LION INTERNATIONAL BANK S.C.

ANNUAL REPORT
2018/19


KEY TO SUCCESS
Annual
Report
2017/18
LION INTERNATIONAL BANK S.C
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LION INTERNATIONAL BANK S.C
KEY TO SUCCESS
EthioPay

What's Inside

BOARD OF DIRECTORS

1. Tassew Woldehanna (Professor)
   Chairperson
2. Ato Yirga Tadesse
   V/Chairperson
3. Ato Beyene Belay
   Chairperson - Audit Committee
4. Wro. Meaza Alemayehu
   Member - Audit Committee
5. Hailekiros Gessesse (Ambassador)
   Chairperson - Human Resource Affairs and Business Development Committee
6. Wro. Nigist W/Selassie
   Member - Audit Committee
7. Guush Berhane (PhD)
   Member - Human Resource Affairs & Business Development Committee
8. Ato Rezene Hailu
   Chairperson - Risk & Compliance
9. Ato Haile Berhe
   Member - Human Resource Affairs & Business Development Committee
10. Tsegabrhan Mekonen (PhD)
    Member - Risk & Compliance Committee

EXECUTIVE MANAGEMENT TEAM

Ato Getachew Solomon
President

Ato Gebru Meshesha
VP- Resource anagement

Ato Tekie Mekuria
VP-Corporate Banking

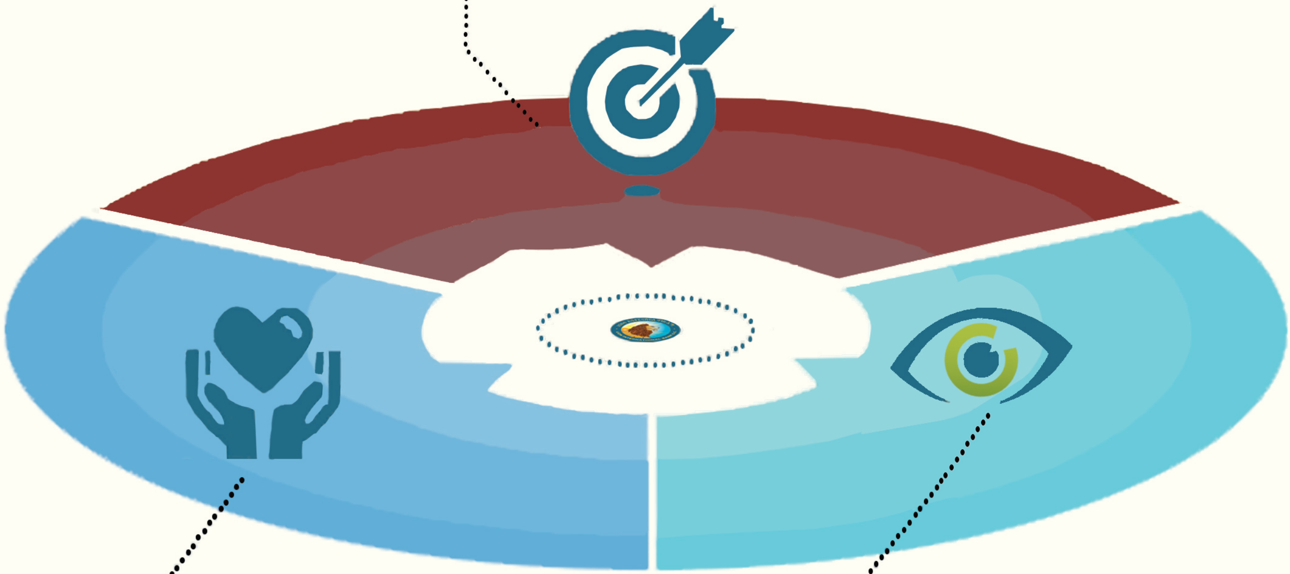
Ato Aklilu Hayelom
VP-Northern Regional Office

Ato Daniel Tekeste
VP-Business Strategy Management
and Modernization

Ato Abreham Tilahun
AVP-Retail Banking

Mission

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.



Value

- Integrity
- Teamwork
- Diversity
- Social responsibility
- Innovation & learning organization
- Customer satisfaction
- Employee satisfaction

Vision

"To be the leading Bank in Ethiopia by 2035"

MESSAGE
FROM THE BOARD CHAIRPERSON

"We have implemented all our plans, while focusing on our ability to remain resilient amid the prevailing challenging market and socio-political environments."

Dear Shareholders:

On behalf of fellow Board of Directors and my own, it is my great pleasure to report the continued institutional strength and high record of profit of Lion International Bank S.C. for the year ended June 30, 2019. Despite the global and domestic economic challenges that had direct and indirect impacts on performance of the banking sector, the fiscal year in point was a year of steady and meaningful progress for Lion International Bank toward achieving the overarching goals we laid on key performance indicators at the beginning of the fiscal year.

In our plan for the 2018/19, we outlined a strategy to meet the key targets with persistent commitment. We laid our commitment to drive sustainable deposits, customer-based growth by expanding branch accessibility and deepening our relationships with current customers and attracting new ones in target segments. We planned to enhance our technology capabilities while lowering operational costs. We also planned to optimize our capital base that enables us to prudently operate and invest in the bank. Finally, we planned to continue to focus on internal controls and risk management to ensure LIB continues an indisputably strong and stable bank.

During the reporting period, we have implemented these plans while focusing on our ability to remain resilient amid the prevailing challenging market and socio-political environments. Keeping the growth momentum registered in previous years, this year, Lion International Bank has registered a profit of Birr 695.5 million before tax, up by 45 percent from the previous year's performance. For the same period, the bank's earnings per share (EPS) 38 percent or Birr 9.50 per share has grown by 26 percent over the preceding year.

Despite the challenges attached with poor performance of export sector and the subsequent chronic shortages in foreign currency earnings, our ability to mobilize local deposits of Birr 4.8 billion, raising the outstanding total deposits to Birr 16.4 billion, a growth rate of 41 percent from the previous year, has contributed the lion's share to the upsurge in the profit earning capacity of the bank. This sustained growth in deposits has enabled the Bank to expand its volume of financing for businesses.

As such, in this same year, LIB has managed to disburse loans and advances of Birr 4.2 billion, raising the total outstanding loans from Birr 7.4 billion in the previous year to Birr 11.6 billion - a 58 percent increase from last year. Moreover, with determined efforts to ensure prudent lending and asset quality management, the Bank has been able to contain the ratio of non-performing loans to total loans (NPL) at 3.8 percent, which is below the industry average for the year and the 5 percent maximum ceiling set by the National Bank of Ethiopia (NBE).

In the same year, total asset of the Bank has grown to Birr 20.4 billion, 42 percent higher than the preceding year. The total liability of the bank stands at 17.8 billion. The latter grew by 43 percent over the preceding year. Besides, the capital and legal reserve of the Bank has reached Birr 2.6 billion, a 41 percent increase from the previous year. The paid-up capital has also reached Birr 1.6 billion, witnessing a growth of 31 percent from that of the preceding year.

Along the year, we drove growth by deepening relationships with our current customers while also attracting new ones. The board and its management strongly considered increasing branch accessibility to customers as a key strategic instrument to enhance the Bank's market share. We began the year with 190 branches spread throughout the country. At the end of the fiscal year we have managed to increase this to 229. We have also increased number of International Money Transfer service providing agents and correspondent banks. Currently, the total number of depositors has reached 794,057; among which the 203,420 are new customers attracted during the year. Our multifaceted service channels have enabled the bank to serve diversified customers using our services including saving deposits, agent and mobile banking services. Our enhanced Hellocash and mobile banking applications are now providing customers with a comprehensive view of their financial transaction, among others, and our ATM card services are enabling non-LIB customers use the same capabilities. Recently, we have gone live on the state-of-the-art technology in internet banking services. This makes easier for our customers to seamlessly bank with us, through their channel of choice.

Over the last years, we have observed a dramatical increased tendency towards digital banking. In line with this, our Lion-Hellocash customers have now exceeded 203,000 and number of agents reached 1,756 with total outlet of 1,981 service locations throughout the country. During the reporting period, transactions of more than birr 318 million have been circulated through Lion-Hellocash system. We have established business relation with 53 new payment-accepting business customers that raised the number of business customers to 441. Using these businesses, clients are now able to book and pay their Ethiopian flight ticket fees via Lion-Hellocash. Customers can also make other payments and easily transact via e-commerce and effect payments on the go. We also have introduced an integrated mobile banking system and the number of mobile banking subscribers is dramatically increasing. So far, more than Birr 316 million value transaction has been circulated in the system.

'Anbesa Fetan Card' is also our newly introduced instant card issuing system which gives LIB a competitive edge that meets the ever-growing customers' demand for fast and convenient services. Currently, more than 65,000 cardholders have made transactions with a total value of birr 273 million. To support the card banking service, 20 new ATMs are on the pipeline to become operational, raising the number of our ATMs to 69.

Esteemed Shareholders,

As part of our continued commitment to strengthen the institutional base of our bank, the Board of Directors along with the Management team has taken several strategic investments to enable the Bank march forward with strengthened institutional and asset base that would help leapfrog the bank to a better position in the banking industry; among which the following are some of the most notable ones:

1. We have purchased a B+G+ 8 multipurpose complexes building at a cost of birr 540 million, VAT inclusive, through open auction floated by Oromia International Bank. The building laid on 1,352 m^2 area located around Bole Medhanialem, a prime location in the city, is suitable for banking and commercial businesses. Thus, the board is conducting a feasibility study on future utilization and renovation of the building to make it worth using and income generating.

2. We are also in a way to acquire a plot of land for construction of Head Office building at Addis Ababa, as the Addis Ababa city administration has now positively responded to our prolonged request for land, we are now on process of acquiring the land.

3. As we reported earlier, we have owned a 2000m^2 plot of land at Mekelle for construction of the Northern Regional Office building. We have now hired a consultant and a G1 contractor and construction has been started.

4. In addition to this, a G+2 building resided at 480 m^2 in Mekelle has been purchased at a price of birr 15 million. Currently, the building is being renovated to serve as a Regional Office until the big building is in place.

5. We have also acquired small branch offices at Addis Ababa and outlying towns through auction at condominium sites and through share contributions in associations engaging in the construction of commercial centers in various towns.

The Board of directors believes such investments have great contribution in the asset building of the bank with commensurate return on investment.
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 and expanded the senior management positions. The Board has also implemented an improved salary scale to employees. 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.
Dear shareholders, this continued growth demonstrates that our bank is marching on the right track to fully realize its tremendous potentials. The Board of Directors recognizes such multifaceted successes would not have been realized without the all-round support we have obtained from shareholders and customers. It is my strong belief that your support will be elevated to higher level in the current fiscal year and beyond.
On this occasion, the Board highly appreciates the commitment, relentless efforts, and belongingness of colleague board members, the management team and employees of the Bank. On behalf of the Board and my own, I would like to thank all for the results 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. 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.

Thank you.
Tassew Woldehanna (Professor)
Board Chairperson

Lion @ a Glance

794,057
Customers

4,599
Employees

229
Branches

Birr 695 Mln.
Profit before tax

1,756
Agents

49
ATMs

Birr 1.6 Bln.
Paid up Capital

49,000
Cards Issued

Birr 16.4 Bln.
Deposits

Birr 11.6 Bln.
Loan & Advances

Birr 4.2 Bln.
NBE Bills

Birr 20.4 Bln.
Total Asset

DIRECTORS' REPORT

The Board of Directors is pleased to present the Annual Report and financial statements for the year ended June 30, 2019 to its esteemed shareholders, clients and partners. 2018/19 was a year of superior advancement in transforming Lion International Bank's (LIB's) strategic priorities to the desired passion in order to realize its strategic objectives so as to substantiate sustainable market share growth and profitability in the banking industry. The Board of Directors, therefore; give performance highlights on key financial and non-financial targets for the year under review and brief outline plans for the succeeding fiscal year (2019/20).

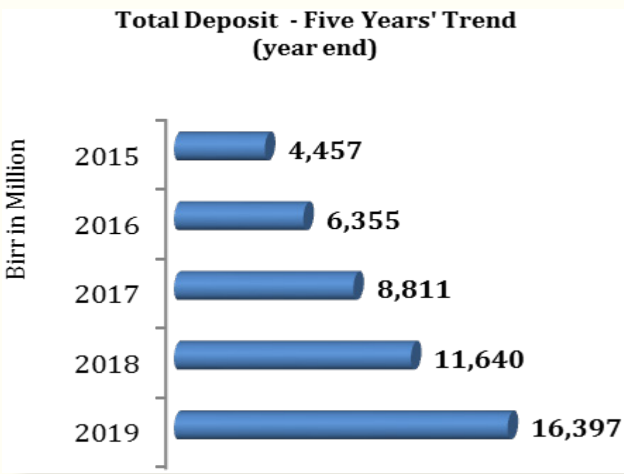
1. OPERATIONAL PERFORMANCE HIGHLIGHTS

The just completed year was remarkable for LIB that enables the Bank to registered successes on both financial and non-financial aspects. As a result, the Bank mobilized the ever higher amount of local currency in its history and this categorized the Bank among the top performer banks in the industry. More of this, the Bank was successful on converting every resource in to return.

