	94,871	49,518
	12,908,171	9,820,267	7,207,453
Credit risk exposures relating to off balance sheets are as follows:			
Loan commitments (Approved but not drawn)	384,647	425,865	279,962
Guarantees issued	2,171,938	1,902,444	1,271,182
Letter of credit and other credit related obligations	656,303	658,416	474,804
	3,212,888	2,986,725	2,025,948
Total maximum exposure	16,121,059	12,806,992	9,233,401

(b) Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collaterals held as security against loans and receivables at the year end are shown below.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Properties	24,754	6,833	1,240
Debt securities		-	-
Others		-	-
	24,754	6,833	1,240

The Bank's policy is to pursue realisation of the collateral in a timely manner. The Bank does not generally use the non-cash collateral for its own operations.

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(c) Loans and receivables at amortised cost

(i) Gross loans and receivables to customers per sector is analysed as follows:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Transportation and communication	357,541	396,490	290,444
Export loans	2,086,029	892,611	829,252
Import loans	1,523,976	1,279,377	994,113
Manufacturing and production	347,828	213,329	249,312
Building and construction	1,561,283	1,247,636	840,280
Domestic trade	1,290,804	1,153,184	870,092
Staff emergency and mortgage loans	251,819	187,514	113,403
Agricultural loans	24,846	50,049	59,526
Hotel and Tourism	117,128	151,292	118,084
	7,561,254	5,571,481	4,364,505

(ii) Gross loans and receivables to customers per National Bank of Ethiopia's impairment guidelines is analysed as follows:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Pass	6,999,628	5,120,501	4,030,030
Special mention	297,696	228,436	188,347
Substandard	66,066	50,482	69,715
Doubtful	102,516	68,677	25,014
Loss	95,349	103,385	51,399
	7,561,254	5,571,481	4,364,505

The above table represents a worse case scenario of credit risk exposure of the Bank as at the reporting dates without taking account of any collateral held or other credit enhancements attached. The exposures are based on net carrying amounts as reported in the statement of financial position.

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in the Bank's loan and advances portfolio.

4.3.5 Credit quality analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired at as 30 June 2018, 30 June 2017 and 30 June 2016 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. However, cash and cash equivalents that held in foreign banks can be assessed by reference to credit rating agency designation as shown in the table below;

Rating	Bank's name	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
B+	Commerze Bank	6,998	134,609	170,718
AA	Bank of China /Beijing/	7,624	108,969	32,156
B	Bank of Beriut	9,731	4,272	6,148
Others	Bank of Africa /Djibuti/	8,589	3	7,879
Others	CAC International Bank	-	10,362	-
Not rated	Local banks	1,981,122	1,612,061	957,979
		2,014,064	1,870,276	1,174,881

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(b) Credit quality of loans and receivables

30 June 2018	Neither past due nor Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	11,644	6,147	7,055	24,846
Building and Construction	1,350,198	186,203	24,882	1,561,283
Domestic Trade Service	1,234,715	56,089	-	1,290,804
Emergency Staff Loan	43,982	-	-	43,982
Export	1,493,767	470,815	121,447	2,086,029
Hotel and Toursim	97,580	19,548	-	117,128
Import	1,241,273	270,055	12,648	1,523,976
Manufacturing and Production	294,236	46,783	6,808	347,828
Staff Mortgage Loan	206,163	1,674	-	207,837
Transport and Communication	324,176	33,365	-	357,541
Gross	6,297,735	1,090,679	172,840	7,561,254
Less: Impairment allowance	(68,422)	(46,245)	(72,547)	(187,213)
Net	6,229,313	1,044,435	100,293	7,374,041

30 June 2017	Neither past due nor Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	35,764	7,675	6,609	50,049
Building and Construction	1,088,151	137,027	22,457	1,247,636
Domestic Trade Service	1,106,325	46,859	-	1,153,184
Emergency Staff Loan	30,125	75	-	30,200
Export	771,031	26,700	94,879	892,611
Hotel and Toursim	131,602	17,018	2,672	151,292
Import	1,221,444	48,784	9,149	1,279,377
Manufacturing and Production	202,738	10,591	-	213,329
Staff Mortgage Loan	157,314	-	-	157,314
Transport and Communication	375,825	17,731	2,933	396,490
Gross	5,120,320	312,460	138,700	5,571,481
Less: Impairment allowance	(62,424)	(30,784)	(43,954)	(137,162)
Net	5,057,896	281,676	94,746	5,434,319

1 July 2016	Neither past due nor Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	47,305	7,352	4,869	59,526
Building and Construction	743,862	66,868	29,550	840,280
Domestic Trade Service	817,133	44,623	8,336	870,092
Emergency Staff Loan	19,856	(3)	-	19,853
Export	724,591	75,534	29,127	829,252
Hotel and Toursim	110,814	7,270	-	118,084
Import	923,463	44,273	26,376	994,113
Manufacturing and Production	238,407	10,905	-	249,312
Staff Mortgage Loan	93,129	420	-	93,550
Transport and Communication	278,889	11,556	-	290,444
Gross	3,997,449	268,798	98,259	4,364,505
Less: Impairment allowance	(36,516)	(22,075)	(25,223)	(83,814)
Net	3,960,933	246,723	73,036	4,280,691

Individually impaired loans are loans that has well passed their recovery period. The counterparties are under liquidation. Individually impaired staff loans are loans given to staffs that are no longer staff of the Bank hence the recoverability of the loans is doubtful.

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(i) Loans and receivables - neither past due nor impaired

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and receivables in this category are short term loans past due for less than 30 (thirty)days and medium and long term loans past due for less than 180 (one hundred eighty) days.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Neither past due nor impaired	6,297,735	5,120,320	3,997,449
Collective impairment	(68,422)	(62,424)	(36,516)
	6,229,313	5,057,896	3,960,933

(ii) Loans and receivables - past due but not impaired

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Short term loans			
Less than 30 days	698,900	181	31,706
30 to 90 days	43,971	31,586	53,776
90 to 180 days	4,039	4,521	5,058
180 to 360 days	7,101	15,172	8,175
More than 360 days	5,006	15,351	1,688
Medium and long term loans			
Less than 180 days	2,993	-	874
6 to 12 months	253,725	196,850	134,571
12 to 18 months	43,223	16,640	14,155
18 months to 3 years	20,443	20,850	13,359
More than 3 years	11,278	11,309	5,435
	1,090,679	312,460	268,798
Collective impairment	(46,245)	(30,784)	(22,075)
Loan and receivables (net)	1,044,435	281,676	246,723

Loans and receivables that have been classified as neither past due nor impaired or past due but not impaired are assessed on a collective basis.

(iii) Loans and receivables - individually impaired loans

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Substandard	18,804	29,321	50,502
Doubtful	74,972	32,654	3,480
Loss	79,065	76,725	44,276
Specific impairment	(72,547)	(43,954)	(25,223)
	100,294	94,746	73,036

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(iv) Allowance for impairment

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Specific impairment	(72,547)	(43,954)	(25,223)
Collective impairment	(114,667)	(93,208)	(58,591)
Total allowance for impairment	(187,213)	(137,162)	(83,814)

4.3.6 Statement of Prudential adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

The proclamation 'Financial Reporting Proclamation No.847/2014 stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted.

However, Banks would be required to comply with the following:

(a) Provisions for loans recognised in the income statement should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under the NBE Directives and the expected impact/changes in other reserves should be treated as follows:

• Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve".

• Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.

During the period ended 30 June 2018, the Bank transferred an amount of Birr 10.63 million(2017: 4.84 million, 2016;6.37 million) to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IAS 39 as at year end and the amount of suspended intrest income(net of tax) transfred from memo accounts to balance sheet accounts.

In line with the same directive of the NBE, the Bank compared the provision based on the Directive with impairment under IFRS for comparative periods and transfers were made as the impairment balance under IFRS was higher for the years in the regulatory risk reserve account.

	30 June 2018 Birr'000	30 June 2017 Birr'000
Total impairment based on IFRS	182,013	135,007
Total impairment based on NBE Directives	147,885	112,590
Interest in suspense booked	31,208	16,019
Regulatory risk reserve	21,846	11,213

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4.3.7 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2018, 30 June 2017 and 30 June 2016. The Bank concentrates all its financial assets in Ethiopia.

30 June 2018	Domestic and Trade Services Birr'000	Import and Export Birr'000	Building and construction Birr'000	Others Birr'000
Cash and balances with banks	-	-	-	2,014,063
Loans and receivables	1,290,804	3,610,005	1,561,283	1,099,162
Investment securities:				
- Available for sale	-	-	-	27,032
- Loans and receivables	-	-	-	3,311,509
Other assets	-	-	-	208,558
Loan commitments (Approved but not drawn)	-	-	-	384,647
	1,290,804	3,610,005	1,561,283	7,044,971

30 June 2017	Domestic and Trade Services Birr'000	Import and Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and balances with banks				1,870,276
Loans and receivables	1,153,184	2,171,987	1,247,636	998,674
Investment securities:				-
- Available for sale	-	-	-	25,733
- Loans and receivables	-	-	-	2,420,801
Other assets	-	-	-	94,871
Loan commitments (Approved but not drawn)				425,865
	1,153,184	2,171,987	1,247,636	5,836,220

1 July 2016	Domestic and Trade Services Birr'000	Import and Export Birr'000	Housing and construction Birr'000	Others Birr'000
Cash and balances with banks				1,174,881
Loans and receivables	870,092	1,823,365	840,280	830,769
Investment securities:				
- Available for sale				25,733
- Loans and receivables				1,702,363
Other assets				49,518
Loan commitments (Approved but not drawn)				279,962
	870,092	1,823,365	840,280	4,063,226

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4.3.8 Nature of security in respect of loans and receivables

30 June 2018	Secured against real estate Birr'000	Machinery Birr'000	Vehicle Birr'000	Merchandise Stock Birr'000	Others Birr'000
Agriculture	17,791	7,055	-	-	-
Building and Construction	456,715	179,735	596,933	-	327,900
Domestic Trade Service	1,194,169	-	11,742	21,590	63,303
Emergency Staff Loan	-	-	-	-	43,982
Export	443,344	-	6,029	18,548	1,618,107
Hotel and Toursim	100,647	-	7,828	-	8,653
Import	978,058	819	4,437	193,275	347,387
Manufacturing and Production	293,124	2,172	5,804	-	46,729
Staff Mortgage Loan	199,913	-	4,953	-	2,971
Transport and Communication	27,806	20,520	287,034	-	22,181
	3,711,568	210,301	924,761	233,413	2,481,211

30 June 2017	Secured against real estate Birr'000	Machinery Birr'000	Vehicle Birr'000	Merchandise Stock Birr'000	Others Birr'000
Agriculture	41,704	-	8,345	-	-
Building and Construction	442,348	186,587	446,689	-	172,012
Domestic Trade Service	1,068,630	-	4,840	18,524	61,189
Emergency Staff Loan	-	-	-	-	30,200
Export	326,480	-	7,623	22,748	535,760
Hotel and Toursim	130,409	-	8,143	-	12,740
Import	1,003,036	-	6,867	149,392	120,081
Manufacturing and Production	188,416	2,815	2,450	-	19,648
Staff Mortgage Loan	156,739	-	-	-	575
Transport and Communication	43,040	13,022	293,447	-	46,982
	3,400,801	202,424	778,404	190,665	999,187

1 July 2016	Secured against real estate Birr'000	Machinery Birr'000	Vehicle Birr'000	Merchandise Stock Birr'000	Others Birr'000
Agriculture	48,780	4,869	-	-	5,877
Building and Construction	458,897	121,800	212,571	-	47,011
Domestic Trade Service	824,087	518	9,160	-	36,327
Emergency Staff Loan	-	-	-	-	19,853
Export	346,076	-	21,896	-	461,280
Hotel and Toursim	103,944	-	14,039	-	100
Import	697,562	-	18,393	-	278,158
Manufacturing and Production	223,959	4,253	3,415	-	17,685
Staff Mortgage Loan	93,550	-	-	-	-
Transport and Communication	60,195	16,044	209,292	-	4,913
	2,857,050	147,485	488,766	-	871,204

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4.3.9 Collateral held and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. Staff loans are secured to the extent of the employee's continued employment in the Bank.

