ANNUAL REPORT
2019/20

LION INTERNATIONAL BANK S.C.

Lion - born to live in your heart and wallet.
LIB - Key to Success!


KEY TO SUCCESS
Annual
Report
2017/18
LION INTERNATIONAL BANK S.C.
welcome to Lion Mobile Banking
Regular Account
HelloCash
My QR
Visit our website
HelloCash Website
EthioPay
DEBIT
LION
LION INTERNATIONAL BANK S.C
KEY TO SUCCESS
Valid only in Ethiopia
WELCOME TO
LIONONLINE
FOR SUPPORT
CALL: 8803
Lion International Bank never asks for confidential information such as PIN and OTP from customers. Any such call can be made only by a fraudster. Please do not share personal information.

What's Inside

LIB-KEY TO SUCCESS!

Designed & Printed by
master print
አራት ኪሎ :: +251 111 557 788 ገርጂ :: +251 116 298 777
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BOARD OF DIRECTORS

Lt. Gen. G. Tsadkan G.Tensae
Chairperson

Gebrehiwot Ageba (PhD)
V.Chairperson & member of Risk and Compliance Committee

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Director & Chairperson of HR Affairs & Business Development Committee

Tsegabrhan Mekonen (PhD)
Director & Chairperson of Risk and Compliance Committee

Yirga Tadese
Director & member of HR Affairs & Business Development Committee

Tewelde Asfaw
Director & member of Risk and Compliance Committee

Fassil Tadese
Director & member of HR Affairs & Business Development Committee

Tsegay Tetemke
Director & Chairperson of Audit Committee

Tadele Hagos (PhD)
Director & member of HR Affairs & Business Development Committee

Haile Berhe
Director & member of Audit Committee

Alem Asfaw
Director & member of Audit Committee

EXECUTIVE MANAGEMENT TEAM

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President

Tekie Mekuria
VP-Corporate Banking

Daniel Tekeste
VP-Business Strategy & Modernization

Gebru Meshesha
VP - Resource Management

Aklilu Hayelom
VP-Northern Regional Office

Abreham Tilahun
AVP-Retail Banking

Vission

To be the leading Bank in Ethiopia by 2035

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

MESSAGE
FROM THE BOARD CHAIRPERSON

"Grappling with the challenges, our bank, Lion International Bank, has managed to be resilient enough during the fiscal year in point and registered a steady and glittering"

Dear Shareholders:

On behalf of my own and fellow Board of Directors, it is my great pleasure and an honor to report the continued institutional strength and the remarkable financial and non-financial performances of Lion International Bank S.C. for the year ended June 30, 2020.

The financial year under consideration was an eventful year marked by both socioeconomic challenges and commendable achievements for the bank. The year 2019/20 was overshadowed by the unprecedented pandemic COVID-19, widespread political and social unrest, downward spiral in export sector performance, and the subsequent chronic shortages in foreign currency, which were among the salient challenges that left the banking business in gloomy circumstances.

On the other hand, in spite of these challenges, the sustained growth recorded in the level of local deposits was an opportunity for the Banking business. It has enabled banks to substantially expand their volume of loan disbursement and financing activities. Grappling with the aforementioned challenges, our bank (Lion International Bank) has managed to be resilient enough during the fiscal year in point and registered a steady and glittering progress towards achieving the overarching goals as measured by key performance indicators.

As you, respected shareholders may know, a newly elected Board of Directors assumed office and the corporate leadership of the Bank since March 2020. Thus, the contribution of the outgoing board members in meticulously identifying critical success factors, setting sound action plan, and establishing strong follow-up and monitoring mechanisms was immense. Meanwhile, subsequent to the smooth transition of responsibility, the role of the incoming board, the currently reporting board, was also remarkable. Thus, the outstanding performance registered in the just ended fiscal year is considered as the result of wise collective leadership of both boards of directors. On top of this, the strong leadership of the Senior Executive Management, and outstanding commitment of employees at various levels was of paramount importance to ensure the achievement of envisaged targets. Hence, at this opportune moment, I would like to express my heartfelt appreciation to the outgoing Board members, the Management and employees for the contribution they have made to maintain the excellence of the Bank.

The new Board, upon assuming the responsibilities bestowed to it, has reviewed and raised the bar in terms of major financial and nonfinancial targets and, despite the challenges posed by the COVID pandemic, exerted harmonized efforts to implement the action plan set for the fiscal year in a bid to successfully realize key targets with persistent commitment. Hence, we have laid our commitment to maximize our customer base so as to drive sustainable deposits and at the same time expand branch accessibility. To enhance its digital Banking services, the Board has approved significant investment on technology infrastructure aiming at modernizing and capacitating the Bank. We have also taken steps to strengthen corporate governance of the Bank including strengthening the oversight functions of the Board and its Sub-Committees. The Audit, Risk and Compliance Management, and HR Affairs and Business Development Sub-committees are strong instruments of the board to monitor, control, and direct management's overall activities through the respective functional departments of the bank. Frequent engagement of the subcommittees with the management and the departments enables the board to effectively play its oversight role in managing and minimizing the predictable risks of the Bank.

Accordingly, during the reporting period, the Board has pursued the planned Resource Mobilization and Allocation goals, Operational Performances, non financial targets, human resource targets and initiatives while focusing on our ability to remain resilient amid the prevailing global pandemic and 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 780.6 million before tax, up by 12 percent from the previous year's performance. For the same period, the Bank's earnings per share (EPS) stood at Birr 8.41.

The global pandemic of COVID-19 coupled with the unrest in some parts of the country has negatively influenced all sectors of business. Particularly, the export sector has been subsequently impacted, resulting in chronic shortages in foreign currency earnings. In order to surmount the challenge, the Board and the management of the Bank have crafted and implemented Foreign Currency Mobilization strategy, which we strongly believe will bring fruitful results in the near future. In our efforts to mobilize local deposits, the Bank has registered incremental deposit of Birr 9.7 billion, raising the outstanding total deposits to Birr 26.1 billion. The substantial (59 per cent) year-on-year growth in deposit mobilization contributed the lion's share to the upsurge in the profit generating capacity of the Bank. Sustained growth in deposits has also expanded the Bank's volume of financing for businesses.

As a result, in this same year, LIB has managed to disburse loans and advances to the tune of Birr 8.3 billion, raising its total outstanding loans to Birr 19.1 billion. Moreover, determined efforts to ensure prudent lending and asset quality management, in the face of the impact of COVID-19 yielded results, enabled the Bank to contain the ratio of non-performing loans to total loans (NPL) below the 5 percent maximum set by the National Bank of Ethiopia (NBE).

During the period under consideration, total assets of the Bank expanded to Birr 31.8 billion, 55.9 percent higher than the preceding year. The total liability of the Bank stood at Birr 28.3 billion, 58.7% higher than the previous year. Besides, the capital and reserves of the Bank has reached Birr 3.5 billion, reflecting a 36 percent increase from the previous year. The paid-up capital has also reached Birr 2.2 billion, which revealed the growth of Birr 621.1million (40%) from the previous year similar period.

The Board and management strongly considered increasing branch accessibility to customers as a key strategic instrument in expanding the Bank's customer base thereby enhancing its market share. In this regard, we have opened 33 new branches raising the total number of branches throughout the country to 262 as at June 30, 2020, which is instrumental in improving accessibility to our existing customers and attract potential customers. Currently, the total number of depositors has reached 1.2 million.

Coping up with the dynamic technological advancement, the Bank has been providing multifaceted digital Banking services to serve diversified customers using internet Banking, agent and mobile Banking platforms. Our integrated Anbesa Hellocash and mobile Banking applications are now providing customers with a comprehensive view of their financial transaction, among others, and our ATMs are enabling both LIB and non-LIB customers use the same capabilities. In line with this, our Anbesa-Hellocash customers have now exceeded 428 thousand while number of agents reached 2,868.