1.1. DEPOSITS

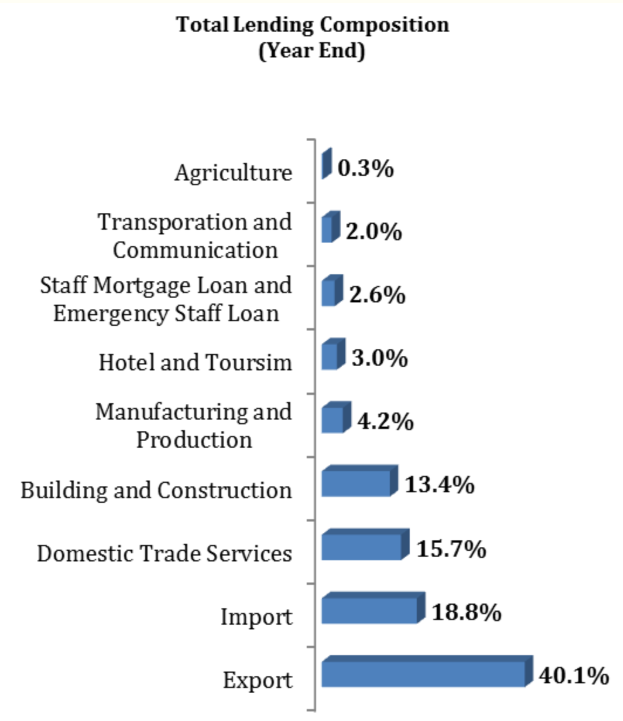
The Bank's strategic deposit mobilization efforts have gleaned considerable outcome in the ended fiscal year of 2018/19. The Bank's total deposit reached Birr 16.4 billion, registered an absolute growth of Birr 4.8 billion (41 percent) from the previous year total balance. This remarkable result largely bobbed-up from the coordinated efforts endowed by branches and head office organs, branch expansion in feasible locality of the country, strategic shift made on resource mobilization and the growing public confidence on the bank are among the key determinants behind the successes of the Bank.

As regard to the composition of the deposit portfolio, it is broadly in line with the Bank's strategic objective. Saving deposit took the lion's share 75 percent while demand and fixed time deposits consecutively followed by 17 percent & 8 percent, respectively. This indicates that 83 percent of the Bank's total deposit is captured from sustainable sources. Successively, the loan-able deposit will be potential foundation for interest income.



1.2. CREDIT MANAGEMENT

The Bank's lending book has continued to show magnificent growth by 58 percent in the past fiscal year, with outstanding loans and advances grownup from Birr 7.4 billion to Birr 11.6 billion. Likewise, the Bank's loan to deposit ratio mounted to 71 percent. Lion Bank has continued to support the country's high priority economic sectors through channeling considerable amount of loans and advances. Accordingly, the top five sectors that took priority in financing comprise; Export, Import, Domestic trade, Building & Construction, and Manufacturing as displayed in the graph below. Furthermore, to excel the operational excellence of the credit management department, the Bank has restructured it by adding one customer relationship management division. With the aspiration to maintain quality asset portfolio, LIB able to maintain its non- performing loans (NPLs) at 3.49 percent which is below the NBE's requirement (5 percent) and by far below the industry average.

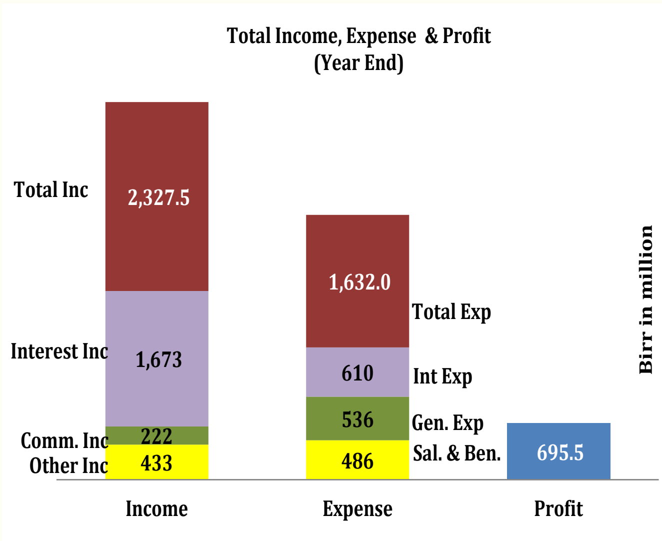


1.3. INTERNATIONAL BANKING

International banking service continued to be significant source of income. In spite of the tough business environment, orchestrated efforts of the bank brought the amount of foreign currency mobilized to $219 million during the fiscal year of 2018/19. This performance surpassed previous year's performance by $101 million (86 percent). Correspondingly, the proportion of income earned from international banking operation during the year under review constitutes 20 percent of the whole. LIB has expanded its effort to enhance its international banking service delivery to customers and thereby generate more foreign currency. In addition, the Bank was able to provide international remittance service through 15 renowned international remittance companies via its 229 branches throughout the country.

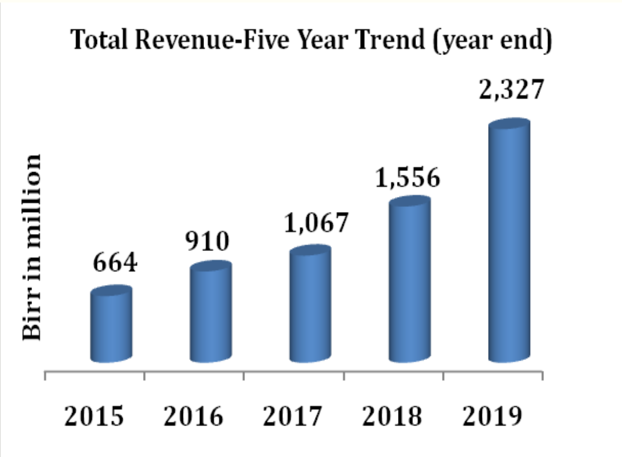
2. HIGHLIGHTS OF FINANCIAL PERFORMANCE

The financial performance of Lion International Bank for the financial year ended 30th June 2019 was as remarkable as the Bank has been able to register the highest record of growth in revenue and profit.



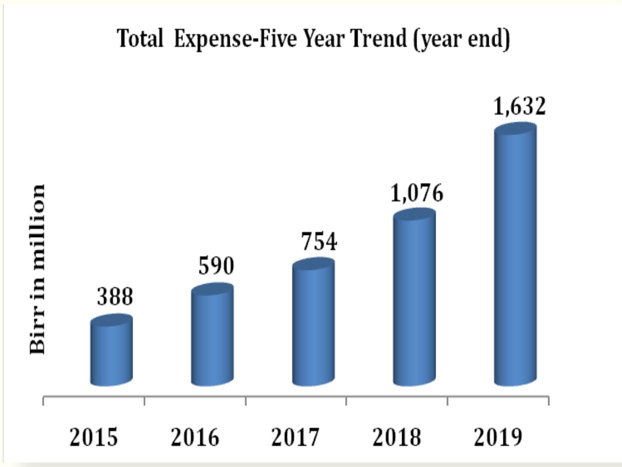
2.1. REVENUE

Mobilizing resources effectively and efficiently in highly stretched passion and converting each resource into optimum return remains the Bank's key pillar for the past years. To this fact, the total revenue generated by the Bank during the fiscal year reached Birr 2.3 billion increased by Birr 772 million or 50 percent from 2017/18FY's achievement. The growth in revenue is mainly accredited to interest income and commission income. From the total revenue, Interest income accounted for Birr 1.67 billion (72 percent) whereas the remaining Birr 655 million (28 percent) belongs to commission and other income (service charges). Last year's proportion of interest income to non-interest income (commission & other income) was 75:25, respectively.



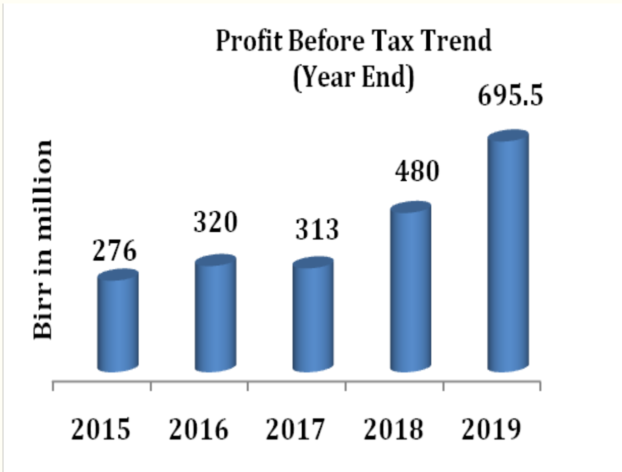
2.2. EXPENSE

The Bank incurred a total expense of Birr 1.6 billion during 2018/19FY, exhibited a growth of Birr 556 million or 52 percent from the preceding year's performance. Non-interest expense had the largest share of Birr 1.02 billion or 63 percent followed by interest expense with Birr 610 million or 37 percent share from the total expense. Both components of non-interest expense (salary & benefits and general expense) had grown by Birr 138 million or 40 percent and Birr 232 million or 76 percent respectively from previous fiscal year, mainly due to the aggressive branch expansion and its derivative activity of the Bank.



2.3 PROFIT

Profit before tax and reserve hit yet another record high and reached at Birr 695.5 million, higher by Birr 215.2 (45 percent) compared with the preceding fiscal year. This tremendous performance guaranteed earnings per share to stand at Birr 9.50, Birr 1.95 (26 percent) higher than the previous year's EPS of 7.55.



2.4. PROFITABILITY RATIOS

In the year under review, the Bank had maintained strong financial stand as measured by key performance indicators. Return on asset (ROA) expressed as the ratio of profit after tax to average asset of LIB is 3.11 percent during the fiscal year 2018/19, while return on equity (ROE) articulated as the ratio of profit after tax to average shareholder's' equity is 25 percent. These ratios basically measure how the bank was efficient enough in the fiscal year in earning returns from its total investment (asset) deployed and the total shareholders' equity. In this perspective, the Bank continued to be capable enough to convert every invested resource into return.

2.5. ASSETS

The Bank's total asset reached Birr 20.4 billion at the end of the fiscal year, demonstrated an increment of Birr 6.1 billion (42 percent) from the previous year's record. The astonishing growth of deposit by 41 percent, loan and advance by 58 percent and investment in NBE bill by 28 percent from last year same period contributed the lion's share to the sound growth of the Bank's total asset.

2.6 CAPITAL

At the end of June 2019, the Bank's total capital and reserves reached Birr 2.6 billion, divulged 41 percent growth from the preceding year. Likewise, the paid up capital rose into Birr 1.6 billion which exhibits growth of Birr 370 million (31 percent) from the previous fiscal year. In the same way, the number of shareholders reached at 9,460, increased by 2,370 (33 percent) from last year same period status.

3. CAPACITY BUILDING

3.1. HUMAN CAPITAL MANAGEMENT

We strongly believe that our employees are the key success factor in the entire strategic journey of the Bank. As a result, human capital development is continued to be the Bank's strategic priority. Thus, we continue to put staff excellence at the forefront of everything we execute. The board believes that business sustainability decidedly depends on having talented and engaged management and employees.

Owning to the Bank's aggressive branch expansion and expanded volume of work, the human capital inventory reached 4,599 at the end of the reporting period. Out of which, 2,297 (50 percent) employees are permanent while the remaining are outsourced employees provided by Agar and Walta agencies. Apparently, LIB has played a remarkable role in creating new job opportunities in the country in the year.

Markedly, the Bank has both young and experienced personnel with an average age of 31. This implies that the Bank is strengthened with mature yet young and trainable work force.

During the fiscal year 3,226 employees had participated on 42 various short-term skill upgrading trainings which mainly focus on Customer service, IFRS based bank accounting, risk and compliance management, mobile banking and Credit processing and analysis. Apart from the short term trainings, other induction and awareness creation sessions were undertaken. As a continued capacity building platform, the Bank has sponsored formal education assistance for employees who pursue their higher level education (Masters and Degree). Accordingly, educational assistance has been provided for 44 employees during the ended fiscal year.

3.2. BRANCH EXPANSION

LIB remains resilient and committed to increase its accessibility both physically and virtually so as to exceed customers' expectation through providing fast, convenient and reliable banking products and services at nearby. To this effect, sizable growth in foot print was witnessed in 2018/19FY by opening 39 new branches across the country. During the reporting period, the Bank has been able to raise its branch network by 21 percent resulted to reach its branch network to 229.

Among the newly opened branches 14 branches were located in Addis Ababa while the remaining balance went to various regional towns.

3.3. CUSTOMER BASE

Good reputation of the Bank, the range of product and services on offer and the fast growing market outreach have all been instrumental towards boosting customer base. The number of account holders reached 794,057 by the end of June 30, 2019. Exhibited a 34 percent growth on top of 2017/18FY. Like the total deposit balance composition, saving deposit account holders took the large portion (95 percent) and the remaining amount covered by demand and fixed time deposit account holders. The account holder's composition is prudently aligned with the Bank's five year strategic plan target.

3.4. MULTI -CHANNEL BANKING

3.4.1 Mobile Banking Service

LIB has started providing mobile banking service that allows users to access their bank account over their mobile phone. This facility permits customers to check balance, review transaction and effect account to account fund transfer over the phone. During the reporting period, the user of mobile banking has reached 17,674. Similarly, Our SMS banking system also gives notification upon cash withdrawals or deposit, direct debits or credits, loan repayment period, immediately after the transaction is undertaken.

3.4.2 Card Banking

Our ATM service continued to be highly valued banking channel for many of our customers. At the end of June 30, 2019 the total number of ATM users reached 48,896 and over Birr 175 million cash withdrawals were transacted. The transaction undertaken during the concluded fiscal year was above the prior year by 114 percent. The Bank has deployed additional 20 ATMS in various feasible areas and this increased the Bank's total number of ATMS to 49 at the end of the fiscal year.

In addition, the Bank has launched a new product called "Anbesa Fetan Card" this product enables customers to take their card immediately up on request. This ATM card is a new experience to the bank itself and to the Ethiopian banking industry.

3.4.3 Anbesa-Hellocash Agent Banking Service

The introduction of agent banking service has marked a dynamic change in the service delivery of the Bank since it realizes a banking system without physically attending at the counter. Since its official commencement, the service has been developing gradually by expanding its significance to customers.