The Bank may take collateral in the form of a first charge over real estate, liens and guarantees. The Bank does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

The fair value of the collaterals are based on the last revaluations carried out by the Bank's in-house engineers. The valuation technique adopted for properties is in line with the Bank's valuation manual and the revalued amount is similar to fair values of properties with similar size and location.

The fair value of collaterals other than properties such as share certificates, cash, NBE bills etc. as disclosed at the carrying amount as management is of the opinion that the cost of the process of establishing the fair value of the collateral exceeds benefits accruable from the exercise.

Write-off policy

The Bank writes off Loans and Advance balance, and any related allowances for impairment losses, when Bank determines that the Loans and advances or security is uncollectible and after approval is obtained. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans and advances, write-off decisions generally are based on a product-specific past due status. There was no amount wrote off during the year.

4.3.9 Commitments and guarantees

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Loan commitments	384,647	425,865	279,962
Guarantees issued	2,171,938	1,902,444	1,271,182
Letter of credit and other credit related obligations	656,303	658,416	474,804
Total maximum exposure	3,212,888	2,986,725	2,025,948

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4.4 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that it meets our maturing obligations.

4.4.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

The Bank has incurred indebtedness in the form of borrowings. The Bank evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Bank devises strategies to manage its liquidity risk.

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available o meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

4.4.2 Maturity analysis of financial liabilities

The table below analyses the Bank's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The cash flows presented are the undiscounted amounts to be settled in future.

30 June 2018	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	10,507,025	7,596	446,013	32,984	645,970
Other liabilities	307,843	358,751	30,043	15,682	26,908
Total financial liabilities	10,814,868	366,347	476,056	48,666	672,878

30 June 2017	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	2,984,174	-	371,395	-	5,455,259
Other liabilities	308,391	283,917	23,209	17,941	34,646
Total financial liabilities	3,292,566	283,917	394,604	17,941	5,489,904

1 July 2016	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	2,216,603	-	240,734	6,251	3,891,406
Other liabilities	414,279	167,572	10,398	8,348	24,330
Total financial liabilities	2,630,882	167,572	251,132	14,599	3,915,736

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4.5 Market risk

Market risk is defined as the risk of loss risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions. The Bank does not ordinarily engage in trading activities as there are no active markets in Ethiopia yet.

4.5.1 Management of market risk

The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4.5.2 The variables of market risk

Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(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. Borrowings obtained at variable rates give rise to interest rate risk.

The Bank's exposure to the risk of changes in market interest rates relates primarily to the Bank's obligations and financial assets with floating interest rates. The Bank is also exposed on fixed rate financial assets and financial liabilities. The Bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds and cash deposits.

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

30 June 2018	Interest bearing Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	1,218,116	1,800,630	3,018,746
Loans and receivables	7,561,254	-	7,561,254
Investment securities	3,311,509	27,032	3,338,541
Total	12,090,879	1,827,662	13,918,541
Liabilities			
Deposits from customers	9,225,444	2,414,144	11,639,588
Debt securities issued	-	-	-
Borrowings	-	-	-
Other liabilities	-	739,227	739,227
Total	9,225,444	3,153,371	12,378,815
Gap between Interest sensitive Asset and Liabilities	**2,865,435**		

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30 June 2017	Interest bearing Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	575,078	2,103,828	2,678,906
Loans and receivables	5,571,481	-	5,571,481
Investment securities	2,420,801	25,733	2,446,534
Total	8,567,360	2,129,561	10,696,921
Liabilities			
Deposits from customers	6,972,864	1,837,963	8,810,827
Debt securities issued	-	-	-
Borrowings	-	-	-
Other liabilities	-	668,105	668,105
Total	6,972,864	2,506,068	9,478,932
Gap between Interest sensitive Asset and Liabilities	**1,594,496**		

1 July 2016	Interest bearing Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	204,175	1,631,162	1,835,337
Loans and receivables	4,364,505	-	4,364,505
Investment securities	1,702,363	25,733	1,728,096
Total	6,271,043	1,656,895	7,927,938
Liabilities			
Deposits from customers	4,598,304	1,756,689	6,354,993
Debt securities issued	-	-	-
Borrowings	-	-	-
Other liabilities	-	624,927	624,927
Total	4,598,304	2,381,616	6,979,920
Gap between Interest sensitive Asset and Liabilities	**1,672,739**		

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2018, 30 June 2017 and 1 July 2016. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

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(ii) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The Bank is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Bank's foreign currency bank accounts act as a natural hedge for these transactions. Management has set up a policy to manage the Bank's foreign exchange risk against its functional currency.

The net total foreign currency denominated assets and liabilities exposed to risk as at year end 30 June 2018 is Birr (46.84) million, Birr 262.99 million 30 June 2017 and Birr 198.73 million 1 July 2016.

The table below(for 'Sensitivity analysis for foreign exchange risk') summarises the impact of increases/decreases of 10% on equity and profit or loss arising from the Bank's foreign denominated borrowings and cash and bank balances.

Foreign currency denominated balances

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Cash and bank balances	90,994	325,372	267,607
Customers' Deposits	(87,389)	(50,735)	(47,015)
Other Liabilities	(50,445)	(11,645)	(21,859)
	(46,840)	262,992	198,734

Sensitivity analysis for foreign exchange risk

The sensitivity analysis for currency rate risk shows how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates at the reporting date.

The sensitivity of the Bank's earnings to fluctuations in exchange rates is reflected by varying the exchange rates at 10% as shown below:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Impact on profit or loss			
10% change in exchange rates on accounts dominated with Foregin Currency	(4,684)	26,299	19,873

30 June 2018	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
USD	10%	(6,130)	(6,130)
Euro	10%	546	546
GPB	10%	900	900
		(4,684)	(4,684)

30 June 2017	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
USD	10%	24,483	24,483
Euro	10%	1,196	1,196
GPB	10%	620	620
		26,299	26,299

1 July 2016	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
USD	10%	18,786	18,786
Euro	10%	668	668
GBP	10%	419	419
		19,873	19,873

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4.6 Capital management

The Bank's objectives when managing capital are to comply with the capital requirements set by the National Bank of Ethiopia, safeguard its ability to continue as a going concern, and to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

4.6.1 Capital adequacy ratio (CAR)

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. It is important to measure the amount of Bank's capital in relation to its risk weighted credit expousres.

The Bank's capital is divided into two tiers or it consists of two grouping of capital elements which are called Tiers 1 capital (core/primary capital) and Tiers 2 capital (supplementary capital).The former group consists of ordinary paid-in capital, Legal reserves and share premium. while the second, consists of undisclosed reserves, asset revaluation reserves, general provisions, hybrid capital instruments and subordinated term debt.

The bank measures its capital adequacy ratio (CAR), as the ratio set by the regulatory authority in the banking sector (NBE), for the primary capital/core capital in terms of risk weighted asset.

	Code	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Total Capital (A1+A2)	A	1,577,439	1,230,646	856,805
Primary Capital (sum A11 to A14)	A1	1,577,439	1,230,646	856,805
Paid-up capital	A11	1,184,180	938,230	642,490
Share Premium	A12	6,050	6,050	-
General reserves	A13	15,181	12,029	7,093
Legal reserves	A14	372,029	274,337	207,222
Supplementary capital (specify)	A2			
Risk-weighted assets (RWA) (B1 to B2)	B	**9,522,638**	**7,222,590**	**5,482,315**
On balance sheet (9)	B1	8,122,252	5,934,403	4,611,783
Off balance sheet (16)	B2	1,400,386	1,288,187	870,532
Ratios (%)	C			
Primary capital to RWA (A1/B)	C1	**16.57%**	**17.04%**	**15.63%**
Total capital to RWA (A/B)	C2	**16.57%**	**17.04%**	**15.63%**

4.6.2. Risk weighted assets (RWA)

4.6.2a A. Balance Sheet

Assets	Code	Weighted Assets 30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Claims on Domestic & foreign				
- Less than 1 year maturity		250,212	166,659	84,215
Loans & advances (net)		112,114	96,267	59,663
Others		7,149,813	5,241,786	4,161,366
Investments		27,032	25,733	25,733
Fixed assets (net)		149,332	120,872	98,469
Accounts receivable		208,558	94,871	49,518
Supplies stock account		6,000	4,180	3,071
Others		219,191	184,037	129,748
Total RWBSA*		**8,122,252**	**5,934,403**	**4,611,783**

RWBSA = Risk Weighted Balance Sheet Assets

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4.6.2b B. Off Balance Sheet

Off-Balance Sheet Assets (OBSA)	Credit Equivalent 30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Undrawn Loan commitments	192,324	212,933	139,981
Guarantees issued	1,085,969	951,222	635,591
Commercial letter of credit	122,094	124,032	94,961
Total Risk weighted Off - BSA	**1,400,386**	**1,288,187**	**870,532**

4.7 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

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

4.7.1 Valuation models

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

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

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

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

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

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

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4.7.2 Financial instruments not measured at fair value - Fair value hierarchy

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

As it vivid on the above disclosure point 4.7, regards to our financial instrument category, the Bank's financial assets are classified into available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortized cost. Thus, the Bank has no financial asset measured at fair value on subsequent recognition. As a result, except financial instrument permanently having similar face value (at initial and subsequent measurement) the bank valuation technique is significant unobservable inputs – Level 3.