The newly introduced 'Anbesa Fetan Card', which is an instant card issuing system, along with the ordinary 'Lion Card' has given LIB a competitive edge that meets the ever-growing customers' demand for fast and convenient services. Currently, the Bank has more than 108 thousand cardholders and to support our card banking service, the total number of ATMs reached 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 strategic equity investments to enable the Bank to march forward with strengthened institutional and asset base that would help the Bank leapfrog competition and put it in a better position in the Banking industry.

In line with this, the Board of Directors has taken steps to strengthen corporate governance and institutional capabilities. 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 specifically on enhancing IT infrastructure and Security matters.

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 fellow 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!

We would like to take this opportunity to express our appreciation and gratitude to the members of the outgoing Board for their relentless efforts in directing the Bank and for the successful performance the Bank has registered.

I would also like to extend my sincere gratitude to our esteemed customers. All our efforts are geared towards maximizing your satisfaction and meeting your utmost expectations through efficient and quality banking services. Last but not least, my profound appreciation goes to the National Bank of Ethiopia (NBE) and the Financial Intelligence Center (FIC) who have been supportive in all our endeavors.

Thank you.

Gebretsadkan Gebretensae (Lt. General)
Board Chairperson

Lion @ a Glance

262
Branches

5,480
Employees

1,162,695
Customers

108,008
Cards Issued

26.1 Bln.
Deposits

2.2 Bln.
Paid up Capitals

HelloCash

2,868
Agents

ATM

50
ATMS

Birr 3.9 Bil
NBE Bills

Birr 780.61 Mil.
Profit before tax

Birr 19.1 Bil.
Loan & Advances

Birr 31.8 Bil.
Total Asset

DIRECTORS' REPORT

Fiscal Year 2019/20 FY

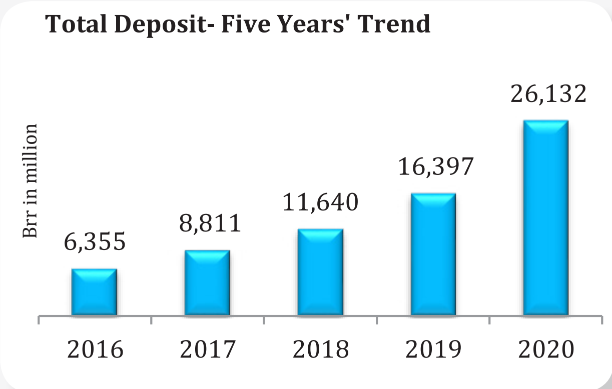
It is with great pleasure and honor that the Board of Directors of Lion International Bank S.C presents the Annual Performance Report as well as Audited Financial statement of the Bank for the year ended 30th June 2020 to the 16th Annual General Meeting of its Shareholders as follows:

1. OPERATIONAL PERFORMANCE HIGHLIGHTS

The Fiscal Year had been a period in which remarkable results were attained in the financial and operational areas in which tremendous efforts had been exerted towards bringing about efficient customer service and growth. As a result, the Bank mobilized record high amount of local currency in its history and this categorized the Bank among the top performer banks in the industry during the fiscal year. Decisively, the Bank was efficient enough and triumphant in converting resources into a return.

1.1. Deposits

Lion International Bank exerted great efforts to boost its deposit in the Fiscal Year 2019/20, and as a result the deposit balance significantly grew by Birr 9.7 billion or 59.4% from the preceding year similar period and reached Birr 26.1 billion as of 30 June 2020. The growth was principally attributed to the rise in savings deposits, which went up by Birr 8.6 billion (70.5%). In addition, demand and fixed time deposits also climbed up by Birr 876.5million (30.8%) and Birr 208.6 million (16.4%) as compared to the preceding fiscal year, respectively. During the period under review, the share of savings, demand, and fixed time deposits from the total outstanding deposits stood at 80.1%, 14.2%, and 5.7% respectively.



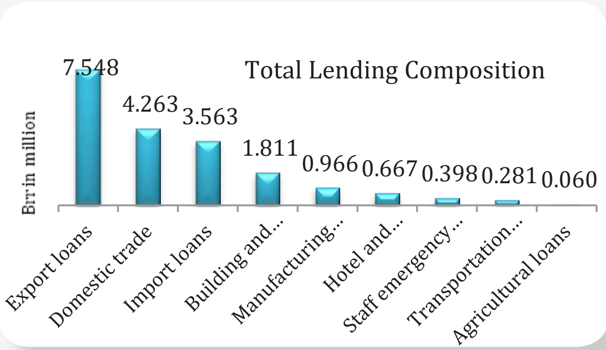
Furthermore, the total number of account holders reached 1.2 million as of 30th June 2020, which grew up by 369 thousand or 46 percent as compared to the number recorded last year. Like the deposit mix, 96.2% of the depositors are saving account holders while the remaining accounts belong to demand and time depositors.

1.2. Credit Management

LIB continued to play a key intermediary role in the Ethiopian economy through mobilizing resources from the public and channeling these resources to different economic sectors. Accordingly, the total net outstanding loans and advances of the Bank markedly rose to Birr 19.1 billion, which expanded by Birr 7.5 billion (64.2%) during the fiscal year ended June 30, 2020.

During the reporting fiscal year, sectoral distribution of loans and advances of the bank depicted that the lion's share was allocated for Export (38.6%) and Domestic Trade (21.8%); whereas others such as Import, Building and Construction, Manufacturing & Production, Hotel & Tourism, Staff emergency and mortgage loans and Transportation and Communication, and Agriculture make up around 18.2%, 9.3%, 4.9%, 3.4%,2.0%, 1.4%, and 0.3% respectively.

Likewise, with the aspiration to maintain quality asset portfolio, LIB was able to maintain its non-performing loans (NPLs) below the National Bank of Ethiopia requirement (5%).



1.3. International Banking

Foreign Currency earnings from exports, inward remittances, SWIFT and cash purchase of foreign currencies were among the competitive sources for which commercial banks operating in Ethiopia fighting. To beef up its FCY earnings, LIB has devised and implemented different initiatives and tactics that could enable the Bank to markedly boost its earnings from different sources.

During the fiscal year, the Bank generated USD 169.6 million. Like the previous years' performance, the bank generated 75.1% of FCY earnings from Export; while the portion of foreign currency earnings from remittance, cash purchase, and incoming transfer accounted for 9.7%, 9.0% and 5.4%, respectively, from the total foreign currency mobilized during the year under review.

To further diversify the sources of foreign currency, LIB has so far created a business relationship with eleven renowned money transfer agents and expanded its correspondence with reputable international banks

2. HIGHLIGHTS OF FINANCIAL PERFORMANCE

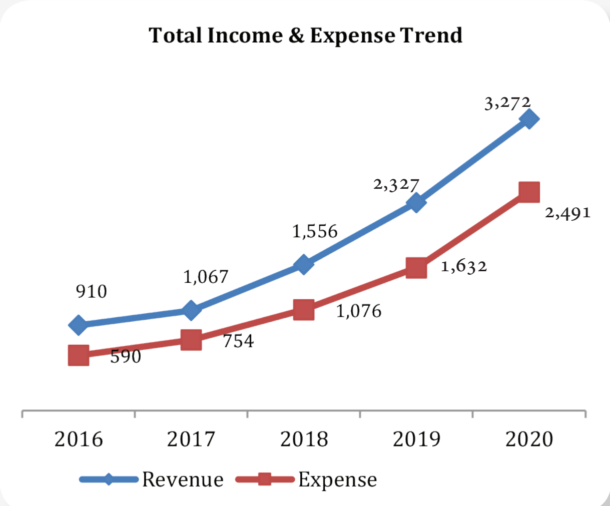
2.1. Revenue

In the fiscal year 2019/20, the Bank earned a total income of Birr 3.1 billion, increased by Birr 892.2 million or 40.2% from the preceding year's performance of Birr 2.2 billion. All the major categories of income had a positive contribution to total income growth.