By the end of June 2019, the total number of agents and number of agent banking customers has reached 1,756 and 202,834, respectively. A total transaction value of Birr 316 million were undertaken through agent banking service.

Hence the main features of the product are no or minimal physical presence, cashless exchange, time saving, and digitally accessible, the Bank has been working hard to bind itself with different service providers.

Currently, Anbesa Hellocash customers can transfer money, pay bills, pay for Selam Bus travel tickets, top-up their or others' mobile and even pay for air ticket of Ethiopian Airlines, pay for film ticket at Edna-mall cinema and make online shopping. Likewise, the Bank has also working with World Food Program (WFP) by enabling the organization to use the Anbesa hello cash portal system to pay money to their beneficiaries for the program called "Value fresh food Program".

3.4.4 Internet Banking

The major milestone has been performed towards launching internet banking service during the concluded fiscal year. For this, the Bank has invested a significant amount of money to launch full-fledged internet banking service to its valued customers. This product and others on pipeline will enhance customers' option to use technology based products 24/7. The internet banking service will be launched fully by the mid of the second quarter of 2019/20FY.

3.4.5 Product Diversification

In order to meet the ever changing market demand and can compete against the major competitors, LIB has been lunched new saving deposit products for the public. The saving deposit product called Goal Oriented Saving Deposit has been lunched at the end of the concluded fiscal year. The product incorporates seven different products each has different target groups. Namely: Children's Saving Account (አሀዱ ቁጠባ ሂሳብ),Youth Saving Account (የታዳጊዎች ቁጠባ ሂሳብ), women's Saving Account (ጀግኒት ቁጠባ ሂሳብ), Education Saving Account (አስኳላ ቁጠባ ሂሳብ), Entrepreneur Saving Account (የስራ መነሻ ቁጠባ ሂሳብ), Retirement Saving Account (እፎይታ ቁጠባ ሂሳብ), and Anbesa Platinum Saving Account (አንበሳ ፕላቲኒየም ቁጠባ ሂሳብ). The Bank offers these products with attractive interest rate. In addition, the Bank also inaugurated mortgage and vehicle loan facilities for Diasporas community with reasonable repayment schedule and interest rate.

The new products are expected to expand the Bank's market share via attracting new customers and retaining the existing customers which are significant input for the Bank's overall successes.

3.5 ORGANIZATIONAL DEVELOPMENTS

3.5.1 Organizational Structure

Following the Bank's expansion, new organizational structure has been implemented. Accordingly, The Bank increased the total number of vice-presidents to five from previously two and added two additional regional offices for branches in Addis Ababa and other region (excluding branches in Tigray Region), this increased the Bank's total number of regional offices to three. By doing this, the Bank has able to secured uninterrupted support and strong follow-up which successfully backed up by increased branches' resource mobilization efforts and enhanced operational excellence.

3.5.2 Own Building

In full recognition of the importance of strengthening its assets as well as maintaining diversified investment portfolio, the Bank purchased B+G+8 building in the capital city Addis Ababa located around Bole Medhanialem area.

The purchase marked an upright milestone in the history of the Bank, brining one step closer in realizing the vision to possess its own headquarter that candidly strengthens image of the Bank.

Similarly, 2B+G+M+16 Northern Regional office building construction is awarded to Tekleberhan Ambaye Construction at investment cost of Birr 800 million, which will be rested in 2000m^2, that agreed to start construction in October 2019. Beside, another G+2 building is purchased in Mekelle city. Last but not least good news is, after years of restless struggle to acquire plot of land for headquarter from the Addis Ababa City Administration, it has now become successful that we have acquired 3005 m^2 in Mexico area, Addis Ababa. To sum up, the 2018/19FY was very much successful in putting diversified investment opportunities.

3.5.3 Risk and Compliance Management

In order to keep up with regulatory changes and to ensure ongoing compliance are in tune with the ever changing environment, the Bank's risk management and compliance policy and procedures have been kept revised. The policy established to facilitate the development of controls that will aid in the detection and prevention of fraud. In addition, to effectively support the Bank's compliance and regulatory obligations, training on Anti-money laundering, combating financing of terrorism and customer due diligence (AML/CFT/CDD) was given for 415 staff during the year. With a view to ensuring sustainable return to shareholders and having required to the interest of all stakeholders, LIB place high importance on corporate governance. The various committees (Audit, Risk and Compliance, Human capital& Business development) instituted by the Board of Directors attest to the commitment of the Bank to ensure good corporate governance.

4. WAY FORWARD

LIB has been contributing its part for the development of macro-economic in the country. The Bank will continue to focus on tapping in to the growth opportunity the market presents. The Bank constantly transformed and grown to stay ahead of the evolving needs of its customers. By understanding the complete financial service needs of its customers, the Bank will ensure that its growth is customers driven. In its endeavor to come closer to its customers, the Bank will increase its accessibility via expansion of branches at feasible area of the country during the year 2019/20. Unstained effort will also be made during this period so as to launch internet and interest free banking services with a view to sustain the growth and profitability of the Bank. In the coming fiscal year, the Bank will also gear up all its efforts towards the successful implementation of the revised strategic plan of the Bank. This strategic plan is also expected to bring about a breakthrough on the Bank's overall business system, which would enable to achieve the desired goal of taking a leading position in the industry, in return to sustainably maximize the shareholders' value.

The Bank will also continue to focus investing in human capital, providing an engaging work environment and fostering leadership will continue in the upcoming strategic period. Similarly, innovation of new products and services within the appropriate risk parameters will also get our higher concern.

Lastly, based on the foundation laid in the past years, the Board of Directors and the entire team will strive to achieve the strategic goals of the Bank in order to deliver greater return to the Bank's shareholders.

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IFRS in a nutshell

International Financial Reporting Standard (IFRS) are the global standards recognized for the preparation of company's financial statements. The International Accounting Standards Board (IASB) adopted the IFRS framework on 1 April 2001 and took over the setting of International Accounting Standards from the International Accounting Standards Committee (IASC). Thenceforth, the IASB updated the existing International Accounting Standards and referred to as International Financial Reporting Standards (IFRS); the standards then been adopted by over 150 countries around the World.

IFRS specifically how companies must maintain and report their accounts, defining types of transactions and other events with financial impact. They were established essentially to create a common accounting language, so that businesses and their financial statements can be consistent and reliable from company to company and country to country.

In our country, due to lack of specific set of accounting standards, the accounting practices vary across institutions. But now, the Financial Reporting Proclamation No. 847/2014 was issued to solve such challenges, unifying the reporting across the country. Accordingly, the Accounting and Auditing Board of Ethiopia (AABE) is hereby established as an autonomous government organ having its legal personality, to facilitate the process in the adoption of IFRS.

There are various approaches in the adoption of IFRS, amongst which, our country implements full adoption of the standard. Adoption or 'big bang's approach is a strategic decision to adopt IFRS on a single date or, perhaps, a series of dates applied to the companies of different sizes. Under this approach, once IFRS are adopted, all the standards should be applied while preparing financial statements, and the existing accounting standard should be replaced with IFRS.

Following the national roadmap set by AABE, Banks, Insurance companies and Public Enterprises came to be the pioneer to adopt IFRS in Ethiopia. This is the second annual report in IFRS for our Bank following last year's first time adoption of the standard.

The prime goal of the IFRS is to develop public interest through a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles, and thus:

Benefits

IFRS standards address this challenge by providing a high quality, internationally recognized a set of accounting standards that bring:

- **Transparency;** by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decision,
- **Accountability;** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. IFRS provide information that is needed to hold management to account. As a source of contextually comparable information, the standards are also of vital importance to regulators within a state, and around the world at large, and,
- Economic **Efficiency**; by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

Challenges

Due to the nature of the standard and the below stated some reasons the banks in our country faces so many challenges during the adoption and implementation of the standard.

- The fact that there are only few number of professional, with the subject matter (IFRS) and yet,
- The adoption and implementation process is too costly,
- Resistance to adopt new things,
- Scarcity of training opportunity
- Most of the pertinent bodies are yet to be ready for the implementation of IFRS.

Our bank, upon its first adoption in, 2017/2018 FY, took up more than 22 standards with the consultation of **PricewaterhouseCoopers (PWC)** and subsequently all the remaining standards have been are implemented by in-house capacity (Except, the standards that require high level expertise i.e.; IFRS -9).

In the current fiscal year, (IASB) has made a policy change on the standards IAS 39 and IAS 18 replacing by Financial Instruments — IFRS 9 and Revenue form Customer Contract — IFRS 15 respectively. Accordingly, our bank has adopted these new standards.

To this end, since, IFRS standards & policy amendments at different times requires a close follow up & to ensure the sustainability of IFRS within the bank, the Bank established dedicated office. The office currently in the process of building in-house capacity in all aspects to implement imminent standards and sustain existing IFRS standards in line with the international swap status quo.

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Auditors' Report

Lion International Bank S.C.
For the year ended 30 June 2019
Contents

Lion International Bank S.C.

Directors, Professional Advisers and Registered Office

For the year ended 30 June 2019

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

Directors *(As of June 30, 2019)*

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 Fisshа	Non-Executive Director	(Appointed 29/10/2016)
Nigist W/Selassie Gebrekiros	Non-Executive Director	(Appointed 29/10/2016)
Tsegabrhan Mekonen Wubie (Phd)	Non-Executive Director	(Appointed 29/10/2016)

Executive Management *(As of June 30, 2019)*

Getachew Solomon Gessesse	President	(Appointed 23/10/2014)
Tekie Mekuria Dinku	VP - Corporate Banking	(Appointed 13/10/2018)
Gebru Meshesha Kahsay	VP - Resource Management	(Appointed 13/10/2018)
Aklilu Hayelom Godefay	VP - Northern Regional Office	(Appointed 24/06/2019)
Daniel Tekeste Kidane	VP - Strategy & Modernization	(Appointed 13/10/2018)
Abrham Tilahun Abera	A/VP - Retail Banking	(Appointed 24/06/2019)
Tsebele Hadush G/Giorgis	Director - Credit Management Department	(Appointed 08/10/2014)
Daniel G\Egziabher Teferi	Director - International Banking Department	(Appointed 01/11/2018)
Sheworkie Belete Woldeyes	Director - Internal Audit Department	(Appointed 01/07/2013)
Gezahegn Dejene Haile	Director - Finance Department	(Appointed 01/11/2018)
Hailay Haftu Abreha	Director - Strategy Management Department	(Appointed 01/11/2018)
Mulugeta Teklu Hagos	Director - Marketing Department	(Appointed 01/11/2018)
Abrham Tilahun Abera	Director - Alternative Banking Channels Department	(Appointed 01/11/2018)
Solomon Tesfaye Hailemariam	Director - IT Infrastructure and Security Management Department	(Appointed 01/11/2018)
Feven Binyam Kelem	Director - Legal Services Department	(Appointed 01/06/2019)
Michael Gezae Abrha	Director - Human Capital Management Department	(Appointed 01/11/2018)
Wondwosen Gashaw Shiferaw	Director - Procurement and Facility Management Department	(Appointed 01/11/2018)
Hiruy Zemichael Barnebas	Director - Systems Development and Management Department	(Appointed 01/11/2018)
Eshetu Fanta Fango	Director - Engineering Services Department	(Appointed 01/11/2018)
Bethlehem Addis Admassie	Director - Risk and Compliance Management Department	(Appointed 01/06/2019)
Muez Kidane Haile	Director - Northern Regional Office Operations and Support	(Appointed 24/06/2019)

Corporate office

Haile G.Selassie Avenue, Lexi Plaza Building
Kebele-12, Sub city-Yeka, H.no. New
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

Independent auditor

AMA-HAI Certified Accountants & Auditors
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.
Principal Bankers
For the year ended 30 June 2019

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
In front 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
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E-Mail: info@bunnabanksc.com
Website:-www.bunnabanksc.com
Addis Ababa, Ethiopia

United Bank S.C
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P.O.Box:19963
E-Mail:hibretbank@ethionet.et
Website:www.unitedbank.com.et
Addis Ababa, Ethiopia

Bank of Abyssinia S.C
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Fax: (86) 010-66016871
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E-mail: Citibank@shareholders-online.com
Website: www.boc.cn
Beijing, China

Lion International Bank S.C.
Principal Bankers
For the year ended 30 June 2019

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Fax : (253) 35 16 38
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Website: www.boamerrouge.com
Djibouti, Djibouti

CAC International Bank
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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
Website-www.cacintbank.com
Djibouti, Djibouti

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Fax: +49 69 285-389
E-mail: info@commerzbank.com
Website: www.commerzbank.com
Frankfurt, Germany

Bank of Beirut
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Head Office, Riyad El Solh Street
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Email:beirut@arabbank.com
Web site: www.bankofbeirut.com
Beirut, Lebanon

Lion International Bank S.C.
Report of the Directors
For the year ended 30 June 2019

The Board of Directors submit their report together with the financial statements for the year ended 30 June 2019, 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

The Bank's results for the year ended 30 June 2019 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 2019 Birr'000	30 June 2018 Birr'000
Net operating income	1,465,675	1,032,816
Profit / (loss) before tax	695,525	480,331
Tax (charge) / credit	(156,491)	(89,566)
Profit / (loss) for the year	539,034	390,766
Other comprehensive profit / (loss) net of taxes	(11,864)	(16,680)
Total comprehensive profit / (loss) for the year	**527,170**	**374,086**

Directors

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

Tassew Woldehanna (Professor)
Chairperson, Board of Directors
Addis Ababa, Ethiopia
18 November 2019

Lion International Bank S.C.
Statement of Directors' Responsibilities
For the year ended 30 June 2019

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 IFRS standards 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 has 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 judgments 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.