30 June 2018	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	3,018,746	3,018,746	-	-	3,018,746
Loans and receivables	7,374,041	-	-	7,374,041	7,374,041
Investment securities	3,338,541	-	-	3,338,541	3,338,541
Total	13,731,328	3,018,746	-	10,712,582	13,731,328
Financial liabilities					
Deposits from customers	11,639,588	11,639,588			11,639,588
Debt securities issued	-	-			-
Borrowings	-	-			-
Other liabilities	673,013	-		673,013	673,013
Total	12,312,601	11,639,588	-	673,013	12,312,601

30 June 2017	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	2,678,906	2,678,906	-	-	2,678,906
Loans and receivables	5,434,319	-	-	5,434,319	5,434,319
Investment securities	2,446,534	-	-	2,446,534	2,446,534
Total	10,559,759	2,678,906	-	7,880,853	10,559,759
Financial liabilities					
Deposits from customers	8,810,827	8,810,827	-		8,810,827
Debt securities issued	-	-	-		-
Borrowings	-	-	-		-
Other liabilities	618,703	-		618,703	618,703
Total	9,429,530	8,810,827	-	618,703	9,429,530

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1 July 2016	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	1,835,337	1,835,337	-	-	1,835,337
Loans and receivables	4,280,691	-	-	4,280,691	4,280,691
Investment securities	1,728,096	-	-	1,728,096	1,728,096
Total	7,844,124	1,835,337	-	6,008,787	7,844,124
Financial liabilities					
Deposits from customers	6,354,993	6,354,993	-	-	6,354,993
Debt securities issued	-	-	-	-	-
Borrowings	-	-	-	-	-
Other liabilities	591,926	-	-	591,926	591,926
Total	6,946,919	6,354,993	-	591,926	6,946,919

4.7.3 Fair value methods and assumptions

Loans and advances to customers

Loans and advances to customers are carried at amortised 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.

4.7.4 Valuation technique using significant unobservable inputs – Level 3

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

4.7.5 Estimation uncertainty in measuring impairment losses on loans and advances to customers

The table below sets out the information on the sensitivity of carrying amounts to the methods, assumptions and estimates used in calculating impairment losses on loans and advances for customers as at 30 June 2018, 30 June 2017 and 1 July 2016 that have a significant risk of causing a material adjustment to the carrying amounts of these assets within the next financial year, including the reasons for the sensitivity.

Type of financial instrunment	Fair value	valuation technique	Significant unobservable input	Range of inputs (probability weighted average)	Fair value measurement to unobservable inputs
Loans and advances to customers		Discounted cashflows			

4.7.6 Transfers between the fair value hierarchy categories

During the three reporting periods covered by these annual financial statements, there were no movements between levels as a result of significant inputs to the fair valuation process becoming observable or unobservable.

4.8 Offsetting financial assets and financial liabilities

There are no offsetting arrangements. Financial assets and liabilities are settled and disclosed on a gross basis.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

		30 June 2018 Birr'000	30 June 2017 Birr'000
5	**Interest income**		
	Interest on Loans & Advances	992,753	690,796
	Interest on deposits held with local and foreign banks	95,952	23,635
	Interest on treasury and NBE bills	83,159	60,946
	Interest-on Local Investment	847	-
		1,172,711	775,377

Included within various line items under interest income for the year ended 30 June 2018 is a total of Birr 15.190 in '000 (30 June 2017: Birr 10,489 in '000) relating to impaired financial assets.

		30 June 2018 Birr'000	30 June 2017 Birr'000
6	**Interest expense**		
	- Saving deposits	320,850	173,264
	- NBE borrowings	-	-
	- Fixed deposits	102,959	67,261
	- Demand deposits	16	187
		423,825	240,712

		30 June 2018 Birr'000	30 June 2017 Birr'000
7	**Net fees and commission income**		
	Fee and commission income		
	Commission on Letter Of Credit	54,164	37,692
	Commission on Letter Of guarantee	99,645	95,541
	Commission on Local transfers and other transactions	3,866	4,760
		157,675	137,993
	Fee and commission expense		
		-	-
		-	-
	Net fees and commission income	157,675	137,993
8	**Net foreign exchange income**		
	Gain on foreign exchange	101,968	74,900
	Loss on foreign exchange	(48,888)	(24,422)
	Net foreign exchange income	53,080	50,478

		30 June 2018 Birr'000	30 June 2017 Birr'000
9	**Other operating Income**		
	Telephone, telegraph and postage charges	1,066	1,404
	Service charge on foreign and local transactions	120,906	76,285
	Gain on Disposal of Property,plant and Equipment	613	60
	Other income	990	537
		123,575	78,286

		30 June 2018 Birr'000	30 June 2017 Birr'000
10	**Loan Impairment charge**		
	Loans and receivables - charge for the year (note 16a)	(50,092)	(53,348)
	Loans and receivables - reversal of provision (note 16a)	-	-
		(50,092)	(53,348)

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

	30 June 2018 Birr'000	30 June 2017 Birr'000
11 Impairment losses on other assets		
Other assets - charge for the year (note 18)	(309)	-
Other assets - reversal of impairment losses (note 18)	1	2
	(308)	2

	30 June 2018 Birr'000	30 June 2017 Birr'000
12 Employee benefits		
Salaries and wages	207,648	155,446
Staff bonus	30,300	18,703
Staff allowances	58,306	42,156
Provident fund and pension contribution	24,711	18,453
Accrued leave pay	5,450	4,494
Amortisation of prepaid staff benefit	(569)	1,307
Employee defined benefit expense	5,789	5,032
Other staff expenses	16,217	11,511
	347,852	257,104

	30 June 2018 Birr'000	30 June 2017 Birr'000
13 Other operating expenses		
General and administrative expenses	149,790	138,749
Communication expenses	10,320	7,839
Repairs and maintenance	4,304	3,769
Maintenance, consultancy and support fees	9,346	3,519
Service charge	253	179
Directors' fees	1,633	2,042
Issuer fees on ATM	145	32
Administration of acquired property	8	5
Office supplies	1,152	878
Subscription and membership fees	345	314
Fuel and lubricants	734	624
Audit fees	477	388
Other expenses	1,092	1,166
	179,599	159,504

	30 June 2018 Birr'000	30 June 2017 Birr'000
14 Current income and deferred tax		
14a Income tax expense		
Current income tax expense	95,595	81,717
Prior year (over)/ under provision		-
Deferred income tax/(credit) to profit or loss	(6,029)	(507)
Total charge to profit or loss	89,566	81,209
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive income	89,566	81,209

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

14b Reconciliation between tax expense and the product of the accounting profit multiplied by the applicable tax rate

Current profit tax	Birr	30 June 2018 Birr'000	30 June 2017 Birr'000	30 June 2016 Birr'000
IFRS Accounting profit		480,331	312,838	320,664
Add : Disallowed expenses				
Entertainment	3,378		3,376	1,014
Donation	-		4,344	150
Penalty	10		143	70
Provision for loans and advances as per IFRS	50,092		48,093	36,065
Depreciation for accounting purpose	20,772		16,908	11,857
Amortization for accounting purpose	4,261		1,722	521
Impairment losses on other assets	309		-	691
Provision for legal cases	-		7,505	1,742
Severance pay	5,186		4,499	16,027
		84,009	86,590	68,137
Less :				
Depreciation for tax purpose	22,610		18,655	18,737
Provision for loans and advances for tax NBE 80%	28,236		21,020	38,566
Amortization of deferred charge as per tax law	5,244		2,721	1,285
Written back of doubtful debts other than loans and Advance	1		2	1,746
Gain on disposal of Property,plant & equipment	613		60	-
Dividend income taxed at source	847		-	933
Interest income taxed at source-NBE Bills	83,159		60,946	44,266
Interest income taxed at source-deposits	95,952		23,635	4,187
Provision for legal cases	9,030			
		245,692	127,040	109,721
Taxable profit		**318,649**	**272,388**	**279,080**
Current tax at 30%		**95,595**	**81,717**	**83,724**

(c) The movement of Profit tax Payable	Birr			
Balance brought forward		77,314	83,724	74,831
Add : Provision for the year		95,595	817,162	83,724
Less: Direct settlement		82,467	88,127	74,831
Withholding tax paid		-	-	-
		90,441	**77,314**	**83,724**
Tax Provision as Per IFRS		95,595	81,716	83,724
Tax provission as per GAAP			82,467	88,127
Additional Current Tax Expense to be (claimed)/settled			(751)	(4,402)
Tax Payable for 2017/2018		**90,441**		

14c Current income tax liability	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Current income tax payable	90,441	77,314	83,724
	90,441	77,314	83,724
Balance at the beginning of the year	77,314	83,724	74,831
Income tax expense	95,595	81,717	83,724
Prior year (over)/ under provision	-	-	-
Payment during the year	(82,467)	(88,127)	(74,831)
Balance at the end of the year	90,441	77,314	83,724

14d Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:			
To be recovered after more than 12 months	-	-	-
To be recovered within 12 months	5,189	(840)	(1,347)
	5,189	(840)	(1,347)

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Notes to the financial statements
For the year ended 30 June 2018

Deferred income tax assets and liabilities, deferred income tax charge/(credit) in profit or loss ("P/L), in equity and other comprehensive income are attributable to the following items:

Deferred income tax assets/(liabilities):	**At 1 July 2017 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2018 Birr'000**
Property, Plant and Equipment (Including intangibles)	(6,721)	(531)		(7,252)
Post employment benefit obligation	5,881	6,560		12,441
Total deferred tax assets/(liabilities)	(840)	6,029	-	5,189

Deferred income tax assets/(liabilities):	**At 1 July 2016 Birr'000**	**Credit/ (charge) to P/L Birr'000**	**Credit/ (charge) to equity Birr'000**	**30 June 2017 Birr'000**
Property, plant and equipment	(6,155)	(566)	-	(6,721)
Post employment benefit obligation	4,808	1,073	-	5,881
Total deferred tax assets/(liabilities)	(1,347)	507	-	(840)

	30 June 2018 Birr'000	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
15 Cash and balances with banks			
Cash in hand	1,004,683	808,630	660,457
Deposits with local banks	1,218,116	575,078	204,175
Deposits with foreign banks	32,942	258,215	216,902
Balance held with National Bank of Ethiopia	187,005	595,983	435,804
Reserve with National Bank of Ethiopia	576,000	441,000	318,000
	3,018,746	2,678,906	1,835,337

Maturity analysis	**30 June 2018 Birr'000**	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
Current	2,442,746	2,237,906	1,517,338
Non-Current	576,000	441,000	318,000
	3,018,746	2,678,906	1,835,338

The reserve with National Bank of Ethiopia represents regulatory cash ratio requirements based on customer deposits with the Bank. As at 30 June 2018, the cash ratio requirement was 5 % (2017: 5 %, 1 July 2016: 5 %). The funds are not available for the day to day operations of the Bank and are non interest bearing.

Amounts included in cash and cash equivalents are current. Reserves with National Bank of Ethiopia are non - current. Cash and balances with National Bank of Ethiopia are classified as 'loans and receivables'.