The mix of the total income indicates that Interest income from loans and Advances had dominance by constituting 86.1% share whereas Commission and Other incomes accounted for 6.4 percent and 7.5 percent, respectively. Accordingly, the interest income to non-interest income ratio stood at 86:14.

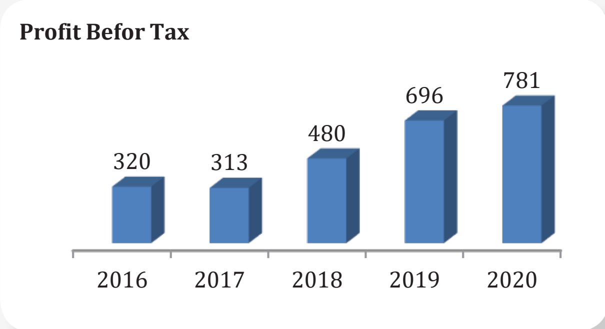
2.2. Expense

The total expense spent during the fiscal year 2019/20 posted Birr 2.3 billion, which soared by Birr 807.1 million or 53% from Birr 1.5 billion incurred a year earlier. The hike in total expense was a reflection of 62.3%, 38.1% and 56.7% upsurge recoded in interest, salary and benefit and general expenses over the level of the preceding year, respectively. With respect to the composition of expenses, interest expense accounted for the lion's share of the total expense (42.5%) followed by salary and benefits (28.8%) and general expense (28.7%).



2.3 Profit

LIB completed the 2019/20 fiscal year with a remarkable achievement registering a gross profit after provision, deprecation, and before tax of Birr 780.6 million, exceeding the last year's same period performance by Birr 85.1 million or 12.2 percent.



2.4. Profitability Ratios

In the year under review, the Bank had maintained a strong financial standing as measured by key performance indicators. Return on asset (ROA) expressed as the ratio of profit after tax to the average asset of LIB stood at 2.5% during the fiscal year 2019/20, while return on equity (ROE) articulated as the ratio of profit after tax to average shareholder's' equity was 25.6%. These ratios basically measure how the bank was efficient enough in the fiscal year in securing 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

Total Asset of the Bank has continued to expand considerably in the fiscal year 2019/20. The Bank accumulated total assets of Birr 31.8 billion as of June 30, 2020, exhibiting an increment of 55.9% (Birr 11.4 billion) over the beginning year balance of Birr 20.4 billion. The expansion in the total assets of the Bank was attributed to growth in major components of total assets such as outstanding loans and advances, cash & bank balances, NBE bills, and fixed assets. The largest proportion of total assets was held by loans and advances with a share of 60% followed by Cash and Bank Balance and NBE bills with a share of 21.7% and 12.3%, respectively.

3. CAPACITY GROWTH

3.1. Financial Capital

The bank's total capital & reserve rose to Birr 3.5 billion, reflecting a 36% growth from last year the same period. Similarly, the paid-up capital increased to 2.2 billion which a revealed growth of Birr 621.1million (40%) year-on-year. On the other hand, the number of shareholders reached 11,348 as of June 30,2020.

3.2. Human Capital

In a dynamic world where an individual defines the organization, Human Capital (HC) is the most valuable asset as achievement of an organization's objectives depends on the individual and the collective efforts of its workforce. Every employee is a vital factor for the smooth functioning by bridging the gap between the customers and the organization. The Bank has a team of highly motivated, skilled, committed, loyal, and empathetic staff members, who strive to meet customer aspirations and organizational goals. A strategic approach towards effective development and management of human capital is of paramount importance. In order to augment the workforce in tune with the Bank's sustained growth and expansion of network, major initiatives towards talent acquisition and retention have been continued in the FY 2019/20 also.

At the close of the financial year, the staff strength of the Bank reached 5,480 from the previous year's number of 4,599. Out of the bank's total number of employee, 51.5%(2,820) were permanent employees while the remaining 48.5% (2,660) were contract employees. During the financial year 2019/20, the Bank recruited 881 additional employees. Of these, 523 were permanent staff and the remaining 358 were outsourced.

In light of the educational background, among the permanent workforce, 91percent were 1st degree holders and above. Besides, the number of employees with 2nd degree have increased year-on- year that made the bank a place of expertise and talented staff.

With the infusion of young personnel, the Bank was able to maintain an average workforce age of 31 years old. Also, the bank's employee gender composition was 70% male and 30% female.

The bank believes training of the staff is a core requirement for the sustainable development of the organization. As part of ongoing development to empower and upgrade staff capacity, various technical and employee development trainings were organized and conducted by the bank itself and in collaboration with other training institutions. In the just-concluded year, 44 different short terms skill upgrading training were organized and provided for a total of 4,264 permanent employees of the bank.

The bank has continued to work hard to provide a workplace that encourages our staff members to do their best to keep our service excellence to our clients.

3.3. Branch Expansion

As part of the effort to increase its accessibility and expand its service outreaches, the Bank has opened thirty-three new branches in different parts of the country during the fiscal year under review. Accordingly, the number of Bank branches went up by 14% and reached 262 at the end of June 2020.

Similarly, the Bank, through its physical outlets, carries on the culture of creating access and convenience to the public. Thus, several new branches located in the city and outlying sites are in the pipeline to commence operation in the year ahead.

3.4. Multi -Channel Banking

3.4.1 Digital Banking

Digital technology is transforming the way a customer interacts with the Bank. In coherence with the change in the industry, the bank has also strengthened the digital banking space. Lion Bank's services continue to be delivered via a range of banking channels, all tailored to the demands and preferences of customers. Accordingly, based on their needs, our customers use either our physical outlets or other delivery channels such as ATMs, Internet banking, and Mobile banking services. To provide a snapshot of our activities in these multiple service delivery channels:

Card Banking: Continued to be a highly valued banking channel for many of our customers with a daily average cash transaction of Birr 1.8 million. The total yearly cash withdrawal through ATMs reached Birr 652.2 million, which grew by 86% from the previous year. At the end of the reporting period, the Bank's total number of card banking users reached more than 108 thousand. In addition, to accommodate the bank's card banking customers, the bank deployed 69 ATMs in different feasible areas. Using "Anbesa Fetan Card", customers can withdraw money, check their balance, transfer fund from their account to another within LIB, and other ethswich member's bank ATMs 24/7 service.

The new development regarding the POS service is, the bank joined POS service as an issuer i.e. since LIB doesn't deploy its own POS terminals it took the advantage of the card banking interoperability between all commercial banks in Ethiopia via Ethiopia service, which is delivered by ethswich S.C. This service allows all LIB's cardholders to purchase goods or services by the POS terminals of other banks that are deployed on different merchant sites.

Mobile Banking: The Bank offers mobile banking services that allow users to access their bank account over their mobile phones. As of June 30, 2020, the number of mobile banking users reached 122 thousand. In addition to mobile banking, by registering at 8813, customers can access their account balance, mini-statement report, and foreign exchange inquiry. The SMS alert also gives notification upon cash withdrawal or deposit, loan disbursement, clearing cheques, direct debit or credits, and loan due date.

Internet Banking: The wait is over; the internet banking service has been functional. The service has helped to position the bank as a technology-driven Bank offering superior banking service to both retail and corporate customers. The bank is also on verge of commencing new internet banking services like bill payments, bank to a bank transfer, and the likes which enable the bank's customers to use the service anytime and anywhere.