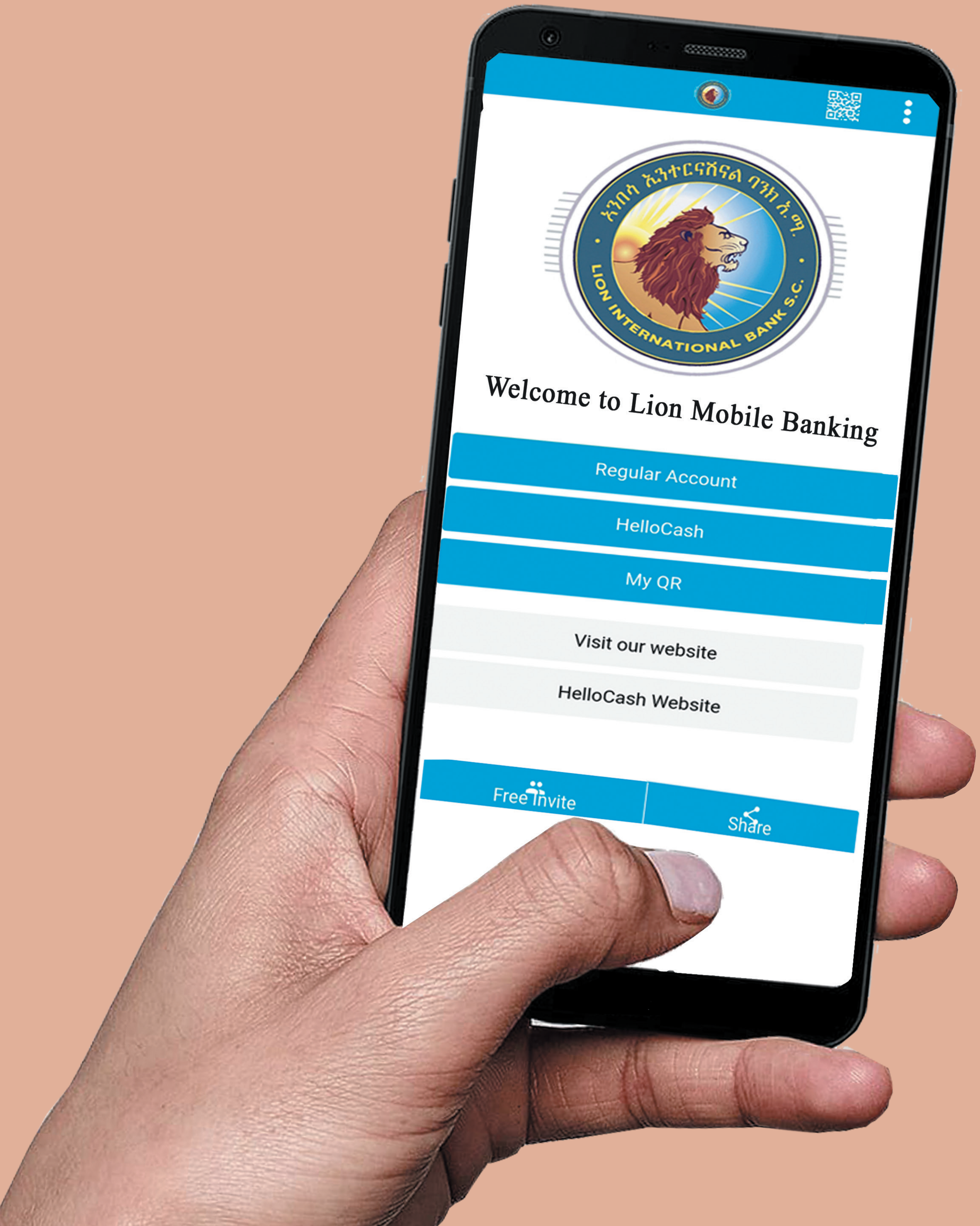
The President is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss.

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 (Professor)	**Getachew Solomon (Ato)**
Chairperson, Board of Directors	**President**
Addis Ababa, Ethiopia	**Addis Ababa, Ethiopia**
18 November 2019	**18 November 2019**



LION INTERNATIONAL BANK S.C.
Welcome to Lion Mobile Banking
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አማ-ኃይ የተመሰከረላቸው የሂሳብ አዋቂዎችና ኦዲተሮች
Ama-Hai Certified Accountants & Auditors
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 2019 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 2019 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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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
LION INTERNATIONAL BANK S.C.

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
November 18, 2019

Ama – Hai
Chartered Certified Accountants

Lion International Bank S.C.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Interest income	5	1,672,554	1,172,711
Interest expense	6	(609,995)	(423,825)
Net interest income		**1,062,559**	**748,886**
Fee and commission income	7	221,650	157,675
Net fees and commission income		**221,650**	**157,675**
Net foreign exchange income	8	86,636	53,080
Other operating income	9	237,246	123,575
Total operating income		**1,608,091**	**1,083,216**
Loan impairment charge	10	(99,372)	(50,092)
Impairment losses on other assets	11	(43,044)	(308)
Net operating income		1,465,675	1,032,816
Employee benefits	12	(485,568)	(347,852)
Amortization of intangible assets	19	(4,156)	(4,261)
Depreciation of property and equipment	20	(26,531)	(20,772)
Other operating expenses	13	(253,895)	(179,599)
Profit before tax		**695,525**	**480,331**
Income tax expense	14	(156,491)	(89,566)
Profit after tax		**539,034**	**390,766**
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	(11,864)	(16,680)
		(11,864)	(16,680)
Total comprehensive income for the period		**527,170**	**374,086**

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

Lion International Bank S.C.
Statement of Financial Position
As at 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
ASSETS			
Cash and balances with banks	15	3,608,699	3,018,746
Loans and advances	16	11,622,376	7,374,041
Investment securities:			
- Equity Investment	17	54,015	27,032
- National Bank of Ethiopia Bills	17	4,229,795	3,311,509
Other assets	18	647,481	416,090
Property,plant and equipment	20	204,414	149,332
Intangible Assets	19	14,822	17,659
Deferred income tax	14	9,929	5,189
Total assets		**20,391,532**	**14,319,598**
LIABILITIES			
Deposits from customers	21	16,396,666	11,639,588
Current income tax	14	161,099	90,441
Other liabilities	22	1,209,608	739,227
Defined Benefit Obligation	23	64,693	41,470
Total liabilities		**17,832,069**	**12,510,726**
EQUITY			
Share capital	24	1,554,350	1,184,180
Share premium		16,963	6,050
Legal reserve	27	506,788	372,029
Special reserve	28	15,181	15,181
Retained earnings	26	383,813	225,345
Regulatory risk reserve	29	39,404	21,846
Other reserves	30	42,964	(15,758)
Total equity		**2,559,463**	**1,808,872**
Total equity and liabilities		**20,391,532**	**14,319,598**

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

The financial statements were approved and authorized for issue by the board of directors on 18 November behalf by:

Tassew Woldehanna (Professor)
Chairperson, Board of Directors
Addis Ababa, Ethiopia
18 November 2019

Getachew Solomon (Ato)
President
Addis Ababa, Ethiopia
18 November 2019

Lion International Bank S.C.
Statement of Changes in Equity
For the year ended 30 June 2019

-

	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 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 Change in Equity 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**	**1,808,872**
As at 1 July 2018		1,184,180	6,050	372,029	15,181	21,846	(15,758)	225,346	1,808,872
Profit for the period								539,034	539,034
Other comprehensive income:									-
Re-measurement gains on defined benefit plans (net of tax)	14						(11,864)	-	(11,864)
Transfer to legal reserve	27			134,758				(134,758)	-
Transfer to special reserve					-			-	-
Transfer to regulatory risk reserve	28					17,558		(17,558)	-
Transfer to other reserve	30						70,586	(70,586)	
Declared dividend								(212,875)	(212,875)
Prior year adjustment					-			55,213	55,213
Contribution to subscribed capital		370,170	10,913						381,084
Total Change in Equity for the period		**370,170**	**10,913**	**134,758**	**-**	**17,558**	**58,722**	**158,469**	**750,591**
As at 30 June 2019		**1,554,350**	**16,963**	**506,787**	**15,181**	**39,404**	**42,964**	**383,815**	**2,559,463**

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

Lion International Bank S.C.
Statement of Cash Flows
For the year ended 30 June 2019

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash flows from operating activities			
Cash generated from operations	31	1,517,703	1,349,651
Income tax and WHT paid		(90,573)	(82,467)
Defined benefit paid		(315)	(603)
Net cash (outflow)/inflow from operating activities		**1,426,815**	**1,266,581**
Cash flows from investing activities			
Purchase of intangible assets	19	(1,319)	(2,581)
Purchase of property, plant and equipment	20	(79,227)	(50,772)
Reclassification of stock to property, plant and equipment		(2,530)	1,516
Proceeds from Disposal property, plant and equipment		298	638
Purchases of investment securities		(928,579)	(892,007)
Net cash (outflow)/inflow from investing activities		(1,011,357)	(943,207)
Cash flows from financing activities			
Proceeds from issues of shares		370,170	245,950
Share premium received		10,913	-
Dividends paid		(206,588)	(229,481)
Net cash (outflow)/inflow from financing activities		174,495	16,469
Net increase/(decrease) in cash and cash equivalents		**589,953**	**339,843**
Cash and cash equivalents at the beginning of the year	15	3,018,746	2,678,906
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	15	**3,608,699**	**3,018,746**

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

Enjoy our fast and reliable service!

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

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

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed elsewhere. These accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

The notes also highlight new standards and interpretations issued at the time of preparation of the financial statements and their potential impact on the bank.

2.2 Basis of preparation

The financial statements for the period ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**). Additional information required by 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 statement for the period ended 30 June 2019 is the bank's second financial statement prepared in accordance with IFRS. Besides, in the given fiscal year the bank has adopted the standards IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – financial instruments which supersede IAS 18 – Revenue and IAS 39 Financial Instruments: Recognition and Measurement respectively. Note 38 clarifies how the bank adopted IFRS 9.

Financial instruments that are in the scope of IAS 39 are incorporated in the scope of IFRS 9. And, the standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. In addition in accordance with IFRS 9, an entity can designate certain instruments subject to the own-use /exception at fair value through profit or loss (FVTPL)/. Hence, IFRS 9 will be applied to these instruments. The IFRS 9 impairment requirements apply to all loan commitments and contract assets in the scope of IFRS 15 Revenue from Contracts with Customers. The standard aims to simplify the accounting for financial instruments and address perceived deficiencies which were noticed in IAS 39.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2019

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, Equity Investment 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).

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 3.

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 the year ahead.

2.2.2 Changes in accounting policies and disclosures

Except as noted below, the Bank has consistently applied the accounting policies as set out to all periods presented in these consolidated financial statements.

The Bank has adopted the following new standards and amendments including any consequential amendments to other standards with initial date of application of July 1, 2018. The effect of initially applying these standards is mainly attributed to the following,
1) An increase in impairment losses recognized on financial instruments (see note 4.2, C, i)
2) Additional disclosures related to IFRS 9 (see note 4.2)

IFRS 9 - Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets, equity instrument and to certain aspects of the accounting for financial liabilities.

As a result of IFRS 9 adoption, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out in Note [4.2, C, (i)].

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Transition from IAS 39 to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except comparative periods which have generally not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 July 2018.

Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Bank changed the description of the line item from 'interest income' reported in 2018 to 'interest income calculated using the effective interest method'.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application;

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of investments in equity instruments not held for trading is at FVOCI or FVTPL. The Bank has classified its equity investments at FVTPL.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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 recognized 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 recognized 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 initially applied IFRS 15 on 1 July 2018 retrospectively in accordance with IAS 8 without any practical expedients.

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 recognizes 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 recognized 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.

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New standards, interpretations and amendments to existing standards that are not yet effective

There are a new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2018, 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 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 recognize 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 recognize 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 23- Uncertainty over income tax treatments

This interpretation was issued on 2017 (effective 1 January 2019).These amendments provide clarity on the accounting for income tax treatments that have yet to be accepted by the tax authorities. The amendments clarifies that the key test for determining the amounts to be recognized in the financial statements is whether it is probable that the tax authority will accept the chosen tax treatment; this could result in an increase in the tax liability or a recognition of an asset depending on the current practice of the Bank. The Bank is yet to fully assess the expected impact of this standard.

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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 (ETB).

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 recognized 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 analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized 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 recognized 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 recognized 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 and advances and interest on returns investments in form of shares, deposit with other banks, purchase of NBE Bills. In addition, the bank earns fees and commission income and other income from Letter of Credits, Letter of guarantees and other operational activities.

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2.5.1 Interest and similar income and expense

For all financial instruments (except equity investment) and interest bearing financial assets measured at amortized cost 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 recognized 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 recognized 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 recognized 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 recognized in the Statement of Profit or Loss and Other Comphrensive Income and it is further broken down into realized and unrealized portion.
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.

Policy applicable before 1 July 2018

2.6.1 IAS 39 - Financial instruments

All financial assets are recognized 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 recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

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a) Recognition

The Bank initially recognizes loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

- Loans and receivables
- Available-for-sale financial investments

b) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

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iv) Available-for-sale

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

c) Identification and measurement of impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Bank.

In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

Impairment losses on available-for-sale securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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d) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

e) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

f) Fair value of financial assets and financial liabilities

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, in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

g) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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Policy applicable from 1 July 2018

2.7 Net interest income

a) Effective interest rate and amortized cost

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

b) Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

c) Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

d) Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:
- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on debt instruments measured at amortized cost calculated on an effective interest basis;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

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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.

2.8 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 approach, 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.

2.8.1 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 otherwise is may be used for its internal operations if not sold. 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 recognized 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.

2.9 Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.10 Net Trading Income

Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

2.11 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 recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in income statement as incurred.