Lion International Bank S.C.
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For the year ended 30 June 2018

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
16 Loans and advances			
Analysis by sector			
Transportation and communication	357,541	396,490	290,444
Export loans	2,086,029	892,611	829,252
Import loans	1,523,976	1,279,377	994,113
Manufacturing and production	347,828	213,329	249,312
Building and construction	1,561,283	1,247,636	840,280
Domestic trade	1,290,804	1,153,184	870,092
Staff emergency and mortgage loans	251,819	187,514	113,403
Agricultural loans	24,846	50,049	59,526
Hotel and Tourism	117,128	151,292	118,084
Gross loans and advances to customers	7,561,254	5,571,481	4,364,505
Less: Impairment allowance (note 15a)			
- Specific impairment	(141,248)	(97,883)	(65,420)
- Collective impairment	(45,965)	(39,279)	(18,394)
Net loans and advances to customers	7,374,041	5,434,319	4,280,691

Analysis by maturity	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Loans and advances due:			
Not later than 1 year	6,242,093	5,049,621	3,296,706
Later than 1 year but not later than 5 years	282,195	73,083	196,723
Later than 5 years	1,036,966	448,777	871,076
Gross loans and advances to customers	7,561,254	5,571,481	4,364,505
Less: Provision for doubtful debts	(187,213)	(137,162)	(83,814)
Net loans and advances to customers	7,374,041	5,434,319	4,280,691

16a Impairment allowance on loans and receivables

A reconciliation of the allowance for impairment losses for loans and receivables by class, is as follows:

	As at 1 July 2016 Birr'000	Charge for the year Birr'000	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Individual allowance for impairment	65,420	34,617	100,037	28,593	128,630
Collective allowance for impairment	18,394	18,731	37,125	21,459	58,584
	83,814	53,348	137,162	50,052	187,214

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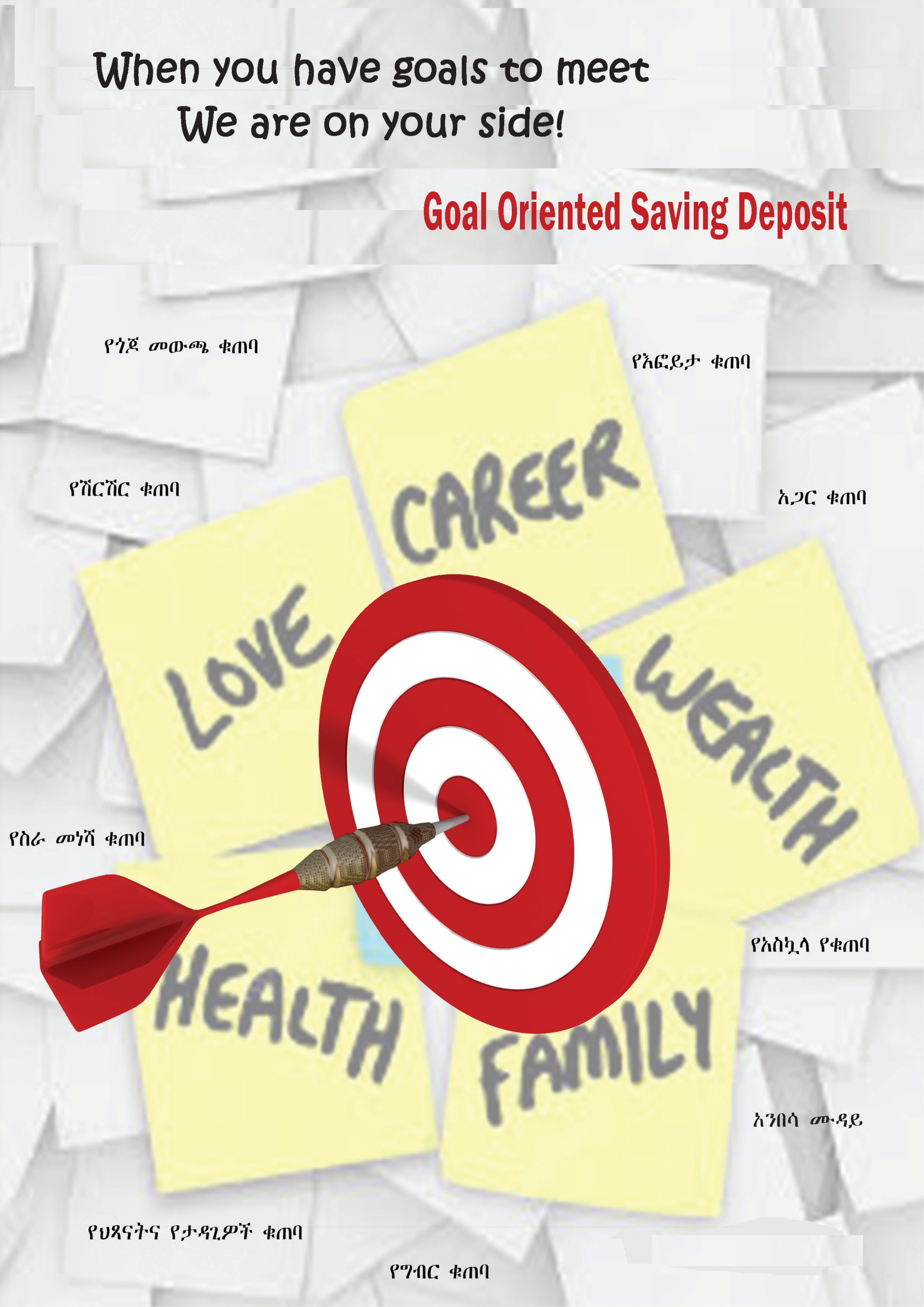
Ama-Hai Ama-Hai Chartered Certified Accountants & Auditors


When you have goals to meet
We are on your side!
Goal Oriented Saving Deposit
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CAREER
LOVE
WEALTH
የስራ መነሻ ቁጠባ
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Notes to the financial statements
For the year ended 30 June 2018

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
17 Investments			
Available for sale investments			
EthSwitch S.C.	12,002	11,370	11,370
Lion Insurance Co. S.C.	5,000	4,333	4,333
SWIFT	30	30	30
Goda Bottle and Glass S.C.	10,000	10,000	10,000
Gross amount	27,032	25,733	25,733
Less: Allowance for impairment			-
Net amount	27,032	25,733	25,733

Name of investees	**Principal activity**	**Shares**	**30 June 2018 Birr**
EthSwitch S.C.	Money transfer	12,002	12,002,000
Lion Insurance Co. S.C.	Insurance	200,000	5,000,000
SWIFT	Money transfer	1	29,574
Goda Bottle and Glass S.C.	Manufacturing	200,000	10,000,000
			27,031,574

Loan and receivables investments -Government securities

Securities held to maturity are stated at amortised cost .

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
National Bank of Ethiopia bills	3,311,509	2,420,801	1,702,363
	3,311,509	2,420,801	1,702,363
Movement			
At start of year	2,420,801	1,702,363	1,236,900
Additions	1,055,854	889,440	607,172
Maturities	(176,695)	(181,574)	(164,943)
Increase in accrued interest at end of year	11,549	10,572	23,234
Provision for impairment loss	-	-	-
At end of year	3,311,509	2,420,801	1,702,363
Maturity profile			
Bills maturing within 91 days from the date of acquisition	-	-	-
Bills maturing after 91 days after the date of acquisition	3,311,509	2,420,801	1,702,363
Total	3,311,509	2,420,801	1,702,363

This represents the cost of bills acquired from the National Bank of Ethiopia in accordance with directives on the establishment and operation of National Bank of Ethiopia Bills market No. MFA / NBEBILLS/002/2011.

The maturity period of the bills is 5 years.

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	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
18 Other assets			
Financial assets			
Sundry receivables	211,531	97,536	52,186
	211,531	97,536	52,186
Less: Impairment allowance for other assets	(2,973)	(2,665)	(2,668)
	208,558	94,871	49,518
Non-financial assets			
Prepaid staff benefit	23,819	41,519	30,116
Prepayments	152,959	116,346	94,884
Stock of supplies	6,000	4,180	3,071
Acquired property	24,754	6,833	1,240
	207,532	168,878	129,311
Net amount	416,090	263,748	178,829

Maturity analysis	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Current	201,712	117,483	61,083
Non-Current	214,377	146,267	117,746
	416,090	263,748	178,829

Impairment allowance on other assets

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Balance at the beginning of the year	2,666	2,668	2,668
(Reversal)/charge for the year (note 10)	(1)	(2)	-
Balance at the end of the year	2,665	2,666	2,668

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Notes to the financial statements

For the year ended 30 June 2018

19 Intangible Assets	Software	progress	Total
Cost:			
As at 1 July 2016	13,604	2,392	15,996
Additions during the year	17,553		17,553
Transfer from work in progress	2,392	(2,392)	-
As at 30 June 2017	33,549	-	33,549
As at 1 July 2017	**33,549**	-	33,549
Acquisitions	2,581		2,581
As at 30 June 2018	36,130	-	36,130
Accumulated amortisation and impairment losses:			
As at 1 July 2016	12,488	-	12,488
Amortisation for the year	1,722		1,722
Impairment losses			-
As at 30 June 2017	14,210	-	14,210
As at 1 July 2017	14,210	-	14,210
Amortisation for the year	4,261		4,261
Impairment losses			-
As at 30 June 2018	18,471	-	18,471
Net book value			
As at 1 July 2016	1,116	2,392	3,508
As at 30 June 2017	19,339	-	19,339
As at 30 June 2018	17,659	-	17,659

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	Motor vehicles Birr'000	Furniture and fittings Birr'000	Office & other equipment Birr'000	IT equipment Birr'000	Building & premises Birr'000	Construction in progress Birr'000	Total Birr'000
20 **Property,plant and equipment**							
Cost:							
As at 1 July 2016	37,949	32,410	34,567	35,316	4,500	-	144,741
Additions	-	9,866	8,986	21,324	-	34	40,210
Reclassifications	-	(212)	(754)	67	-	-	(899)
Disposals	(38)	-	-	-	-	-	(38)
As at 30 June 2017	37,911	42,064	42,799	56,707	4,500	34	184,014
As at 1 July 2017	37,911	42,064	42,799	56,707	4,500	34	184,014
Additions	6,230	15,315	7,638	13,217	8,373	-	50,772
Disposals	(423)	(21)	-	(12)			(456)
Reclassification	-	155	(9)	(1,662)			(1,516)
As at 30 June 2018	43,718	57,513	50,428	68,250	12,873	34	232,815
Accumulated depreciation							
As at 1 July 2016	11,519	8,362	11,043	14,895	454	-	46,273
Charge for the year	3,427	3,648	4,478	5,270	86	-	16,908
Disposals	(38)	-	-	-			(38)
As at 30 June 2017	14,908	12,010	15,520	20,165	539	-	63,142
As at 1 July 2017	14,908	12,010	15,520	20,165	539	-	63,142
Charge for the year	3,524	4,691	5,227	7,232	99	-	20,772
Disposals	(423)	(6)	-	(2)			(431)
As at 30 June 2018	18,009	16,695	20,748	27,395	638	-	83,484
Net book value							
As at 1 July 2016	26,430	24,048	23,524	20,421	4,046	-	98,469
As at 30 June 2017	23,003	30,054	27,279	36,542	3,961	34	120,872
As at 30 June 2018	25,709	40,818	29,680	40,855	12,235	34	149,332

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		30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
21	**Customer deposits**			
	Foreign currency deposits	62,115	40,023	10,323
	Demand deposits	2,352,029	1,797,940	1,746,366
	Saving deposits	8,229,837	5,938,281	4,053,418
	Time deposits	995,607	1,034,583	544,886
	Total deposits from customers	11,639,588	8,810,827	6,354,993

Customer deposits are financial instruments classified as liabilities at amortised cost. Included in time deposits are deposits which are at fixed interest rates whereas all other deposits are at variable rates.