3.4.2 Anbesa-Hellocash Agent Banking Service

In the past five years, Anbesa Hello-Cash agent banking service has brought a new dynamism to the market since banking without physical presence and closing time, safety with no need to carry cash, and reliability equivalent to branches at an affordable price has become real for all. Since the commercial launch of the service, the bank has been expanding the package it offers for the customers. Other than the obvious and basic features of the service, deposit, withdrawal, money transfer, and mobile phone top-ups, the customers can also effect payment for their Ethiopian Airlines, Selam Bus, and Edna-Mall cinema tickets. In all ranges of Anbesa Hello-Cash operation during the 2019/20 fiscal year, over a billion of ETB values of transaction have been executed. Compared to previous year, it grew by 241.2%.

In the concluded fiscal year, the total number of agents reached 2,868 with over 428 thousand customers of the service. Both registered a growth of 158.3% and 88.9% from where they were in last year, respectively.

3.4.3 Product Diversification

No one can stop customers' demand unless responding faster to their needs every time. Lion, in order to meet the ever-changing market demand and compete against the major competitors; launched new saving deposit products for the public at the beginning of the concluded fiscal year. The saving deposit product was named "Goal Oriented Saving Deposit". 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 (የስራመነሻ ቁጠባ ሂሳብ), Retirement Saving Account (እፎይታ ቁጠባ ሂሳብ), and Anbesa Platinum Saving Account (አንበሳ ፕላቲኒየም ቁጠባ ሂሳብ). The Bank offers these products with a higher interest rate than the conventional one. As the result, the Bank mobilized a total deposit of Birr 1.2 billion from the products during the reporting period.

Apart from the new deposit products, Diaspora Mortgage, and Vehicle loan products were also offered for the Diaspora community with 20/80 equity contribution and lower interest rate in 2019/20 FY.

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

3.5 Organizational Developments

The bank concluded its 2nd term strategic plan at the end of June 2020. In the completed strategic period, the Bank registered outstanding performance in all aspects. Accordingly, the new strategic plan preparation is finalized and on verge to be approved by the Bank's Board of Directors. The new strategic plan is expected to enhance the bank's status one step ahead towards its vision "To be the Leading Bank in Ethiopia by 2035".

On the other hand, following the new organizational structure implementation in 2018/19, existing policy and procedures were developed and revisited.

Similarly, as part of the strategy, the Bank has offered special attention to technology adoption and leveraging in order to build its competitive advantage and step up the delivery of products and services to its customers. To this end, it has finalized the initial stage of upgrading the core banking system with the latest version during the reporting fiscal year, which will enable the bank to deliver convenient and efficient services to its customers.

3.6. Own Building

As part of sustainable growth endeavor, the Bank has been expanding its tangible asset by purchasing and constructing its buildings. Accordingly, the Bank's investments in fixed assets continued in 2019/20.

The ongoing construction of the 2B+G+M+15 story building in Mekelle is well in progress. Similarly, a new design for another building in Mekelle has been finalized and on the way to commence the construction in the new fiscal year. Both constructions of buildings in Mekelle city are expected to be finalized within their timetable.

In a similar phase, the semi-finished building purchased in Addis Ababa around Bole Medhanealem area went operational and the 1st to 4th floors rented out for users and started generating income for the Bank. To finalize the overall construction and modification of the building in the new fiscal year, the necessary tasks have been completed. In general, the Bank has owned eleven properties and two additional buildings which are under construction in Mekelle.

3.7 Risk and Compliance Management

It is imperative to have robust and effective risk management practices not only to manage risks inherent in the Bank but also the risks emanating from the banking industry as a whole. The Bank has put in place robust risk management structure which proactively identifies the risks faced by the Bank and helps in mitigating same while maintaining a proper trade-off between risk and return thereby maximizing shareholders' value. The Bank has put in place independent risk management architecture and practices that are overseen by the Risk Management Committee of the Board of directors. Appropriate policies to manage various types of risks are approved by the Board of Directors. In addition, with a view to ensuring a sustainable return to shareholders and having required to safeguard the interest of all stakeholders, LIB places 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.

Similarly, to effectively support the Bank's compliance and regulatory obligations, training on Anti-money laundering, combating the financing of terrorism and customer due diligence (AML/CFT/CDD) was given for 531 staff of the Bank during the year.

4. Way Forward

During the reviewed fiscal year, LIB had been contributing its part for the macro-economic as well as sectoral development like in the previous periods. Thus, it has been allocating its resources to sectors that accorded with high national priority, delivering banking services via a range of channels (Branches and Digital channels) as well as offering tailored products and services based on customers' needs and preferences. Furthermore, the Bank has aggressively expanded its branch network and thus, envisages opening additional branches in more bankable areas during the FY 2020/21 to come closer to its customers. In order to cater to the leading edge products and services via Card Banking, Mobile Banking, Internet Banking, and Agent Banking services; the Bank will also keep on making efforts to step up the banking service accessibility.

With a view to enhance its sustainable growth and profitability, the Bank has drawn up a new five-year strategy after assessing the external and internal environment in which the Bank operates. In this strategy, the Bank put an adequate focus on growth, operational excellence, and digitalization (Technology) for realizing the strategic objectives. The Bank shall invest more time and energy to strengthen the sustainable growth of resource mobilization and optimal allocation of the resources. To realize this, the Bank shall work on various digital banking technology platforms and IT infrastructure developments in the course of implementing the new strategy emphasizing operational efficiency and digital capability. In this connection, branch expansion will go hand in hand with the digital presence to reach various segments of the population by enabling customers to receive a seamless experience across service points.

The Bank will also continue to focus on investing in human capital, providing an engaging work environment, and fostering leadership in the upcoming strategic period. Similarly, the 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 remain strived to achieve the strategic goals of the Bank to deliver a greater return to the Bank's shareholders.

5. Vote of Thanks

In the end, LIB's Board of Directors and the Executive Management would like to seize this opportunity to express their gratitude to the highly-valued customers of the Bank, shareholders, employees, and the regulatory body for their unreserved assistance towards helping the Bank to attain this outcome. This outcome would not have been possible without the support of our partners.

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Auditors' Report

Lion International Bank S.C.
For the year ended 30 June 2020
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Lion International Bank S.C.
Directors, Professional Advisers and Registered Office
For the year ended 30 June 2020

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

Directors *(As of June 30, 2020)*

Gebretsadikan Gebretensae Bayru (Lt.Gen.)	Chairperson	(Appointed 20/03/2020)
Gebrehiwot Ageba Kebedew (Dr.)	Vice Chairperson	(Appointed 20/03/2020)
Alem Asfaw Eshet	Non-Executive Director	(Appointed 20/03/2020)
Fassil Taddesse Hailu	Non-Executive Director	(Appointed 20/03/2020)
Guush Berhane Tesfay (Dr.)	Non-Executive Director	(Appointed 20/03/2020)
Haile Berhe Kinfe	Non-Executive Director	(Appointed 20/03/2020)
Tadele Hagos Belay (Dr.)	Non-Executive Director	(Appointed 20/03/2020)
Tsegabrhan Mekonen Wubie (Dr.)	Non-Executive Director	(Appointed 20/03/2020)
Tsegay Tetemke Gebrezgi	Non-Executive Director	(Appointed 20/03/2020)
Tewelde Asfaw Bekru	Non-Executive Director	(Appointed 20/03/2020)
Yirga Tadesse Matewos	Non-Executive Director	(Appointed 20/03/2020)