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized.

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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

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

Capital work-in-progress(both Property, Plant & Equipment and Intangibles) 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 recognized is derecognized 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 derecognized.

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.

2.12 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 recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized 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 recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

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Non-current assets (including those that are part of a disposal group) are not depreciated or amortized 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 recognized.

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 coordinated 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.

2.13 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 recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the income statement.

2.14 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 amortized over the period in which the service is to be enjoyed.

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(b) Other receivables

Other receivables are recognized 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.

2.15 Fair value measurement

The Bank measures financial instruments through 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, summarized 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 amortized 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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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.

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.

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2.16 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 recognize:
- 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 organization 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;

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 recognized in profit and loss and other comprehensive income in the current period.

The liability or asset recognized 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, recognized 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 recognized 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.

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(c) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment. An entity recognizes 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 recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

It is recognized 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.

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 recognizes 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 recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions are recognized 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 recognized 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 recognized as other operating expenses.

2.18 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.

2.19 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.

2.20 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

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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 the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.21 Income taxation

(a) Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate 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 recognized 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 recognized 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 realized or the deferred tax liability is settled.

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

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

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 realize the asset and settle the liability simultaneously.

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3 Significant accounting judgments, estimates and assumptions

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

Other disclosures relating to the 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 Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized 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.

Fair value measurement of financial instruments

Fair value is measured based on observable transactions for the item in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. The valuation is performed using an approach that is most appropriate in the circumstances, for which sufficient data is available, and which maximizes the use of observable inputs, and minimizes the use of unobservable inputs. A market approach, income approach or cost approach can be used. The bank uses market approach for companies which are under operation and cost approach for companies under formation in valuation of its Equity Investments.

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

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Development cost

The Bank capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgment 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 capitalized, 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 capitalized by the Bank relates to those arising from the development of computer software.

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4 Financial Risk Review

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 identified 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 discuss 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

Financial Asset:- is any asset that is cash or an equity instrument of another entity, or a contractual right to receive cash or another financial asset from another entity; Or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity.

Financial liability:- is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or a contract that will or may be settled in the entity's own equity instruments.

a) Recognition and initial measurement

The Bank shall initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

b) Classification and subsequent measurement

i) Financial assets
On initial recognition, a financial asset shall be classified either as measured at either amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Bank measured a financial asset at amortized cost that meets both of the following conditions and is not designated at FVTPL:

— the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

On initial recognition, an equity investments that is held for trading are classified at FVTPL. However, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI) if the bank acquire such kind of investment that demand this recognition. This election is made on an investment-by-investment basis.
All other financial assets that do not meet the classification criteria at amortized cost or FVOCI, above, shall be classified as measured at FVTPL.

Business model assessment
The Bank has performed an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
• The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
• how the performance of the portfolio is evaluated and reported to the Bank's management;
• the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
• how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
• the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.
Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis shall be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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Financial assets shall not be reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

• Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ shall be defined as the fair value of the financial asset on initial recognition. ‘Interest’ shall be defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

• contingent events that would change the amount and timing of cash flows;
• leverage features;
• prepayment and extension terms;
• terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse loans); and
• features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

ii) Financial Liabilities

The Bank classify its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of: the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

c) Financial instruments by category

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 as per IFRS 9 is summarized below. For comparative analysis 2018 disclosure is presented here under IAS 39.

i) As per IFRS 9

30 June 2019	Notes	FVTPOL Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and balances with banks	15	-	3,608,699	3,608,699
Loans and advances	16	-	11,622,376	11,622,376
Investment securities:				-
- Equity Investment	17	37,113		37,113
- National Bank of Ethiopia Bills	17		4,229,795	4,229,795
Other assets	18		359,986	359,986
Total financial assets		37,113	19,820,856	19,857,969

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Financial assets	Original classification under IAS 39	New classification under IFRS 9	30 June 2018 Original carrying amount under IAS 39 Birr'000	Re-measurement Birr'000	01 July 2018 New carrying amount under IFRS 9 Birr'000
Cash and balances with banks	Loans and receivables	Amortized cost	3,018,746	(106)	3,018,640
Loans and advances to customers	Loans and receivables	Amortized cost	7,374,042	56,368	7,430,410
Investment securities: Available for sale	Available for sale	FVTPL	27,032	1,450	28,482
Investment securities: Loans and receivables	Loans and receivables/Held to maturity	Amortized cost	3,311,509	(166)	3,311,343
Other financial assets at amortized cost	Loans and receivables	Amortized cost	211,531	(2,413)	209,118
Total financial assets			**13,942,860**	**55,134**	**13,997,994**

ii) As per IAS 39

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:				-
- Equity Investment	17	27,032		27,032
- National Bank of Ethiopia Bills	17		3,311,509	3,311,509
Other assets	18		211,531	211,531
Total financial assets		**27,032**	**13,915,827**	**13,942,860**

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4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and other financial assets.

Exposure to credit risk is managed through periodic analysis of the ability of borrowers and potential borrowers to determine their capacity to meet principal and interest thereon, and restructuring such limits as appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, commercial and personal guarantees.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to term of the financial instrument and economic sectors.

The National Bank of Ethiopia (NBE) Directive No SBB/53/2012 sets credit risk limit for a single borrower, one related party and all related parties to not exceed 25%, 15% and 35% of Bank's total capital amount as of the reporting quarterly period respectively.

4.3.1 Management of credit risk

Credit management is conducted as per the risk management policy and guideline approved by the board of directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors. 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.
In the estimation of credit risk, the Bank estimate the following parameters:

(a) Probability of Default

The probability of default (PD) estimates the possibility of a loan facility moving from the performing status (stage 1) to the non-performing status (stage 3). For impairment purposes, the PD parameter is estimated using a transition matrix multiplication approach that estimates the movement of loan amounts from one bucket to the next between two subsequent time periods. The PDs will then be adjusted with forward looking information.

(b) Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

(c) Exposure at Default

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

4.3.2 Impairment assessment

At each reporting date, the Bank shall assess whether there is objective evidence that financial assets (except equity investments), other than those carried at FVTPL, are impaired. The Bank recognize loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
— financial assets that are debt instruments;
— lease receivables;
— financial guarantee contracts issued; and
— loan commitments issued.

The Bank measure loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

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• debt investment securities that are determined to have low credit risk at the reporting date; and
• other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as ‘Stage 1 financial instruments’.

Life-time ECL is the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

i) Measurement of ECL

ECL is a probability that represents weighted estimate of credit losses. It shall be measured as follows:
• for financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
• for financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
• for undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
• for financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Restructured financial assets

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Bank shall assess whether the financial asset should be derecognized and ECL are measured as follows:

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

iii) Credit-impaired financial assets

At each reporting date, the Bank shall assess whether financial assets carried at amortized cost, debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as ‘Stage 3 financial assets’).
A financial asset shall be considered ‘credit impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
• the disappearance of an active market for a security because of financial difficulties.
A loan that has been renegotiated due to a deterioration in the borrower’s condition shall be considered to be credit-impair unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more shall be considered credit-impaired even when the regulatory definition of default is different.

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iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL shall be presented in the statement of financial position as follows:
— for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
— for loan commitments and financial guarantee contracts: generally, as a provision;
— where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

v) Write-off

Loans and debt securities shall be written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment shall be carried out at the individual asset level.
Recoveries of amounts previously written off shall be included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.
Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

vi) Non-integral financial guarantee contracts

The Bank assess whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately.
Where the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset shall be treated as a transaction cost of acquiring it. The Bank consider the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.
Where the Bank determines that the guarantee is not an integral element of the debt instrument, then it shall recognize an asset representing any prepayment of guarantee premium and a right to compensation for credit losses.

4.3.3 Derecognition

Derecognition refers to the removal of an asset or liability (or a portion thereof) from an entity's balance sheet. Derecognition questions can arise with respect to all types of assets and liabilities.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI shall be recognized in profit or loss.
Equity investment securities designated as at FVTPL shall not be recognized in profit or loss on derecognition of such securities.
Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank shall be recognized as a separate asset or liability.
The Bank may derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire.

4.3.4 Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, then the Bank shall evaluate whether the cash flows of the modified asset are substantially different.
If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognized and a new financial asset shall be recognized at fair value plus any eligible transaction costs. And;

The Bank shall derecognize a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms shall be recognized at fair value.

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4.3.5 Off-Setting

Financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses shall be presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

4.3.6 Designation at fair value through profit or loss

At initial recognition, the Bank may designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. And, The Bank shall designate certain financial liabilities as at FVTPL in either the liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4.4 Amounts arising from ECL

IFRS 9 establishes a new model for recognition and measurement of impairments in Financial Instrument that are measured at Amortized Cost or FVOCI—the so-called "expected credit losses" model. This is the only impairment model that applies in IFRS 9 because all other assets are classified and measured at FVPL or, FVOCI with no recycling to profit and loss.

Expected credit losses are calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. Because every Financial asset has at least some probability of defaulting in the future, every financial asset has an expected credit loss associated with it—from the moment of its origination or acquisition.

Inputs, assumptions and techniques used for estimating impairment

i) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
• the remaining lifetime probability of default (PD) as at the reporting date; with
• the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).
• the Bank uses three criteria for determining whether there has been a significant increase in credit risk:
• quantitative test based on movement in PD;
• qualitative indicators; and
• a backstop of 30 days past due,

ii) Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

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(a) Term loan exposures

— Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance
— Data from credit reference agencies, press articles, changes in external credit ratings
— Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
— Internally collected data on customer behavior – e.g. utilization of credit facilities
— Affordability metrics

(b) Overdraft exposures

— Payment record – this includes overdue status as well as a range of variables about payment ratios
— Utilization of the granted limit
— Requests for and granting of forbearance
— Existing and forecast changes in business, financial and economic conditions

iii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

vi) Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognizing lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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v) **Definition of default**

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

vi) **Incorporation of forward-looking information**

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For each segment, the Bank formulates three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one upside and one downside. For each sector, the base case is aligned with the macroeconomic model's information value output, a measure of the predictive power of the model, as well as base macroeconomic projections for identified macroeconomic variables for each sector. The upside and downside scenarios are based on a combination of a percentage error factor of each sector model as well as simulated optimistic and pessimistic macroeconomic projections based on a measure of historical macroeconomic volatilities.

External information considered includes economic data and forecasts published by Business Monitor International, an external and independent macroeconomic data body. This is in addition to industry – level, semi – annual NPL trends across statistically comparable sectors.

Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Bank's senior management.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for each of the Bank's economic sectors is summarized below:

Cluster for Sectors	Macroeconomic factors				
Agriculture, and Staff loans	INFLATION (Consumer price index)	EXCHANGE RATE (ETB/USD)	GDP EXPENDITURE (Exports of goods and services)	DEBT (Government domestic debt)	STRATIFICATION (Household Spending)
Domestic Trade & Services and Transport & Communication	GDP(GDP per capita, USD)	GDP EXPENDITURE (Imports of goods and services)	INFLATION (Consumer price index)	EXCHANGE RATE (ETB/USD)	FISCAL (Total revenue)
Building & Construction, Manufacturing & Production and Hotel & Tourism	GDP EXPENDITURE (Exports of goods and services)	FISCAL: Current expenditure, USDbn	DEBT (Government domestic debt)	-	-
Export and Import	GDP EXPENDITURE (Exports of goods and service)	GDP EXPENDITURE (Imports of goods and services)	EXCHANGE RATE (Real effective exchange rate)	GDP EXPENDITURE (Private final consumption)	DEBT (Total government debt)

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The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2021

Macro-economic factor	Years		
	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384
GDP: GDP per capita, USD	836	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.23	31.1	33.15
GDP EXPENDITURE: Imports of goods and services, USDbn	16.6	16.9	17.1
FISCAL: Current expenditure, USDbn	7.8	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326	358.6
DEBT: Government domestic debt, ETBbn	642.7	752	872.3
EXCHANGE RATE: Real effective exchange rate, index	123.13	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1707.6	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.5	10.9	11.4
DEBT: Total government debt, USDbn	57	65.2	75.4

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analyzing semi – annual historical data over the past 5 years.

vii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of: its remaining lifetime PD at the reporting date based on the modified terms; with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

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viii) Key Inputs for Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'. LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.
However, for overdrafts that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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ix) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances to customers at amortized cost (on balance sheet exposures)	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	June 30,2019 Total Birr'000
Balance as at 1 July 2018	68,422	46,245	72,547	187,214
Day one IFRS 9 transition adjustment	(20,462)	(39,569)	(1,538)	(61,569)
Adjusted balance at 1 July 2018	47,960	6,676	71,009	125,645
Transfer to stage 1 (12 months ECL)	3,140	(638)	(2,503)	(0)
Transfer to stage 2 (Lifetime ECL not credit impaired)	(950)	1,189	(240)	0
Transfer to stage 3 (Lifetime ECL credit impaired)	(1,050)	(961)	2,012	(0)
Net remeasurement of loss allowance	(8,895)	812	26,705	18,623
New financial assets originated or purchased	91,615	6,590	29,411	127,616
Financial assets derecognized	(31,167)	(3,619)	(19,102)	(53,888)
Expected Credit Loss allowance on suspended interest	-	-	12,205	12,205
Balance as at 30 June 2019	100,653	10,050	119,497	230,201

Other financial assets (debt instruments)	Cash and balances with banks (Birr'000)	Investment securities (NBE Bills) (Birr'000)	Other receivables and financial assets (Birr'000)	June 30,2019 Total (Birr'000)
Balance as at 1 July 2018	-	-	-	-
Day one IFRS 9 transition adjustment	106	166	-	271
Adjusted balance at 1 July 2018	106	166	2,134	2,405
Net remeasurement of loss allowance	(43)	46	2,315	2,318
Balance as at 30 June 2019	63	212	4,449	4,723

4.5 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.