		30 June 2018 Birr'000	2017 Birr'000	1 July 2016 Birr'000
22	**Other liabilities**			
	Financial liabilities			
	Cash payment orders	183,632	149,652	169,701
	Margin held on letters of credit	307,495	257,702	196,605
	Blocked accounts	20,257	52,389	56,657
	Leave accrual	19,849	14,844	10,965
	Local transfers payable	2,786	2,599	4,890
	Exchange commission	18,388	13,713	14,252
	Share premium - NBE	-	115	-
	Miscellaneous payables	5,989	2,854	44,981
	Retention payable	-	-	15
	Retention on foreign currency	14,369	9,406	11,791
	Accruals	43,815	36,637	35,993
	Dividend payable	32,301	63,591	31,840
	Provident and pension fund	1,183	880	670
	Other payables	1,842	2,291	1,450
	Foreign transactions payable	16,204	2,579	4,074
	Temporary customer accounts	4,903	9,451	8,042
		673,013	618,703	591,926
	Non-financial liabilities			
	Advances on import bills	33,125	6,990	8,533
	Taxes and stamp duty charges	5,474	4,549	5,112
	Unearned Income-LG Commission	25,197	23,805	15,506
	Unearned Income-LC Opening S/Charges	2,201	4,810	2,109
	Provision for legal cases	216	9,246	1,742
	Total	66,213	49,400	33,002
	Total	739,227	668,105	624,927

Maturity analysis	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Current	712,319	633,459	597,756
Non-Current	26,908	34,646	27,171
	739,227	668,105	624,927

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	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
23 Retirement benefit obligations			
Defined benefits liabilities:			
– Severance and retirement benefit gratutity benefits	41,470	19,604	16,027
Liability in the statement of financial position	**41,470**	**19,604**	**16,027**
Income statement charge included in personnel expenses:			
– Severance and retirement benefit gratutity benefits	5,789	5,032	16,027
Total defined benefit expenses	**5,789**	**5,032**	**16,027**
Remeasurements for:			
– Severance and retirement benefit gratutity benefits	(16,680)	922	-
	(16,680)	**922**	**-**

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

Maturity analysis	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Current	950	603	-
Non-Current	40,520	19,001	16,027
	41,470	19,604	16,027

Severance and retirement benefit gratutity benefits

The Bank operates an unfunded severance pay plan for its employees who have served the Bank for 5 years and above and are below the retirement age. The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent in employment to a maximum of 12 months final monthly salary.

The Bank also pays employees who retire with 15 years or more of service a reward gratitude of three (3) month's salary calculate on the basis of the last salary of the employee.

The key financial assumptions are the discount rate and the rate of salary increases. The provision for gratuity was based on an independent actuarial valuation performed by QED Actuaries & Consultants (Pty) Ltd using the projected unit credit method.

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

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

		30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
A	**Liability recognised in the financial position**	41,470	19,604	16,027

		30 June 2018 Birr'000	2017 Birr'000	1 July 2016 Birr'000
B	**Amount recognised in the profit or loss**			
	Current service cost	2,659	2,431	-
	Interest cost	3,130	2,601	-
		5,789	5,032	-

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

23 Retirement benefit obligations (Contd)

C Amount recognised in other comprehensive income:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Remeasurement (gains)/losses arising from changes in demographic assumptions	246	-	
Remeasurement (gains)/losses arising from changes in the economic assumptions	(12,927)	3,796	
Remeasurement (gains)/losses arising from changes exeperience	(3,999)	(2,874)	
	(16,680)	922	-

The movement in the defined benefit obligation over the years is as follows:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
At the beginning of the year	19,604	16,027	-
Current service cost	2,659	2,431	16,027
Interest cost	3,130	2,601	
Remeasurement (gains)/ losses	16,680	(922)	
Benefits paid	(603)	(533)	
At the end of the year	41,470	19,604	16,027

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Discount Rate (p.a)	**12.91%**	**14.25%**	**14.30%**
Long term salary increases	**12.00%**	**9.70%**	**11.60%**

Discount rate

IAS19 requires that the discount rate be set based on the yields of appropriate term high quality corporate bonds. If no deep market in such bonds is available, accounting standards require that the yield on government bonds of appropriate term be applied in the setting of this assumption.

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 EBA has therefore advised on the use a discount rate of 14.30% as at 30 June 2016 and 14.25%, as at 30 June 2017 and 12.91% as at 30 June 2018 respectively.

Long term salary increases

Future salary increases are usually linked with a long-term future inflation assumption, plus a margin in respect of merit or promotional increases. Long term salary increases of 2% higher than the assumed long-term inflation rate on average, has been applied.

Inflation in Ethiopia has been volatile over 5 years leading up to the valuation dates, ranging from 7% to 24% p.a. The information contained in the Staff Report for the 2017 Article IV Consultation prepared by the International Monetary Fund for Ethiopia suggests that long-term inflation in Ethiopia is expected to converge towards a target of 8% over the long term. As a result, an inflation rate of 7.7% and 9.6% p.a as at 30 June 2017 and 30 June 2016 was used based on actual average annual inflation for each year per the Central Statistics Agency ("CSA") reports. So it is allowed for long term salary increases of 2% higher than the assumed long-term inflation rate on average and ineffect the long term salary increases is 12% for as of June 30,2018.

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Notes to the financial statements
For the year ended 30 June 2018

23 Retirement benefit obligations (Contd)

ii) Mortality in Service

In determining an appropriate mortality table to use for the valuations, we have considered the mortality rates published in the Demographic and Health Survey ("DHS") 2016 report compiled by the CSA. The DHS report provides male and female mortality rates for 5 year age bands from age 15 to age 49.

Age	Male rate	Female Mortality rate
20	0.306%	0.223%
25	0.303%	0.228%
30	0.355%	0.314%
35	0.405%	0.279%
40	0.515%	0.319%
45	0.450%	0.428%
50	0.628%	0.628%
55	0.979%	0.979%
60	1.536%	1.536%

iii) Withdrawal from Service

The resignation rates are summarised in the table below (the rates are applicable up to and including the stated ages, with the last rate continuing until retirement.):

Age	Resignation rates per annum
20	17.30%
25	7.45%
30	7.60%
35	7.12%
40	5.05%
45	3.38%
50	4.24%

The sensitivity of the main results to changes in the discount rate has been calculated. The changes in the 30 June 2018 and 2017 are reflected below.

		Impact on defined benefit obligation			
		30 June 2018		30 June 2017	
	Change in	Impact of an	Impact of a	Impact of an	Impact of a
		Birr'000	Birr'000	Birr'000	Birr'000
Discount rate	0.5%	(2,281)	2,425	(809)	847

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.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the severance pay plan at the end of the reporting period is 13 years for 30,June ,2018 and 10 Years for 30 June 2017 and 1 July 2016.

The following payments are expected contributions to be made in for the next five (5) years out of the defined benefit plan obligation as of 30 June 2018 and 30 June 2017:

	30 June 2018 Birr'000	30 June 2017 Birr'000
Within the next 12 months (next annual reporting period)	(2,255)	(1,687)
Year ending 30 June 2020	(3,092)	(2,086)
Year ending 30 June 2021	(3,889)	(2,838)
Year ending 30 June 2022	(5,074)	(3,428)
Year ending 30 June 2023	(5,819)	(4,188)
	(20,129)	(14,227)

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

23 Retirement benefit obligations (Contd)

Risk exposure

Through its post-employment benefit schemes, the Bank 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 Bank 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.

(ii) Inflation risk

This is the risk that of an unexpected significant rise/fall in longterm inflation rate. A rise in inflation rate would lead to an increase in the defined benfit obligation.

24 Ordinary share capital

Authorised:			
3 Billion Ordinary shares of 25 Birr each	1,184,180	938,230	642,490
Issued and fully paid:			
47,367,214 Ordinary shares of 25 Birr each (as of 30 June 2018)	1,184,180	938,230	642,490

25 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.

	30 June 2018 Birr'000	30 June 2017 Birr'000
Profit attributable to shareholders (**before IFRS adjustments**)	390,766	231,629
Rollover IFRS adjustment for 2015/16 and 2016/17, and of 2017/18 Regulatory risk reserve	(84,631)	(32,327)
Profit attributable to shareholders (after IFRS adjustments)	306,135	199,302
Weighted average number of ordinary shares issued as at 30 June 2018 and 30 June 2017	40,548	34,468
Basic & diluted earnings per share (Birr)	7.55	5.78

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the Bank. There were no discontinued operations during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2017:nil, 1 July 2016: nil), hence the basic and diluted loss per share have the same value.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

		30 June 2018 Birr'000	30 June 2017 Birr'000
26	**Retained earnings**		
	At the beginning of the year	144,248	180,735
	Declared dividend	(198,191)	(191,224)
	Profit/ (Loss) for the year	390,766	231,629
	Transfer to legal reserve	(97,691)	(67,114)
	Transfer to special reserve	(3,152)	(4,937)
	Transfer to Regulatory Risk Reserve	(10,633)	(4,842)
	At the end of the year	225,345	144,248

		30 June 2018 Birr'000	30 June 2017 Birr'000
27	**Legal reserve**		
	At the beginning of the year	274,337	207,222
	Transfer from profit or loss	97,691	67,114
	At the end of the year	372,029	274,337

The NBE Directive No. SBB/4/95 states requires the Bank to transfer annually 25% of its annual net profit to its legal reserve account until such account equals its capital. When the legal reserve account equals the capital of the Bank, the amount to be transferred to the legal reserve account will be 10% (ten percent) of the annual net profit.

		30 June 2018 Birr'000	30 June 2017 Birr'000
28	**Special reserve**		
	At the beginning of the year	12,029	7,093
	Transfer (from) / to retained earnings	3,152	4,937
	Prior year adjustment	-	
	At the end of the year	15,181	12,029

According to the resolution of the 10th and 11th shareholders' general assembly, the shareholders passed a resolution to retain a special reserve from the profit of the year ended 30 June 2015 and 2016. This reserve is not subject to distribution to shareholders.

		30 June 2018 Birr'000	30 June 2017 Birr'000
29	**Regulatory risk reserve**		
	At the beginning of the year	11,213	6,371
	Transfer (from) / to retained earnings	10,633	4,842
	At the end of the year	21,846	11,213

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia(NBE) to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the incurred loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is less than the loan loss impairment determined using the incurred loss model under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

	30 June 2018 Birr'000	30 June 2017 Birr'000
30 Other reserves		
At the beginning of the year	922	-
Remeasurement gain/(loss) on retirement benefits obligations	(16,680)	922
At the end of the year	(15,758)	922

Defined benefit obligations reserve represents the remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions . They are recognised in the period in which they occur, directly in other comprehensive income.