Executive Management *(As of June 30, 2020)*

Getachew Solomon Gessese	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 - Business Strategic Management & 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)
Eden Tilahun Woldemichael	Director - International Banking Department	(Appointed 03/06/2020)
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	(Appointed 01/11/2018)
Mulugeta Teklu Hagos	Director - Marketing Department	(Appointed 01/11/2018)
Daniel G\Egziabher Teferi	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 Bernabas	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 - Operations and Support Northern Regional Office	(Appointed 24/06/2019)

Independent Auditor

AMA-HAI Certified Accountants & Auditors
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Tel- +251-11-6552471/251-11470 0388/96
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Corporate Office

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E-mail: info@anbesabank.com
Website:- www.anbesabank.com
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Lion International Bank S.C.
Principal Bankers
For the year ended 30 June 2020

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Fax:+251-11 551 4588
P.O.Box : 5550
E-Mail: nbe.edpc@ethionet.et
Website:-www.nbe.gov.et
Addis Ababa, Ethiopia

Nib International Bank S.C
Addis Ababa, Dembel City Centre
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Fax:251-011 552 72 13; 2439
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Addis Ababa, Ethiopia

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Website:www.enatbanksc.com
Addis Ababa, Ethiopia

Bunna International Bank S.C
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United Bank S.C
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Lion International Bank S.C.
Principal Bankers
For the year ended 30 June 2020

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Website:-www.orointbank.com
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E-mail: Citibank@shareholders-online.com
Website: www.boc.cn
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Bank of Africa /Djibouti/
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Phone : (253) 35 30 16
Fax : (253) 35 16 38
E-mail: secretariat@boamerrouge.com
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Head Office, 66 cannon Street
Tel No. +442074938342
Email:mail@bankofbeirut.co.uk
Web site: www.bankofbeirut.co.uk
United kingdom, London

Lion International Bank S.C.
Report of the Directors
For the year ended 30 June 2020

The Board of Directors submit their report together with the financial statements for the year ended 30 June 2020, 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 2020 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 2020 Birr'000	30 June 2019 Birr'000
Net operating income	1,873,694	1,465,675
Profit / (loss) before tax	780,639	695,525
Tax (charge) / credit	(137,529)	(156,491)
Profit / (loss) for the year	643,110	539,034
Other comprehensive profit / (loss) net of taxes	(11,514)	(11,864)
Total comprehensive profit / (loss) for the year	**631,596**	**527,170**

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.

Gebrehiwot Ageba (Dr.)
V.Chairperson, Board of Directors
Addis Ababa, Ethiopia
30 October 2020

Lion International Bank S.C.
Statement of Directors' Responsibilities
For the year ended 30 June 2020

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 had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation the aforementioned Proclamation.

The Bank's president accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent 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:

Gebrehiwot Ageba (Dr.)	Getachew Solomon (Ato)
V.Chairperson, Board of Directors	President
Addis Ababa, Ethiopia	Addis Ababa, Ethiopia
30 October 2020	30 October 2020

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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 2020 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 2020 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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251-91-124 3405/251-91-150 9545

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amanuel.bahta@yahoo.com

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit or the financial statements of the current period. Those matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 (IFRSs)., 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 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 and auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

Reporting on other legal requirements

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

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

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

Addis Ababa
October 30, 2020

Ama – Hai
Chartered Certified Accoun

Lion International Bank S.C.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Interest income	5	2,676,643	1,672,554
Interest expense	6	(990,009)	(609,995)
Net interest income		**1,686,634**	**1,062,559**
Fee and commission income	7	197,634	221,650
Fee and commission expense	7	-	-
Net fees and commission income		**197,634**	**221,650**
Net foreign exchange income	8	5,760	86,636
Other operating income	9	230,306	237,246
Total operating income		**2,120,334**	**1,608,091**
Loan impairment charge	10	(246,034)	(99,372)
Impairment losses on other assets	11	(606)	(43,044)
Net operating income		1,873,694	1,465,675
Employee benefits	12	(670,653)	(485,568)
Amortization of intangible assets	19	(5,223)	(4,156)
Depreciation of property and equipment	20	(40,344)	(26,531)
Other operating expenses	13	(376,835)	(253,895)
Profit before tax		**780,639**	**695,525**
Income tax expense	14	(137,529)	(156,491)
Profit after tax		**643,110**	**539,034**
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	(11,514)	(11,864)
		(11,514)	(11,864)
Total comprehensive income for the period		**631,596**	**527,170**

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

Lion International Bank S.C.
Statement of Financial Position
As at 30 June 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
ASSETS			
Cash and balances with banks	15	6,893,204	3,608,699
Loans and advances	16	19,081,734	11,622,376
Investment securities:			
- Equity Investment	17	75,557	54,015
- National Bank of Ethiopia Bills	17	3,919,930	4,229,795
Other assets	18	483,715	647,481
Right Use of Asset (ROU)-Premises/Building	18	404,460	-
Property,plant and equipment	20	901,294	204,414
Intangible Assets	19	22,702	14,822
Deferred income tax	14	-	9,929
Total assets		**31,782,596**	**20,391,532**
LIABILITIES			
Deposits from customers	21	26,131,739	16,396,666
Current income tax	14	106,244	161,099
Other liabilities	22	1,834,847	1,209,608
Lease Liability-Premises/Building	22	153,261	-
Deferred income tax	14	21,191	-
Defined Benefit Obligation	23	54,279	64,693
Total liabilities		**28,301,561**	**17,832,069**
EQUITY			
Share capital	24	2,175,463	1,554,350
Share premium		42,255	16,963
Legal reserve	27	667,566	506,788
Special reserve	28	42,548	15,181
Retained earnings	26	440,750	383,813
Regulatory risk reserve	29	67,375	39,404
Other reserves	30	45,077	42,964
Total equity		**3,481,034**	**2,559,463**
Total equity and liabilities		**31,782,596**	**20,391,532**

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 30 October 2020 and were signed on its behalf by:

Gebrehiwot Ageba (Dr.)	Getachew Solomon (Ato)
V.Chairperson, Board of Directors	President
Addis Ababa, Ethiopia	Addis Ababa, Ethiopia
30 October 2020	30 October 2020

Lion International Bank S.C.
Statement of Changes in Equity
For the year ended 30 June 2020

	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 2018		1,184,180	6,050	372,029	15,181	21,846	(15,758)	225,346	1,808,873
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**	**506,788**	**15,181**	**39,404**	**42,964**	**383,813**	**2,559,463**
As at 1 July 2019		1,554,350	16,963	506,788	15,181	39,404	42,964	383,813	2,559,463
Profit for the period								643,110	643,110
Other comprehensive income:									-
Re-measurement gains on defined benefit plans (net of tax)	14						(11,514)	-	(11,514)
Transfer to legal reserve	27			160,777				(160,777)	-
Transfer to special reserve					27,367			(27,367)	-
Transfer to regulatory risk reserve	28					27,972		(27,972)	-
Transfer to other reserve	30						13,627	(13,627)	
Declared dividend								(356,450)	(356,450)
Prior year adjustment					-			20	20
Contribution to subscribed capital		621,112	25,292						646,404
Total Change in Equity for the period		**621,112**	**25,292**	**160,777**	**27,367**	**27,972**	**2,113**	**56,937**	**921,571**
As at 30 June 2020		**2,175,463**	**42,255**	**667,566**	**42,548**	**67,375**	**45,077**	**440,750**	**3,481,034**

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 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash flows from operating activities			
Cash generated from operations	31	3,603,602	1,517,703
Income tax and WHT paid		(161,264)	(90,573)
Defined benefit paid		(1,480)	(315)
Net cash (outflow)/inflow from operating activities		**3,440,857**	**1,426,815**
Cash flows from investing activities			
Purchase of intangible assets	19	(13,103)	(1,319)
Purchase of property, plant and equipment	20	(708,862)	(79,227)
Reclassification of stock to property, plant and equipment		(28,467)	(2,530)
Proceeds from Disposal property, plant and equipment		226	298
Purchases of investment securities		301,966	(928,579)
Net cash (outflow)/inflow from investing activities		(448,240)	(1,011,357)
Cash flows from financing activities			
Proceeds from issues of shares		621,112	370,170
Share premium received		25,292	10,913
Dividends paid		(354,517)	(206,588)
Net cash (outflow)/inflow from financing activities		291,888	174,495
Net increase/(decrease) in cash and cash equivalents		**3,284,504**	**589,953**
Cash and cash equivalents at the beginning of the year	15	3,608,699	3,018,746
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	15	**6,893,204**	**3,608,699**

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

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ግብ ተኮር የቁጠባ ሂሳቦች

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

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 2020 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 2020 is the bank's third financial statement prepared in accordance with IFRS. Besides, in the given fiscal year the bank has adopted the standard IFRS 16 – Leases. Refer to note 38 for information on how the Bank adopted IFRS 16.