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4.6 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 2019 and 30 June 2018 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash and balances with banks	2,390,430	2,014,063
Loans and advances	11,622,376	7,374,041
Investment securities:		
- Equity Investment	-	-
- National Bank of Ethiopia Bills	4,229,795	3,311,509
Other assets	359,986	211,531
	18,602,587	12,911,144
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitments (Approved but not drawn) as per NBE Guideline	411,722	384,647
Guarantees issued	1,892,869	2,171,938
Letter of credit and other credit related obligations	1,063,802	656,303
	3,368,393	3,212,888
Total maximum exposure	21,970,980	16,124,032

(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 advances at the year end are shown below.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Properties	38,965	24,754
	38,965	24,754

The Bank's policy is to pursue realization 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 Advances at amortized cost

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Transportation and communication	235,112	357,541
Export loans	4,812,213	2,086,029
Import loans	2,195,240	1,523,976
Manufacturing and production	499,392	347,828
Building and construction	1,598,469	1,561,283
Domestic trade	1,824,281	1,290,804
Staff emergency and mortgage loans	297,136	251,819
Agricultural loans	37,004	24,846
Hotel and Tourism	353,730	117,128
	11,852,577	7,561,254

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Pass	10,966,529	6,999,628
Special mention	462,313	297,696
Substandard	151,796	66,066
Doubtful	169,880	102,516
Loss	102,058	95,349
	11,852,577	7,561,254

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.

4.7 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVTPL debt investments (2019) and available-for-sale debt assets (2018). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

The impairment model follows a three stage approach based on changes in expected credit losses of a financial instrument that determine; the recognition of impairment, and there recognition of interest revenue. The loss allowance for loans and advances to customers also includes the loss allowances for loan commitments and financial guarantee contracts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is disclosed as follows:

Three stage Approach

Stage 1
12 month expected credit losses (gross interest)
• Applicable when no significant increase in credit risk
• Entities continue to recognize 12 months expected losses that are updated at each reporting date
• Presentation of interest on a gross basis

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Stage 2
Life time expected credit losses (gross interest)
• Applicable in case of significant increase in credit risk
• Recognition of life time expected losses
• Presentation of interest on a gross basis

Stage 3
Life time expected credit losses (net interest)
• Applicable in case of credit impairment
• Recognition of life time expected losses
• Presentation of interest on a net basis

Loans and advances to customers at amortized cost	**30 June 2019**				**30 June 2018**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	Birr'000	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Stage 1 – Pass	10,966,529	-	-	10,966,529	6,999,628
Stage 2 – Special mention	-	462,313	-	462,313	297,696
Stage 3 - Non performing	-	-	423,734	423,734	263,931
Total gross exposure	10,966,529	462,313	423,734	11,852,577	7,561,255
Loss allowance	(100,653)	(10,050)	(119,497)	(230,201)	(187,213)
Net carrying amount	10,865,876	452,263	304,237	11,622,376	7,374,041

Other financial assets (debt instruments)	**SICR**		**Gross exposure (Birr'000)**	**Loss allowance (Birr'000)**	**30 June 2019** **Net carrying amount (Birr'000)**
Cash and balances with banks	12 Month ECL		3,608,762	(63)	3,608,699
Investment securities (debt instruments)	12 Month ECL		4,230,006	(212)	4,229,795
Other receivables and financial assets	Lifetime ECL		402,796	(4,607)	398,189
		Total	8,241,564	(4,881)	8,236,683

Other financial assets (debt instruments)	**SICR**		**30 June 2018** **Gross exposure (Birr'000)**	**Loss allowance (Birr'000)**	**1 July 2018** **Net carrying amount (Birr'000)**
Cash and balances with banks	12 Month ECL		3,018,746	(106)	3,018,640
Investment securities (debt instruments)	12 Month ECL		3,311,509	(166)	3,311,343
Other receivables and financial assets	Lifetime ECL		211,531	(2,413)	209,118
		Total	6,541,786	(2,684)	6,539,102

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Credit quality of loans and receivables (Impaired financial assets) – Comparative information under IAS 39

30 June 2018	Neither past due nor impaired 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 Tourism	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

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 loans past due for less than 30 (thirty)days.

	30 June 2018 Birr'000
Neither past due nor impaired	6,297,735
Collective impairment	(68,422)
	6,229,313

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

	30 June 2018 Birr'000
Less than 30 days	701,893
31 to 90 days	297,696
91 to 180 days	47,262
180 to 360 days	27,544
More than 360 days	16,284
	1,090,679
Collective impairment	(46,245)
Loan and receivables (net)	1,044,435

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
Substandard	18,804
Doubtful	74,972
Loss	79,065
Specific impairment	(72,547)
	100,294

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(iv) Allowance for impairment

	30 June 2018 Birr'000
Specific impairment	(72,547)
Collective impairment	(114,667)
Total allowance for impairment	(187,213)

4.8 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 Expected Credit Losses model required by IFRS 9. 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 recognized 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 2019, the Bank transferred an amount of Birr 17.56 million and 10.63 million during the period ended June 30, 2018 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 IFRS 9 as at year end and the amount of suspended interest income (net of tax) transferred 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 2019 Birr'000	30 June 2018 Birr'000
Total impairment based on IFRS	230,201	187,214
Total impairment based on NBE Directives	184,012	147,885
Interest in suspense booked	56,291	31,208
Regulatory risk reserve	39,404	21,846

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4.9 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2019 and 30 June 2018. The Bank concentrates all its financial assets in Ethiopia.

30 June 2019	Domestic and Trade Services Birr'000	Import and Export Birr'000	Building and construction Birr'000	Others Birr'000
Credit related commitments risks	-	-	-	-
Loans and Advances	1,824,281	7,007,453	1,598,469	1,422,374
Investment securities:				
- Equity Instrument	-	-	-	7,430,410
- NBE Bills	-	-	-	-
Other assets	-	-	-	-
Loan commitments (Approved but not drawn) as per NBE Guideline	-	-	-	411,722
	1,824,281	7,007,453	1,598,469	9,264,507

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	-	-	-	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	-	-	-	211,531
Loan commitments (Approved but not drawn) as per NBE Guideline	-	-	-	384,647
	1,290,804	3,610,005	1,561,283	7,047,944

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4.10 Nature of security in respect of loans and Advances

30 June 2019	**Secured against** **Building** **Birr'000**	**Machinery** **Birr'000**	**Vehicle** **Birr'000**	**Merchandise Stock** **Birr'000**	**Others** **Birr'000**
Agriculture	12,913	4,082	-	-	18,186
Building and Construction	574,327	43,424	491,432	-	485,897
Domestic Trade Service	1,699,718	-	3,171	1	121,509
Emergency Staff Loan	-	-	-	-	69,593
Export	546,290	-	3,616	9,348	4,237,782
Hotel and Tourism	339,733	-	5,123	-	8,429
Import	1,419,804	701	24,232	112,901	636,440
Manufacturing and Production	275,324	502	6,071	-	216,673
Staff Mortgage Loan	239,947	-	9,733	-	902
Transport and Communication	22,174	1,537	197,244	-	13,817
	5,130,230	**50,245**	**740,622**	**122,251**	**5,809,228**

30 June 2018	**Secured against** **Building** **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 Tourism	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

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4.11 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 property, 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 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, Government security 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 significant amount wrote off during the year.

4.12 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 2019 Birr'000	30 June 2018 Birr'000
Loan commitments (Approved but not drawn) as per NBE Guideline	411,722	384,647
Guarantees issued	1,892,869	2,171,938
Letter of credit and other credit related obligations	1,063,802	656,303
Total maximum exposure	3,368,393	3,212,888

4.13 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.

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4.13.1 Management of liquidity risk

Cash flow forecasting is performed by the Bank concerned department and the concerned 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 to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

4.13.2 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 2019	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	7,029,571	8,893	628,027	622,294	8,107,881
Other liabilities	575,611	595,324	10,376	8,759	19,538
Total financial liabilities	7,605,182	604,217	638,403	631,053	8,127,419

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

4.14 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.

4.14.1 Management of market risk

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

4.14.2 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.

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(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 2019	Interest bearing Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	1,251,651	2,357,048	3,608,699
Loans and Advances	11,852,577	-	11,852,577
Investment securities- NBE Bills (Equity Instrument)	4,229,795	37,113	4,266,908
Total	17,334,023	2,394,161	19,728,184
Liabilities			
Deposits from customers	13,548,742	2,715,996	16,264,738
Debt securities issued	-	-	-
Borrowings	-	-	-
Other liabilities	-	1,209,608	1,209,608
Total	13,548,742	3,925,604	17,474,346
Gap between Interest sensitive Asset and Liabilities	**3,785,281**		

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 Advances	7,561,254	-	7,561,254
Investment securities- NBE Bills (Equity Instrument)	3,311,509	-	3,311,509
Total	12,090,879	1,800,630	13,891,509
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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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 2019 and 30 June 2018. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

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 2019 is Birr (88.83) million and 30 June 2018 is Birr (46.84) million respectively.

The table below (for 'Sensitivity analysis for foreign exchange risk') summarizes 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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash and bank balances	149,433	90,994
Customers' Deposits	(163,230)	(87,389)
Other Liabilities	(75,028)	(50,445)
	(88,825)	(46,840)

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 2019 Birr'000	30 June 2018 Birr'000
Impact on profit or loss 10% change in exchange rates	(8,882)	(4,684)

30 June 2019	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
USD	10%	(10,271)	(10,271)
Euro	10%	579	579
GBP	10%	809	809
		(8,882)	(8,882)

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
GBP	10%	900	900
		(4,684)	(4,684)

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4.15 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.

4.15.1 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 exposures.

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 requirements set by the National Bank of Ethiopia, for the primary capital/core capital in terms of risk weighted asset.

	Code	30 June 2019 Birr'000	30 June 2018 Birr'000
Total Capital (A1+A2)	A	**2,093,282**	**1,577,439**
Primary Capital (sum A11 to A14)	A1	**2,093,282**	**1,577,439**
Paid-up capital	A11	1,554,350	1,184,180
Share Premium	A12	16,963	6,050
General reserves	A13	15,181	15,181
Legal reserves	A14	506,788	372,029
Supplementary capital (specify)	A2		
Risk-weighted assets (RWA) (B1 to B2)	B	**14,017,168**	**9,495,606**
On balance sheet (9)	B1	12,666,284	8,095,219
Off balance sheet (16)	B2	1,350,884	1,400,386
Ratios (%)	C		
Primary capital to RWA (A1/B)	C1	**14.93%**	**16.61%**
Total capital to RWA (A/B)	C2	**14.93%**	**16.61%**

4.15.2 Risk weighted assets (RWA)

a) Balance Sheet

Assets	**Weighted Assets** 30 June 2019 Birr'000	 30 June 2018 Birr'000
Claims on Domestic & foreign		
Less than 1 year maturity	257,129	250,212
Loans & advances (net)-Residential mortgage loans	117,051	112,114
Others	11,388,275	7,149,813
Investments	37,113	27,032
Fixed assets (net)	204,414	149,332
Accounts receivable	359,986	208,558
Supplies stock account	9,094	6,000
Others	293,223	219,191
Total RWBSA*	**12,666,284**	**8,122,252**

RWBSA = Risk Weighted Balance Sheet Assets

b) Off Balance Sheet

Off-Balance Sheet Assets (OBSA)	**Credit Equivalent** 30 June 2019 Birr'000	 30 June 2018 Birr'000
Undrawn Loan commitments	205,861	192,324
Guarantees issued	946,434	1,085,969
Commercial letter of credit	198,589	122,094
Total Risk weighted Off - BSA	**1,350,884**	**1,400,386**

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4.16 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 categorized 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.

4.16.1 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 categorized 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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4.16.2 Financial instruments not measured at fair value - Fair value hierarchy

The following table summarizes 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 categorized. The amounts are based on the values recognized in the statement of financial position.

As it vivid on the above disclosure point 4.16, regards to our financial instrument category, the Bank's financial assets are classified into amortized cost and FVTPL and the financial liabilities are classified into other liabilities at amortized cost. Thus, the Bank has no financial asset measured at fair value through other comprehensive income. As a result, except equity investment permanently having similar face value (at initial and subsequent measurement) the bank valuation technique is significant unobservable inputs – Level 3.

30 June 2019	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	3,608,699	3,608,699	-	-	3,608,699
Loans and Advances	11,622,376	-	-	11,622,376	11,622,376
Investment securities	4,229,795	54,015	-	4,229,795	4,283,810
Total	19,460,870	3,662,714	-	15,852,171	19,514,885
Financial liabilities					
Deposits from customers	16,396,666	16,396,666			16,396,666
Debt securities issued	-	-			-
Borrowings	-	-			-
Other liabilities	1,131,431	-		1,131,431	1,131,431
Total	17,528,097	16,396,666	-	1,131,431	17,528,097

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

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4.16.3 Fair value methods and assumptions

Loans and advances to customers

Loans and advances to customers are carried at amortized 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.

4.16.4 Valuation technique using significant unobservable inputs – Level 3

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

4.16.5 Transfers between the fair value hierarchy categories

During the reporting period 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.

4.17 Offsetting financial assets and financial liabilities

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

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	30 June 2019 Birr'000	0 June 2018 Birr'000
Interest income		
Interest on Loans & Advances	1,403,577	992,753
Interest on deposits held with local and foreign banks	149,387	95,952
Interest on treasury and NBE bills	118,379	83,159
Interest-on Local Investment	1,211	847
	1,672,554	1,172,711

Included within various line items under interest income for the year ended 30 June 2019 is a total of Birr 28,611,327 and 30 June 2018: Birr 15,189,820 relating to impaired financial assets.