	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000
31 Notes to the statement of cashflows			
a) Cash used in operations			
Reconciliation of profit before income tax to cash from operations			
Profit before tax		480,331	312,838
Adjustments for non-cash items:			
Depreciation of property and equipment	20	20,772	16,908
Amortisation of intangible assets	19	4,261	1,722
Loan impairment Charge	16	50,052	53,348
Impairment loss on other assets		308	(2)
Gain on Disposal of Property and Equipment		(613)	(60)
Current Service Cost on Defined Benefit Obligation		5,789	5,032
Prior year adjustment		-	(4)
Changes in operating assets and liabilities:			
-Decrease/ (Increase) in loans and advances	16	(1,989,773)	(1,206,976)
-Decrease/ (Increase) in other assets	18	(152,650)	(84,919)
-Increase/ (Decrease) in customer's deposit		2,828,761	2,455,834
-Increase/ (Decrease) in other liabilities	22	102,412	11,427
		1,349,651	1,565,148

b) Cash and balances with banks	Notes	30 June 2018 Birr'000	30 June 2017 Birr'000
Cash in hand	14	1,004,683	808,630
Cash and balances with National Bank of Ethiopia		187,005	595,983
Deposits with local banks		1,218,116	575,078
Deposits with foreign banks		32,942	258,215
Reserve with National Bank of Ethiopia		576,000	441,000
		3,018,746	2,678,906

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Notes to the financial statements
For the year ended 30 June 2018

32 Related party transactions

IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

A related party is a person or an entity that is related to the reporting entity:

- A person or a close member of that person's family is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel.
- An entity is related to a reporting entity if, among other circumstances, it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. If an entity has had related party transactions during the periods covered by the financial statements, IAS 24 requires it to disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

IAS 24 requires an entity to disclose key management personnel compensation in total and by category as defined in the Standard.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. If an entity has had related party transactions during the periods covered by the financial statements, IAS 24 requires it to disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

IAS 24 requires an entity to disclose key management personnel compensation in total and by category as defined in the Standard.

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

32a ***Transactions with related parties***	**30 June 2018 Birr'000**	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
Transaction with related borrower	218,333	30,332	98,621
Transaction with related Insurance Company			
- Payment for staff insurance	1,169	783	576
- Payment for Money, Motor, Fire & Lightening and Fidelity Insurances	4,111	3,438	3,099
			-
	223,613	34,554	102,296

32b *Key management compensation*

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2018.

	30 June 2018 Birr'000	**30 June 2017 Birr'000**	**1 July 2016 Birr'000**
			-
Board of directors remuneration	1,110	1,508	592
Salaries and other short-term employee benefits	9,172	7,185	5,603
Post-employment benefits			-
Termination benefits			-
	10,282	8,693	6,195
Loans and Advances			
Loan to senior management	10,875	9,459	7,612
	21,156	18,152	13,806

Compensation of the Bank's key management personnel includes salaries, non-cash benefits and contributions to the post-employment defined benefits plans.

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Notes to the financial statements
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33 Directors and employees

i) The average number of personnels (including directors) employed by the Bank during the year was as follows:

	30 June 2018 Number	30 June 2017 Number	1 July 2016 Number
Professionals and High Level Supervisors	1,322	1,089	896
Semi-professional, Administrative and Clerical	397	309	261
Technician and Skilled	4	4	2
Manual and	106	116	126
	1,829	1,518	1,285

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Below 10,000	1,175	1,079	1,039
10,000 - 30,000	636	429	243
30,001 - 50,000	15	7	2
50,001 - 100,000	2	2	1
Above 100,000	1	1	-
	1,829	1,518	1,285

34 Contingent liabilities

IAS 37 defines and specifies the accounting for and disclosure of provisions, contingent liabilities, and contingent assets. A provision is a liability of uncertain timing or amount. The liability may be a legal obligation or a constructive obligation. A contingent liability is not recognized in the statement of financial position. However, unless the possibility of an outflow of economic resources is remote, a contingent liability is disclosed in the notes.

34a Claims and litigation

Per the clauses set in the International Accounting Standard (IAS 37) , there are no probale legal cases under going that materialize in near future and result in financial loss against the Bank.

34b Guarantees and letters of credit

The Bank conducts business involving guarantees and letter of credit. These instruments are given as a security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

The table below summarises the fair value amount of contingent liabilities for the account of customers:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Guarantees Issued	2,171,938	1,902,444	1,271,182
Letters of credit	610,470	620,161	474,804
Loans and advances approved but not drawn	384,647	425,865	279,962
CAD-Export sight	45,833	38,255	-
	3,212,888	2,986,725	2,025,947

35 Commitments

The Bank has no commitments, provided for in these financial statements, as of 30 June 2018,30 June 2017 and 30 June 2016 for purchase of various capital items.


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Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

36 Operating lease commitments - Bank as lessee

The Bank leases various properties under non-cancellable operating lease agreements. The lease terms are between two and seven years, and majority of these lease agreements are renewable at the end of the each lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
No later than 1 year	53,651	44,408	21,402
Later than 1 year and no later than 2 years	52,709	4,294	16,158
Later than 2 years but not later than 5 years	44,153	50,881	54,352
Later than 5 years	1,093	14,176	1,215
Total	151,606	113,759	93,127

37 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events (between the reporting date and the date when the financial statements were issued) which could have a material effect on the state of affairs of the Bank as at 30 June 2018 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

i.e.No significant event that requires special disclosure occured between the reporting date and the date when the financial statements were issued.

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

38 First-time adoption of IFRS for the Bank

These financial statements, for the year ended 30 June 2018, are the first the Bank has prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For periods up to and including the year ended 30 June 2017, the Bank prepared its financial statements in accordance with its accounting framework. Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2018, together with the comparative period data as at and for the year ended 30 June 2017, as described in the summary of significant accounting policies.

In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 July 2016, the Bank's date of transition to IFRS. This note explains the principal adjustments made by the Bank in restating its financial statements prepared under the previous framework, including the statement of financial position as at 1 July 2016 and the financial statements as at and for the year ended 30 June 2017.

In preparing its opening IFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) of Ethiopia and the Commercial code of 1960. An explanation of how the transition from GAAP to IFRS has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The most significant IFRS impact for the Bank resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement which requires the bank to classify its financial instruments into available for sale, fair value through profit and loss, loans and receivables and held to maturity. Also the impairment of financial assets only in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an “”incurred loss”” model).

In preparing these financial statements in accordance with IFRS 1, the Bank has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Bank are summarised below.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Following from the principles underpinning IFRS 1, the Bank has applied the following exemptions:

(a) Deemed cost for property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets were carried in the statement of financial position prepared in accordance with previous framework using historical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value of assets under GAAP and IFRS is not expected to be materially different.

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(b) Leases

The bank is required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2016. Any contracts that exist would result in a classification based on the facts and circumstances that exist at transition date.

(c) Designation of previously Recognised Financial Instruments

Applying this exemption means that Banks is permitted to designate a financial asset as available-for-sale at the date of transition to IFRS. The Bank has designated unquoted equity instruments held at 1 July 2016 as available-for-sale investments.

(d) Fair value measurement of financial instruments at initial recognition

The Bank may apply the requirements to recognise day 1 gain or loss prospectively to transactions entered into on or after the date of transition to IFRS. This will result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability held prior to 1 July 2016.

Exceptions applied

a Estimates

Estimates made in accordance with IFRSs at the date of transition to IFRSs should be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error or where application of previous framework did not require estimation such as post-employment benefits.

b De-recognition of financial assets and financial liabilities

This exception exempts a first time adopter from full retrospective application of the de-recognition rules in IAS 39, Financial instruments: Recognition and measurement', for all financial assets and liabilities derecognised before 1 January 2004 or transition date. Therefore, financial assets and liabilities derecognised before 1 July 2016 are not re-recognised under IFRS.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

39a Reconciliation of Statement of total comprehensive income for the year ended 30 June 2017

	Notes	Previous Framework Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS Birr'000
Interest income	A	763,608	-	11,769	775,377
Interest expense		(240,712)	-	-	(240,712)
Net interest income		522,896	-	11,769	534,665
Fee and commission income	B	146,293	-	(11,001)	135,292
Fee and commission expense		-	-	-	-
Net fees and commission income		146,293	-	(11,001)	135,292
			-		
Net foreign exchange income	C	51,114		(636)	50,478
Other operating income	D	81,659		(3,374)	78,285
					-
Total operating income		801,963	-	(3,242)	798,720
Loan impairment charge	E	(26,276)	-	(27,072)	(53,348)
Impairment losses on other assets		2	-	-	2
Net operating income		775,687	-	(30,315)	745,374
Employee benefits	F	(251,298)	-	(5,806)	(257,104)
Amortisation of intangible assets	G	(1,094)	-	(628)	(1,722)
Depreciation of property and equipment	G	(20,495)	-	3,587	(16,908)
Other operating expenses	H	(149,447)	-	(7,628)	(157,075)
Directors and Nomination committee fees		(2,042)		-	(2,042)
Audit fees and expenses		(388)		-	(388)
Profit before tax		350,923	-	(40,789)	310,136
Income tax expense		(81,209)		-	(81,209)
Profit after tax		269,714	-	(40,789)	228,927
Other comprehensive income (OCI) net on income tax					
Items that will not be subsequently reclassified into profit or loss:					
Remeasurement gain/(loss) on retirement benefits obligations		-	-	922	922
Deferred tax (liability)/asset on remeasurement gain or loss		-	-	-	-
		-	-	922	922
Total comprehensive income for the period		**269,714**	**-**	**(39,867)**	**229,849**

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

39b Reconciliation of equity as at 30 June 2017

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS Birr'000
ASSETS					
Cash and balances with banks	I	2,230,323	451,805	(3,222)	2,678,906
Reserve with National Bank of Ethiopia	I	441,000	(441,000)	-	-
Loans and advances	J	5,485,675		(51,356)	5,434,319
Investment securities:	K	-	-	-	-
- Available for sale	K	-	25,733	-	25,733
- Loans and receivables	K	-	2,420,949	(148)	2,420,801
National Bank of Ethiopia bills	K	2,386,995	(2,386,995)		-
Investments	K	25,733	(25,733)	-	-
Other assets	L	262,771	3,896	(2,919)	263,748
Stock of supplies	L	7,815	(7,815)	-	-
Deferred charges	O	20,257	(20,257)	-	(0)
Property and equipment	M	111,608	3,636	5,628	120,872
Leasehold land	N	3,752	(2,889)	(863)	-
Intangible assets	O	-	20,257	(918)	19,339
Deferred income tax asset		-	-	-	-
Current income tax		-	-	-	-
Total assets		**10,975,929**	**41,586**	**(53,797)**	**10,963,718**
LIABILITIES, CAPITAL AND RESERVES					
Deposits from customers	P	8,774,856	36,474	(502)	8,810,827
Other liabilities	Q	409,108	221,250	37,746	668,105
Margin held on letters of credit	Q	257,724	(257,724)		-
Current income tax liability	R	82,467	-	(5,153)	77,314
Lease payable	N	2,889	(2,889)		-
Retirement benefits obligation	T			19,604	19,604
Deferred income tax	S	-	-	840	840
Total liabilities		**9,527,044**	**(2,889)**	**52,534**	**9,576,689**
CAPITAL AND RESERVES					
Paid up capital		938,230	-	-	938,230
Legal reserve		274,337	-	-	274,337
Special reserve		12,029	-	-	12,029
Share premium		6,050	-	-	6,050
Retained earnings		218,238	-	(73,991)	144,247
Regulatory risk reserve		-	-	11,213	11,213
Other Reserves				922	922
Total capital and reserves		**1,448,884**	-	(61,856)	1,387,028
Total liabilities, capital and reserves		**10,975,928**	**(2,889)**	**(9,322)**	**10,963,718**