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

- Equity Investment – 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.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

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 01, 2019. The effect of initially applying these standards is mainly attributed to the following,
1) Recognition of right-of-use assets and lease liability for operating leases.(see note 18a)
2) Additional depreciation on the right-of-use assets. Also, additional interest expense as a result of the unwinding of the lease liability (see note 4.16)
3) Disclosures on IFRS 16

IFRS 16- Leases

The Bank has adopted IFRS 16, "Leases" as issued by the IASB in July 2014 with a date of transition of 01 January 2019, which resulted in changes in accounting policies.
As permitted by the transitional provision of the standard, the Bank has chosen the modified retrospective approach to the application of IFRS 16. This approach allows the Bank not to restate comparative financial information. The major impact of the adoption of this standard is that the Bank will be required to capitalize all leases (i.e. recognize a right-of-use asset and a lease liability) with the exemption of certain short-term leases and leases of low-value assets.

IFRS 16 – Transition
Background

With effect from 1 January 2019, IFRS 16 replaced IAS 17, as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on the balance sheet. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases as was required by IAS 17, and introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the Bank as a lessor are not different from those under IAS 17, except for modification of lease contracts.

Adoption and Transition
The Bank retrospectively adopted IFRS 16 on modified approach on 1 July 2019 with an adjustment to the book of account opening from 1 July 2019 reserves and, as permitted by IFRS 16, did not restate its comparative financial results. Accordingly, the Bank previously reported financial results up to 30 June 2019 are presented in accordance with the requirements of IAS 17 and for 2019-20, and future reporting periods, are presented in terms of IFRS 16.

On adoption of IFRS 16, Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. This incremental borrowing rate was calculated for each lease contracts. Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 01 July 2019.

Practical Expedients applied

In applying IFRS 16 for the first time, the Bank used the following practical expedients permitted by IFRS 16:
• the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
• the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases provided there was no option to extend the term
• the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application, and
• the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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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 (Birr).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are 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,rental income and other operational activities.

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.

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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 Comprhensive 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.

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.

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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.

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.

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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.

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.

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.

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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.

(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 4.16.3
- Quantitative disclosures of fair value measurement hierarchy Note 4.16.2
- Financial instruments (including those carried at amortized cost) Note 4.2

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

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

The principal or the most advantageous market must be accessible to the Bank.

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The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The 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.

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.

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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.

(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.

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2.20 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.

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 4.15
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.14

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:

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Lease commitments

Leases, under which the Bank possess a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is disclosed in the Bank's statement of financial position and recognized as a leased asset.
To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Bank assesses whether, throughout the period of use, it has both of the following:
(a) the right to obtain substantially all of the economic benefits from use of the identified asset, and
(b) the right to direct the use of the identified asset.
The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases of low value assets. The Bank recognizes expenses associated with these leases as an expense on straight line basis over the lease term.
The Bank presents right-of-use assets as a separate class under 'Other Asset'. The Bank presents lease liability in other liabilities in the statement of financial position.

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.

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.

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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.

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.

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.

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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.

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.

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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.

30 June 2020	Notes	FVTPOL Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and balances with banks	15	-	6,893,204	6,893,204
Loans and advances	16	-	19,081,734	19,081,734
Investment securities:				-
- Equity Investment	17	75,557		75,557
- National Bank of Ethiopia Bills	17		3,919,930	3,919,930
Other assets	18		404,088	404,088
Total financial assets		**75,557**	**30,298,956**	**30,374,514**

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	54,015		54,015
- National Bank of Ethiopia Bills	17		4,229,795	4,229,795
Other assets	18		359,986	359,986
Total financial assets		**54,015**	**19,820,856**	**19,874,871**

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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.

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

— 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-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.

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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 assess whether financial assets carried at amortized cost, debt financial assets carried at FVTPL 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.

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.

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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.

4.3.5 Offsetting

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.

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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.

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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).

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.

In line with the expected, as well as experienced, Expected Credit Loss forward - looking volatility arising from the economic impact of the Covid 19 global crisis, the Bank has conducted, and overlaid, additional scenario analysis on the macroeconomic overlay model. This includes application of higher probability weights on the downside scenario, lower probability weights on the upside scenario, as well as stress tests on macroeconomic projections. The Bank continues to monitor the economic impact of Covid 19 on it's credit risk profile as well as forward - looking Expected Credit Loss estimates and shall update the same on it's IFRS 9 forward - looking estimates as and when significant changes in the overall macroeconomic environment are experienced.

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.

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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 Sector	Macroeconomic factors				
Agriculture, and Staff loans	INFLATION: Consumer price index, 2010 = 100, ave	EXCHANGE RATE: ETB/USD, ave	GDP EXPENDITURE: Exports of goods and services, USD per capita	DEBT: Government domestic debt, ETBbn	STRATIFICATION: Household Spending, ETBbn
Domestic Trade & Services and Transport & Communication	GDP(GDP per capita, USD)	GDP EXPENDITURE: Imports of goods and	INFLATION: Consumer price index, 2010 = 100, eop	EXCHANGE RATE: ETB/USD, ave	FISCAL: Total revenue, USDbn
Building & Construction, Manufacturing & Production and Hotel & Tourism	GDP EXPENDITURE (Exports of goods and services)USD	FISCAL: Current expenditure , USDbn	DEBT: Government domestic debt, ETBbn	-	-
Export and Import	GDP EXPENDITURE (Exports of goods and service)ETBbn	GDP EXPENDITURE: Imports of goods and services,	EXCHANGE RATE: Real effective exchange rate, index	GDP EXPENDITURE: Private final consumption, USDbn	DEBT: Total government debt, USDbn

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The economic scenarios used as at 30 June 2020 included the following key indicators for Ethiopia for the years 2020 to 2022

Macro-economic factor	Years		
	2020	2021	2022
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
GDP: GDP per capita, USD	783	889	1004
GDP EXPENDITURE: Exports of goods and services, USD per capital	64.4	72.1	80.3
GDP EXPENDITURE: Exports of goods and services, ETBbn	246.7	291.7	342.9
EXCHANGE RATE: ETB/USD	33.31	34.31	35.34
GDP EXPENDITURE: Imports of goods and services, USDbn	25.4	31.4	35.9
FISCAL: Current expenditure, USDbn	8.1	9.6	10.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	845.7	1077.9	1270.6
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
DEBT: Government domestic debt, ETBbn	752	872.3	1003.1
EXCHANGE RATE: Real effective exchange rate, index	126.32	124.12	122.16
GDP EXPENDITURE: Private final consumption, USDbn	68	81.9	95
STRATIFICATION: Household Spending, ETBbn	2095.7	2503.8	2991.5
FISCAL: Total revenue, USDbn	9.6	10.3	11.6
DEBT: Total government debt, USDbn	55.2	67.1	77

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 and the debtor is expected to be able to meet the revised terms.