	30 June 2019 Birr'000	0 June 2018 Birr'000
Interest expense		
- Saving deposits	500,459	320,850
- NBE borrowings	-	-
- Fixed deposits	109,536	102,959
- Demand deposits	-	16
	609,995	423,825

	30 June 2019 Birr'000	0 June 2018 Birr'000
Net fees and commission income		
Fee and commission income		
Commission on Letter Of Credit	100,920	54,164
Commission on Letter Of guarantee	116,880	99,645
Commission on Local transfers and other transactions	3,850	3,866
Net fees and commission income	221,650	157,675
Net foreign exchange income		
Gain on foreign exchange	196,040	101,968
Loss on foreign exchange	(109,404)	(48,888)
Net foreign exchange income	86,636	53,080

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9 Other operating Income	30 June 2019 Birr'000	0 June 2018 Birr'000
Telephone, telegraph and postage charges	886	1,066
Service charge on foreign and local transactions	193,008	120,906
Gain on Disposal of Property,plant and Equipment	154	613
Other income	43,198	990
	237,246	123,575

10 Loan Impairment charge	30 June 2019 Birr'000	0 June 2018 Birr'000
Loans and Advances - charge for the year (note 16a)	(99,372)	(50,092)
Loans and Advances - reversal of provision (note 16a)	-	-
	(99,372)	(50,092)

11 Impairment losses on other assets	30 June 2019 Birr'000	0 June 2018 Birr'000
Other assets - charge for the year (note 18)	(43,045)	(309)
Other assets - reversal of impairment losses (note 18)	1	1
	(43,044)	(308)

12 Employee benefits	30 June 2019 Birr'000	0 June 2018 Birr'000
Salaries and wages	277,688	207,648
Staff bonus	60,989	30,300
Staff allowances	75,855	58,306
Provident fund and pension contribution	33,117	24,711
Accrued leave pay	7,941	5,450
Amortisation of prepaid staff benefit	1,557	(569)
Employee defined benefit expense	11,674	5,789
Other staff expenses	16,747	16,217
	485,568	347,852

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		30 June 2019 Birr'000	30 June 2018 Birr'000
13	**Other operating expenses**		
	General and administrative expenses	19,945	2,795
	Advertisement and Publicity	18,799	13,366
	Insurance Expenses	5,092	4,111
	Stationery & Printings	11,101	8,199
	Transportation of Currencies	10,511	5,383
	Wages Expense	65,450	46,232
	Office Rent	86,043	69,704
	Communication expenses	10,026	10,320
	Repairs and maintenance	4,804	4,304
	Maintenance, consultancy and support fees	9,136	9,346
	Service charge	793	253
	Directors' fees	3,084	1,633
	Issuer fees on ATM	213	145
	Administration of acquired property	10	8
	Office supplies	2,932	1,152
	Subscription and membership fees	660	345
	Fuel and lubricants	1,096	734
	Audit fees	704	477
	Other expenses	3,495	1,092
		253,895	179,599

		30 June 2019 Birr'000	30 June 2018 Birr'000
14	**Current income and deferred tax**		
14a	**Income tax expense**		
	Current income tax expense	161,231	95,595
	Prior year (over)/ under provision		
	Deferred income tax/(credit) to profit or loss	(4,740)	(6,029)
	Total charge to profit or loss	156,491	89,566
	Tax (credit) on other comprehensive income	-	-
	Total tax in statement of comprehensive income	156,491	89,566

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

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

(b) Current tax	30 June 2019 Birr'000	30 June 2018 Birr'000
IFRS Accounting profit	695,525	480,331
Add : Disallowed expenses		
Entertainment	1,164	3,378
Donation	50	-
Penalty	629	10
Provision for loans and advances as per IFRS	99,372	50,092
Depreciation for accounting purpose	26,531	20,772
Amortization for accounting purpose	4,156	4,261
Impairment losses on other assets	43,045	309
Provision for legal cases	2,070	-
Severance pay	11,359	5,186
	188,377	84,009
Less :		
Depreciation for tax purpose	29,201	22,610
Provision for loans and advances for tax NBE 80%	28,902	28,236
Amortization of deferred charge as per tax law	5,242	5,244
Written back of doubtful debts other than loans and Advance	1	1
Written off of doubtful debts other than loans and advance	-	-
Gain on disposal of Property,plant & equipment	154	613
Dividend income taxed at source	1,211	847
Interest income taxed at source-NBE Bills	118,379	83,159
Interest income taxed at source-deposits	147,925	95,952
Provision for legal cases	-	9,030
Unrealized Gain(Loss) on Equity Investment	15,451	-
	346,466	**245,692**
Taxable profit	**537,436**	**318,649**
Current tax at 30%	**161,231**	**95,595**

(c) The movement of Profit tax Payable

Balance brought forward	90,441	77,314
Add : Provision for the year	161,231	95,595
Less: Direct settlement	90,441	82,467
Withholding tax paid	131	-
	161,099	**90,441**
Tax Provision as Per IFRS	161,231	95,595
Tax provission as per GAAP	-	
Additional Current Tax Expense to be (claimed)/settled	(131)	-
Tax Payable for 2018/2019	**161,099**	**90,441**

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14c **Current income tax liability**	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current income tax payable	161,231	90,441
	161,231	90,441
Balance at the beginning of the year	90,441	77,314
Income tax expense	161,231	95,595
Prior year (over)/ under provision	-	-
Payment during the year	(90,441)	(82,467)
Balance at the end of the year	161,231	90,441

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 2019 Birr'000	**30 June 2018 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	9,929	5,189
	9,929	5,189

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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 2018 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, Plant and Equipment (Including intangibles)	(7,252)	(2,227)		(9,479)
Post employment benefit obligation	12,441	6,967		19,408
Total deferred tax assets/(liabilities)	5,189	4,740	-	9,929

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

15 Cash and balances with banks

		30 June 2019 Birr'000	30 June 2018 Birr'000
Cash in hand		1,218,332	1,004,683
Deposits with local banks		1,251,714	1,218,116
Deposits with foreign banks		33,930	32,942
Balance held with National Bank of Ethiopia		279,786	187,005
Reserve with National Bank of Ethiopia		825,000	576,000
Gross amount		3,608,762	3,018,746
Less: Impairment allowance to Deposit with local banks			-
IFRS 9 adjustment as at 1 July 2018	106		
Charge for the year	(43)		
Total Impairment allowance		(63)	
Net Amount		3,608,699	3,018,746

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Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	2,783,699	2,442,746
Non-Current	825,000	576,000
	3,608,699	3,018,746

The reserve with National Bank of Ethiopia represents regulatory cash ratio requirements based on customer deposits with the Bank. As at 30 June 2019, the cash ratio requirement was 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 'Amortized cost'.

16 Loans and advances

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Analysis by sector		
Transportation and communication	235,112	357,541
Export loans	4,812,213	2,086,029
Import loans	2,195,240	1,523,976
Manufacturing and production	499,392	347,828
Building and construction	1,598,469	1,561,283
Domestic trade	1,824,281	1,290,804
Staff emergency and mortgage loans	297,136	251,819
Agricultural loans	37,004	24,846
Hotel and Tourism	353,730	117,128
Gross loans and advances to customers	11,852,577	7,561,254
Less: Impairment allowance (note 16a)		
- Allowance for Impairment	(230,201)	(187,214)
Net loans and advances to customers	11,622,376	7,374,041

Analysis by maturity	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Loans and advances due:		
Not later than 1 year	6,289,816	6,242,093
Later than 1 year but not later than 5 years	4,469,681	282,195
Later than 5 years	1,093,080	1,036,966
Gross loans and advances to customers	11,852,577	7,561,254
Less: Provision for doubtful debts	(230,201)	(187,214)
Net loans and advances to customers	11,622,376	7,374,041

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16a Impairment allowance on loans and Advances

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

	As at 30 June 2018 Birr'000	IFRS 9 Adjustment as at 1 July 2018 Birr'000	Charge for the year Birr'000	As at 30 June 2019 Birr'000
Allowance for Impairment	187,214	(56,368)	99,355	230,201
	187,214	(56,368)	99,355	230,201

	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	83,814	34,617	118,431	28,593	147,024
Collective allowance for impairment	-	18,731	18,731	21,459	40,190
	83,814	53,348	137,162	50,052	187,214

17 Investment Securities

	30 June 2019 Birr'000	30 June 2018 Birr'000
Investment Securities at FVTPL		
EthSwitch S.C.	12,002	12,002
Lion Insurance Co. S.C.	6,211	5,000
SWIFT	30	30
Goda Bottle and Glass S.C.	18,870	10,000
	-	-
Gross amount	37,113	27,032
Add (Less): Investment Security (Equity)- Fair Value	-	-
IFRS 9 adjustment as at 01 July 2018	1,450	
Charge for the year	15,451	
Total Investment Security (Equity)- Fair Value	16,902	
Net amount	**54,015**	**27,032**

Investment Securities at Cost

Name of investees	**Principal activity**	**Shares**	**30 June 2019 Birr**
EthSwitch S.C.	Money transfer	12,002	12,002,000
Lion Insurance Co. S.C.	Insurance	248,446	6,211,159
SWIFT	Money transfer	1	29,574
Goda Bottle and Glass S.C.	Manufacturing	377,400	18,870,000
			37,112,733

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NBE Bills at Amortized Cost

		30 June 2019 Birr'000	30 June 2018 Birr'000
National Bank of Ethiopia bills (Net)		4,229,795	3,311,509
		4,229,795	3,311,509
Movement			
At start of year		3,311,509	2,420,801
Additions		1,091,279	1,055,854
Maturities		(193,176)	(176,695)
Increase in accrued interest at end of year		20,395	11,549
Gross amount		4,230,006	3,311,509
Less: Impairment allowance to NBE Bills			-
IFRS 9 adjustment as at 1 July 2018	166		
Charge for the year	46		
Total Impairment allowance		(212)	
At end of year		4,229,795	3,311,509
Maturity profile			
Bills maturing within 91 days from the date of acquisition		-	-
Bills maturing after 91 days after the date of acquisition		4,229,795	3,311,509
Total		4,229,795	3,311,509

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.

	30 June 2019 Birr'000	30 June 2018 Birr'000
18 Other assets		
Financial assets		
Sundry receivables	407,245	211,531
	407,245	211,531
Less: Impairment allowance for other assets	(47,259)	(2,973)
	359,986	208,558
Non-financial assets		
Prepaid staff benefit	9,146	23,819
Prepayments	230,290	152,959
Stock of supplies	9,094	6,000
Acquired property	38,965	24,754
	287,495	207,532
Net amount	647,481	416,090

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Maturity analysis	**30 June 2019 Birr'000**	**30 June 2018 Birr'000**
Current	360,290	201,712
Non-Current	287,191	214,377
	647,481	416,090

Impairment allowance on other assets

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

	30 June 2019 Birr'000	**30 June 2018 Birr'000**
Balance at the beginning of the year	2,973	2,665
IFRS 9 Adjustment as at 1 July 2018	2,413	-
Charge for the year	43,044	309
Written off during the peroid	(1,169)	-
(Reversal)/charge for the year (note 10)	(1)	(1)
Balance at the end of the year	47,259	2,973

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19 Intangible Assets	Software Birr'000	Work in progress Birr'000	Total Birr'000
Cost:			
As at 1 July 2017	**33,549**	**-**	33,549
Acquisitions	2,581		2,581
As at 30 June 2018	36,130	-	36,130
As at 1 July 2018	**36,130**	**-**	36,130
Acquisitions	741	578	1,319
As at 30 June 2019	36,872	578	37,449
Accumulated amortization and impairment losses:			
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
As at 1 July 2018	18,471	-	18,471
Amortisation for the year	4,156		4,156
Impairment losses			-
As at 30 June 2019	22,628	-	22,628
Net book value			
As at 30 June 2018	17,659	-	17,659
As at 30 June 2019	14,244	578	14,822

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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 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
As at 1 July 2018	43,718	57,513	50,428	68,250	12,873	34	232,815
Additions	17,298	18,896	22,633	19,601	-	799	79,227
Disposals	-	(54)	(101)	(143)		-	(298)
Reclassification	-	1,842	561	126			2,530
As at 30 June 2019	61,016	78,197	73,521	87,835	12,873	834	314,274
Accumulated depreciation							
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
As at 1 July 2018	18,009	16,695	20,748	27,395	638	-	83,484
Charge for the year	4,087	6,345	6,345	9,509	245	-	26,531
Disposals	-	(20)	(34)	(100)			(154)
As at 30 June 2019	22,096	23,020	27,059	36,803	883	-	109,861
Net book value							
As at 30 June 2018	25,709	40,818	29,680	40,855	12,235	34	149,332
As at 30 June 2019	38,920	55,177	46,461	51,032	11,990	834	204,414

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	30 June 2019 Birr'000	30 June 2018 Birr'000
21 Customer deposits		
Foreign currency deposits	131,928	62,115
Demand deposits	2,715,996	2,352,029
Saving deposits	12,275,643	8,229,837
Time deposits	1,273,099	995,607
Total deposits from customers	16,396,666	11,639,588

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 2019 Birr'000	30 June 2018 Birr'000
22 Other liabilities		
Financial liabilities		
Cash payment orders	290,252	183,632
Margin held on letters of credit	539,848	307,495
Blocked accounts	73,130	20,257
Leave accrual	27,261	19,849
Local transfers payable	2,127	2,786
Exchange commission	29,318	18,388
Share premium - NBE	10	-
Miscellaneous payables	2,579	5,989
Retention payable	-	-
Retention on foreign currency	26,063	14,369
Accruals	80,039	43,815
Dividend payable	38,588	32,301
Provident and pension fund	1,635	1,183
Other payables	3,095	1,842
Foreign transactions payable	3,187	16,204
Temporary customer accounts	14,299	4,903
	-	
	1,131,431	673,013
Non-financial liabilities		
Advances on import bills	33,125	33,125
Taxes and stamp duty charges	9,080	5,474
Unearned Income-LG Commission	19,517	25,197
Unearned Income-LC Opening S/Charges	14,168	2,201
Provision for legal cases	2,286	216
	-	
	78,176	66,213
Total	1,209,608	739,227