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

39c Reconciliation of equity as at 1 July 2016

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS Birr'000
ASSETS					
Cash and balances with banks	I	1,096,763	741,224	(2,650)	1,835,337
Reserve with National Bank of Ethiopia	I	318,000	(318,000)	-	-
Foreign bank deposits	I	219,049	(219,049)	-	
Domestic bank time deposit	I	200,000	(200,000)	-	-
Loans and advances	J	4,303,388	-	(22,696)	4,280,691
Investment securities:	K	-	-	-	-
- Available for sale	K	-	25,733	-	25,733
- Loans and receivables	K	-	1,702,483	(120)	1,702,363
National Bank of Ethiopia bills	K	1,679,129	(1,679,129)		-
Investments	K	25,733	(25,733)	-	-
Other assets	L	173,873	7,307	(2,351)	178,829
Stock of supplies	L	7,605	(7,605)	-	(0)
Deferred charges	O	3,799	(3,799)	-	0
Property and equipment	M	91,893	4,534	2,041	98,469
Intangible assets	O	-	3,799	(291)	3,508
Deferred income tax asset		-	-	-	-
Current income tax		-	-	-	-
Total assets		**8,119,232**	**31,765**	**(26,067)**	**8,124,930**
LIABILITIES, CAPITAL AND RESERVES					
Deposits from customers	P	6,333,564	21,895	(465)	6,354,993
Other liabilities	Q	431,042	174,744	19,140	624,927
Margin held on letters of credit	Q	196,639	(196,639)		-
Current income tax liability	R	88,127	-	(4,402)	83,724
Retirement benefits obligation	T	-		16,027	16,027
Deferred income tax	S	-	-	1,347	1,347
Total liabilities		**7,049,372**	**-**	**31,646**	**7,081,019**
CAPITAL AND RESERVES					
Paid up capital		642,490	-	-	642,490
Legal reserve		207,222	-	-	207,222
Special reserve		7,093	-	-	7,093
Retained earnings		213,055	-	(32,320)	180,735
Regulatory risk reserve		-	-	6,371	6,371
Total capital and reserves		1,069,860	-	(25,949)	1,043,911
Total liabilities, capital and reserves		**8,119,232**	**-**	**5,697**	**8,124,930**

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

39d Notes to the reconciliation of equity as at 1 July 2016 and 30 June 2017 and total comprehensive income for the year ended 30 June 2017.

	A Interest income	**30 June 2017 Birr'000**
	Interest income under previous framework	763,608
	Remeasurement	
i	Amortised cost on NBE bills	(28)
ii	Amortised cost on government bonds	-
iii	Amortised cost on staff loans	1,889
iv	Adjustment to recognise suspended interest on non-performing loans	10,489
v	Adjustment to recognition of interest on individually impaired loans	(581)
vi	Transaction cost on loans and advances	-
	Interest income under IFRS	775,377

Note on remeasurement

i,ii,iii Interest income is recognised using the Effective Interest Rate method as mandated (EIR) by IAS 39. An adjustment was passed to reflect investment income as calculated using EIR. The IFRS adjustment relates to the interest income on investment securities measured at amortised cost.

iv Under the previous framework, interest income relating to non-performing loans were suspended i.e. these balances were kept off balance sheet. Under IFRS, there suspended interest have been recognised to correctly state the outstanding amount due from customers on loans and advances.

v IAS 39 requires interest income to be recognised on impaired loans to be calculated on the carrying amount net of impairment. An adjustment has been passed to recognise interest income in line with IFRS.

vi Under previous GAAP, fees relating to loans and advances are recognised upfront. Under IFRS, fees integral to each loan should be amortised over the life of the loan. Fees have been amortised and interest income was adjusted to recognise the effect of the transaction costs relating to loans and advances to customers.

B Fee and commission income	**30 June 2017 Birr'000**
Fee and commission income under previous framework	146,293
Remeasurement	
Accounting for unearned fees on LGs	(8,299)
Interest income under IFRS	137,994

Note on remeasurement

i& ii Fees and commissions should be recognised through out the life of the Letter of credit and the letter of guarantee. There is therefore a need to armotise and recognise unearned fees/commission.

C Net foreign exchange income	**30 June 2017 Birr'000**
Balance under previous framework	51,114
Remeasurement	(636)
Translation adjustment on application of mid-rate as closing rate	**50,478**

Note on Remeasurement

Under the previous framework, monetary assets denominated in foreign currencies, which are stated at historical cost, were translated at the selling exchange rates ruling. Under IFRS the mid rate has been adopted for translation.

D Other operating income	**30 June 2017 Birr'000**
Balance under previous framework	81,659
Remeasurement	(3,374)
Other Operating income adjustment	**78,286**

Note on Remeasurement

Under the previous framework, monetary assets denominated in foreign currencies, which are stated at historical cost, were translated at the selling exchange rates ruling. Under IFRS the mid rate has been adopted for translation.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2018

		30 June 2017 Birr'000
E	**Loan impairment charge**	
	Loan impairment charge under previous framework	(26,276)
	Remeasurement	
	Additional impairment charge	(27,072)
	Loan impairment under IFRS	**(53,348)**

		30 June 2017 Birr'000
F	**Employee benefits expense**	
	Employee benefits expense under previous framework	251,298
	Remeasurement	
i)	Amortisation of prepaid staff expense	1,307
ii)	Increase in retirement benefit obligation	5,032
iii)	Payments of retirment benefits	(533)
	Employee benefits expense under IFRS	**257,104**

Note on remeasurement

i) Remeasurement on prepaid staff expense as a result of recognising below market loans at fair value. This represents the prepaid staff expense for the period.

ii) Relates to remeasurement of the retirement benefit obligation

		30 June 2017 Birr'000
G	**Depreciation of property and equipment and amortisation expense**	
	Depreciation expense under previous framework (Note K)	(21,589)
	Remeasurement	
	Revision of estimated useful lives	2,960
	Depreciation expense under IFRS	**(18,629)**

		30 June 2017 Birr'000
H	**Other Operating expenses(including Directors' fees and audit fees)**	
	Other Operating expenses under previous framework	(151,877)
	Remeasurement	
	Operating Lease Expense- after derecognition of of leased land	(112)
	Amortization-Prepaid Leasehold Land, after derecognition of of leased land	(11)
	Legal expenses	(7,505)
	Other Operating expense under IFRS	**(159,504)**

		30-Jun-17 Birr'000	1-Jul-16 Birr'000
I	**Cash and balances with banks**		
	Balance as per GAAP	2,230,323	1,096,763
	Reclassification		
(i)	Reclassification from Reserve with National Bank of Ethiopia	441,000	318,000
(ii)	Reclassification of foreign deposits	-	219,049
(iii)	Reclassification of domestic bank time deposits	-	200,000
(iv)	Reclassification of accrued interest on other bank deposits	10,805	4,175
	Remeasurement		
(v)	Translation adjustment on application of mid-rate as closing rate	(572)	(2,650)
	Rollover adjustment from previous year	(2,650)	
	Balance as per IFRS	2,678,906	1,835,337

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Notes to the financial statements
For the year ended 30 June 2018

Notes on reclassification

(i,ii,iii) Under the previous framework, Cash with National Bank of Ethiopia, foreign deposits and deposits with local banks was recognised separately, under IFRS these have been reclassified to the broader class of cash and balances with Banks.

(iv) Under the previous framework, interest receivable due on deposits with local banks was recognised as a separate line item. Under IFRS, loans and receivable 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.

Deposits with local banks are loans and receivables financial assets which should be measured at amortised cost taking into account the related interest receivable on these deposits. Therefore, interest receivable was reclassified to be included in the carrying amount of the deposits."

Notes on remeasurement

Under the previous framework, accounts denominated with FCY had been revalued with selling rate under IFRS, such accounts are transalated with mid rate(the average of buying and selling rate).

J	Loans and advances	30-Jun-17 Birr'000	1-Jul-16 Birr'000
	Balance as per GAAP	5,485,675	4,303,388
	Remeasurement		
(i)	Measurement of staff loan based on fair value	(12,711)	(31,765)
(ii)	Recognition of the difference between the interest recognised using the market rate and the below market interest rate.	1,889	3,248
(iii)	Recognition of accrued interest on non performing loans under previous framework	10,489	5,530
(iv)	Recognition of additional impairment on loans and advances to customers based on IAS 39	(27,072)	2,744
(v)	Recognition of interest income on impaired loans	(581)	(243)
(vi)	Transaction cost on loans and advances	(673)	(2,210)
	Rollover adjustment from previous year	(22,696)	-
	Balance as per IFRS	5,434,319	4,280,691

Notes on remeasurement

(i) Under previous framework, staff loans and advances were issued at below market interest rates ranging from 0% to 8%. Under IFRS, such loans must be recognised at fair value by discounting all future cash flows at the market rate of interest for similar loan facilities. The difference between the disbursed amounts and the fair value of the loan was capitalised as prepaid employee expenses and recognised as part of other assets.

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Notes to the financial statements
For the year ended 30 June 2018

(ii) The interest on staff loans and advances was calculated using the nominal rates under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.

(iii) The interest on staff loans and advances was calculated using the nominal rates under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.

(iv) Under the previous framework, loans and advances to customers were subjected to impairment provision based on the aging of such balances. The impairment loss was determined by applying a percentage provision to the different age buckets in which the outstanding amounts have been segmented. The rates and age buckets were determined based on the National Bank of Ethiopia Supervision of Banking Business directive Number SBB/52/2012. Under IFRS, the Bank is required to assess whether an objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. For financial assets where no evidence of impairment existed, these assets were collectively assessed for impairment. Specific impairment was calculated on individually significant loans for which an objective evidence of impairment existed.

The difference between the principles applied in calculating impairment allowance under IFRS and the NBE guidelines resulted in different impairment loss amounts. The difference between the impairment recognised using the NBE guidelines and IFRS impairment provision was recognised as an adjustment to retained earnings.

(v) IAS 39 requires interest income to be recognised on impaired loans to be calculated on the carrying amount net of impairment. An adjustment has been passed to recognise interest income in line with IFRS.

(vi) Under previous GAAP, fees relating to loans and advances are recognised upfront. Under IFRS, fees integral to each loan should be amortised over the life of the loan. Fees have been amortised and interest income was adjusted to recognise the effect of the transaction costs relating to loans and advances to customers.