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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.

viiii) 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.

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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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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.

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 2020 and 30 June 2019 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash and balances with banks	4,699,430	2,390,430
Loans and advances	19,081,734	11,622,376
Investment securities:		
- Equity Investment	-	-
- National Bank of Ethiopia Bills	3,919,930	4,229,795
Other assets	404,088	359,986
	28,105,182	18,602,587
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitments (Approved but not drawn) as per NBE Guideline	702,220	411,722
Guarantees issued	2,904,919	1,892,869
Letter of credit and other credit related obligations	1,511,249	1,063,802
	5,118,387	3,368,393
Total maximum exposure	**33,223,570**	**21,970,980**

(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 2020 Birr'000	30 June 2019 Birr'000
Properties	19,329	38,965
	19,329	**38,965**

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 2020 Birr'000	30 June 2019 Birr'000
Transportation and communication	281,341	235,112
Export loans	7,547,526	4,812,213
Import loans	3,563,339	2,195,240
Manufacturing and production	966,137	499,392
Building and construction	1,811,465	1,598,469
Domestic trade	4,262,749	1,824,281
Staff emergency and mortgage loans	398,423	297,136
Agricultural loans	60,181	37,004
Hotel and Tourism	666,732	353,730
	19,557,893	**11,852,577**

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Pass	17,697,021	10,966,529
Special mention	959,907	462,313
Substandard	406,954	151,796
Doubtful	206,732	169,880
Loss	287,278	102,058
	19,557,893	**11,852,577**

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 . 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.

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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

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 gross basis

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

	30 June 2020			
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	Birr'000	**Birr'000**	**Birr'000**	**Birr'000**
Stage 1 – Pass	17,697,021	-	-	17,697,021
Stage 2 – Special mention	-	959,907	-	959,907
Stage 3 - Non performing	-	-	900,964	900,964
Total gross exposure	17,697,021	959,907	900,964	19,557,893
Loss allowance	(167,379)	(36,106)	(272,674)	(476,159)
Net carrying amount	**17,529,642**	**923,800**	**628,290**	**19,081,734**

				30 June 2020
Other financial assets (debt instruments)	**SICR**	Gross exposure (Birr'000)	Loss allowance (Birr'000)	Net carrying amount (Birr'000)
Cash and balances with banks	12 Month ECL	2,855,835	(143)	2,855,692
Investment securities (debt instruments)	12 Month ECL	3,920,126	(196)	3,919,930
Other receivables and financial assets	Lifetime ECL	16,207	(613)	15,594
	Totals	**6,792,169**	**(951)**	**6,791,217**

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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	1,251,714	(63)	1,251,651
Investment securities (debt instruments)	12 Month ECL	4,230,006	(212)	4,229,794
Other receivables and financial assets	Lifetime ECL	217,915	(4,449)	213,466
	Totals	**5,699,636**	**(4,724)**	**5,694,912**

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 2020, the Bank transferred an amount of Birr 27.97 million and 17.56 during the period ended June 30, 2019 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 year in the regulatory risk reserve account.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Total impairment based on IFRS	476,159	230,201
Total impairment Based on NBE Directives	454,379	184,012
Interest in suspense booked	96,251	56,291
Regulatory risk reserve	67,375	39,404

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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 2020 and 30 June 2019. The Bank concentrates all its financial assets in Ethiopia.

30 June 2020	Domestic and Trade Services Birr'000	Import and Export Birr'000	Building and construction Birr'000	Others Birr'000
Cash and balances with	-	-	-	4,699,430
Loans and receivables	4,262,749	11,110,865	1,811,465	2,372,814
Investment securities:				
- Equity Instrument	-	-	-	-
- NBE Bill	-	-	-	3,919,930
Other assets	-	-	-	404,088
Loan commitments (Approved but not drawn) as per NBE Guideline	-	-	-	702,220
	4,262,749	11,110,865	1,811,465	12,098,482

30 June 2019	Domestic and Trade Services Birr'000	Import and Export Birr'000	Building and construction Birr'000	Others Birr'000
Cash and balances with	-	-	-	2,390,430
Loans and receivables	1,824,281	7,007,453	1,598,469	1,422,374
Investment securities:				
- Equity Instrument	-	-	-	-
- NBE Bill	-	-	-	4,229,795
Other assets	-	-	-	359,986
Loan commitments (Approved but not drawn) as per NBE Guideline	-	-	-	411,722
	1,824,281	7,007,453	1,598,469	8,814,307

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4.10 Nature of security in respect of loans and Advances

30 June 2020	Secured against				
	Building	Machinery	Vehicle	Merchandise Stock	Others
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	39,140	5,157	595	-	15,288
Building and Construction	706,886	93,379	337,645	-	673,554
Domestic Trade Service	4,006,020	611	24,848	9,864	221,407
Emergency Staff Loan	-	-	-	-	108,057
Export	1,150,307	662	87,689	9,719	6,299,148
Hotel and Tourism	654,690	-	3,847	-	8,195
Import	2,044,025	491	22,335	479,661	1,016,827
Manufacturing and Production	538,152	720	34,430	3,016	389,818
Staff Mortgage Loan	267,157	-	23,208	-	-
Transport and Communication	34,074	5,090	129,646	-	112,530
	9,440,453	**106,110**	**664,243**	**502,260**	**8,844,826**

30 June 2019	Secured against				
	Building	Machinery	Vehicle	Merchandise Stock	Others
	Birr'000	Birr'000	Birr'000	Birr'000	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**

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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 certificate, 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 2020 Birr'000	30 June 2019 Birr'000
Loan commitments (Approved but not drawn) as per NBE Guideline	702,220	411,722
Guarantees issued	2,904,919	1,892,869
Letter of credit and other credit related obligations	1,511,249	1,063,802
Total maximum exposure	5,118,387	3,368,393

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 o meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risk damage to the Bank's reputation.

4.13.2 Maturity analysis of financial liabilities

The table below analyses the Bank's financial liabilities into relevant maturity grouping 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 2020	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	15,193,162	-	549,009	917,360	9,472,209
Other liabilities	1,152,916	804,398	9,951	19,647	1,194
Total financial liabilities	16,346,078	804,398	558,960	937,007	9,473,403

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

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.

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.

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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.

(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 2020	Interest bearing Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets			
Cash and balances with banks	2,855,692	4,037,512	6,893,204
Loans and Advances	19,081,734	-	19,081,734
Investment securities- NBE Bills (Debt Instrument)	3,919,930	-	3,919,930
Investment securities- (Equity Instrument)	-	75,557	75,557
Total	**25,857,356**	**4,113,069**	**29,970,426**
Liabilities			
Deposits from customers	22,408,059	3,723,680	26,131,739
Debt securities issued	-	-	-
Borrowings	17,833	-	17,833
Other liabilities	-	1,970,275	1,970,275
Total	**22,425,892**	**5,693,955**	**28,119,847**
Gap between Interest sensitive Asset and Liabilities	**3,431,464**		

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	11,622,376	-	11,622,376
Investment securities- NBE Bills (Debt Instrument)	4,229,795		4,229,795
Investment securities- (Equity Instrument)	-	54,015	54,015
Total	**17,103,822**	**2,411,063**	**19,514,885**
Liabilities			
Deposits from customers	13,548,742	2,847,924	16,396,666
Debt securities issued	-	-	-
Borrowings	-	-	-
Other liabilities	-	1,209,608	1,209,608
Total	**13,548,742**	**4,057,532**	**17,606,274**
Gap between Interest sensitive Asset and Liabilities	**3,555,080**		

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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 2020 and 30 June 2019. 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 2020 is Birr (169.04) million and 30 June 2019 is Birr (88.83)million.