Maturity analysis	30 June 2019 Birr'000	30 June 2018 Birr'000
Current	1,190,070	712,319
Non-Current	19,538	26,908
	1,209,608	739,227

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	30 June 2019 Birr'000	30 June 2018 Birr'000
23 Retirement benefit obligations		
Defined benefits liabilities:		
– Severance and retirement benefit gratutity benefits	64,693	41,470
Liability in the statement of financial position	**64,693**	**41,470**
Income statement charge included in personnel expenses:		
– Severance and retirement benefit gratutity benefits	11,674	5,789
Total defined benefit expenses	**11,674**	**5,789**
Remeasurements for:		
– Severance and retirement benefit gratutity benefits	(11,864)	(16,680)
	(11,864)	**(16,680)**

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 2019 Birr'000	30 June 2018 Birr'000
Current	2,026	950
Non-Current	62,667	40,520
	64,693	41,470

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 2019 Birr'000	30 June 2018 Birr'000
A Liability recognised in the financial position	64,693	41,470

	30 June 2019 Birr'000	30 June 2018 Birr'000
B Amount recognised in the profit or loss		
Current service cost	5,616	2,659
Interest cost	6,058	3,130
	11,674	5,789

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23 Retirement benefit obligations (Contd)

C Amount recognised in other comprehensive income:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Remeasurement (gains)/losses arising from changes in demographic assumptions	(2,772)	246
Remeasurement (gains)/losses arising from changes in the economic assumptions	(1,820)	(12,927)
Remeasurement (gains)/losses arising from changes exeperience	(7,272)	(3,999)
	(11,864)	(16,680)

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
At the beginning of the year	41,470	19,604
Current service cost	5,616	2,659
Interest cost	6,058	3,130
Remeasurement (gains)/ losses	11,864	16,680
Benefits paid	(315)	(603)
At the end of the year	64,693	41,470

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2019 Birr'000	30 June 2018 Birr'000
Discount Rate (p.a)	12.50%	12.91%
Long term salary increases	12.00%	12.00%

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 12.91%,as at 30 June 2018 and 12.50% as at 30 June 2019.

Long term salary

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% per annum. Past inflation is not necessarily a good indicator of long-term future inflation. It is considered current actual year-on-year headline inflation, limited to the National Bank of Ethiopia's long-term maximum target of 10%.

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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.

	Mortality rate	
Age	Male	Female
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.):

	Resignation rates	
Age	per(2019) annum	per(2018) annum
20	13.18%	17.30%
25	6.06%	7.45%
30	5.87%	7.60%
35	5.03%	7.12%
40	3.22%	5.05%
45	2.09%	3.38%
50	2.02%	4.24%

The sensitivity of the main results to changes in the assumed salary escalation rates and the discount rate have been calculated based on the duration of the liabilities. The changes in the 30 June 2019. Defined Benefit Obligation and the Current Service Cost are reflected below:

		Impact on defined benefit obligation	
		30 June 2019	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	1%	56,457	74,221

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 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 2019

	30 June 2019 Birr'000
Within the next 12 months (next annual reporting period)	(2,861)
Year ending 30 June 2021	(3,465)
Year ending 30 June 2022	(4,579)
Year ending 30 June 2023	(5,323)
Year ending 30 June 2024	(6,513)
	(22,741)

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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:

a) 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.

b) 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.

c) 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

	30 June 2019 Birr'000	30 June 2018 Birr'000
Authorised:		
3 Billion Ordinary shares of 25 Birr each	1,554,351	1,184,180
Issued and fully paid:		
62,174,021 Ordinary shares of 25 Birr each (as of 30 June 2019)	1,554,351	1,184,180

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 2019 Birr'000	30 June 2018 Birr'000
Profit attributable to shareholders	539,034	390,766
Rollover IFRS adjustment from Regulatory risk reserve	-	(84,631)
Profit attributable to shareholders (after IFRS adjustments)	539,034	306,135
Weighted average number of ordinary shares issued as at 30 June 30,2019 and 30 June 2018	56,737	40,548
Basic & diluted earnings per share (Birr)	9.50	7.55

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, hence the basic and diluted loss per share have the same value.

	30 June 2019 Birr'000	30 June 2018 Birr'000
26 Retained earnings		
At the beginning of the year	225,345	144,248
Declared dividend	(212,875)	(198,191)
Prior year adjustment	55,213	-
Profit/ (Loss) for the year	539,034	390,766
Transfer to legal reserve	(134,758)	(97,691)
Transfer to special reserve	-	(3,152)
Transfer to Other Reserve	(70,586)	-
Transfer to Regulatory Risk Reserve	(17,558)	(10,633)
At the end of the year	383,813	225,345

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	30 June 2019 Birr'000	30 June 2018 Birr'000
27 Legal reserve		
At the beginning of the year	372,029	274,337
Transfer from profit or loss	134,758	97,691
At the end of the year	506,788	372,029

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. 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 2019 Birr'000	30 June 2018 Birr'000
28 Special reserve		
At the beginning of the year	15,181	12,029
Transfer (from) / to retained earnings	-	3,152
Prior year adjustment	-	-
At the end of the year	15,181	15,181

According to the resolution of the 10th to 13th shareholders' general assembly, the shareholders passed a resolution to retain a special reserve from the profit of the year ended 30 June 2013 to 2017. This reserve is not subject to distribution to shareholders.

	30 June 2019 Birr'000	30 June 2018 Birr'000
29 Regulatory risk reserve		
At the beginning of the year	21,846	11,213
Transfer (from) / to retained earnings	17,558	10,633
At the end of the year	39,404	21,846

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 Expected Credit 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 Expected Credit Loss 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 Expected Credit Loss under IFRS, the difference is transferred from regulatory risk reserve to the retained earning to the extent of the non-distributable reserve previously recognised.

	30 June 2019 Birr'000	30 June 2018 Birr'000
30 Other reserves		
At the beginning of the year	(15,758)	922
Remeasurement gain/(loss) on retirement benefits obligations	(11,864)	(16,680)
Other Reserve- unrealized Earnings	70,586	
At the end of the year	42,964	(15,758)

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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.

The unrealized earnings arises from the revaluation of investment securities to fair value of the investment and this is non-distributable reserve.

		Notes	30 June 2019 Birr'000	30 June 2018 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		695,525	480,331
	Adjustments for non-cash items:			
	Depreciation of property and equipment	20	26,531	20,772
	Amortisation of intangible assets	19	4,156	4,261
	Loan impairment Charge	16	99,355	50,052
	Impairment loss on other assets		43,044	308
	Gain on Disposal of Property and Equipment		(154)	(613)
	Current Service Cost on Defined Benefit Obligation		11,674	5,789
	Fair value adjustment on Investment Security (Equity)		(15,451)	-
	Prior year adjustment		(1,150)	-
	Changes in operating assets and liabilities:			
	-Decrease/ (Increase) in loans and advances	16	(4,291,323)	(1,989,773)
	-Decrease/ (Increase) in other assets	18	(275,677)	(152,650)
	-Increase/ (Decrease) in customer's deposit		4,757,078	2,828,761
	-Increase/ (Decrease) in other liabilities	22	464,094	102,412
			1,517,703	**1,349,651**

b) Cash and balances with banks

	Notes	30 June 2019 Birr'000	30 June 2018 Birr'000
Cash in hand	14	1,218,332	1,004,683
Cash and balances with National Bank of Ethiopia		279,786	187,005
Deposits with local banks		1,251,714	1,218,116
Deposits with foreign banks		33,930	32,942
Reserve with National Bank of Ethiopia		825,000	576,000
Less: Impairment allowance to Deposit with local banks		(63)	-
		3,608,699	**3,018,746**

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For the year ended 30 June 2019

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

	30 June 2019 Birr'000	30 June 2018 Birr'000
32a *Transactions with related parties*		
Transaction with related borrower	-	198,625
Transaction with Insurance Company		
- Payment for staff insurance	1,496	1,169
- Payment for Money, Motor, Fire & Lightening and Fidelity Insurances	5,092	4,111
	6,589	203,905

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 is shown below. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2019.

	30 June 2019 Birr'000	30 June 2018 Birr'000
Board of directors remuneration	1,650	1,110
Salaries and other short-term employee benefits	13,050	9,172
	14,700	10,282
Loans and Advances		
Loan to senior management	14,699	10,875
	29,399	21,156

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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33 Directors and employees

The average number of personnel's (including Executive Management) of the Bank during the year was as follows:

	30 June 2019 Number	30 June 2018 Number
Professionals and High Level Supervisors	1,557	1,322
Semi-professional, Administrative and Clerical	618	397
Technician and Skilled	4	4
Manual and Custodian	118	106
	2,297	1,829

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 clause set in the International Accounting Standards (IAS 37) there is no probable 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 summarizes the fair value amount of contingent liabilities for the account of customers:

	30 June 2019 Birr'000	30 June 2018 Birr'000
Loans and Advances approved but not drawn (as per NBE Guideline)	411,722	384,647
Guarantees Issued	1,892,869	2,171,938
Letters of credit	992,943	610,470
CAD-Export sight	70,859	45,833
	3,368,393	3,212,888

35 Commitments

The Bank has no commitments, provided for in these financial statements, as of 30 June 2019 and 30 June 2018 for purchase of various capital items.

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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 2019 Birr'000	30 June 2018 Birr'000
No later than 1 year	72,672	53,651
Later than 1 year and no later than 2 years	68,031	52,709
Later than 2 years but not later than 5 years	29,336	44,153
Later than 5 years	-	1,093
Total	170,039	151,606

37 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2019 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed. i.e. No significant event that requires special disclosure occurred between the reporting date and the date when the financial statements were issued.

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38 Adoption of IFRS 9 for the Bank

The bank has adopted IFRS 9 in accordance with International Financial Reporting Standards (IFRS) which surpassed IAS 39 for the year ended 30 June 2019 as issued by the International Accounting Standards Board (IASB).
As per the national road map issued by Accounting and Auditing Board of Ethiopia (AABE), the bank has fully adopted IFRS commencing from the last year reporting period. However, due to the policy change made by the standard setter IASB, IAS 39- Financial Instruments is replaced by IFRS 9- financial instruments effective form January 1, 2018. As a result the bank has performed adjustments on transaction involving this standard on 1 July 2018 retrospectively, and the financial reports have been presented and disclosed accordingly.

38.1 IFRS 9 Adoption Phases

For adoption of the new standard, the bank used its available historical data to analyze and identify the historical effect and to consider the gap from the previous standard. The adoption process has been conducted by the advisory services of international consulting firm - KPMG. The adoption process has gone through three phases. The main tasks made on each stage are as follows;

i) Assessment Phase:

• detailed gap and impact analysis between current practice and IFRS 9 requirements with regards to related policies, processes, people, IT systems and infrastructure, impairment assessment model and data governance among others are conducted.
• Policies, processes and governance framework of the Bank with regard to IFRS 9 implementation were reviewed.
• The appropriate classification and measurement of the Bank's financial instruments and the required adjusting entries for the conversion to IFRS 9 as at transition date 1 July 2018 and year ending 30 June 2019 are determined.
• The information requirements for an IFRS 9 implementation are identified and developed.
• New system requirements for the Bank to enable IFRS 9 reporting is developed.

ii) Design Phase:

• Appropriate impairment calculation Models/Tools for the Bank in different scenarios and enhancement of existing models/systems/tools, in line with IFRS 9 is developed and user friendly excel based loan impairment model to enable sustainability of impairment computations going forward also provided.
• The valuation and impairment policy for the Bank in line with IFRS 9 reviewed and updated and updated IFRS 9 accounting policy for the Bank is provided.

iii) Implementation Phase:

• Effective interest rate for financial instruments of the Bank for the period ended 30 June 2018 and period ending 30 June 2019 are computed and provided all the required adjusting entries. Moreover, Excel based Effective Interest Rate (EIR) computation tool that may be updated to enable sustainability of EIR computation under IFRS 9 also provided.
• Impairment for financial instruments as well as for off balance sheet items of member banks for the period ended 30 June 2018 and period ending 30 June 2019 by collecting the relevant macroeconomic variable are computed and Excel based loan impairment computation model to enable sustainability of impairment computation under IFRS 9 also provided.
• Impairment models for IFRS 9 along with the detailed explanation is provided.
• Fair value of equity investments for EBA member banks using a fair value assessment approach in the context of Ethiopia as there is no quoted market for the period ended 30 June 2018 and period ending 30 June 2019 is computed.

38.2 Methodology adopted for the impairment estimation under IFRS 9

The following IFRS 9 – prescribed approaches have been applied in modelling the ECL impairment:

• General Approach – applied to majority of the finanical assets measured under amortized cost and FVTPL

• Simplified Approach – applied to trade receivables without a significant financing component

38.3 Overall Results of IFRS 9 Impairment

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) before a loss event has occurred unlike incurred losses model applied under the previous (IAS-39) standard which recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred. Further, under IFRS 9, the ECL model, which is forward-looking, requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses.

Events

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ግብ-ተኮር የቁጠባ ሂሳቦች

ግልፅ የሆነ የህይወት ግብ ይኑርዎ!
በባንካችን ግብ-ተኮር ሂሳቦች ይቆጥቡ!
ግብዎን ያሳኩ ዳጎስ ያለ ወለድም ያግኙ!

Cover pictures:
Front - LIB's future HQ
Back - LIB's prospective Northern Regional Office