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Notes to the financial statements
For the year ended 30 June 2018

		30-Jun-17 Birr'000	1-Jul-16 Birr'000
K	**Investment securities:**		
	Balance as per GAAP	-	-
	Reclassification		
(i)	Reclassification of accrued interest on NBE bills and Government bonds from other asset	33,954	23,354
(ii)	Equity investments reclassified to investment securities - Available for sale	25,733	25,733
(iii)	National Bank of Ethiopia bills reclassified to investment securities - Loans and receivables	2,386,995	1,679,129
	Remeasurement		
(iv)	Being restatement of NBE Bills at amortised cost using Effective Interest Rate method	(28)	(120)
	Rollover adjustment from previous year	(120)	
	Balance as per IFRS	2,446,534	1,728,096

Notes on reclassification

(i) Accrued interest was presented under other assets under local GAAP, on transition to IFRS the carrying amount of a financial asset measured at amortised cost includes the accrued interest.

(ii) Under the previous framework, equity investments were presented as investment on the balance sheet. Under IFRS, these unquoted equity securities were reclassified to investment securities as available for sale financial assets.

(iii) Under the previous framework NBE bills were presented as a separate line item on the balance sheet. On transition to IFRS, NBE bills were reclassified to investment securities as loans and receivable financial assets.

Notes on remeasurement

(iv) Interest income is recognised using the Effective Interest Rate method as mandated (EIR) by IAS 39. An adjustment was passed to reflect investment income as calculated using EIR. The IFRS adjustment relates to the interest income on investment securities measured at amortised cost.

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

	L Other assets	30-Jun-17 Birr'000	1-Jul-16 Birr'000
	Balance as per GAAP	262,771	173,873
	Reclassification		
i	Reclassification of accrued interest on NBE bills to Government securities (Note G)	(33,954)	(23,354)
ii	Reclassification of accrued interest on fixed time deposits to cash and bank balances (Note F)	(10,805)	(4,175)
iii	Non-current assets in store from other assets to property, plant and equipment	(3,636)	(4,534)
iv	Recognition of staff loans at fair value - Prepaid staff assets (Note H)	44,476	31,765
v	Reclassification of stock of supplies to other assets	7,815	7,605
	Provision for Impairment loss	-	(691)
	Remeasurement		
vi	Amortisation of cumulative prepaid employee benefit(Note H)	(1,307)	(1,649)
vii	Rollover adjustment from previous year	(2,351)	-
	Prepayment for operating lease	740	
	Amortization of Prepaid Leasehold Land	-	(11)
	Balance as per IFRS	263,748	178,829

Notes on reclassification

iii Under previous framework, the bank did not capitalise computers and accessories on purchase and ready for use until it is issued from stock. On transition to IFRS, all non-current assets in stock that were ready for use were reclassified from other assets to property plant and equipment.

v Under previous framework, the bank presented separately stock of supplies, Under IFRS this will now be presented as part of other assets.

	M Property and equipment	30-Jun-17 Birr'000	42,552 Birr'000
	Balance as per GAAP	111,608	91,893
i	Reclassification of fixed assets from assets in store to property and equipment(Note I)	3,636	4,534
	Remeasurment		
ii	Remeasurment adjustment - Accumulated depreciation	3,587	2,041
	Rollover adjustment from previous year	2,041	
	Balance as per IFRS	120,872	98,469

Notes on remeasurement

Under previous framework, the Bank recognised accumulated depreciation of buildings, motor vehicles, furniture & fittings, Office Equipments and IT equipment using 5%,20%, 10%,10% and 10% (20%) respectively. Residual values was also not considered for the depreciation charge on these assets. Under IFRS, the useful lives and residual values of items of buildings, motor vehicles, furniture & fittings,Office Equipments and IT equipment were revised to 2%,10%, 10%(20%), 5%(10%/20%) and 7% respectively to better reflect the consumption pattern of those assets. This led to a decrease in the accumulated depreciation of these assets with a corresponding decrease in retained earnings.

	N Leasehold land	30-Jun-17 Birr'000	42,552 Birr'000
	Balance as per GAAP	3,752	-
i	Reclassification of leadhold land to leases	(2,889)	
ii	Prepayment for Leases	(740)	
iii	Operating Lease Expense	(112)	
iv	Amortization-Prepaid Leasehold Land	(11)	
	Remeasurment		
	Balance as per IFRS	-	-

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		30-Jun-17 Birr'000	1-Jul-16 Birr'000
O	**Intangible assets**		
	Balance as per GAAP	-	-
	Reclassification		
i	Reclassification from deferred charges	20,257	3,799
	Remeasurement		
ii	Adjustment of accumulated amortisation of intangible assets	(628)	(291)
iii	Rollover adjustment from previous year	(291)	
	Balance as per IFRS	19,339	3,508

Notes on reclassification

i Under the previous framework, acquired IT software including,core-banking soultions were classified separately as deferred charges. Under IFRS, this asset qualified as intangible asset.

Notes on remeasurement

ii Under the previous framework the cost of the cost of acquiring software was amortised over 5 (10) years, under IFRS the useful lives have been revised to reflect the expected economic useful life.

		30-Jun-17 Birr'000	1-Jul-16 Birr'000
P	**Deposits from customers**		
	Balance as per GAAP	8,774,856	6,333,564
i	Reclassification of accrued interest on fixed deposits from other liabilities (Note M)	36,474	21,895
	Remeasurement		
ii	Translation adjustment on application of mid-rate as closing rate(Note E)	(37)	(465)
iii		(465)	-
	Rollover adjustment from previous year		
	Balance as per IFRS	8,810,827	6,354,993

Q	**Other liabilities**		
	Balance as per GAAP	409,108	431,042
	Reclassification		
i	Reclassification of accrued interest on fixed deposits to customer deposits	(36,474)	(21,895)
ii	Reclassification of margins held on letters of credit to other liabilities	257,724	196,639
	Remeasurement		
iii	Translation adjustment on application of mid-rate as closing rate(Note E)	101	(216)
iv	Provision for legal cases	7,505	1,742
V	Unearned Income-LG Commission	8,299	15,506
vi	Unearned Income-LC Opening S/Charges	2,701	2,109
vii		19,140	
	Rollover adjustment from previous year		
	Balance as per IFRS	668,105	624,927

Notes on reclassification

i Accrued interest on fixed deposits has been reclassified to customer deposits since under IFRS the accrued interest has to be classified with the financial instrument it relates to.

ii This is an adjustment to classify margin held on letters of credit to other liabilities in the IFRS statement of financial position.

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Notes to the financial statements
For the year ended 30 June 2018

R Current income tax liability

	30-Jun-17 Birr'000	1-Jul-16 Birr'000
Balance as per GAAP	82,467	88,127
Remeasurement		
Income tax expense adjustment	(751)	(4,402)
Rollover adjustment from previous year	(4,402)	-
Balance as per IFRS	77,314	83,724

Note on remeasurement

As a result of remeasurement of various financial statement lines, it resulted to change in profit for year and thus increase or decrease in tax expense that should be recognised.

S Deferred income tax

	30-Jun-17 Birr'000	1-Jul-16 Birr'000
Balance as per GAAP	-	-
Remeasurement		
Recognition of deferred tax liability	(507)	1,347
Rollover adjustment from previous year	1,347	-
Balance as per IFRS	840	1,347

Note on remeasurement

Under the previous framework, the Bank did not account for deferred tax assets/liabilities.This is because the bank calculated depreciation and loan provisions as per directives from the National Bank of Ethiopia, and are allowable for tax purposes. Under IFRS the bank has estimated the useful lives for the various PPE items and also recognised severance pay obligation thus giving rise to taxable temporary differences under IFRS.

T Retirement benefits obligation

	30-Jun-17 Birr'000	1-Jul-16 Birr'000
Balance as per GAAP	-	-
Remeasurement		
Recognition of IAS 19 acturial valuation- employee benefits	3,577	16,027
Rollover adjustment from previous year	16,027	-
Balance as per IFRS	19,604	16,027

Note on remeasurement

Under the previous framework, there was no estimation of the obligation. Under IFRS the bank is required to derive the best estimate of cash outflows that will arise in respect of the benefits earned by employees at each reporting period.

Legal reserve

	30-Jun-17 Birr'000	1-Jul-16 Birr'000
Balance as per GAAP	274,337	207,222
Remeasurement		
Apportionment from retained earnings as per NBE guidelines to legal reserve	-	-
Rollover adjustment from previous year	-	
Balance as per IFRS	274,337	207,222

Note on remeasurement

The NBE Directive No. SBB/4/95 requires the Bank to transfer annually 25% of its annual net profit to its legal reserve account until such account equals its capital. In calculating IFRS adjustments, certain balances have been restated and adjusted in line with the requirements of IFRS. The cumulative adjustments to these balances have been considered and used in the calculation of the legal reserve under IFRS.

Lion International Bank S.C.

Notes to the financial statements

For the year ended 30 June 2018

	Retained earnings		30-Jun-17 Birr'000	1-Jul-16 Birr'000
	Retained earnings under previous framework	-	218,238	213,055
	Remeasurement			
i	Adjustment on impairment on loans and advances to customers (see note F (ii))	-	(27,072)	2,744
ii	Interest income on staff loans and advances using EIR (see note F (iii))	-	1,889	3,248
iii	Amortisation of cumulative prepaid employee benefit (See note I (vi)	-	(1,307)	(1,649)
iv	Remeasurment adjustment - Accumulated depreciation (see note J (iv)	-	3,587	2,041
v	Amortised cost adjustment on NBE and government bonds using EIR (see note G	-	(28)	(120)
vi	Amortisation of intangible assets (see note I (vi))	-	(628)	(291)
vii	Recognition of accrued interest on non performing loans under previous framework (see note F (iv))		10,489	5,530
viii	Recognition of interest income on impaired loans (see note F (v))		(581)	(243)
ix	Transaction cost on loans and advances (see note F (vi))	-	(673)	(2,210)
	Translation adjustment on application of mid-rate as closing rate(Note E)	-	(636)	(1,968)
	Recognition of IAS 19 acturial valuation- employee benefits	-	(4,499)	(16,027)
	Unearned Income-LG Commission	-	(8,299)	(15,506)
	Unearned Income-LC Opening S/Charges	-	(2,701)	(2,109)
	Impairment Loss	-	-	(691)
	Amortization-Prepaid operating lease	-	(11)	(11)
	Operaing Lease Expense	-	(112)	-
	Provision for legal cases	-	(7,505)	(1,742)
	Deferred income tax adjustements			
	Provision on Suspended Interest		-	-
	Current income tax adjustements		1,258	3,056
	Regulatory Risk Reserve		(4,842)	(6,371)
vi	Apportionment from retained earnings as per NBE guidelines to legal reserve		-	-
	Rollover adjustment from previous year		(32,319)	
	Balance as per IFRS	-	144,247	180,736

EVENTS 2017/18

Managment Meeting

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Shareholders' Meeting

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