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 2020 Birr'000	30 June 2019 Birr'000
Cash and bank balances	499,295	149,433
Customers' Deposits	(475,220)	(163,230)
Other Liabilities	(193,117)	(75,028)
	(169,043)	**(88,825)**

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 2020 Birr'000	30 June 2019 Birr'000
Impact on profit or loss 10% change in exchange rates	**(16,904)**	**(8,882)**

30 June 2020	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
USD	10%	(20,730)	(20,730)
Euro	10%	3,335	3,335
GBP	10%	491	491
		(16,904)	**(16,904)**

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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)**

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 2020 Birr'000	30 June 2019 Birr'000
Total Capital (A1+A2)	A	**2,927,832**	**2,093,282**
Primary Capital (sum A11 to A14)	A1	**2,927,832**	**2,093,282**
Paid-up capital	A11	2,175,463	1,554,350
Share Premium	A12	42,255	16,963
General reserves	A13	42,548	15,181
Legal reserves	A14	667,566	506,788
Supplementary capital (specify)	A2		
Risk-weighted assets (RWA) (B1 to B2)	B	**23,570,749**	**14,034,057**
On balance sheet (9)	B1	21,477,767	12,683,173
Off balance sheet (16)	B2	2,092,982	1,350,884
Ratios (%)	C		
Primary capital to RWA (A1/B)	C1	**12.42%**	**14.92%**
Total capital to RWA (A/B)	C2	**12.42%**	**14.92%**

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4.15.2 Risk weighted assets (RWA)

a) A. Balance Sheet

Assets	Weighted Assets 30 June 2020 Birr'000	Weighted Assets 30 June 2019 Birr'000
Claims on Domestic & foreign		
Less than 1 year maturity	653,487	257,116
Loans & advances (net)-Residential mortgage loans	145,183	117,051
Others	18,791,368	11,388,275
Investments	75,557	54,015
Fixed assets (net)	901,294	204,414
Accounts receivable	404,088	359,986
Supplies stock account	16,991	9,094
Others	489,798	293,223
Total RWBSA*	**21,477,767**	**12,683,173**

RWBSA = Risk Weighted Balance Sheet Assets

b) B. Off Balance Sheet

Off-Balance Sheet Assets (OBSA)	Credit Equivalent 30 June 2020 Birr'000	Credit Equivalent 30 June 2019 Birr'000
Undrawn Loan commitments	351,110	205,861
Guarantees issued	1,452,459	946,434
Commercial letter of credit	289,413	198,589
Total Risk weighted Off - BSA	**2,092,982**	**1,350,884**

4.16 Lease

Information about leases for which the Bank is a lessee is presented below.

	30 June 2020 Birr'000
i) Right Use of Asset (ROU)-Premises/Building	
Cost	
Right Use of Asset (ROU)-Premises/Building	493,534
Amortization Expense on ROU	
Amortization Expense for the year	(89,074)
Net Book Value - ROU	**404,460**
ii) Lease Liability-Premises/Building	
Lease Liability-Premises/Building	140,457
Finance Charge (Lease Liablity)	12,804
Total Lease Liability-Premises/Building	**153,261**

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The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4.17 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.

4.17.1 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.

4.17.2 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.

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As it vivid on the above disclosure point 4.7, 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 comphrensive 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 2020	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	6,893,204	6,893,204	-	-	6,893,204
Loans and Advances	19,081,734	-	-	19,081,734	19,081,734
Investment securities	3,995,488	75,557	-	3,919,930	3,995,488
Total	**29,970,426**	**6,968,762**	**-**	**23,001,664**	**29,970,426**
Financial liabilities					
Deposits from customers	26,131,739	26,131,739			26,131,739
Debt securities issued	-	-			-
Borrowings	17,833	-		17,833	17,833
Other liabilities	1,854,799	-		1,854,799	1,854,799
Total	**28,004,371**	**26,131,739**	**-**	**1,872,632**	**28,004,371**

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	4,283,810	54,015	-	4,229,795	4,283,810
Total	**19,514,885**	**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**

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4.17.3 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.

4.17.4 Valuation technique using significant unobservable inputs – Level 3

The Bank has no financial asset measured at fair value on subsequent recognition except for Equity Investment financial asset.

4.17.5 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.

4.18 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 2020 Birr'000	30 June 2019 Birr'000
Interest income		
Interest on Loans & Advances	2,261,629	1,403,577
Interest on deposits held with local and foreign banks	252,307	149,387
Interest on treasury and NBE bills	160,948	118,379
Interest-on Local Investment	1,759	1,211
	2,676,643	**1,672,554**

Included within various line items under interest income for the year ended 30 June 2020:Birr 43,784,415 is a total of Birr and 30 June 2019: Birr 28,611,327 relating to impaired financial assets.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Interest expense		
- Saving deposits	826,668	500,459
- NBE borrowings	2,043	-
- Other Bank borrowings	797	
- Fixed deposits	160,501	109,536
- Demand deposits	-	-
	990,009	**609,995**

	30 June 2020 Birr'000	30 June 2019 Birr'000
Net fees and commission income		
Fee and commission income		
Commission on Letter Of Credit	76,498	100,920
Commission on Letter Of guarantee	116,836	116,880
Commission on Local transfers and other transactions	4,300	3,850
	197,634	221,650
Fee and commission expense	-	-
Net fees and commission income	197,634	221,650
Net foreign exchange income		
Gain on foreign exchange	166,992	196,040
Loss on foreign exchange	(161,232)	(109,404)
	-	-
Net foreign exchange income	**5,760**	**86,636**

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	30 June 2020 Birr'000	30 June 2019 Birr'000
9 Other operating Income		
Telephone, telegraph and postage charges	-	886
Service charge on foreign and local transactions	165,129	193,008
Gain on Disposal of Property,plant and Equipment	20	154
Other income	65,157	43,198
	230,306	**237,246**

	30 June 2020 Birr'000	30 June 2019 Birr'000
10 Loan Impairment charge		
Loans and Advances - charge for the year (note 16a)	245,958	99,372
Loans and Advances - reversal of provision (note 16a)	-	-
Loans and Advances -Direct Writeoff	76	-
	246,034	**99,372**

	30 June 2020 Birr'000	30 June 2019 Birr'000
11 Impairment losses on other assets		
Other assets - charge for the year (note 18)	606	43,045
Other assets - reversal of impairment losses (note 18)	-	(1)
	606	43,044

	30 June 2020 Birr'000	30 June 2019 Birr'000
12 Employee benefits		
Salaries and wages	434,064	277,688
Staff bonus	61,423	60,989
Staff allowances	107,277	75,855
Provident fund and pension contribution	51,804	33,117
Accrued leave pay	14,323	7,941
Amortisation of prepaid staff benefit	1,360	1,557
Employee defined benefit (Income) expense	(20,448)	11,674
Other staff expenses	20,850	16,747
	670,653	485,568

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13 Other operating expenses	30 June 2020 Birr'000	30 June 2019 Birr'000
General and administrative expenses	155,459	19,945
Advertisement and Publicity	33,667	18,799
Insurance Expenses	6,324	5,092
Stationery & Printings	16,620	11,101
Transportation of Currencies	11,542	10,511
Wages Expense	88,599	65,450
Office Rent	5,180	86,043
Communication expenses	19,987	10,026
Repairs and maintenance	9,392	4,804
Maintenance, consultancy and support fees	13,440	9,136
Service charge	3,997	793
Directors' fees	2,907	3,084
Issuer fees on ATM	1,468	213
Administration of acquired property	9	10
Office supplies	3,431	2,932
Subscription and membership fees	433	660
Fuel and lubricants	1,348	1,096
Audit fees	868	704
Premium fee on Investment	616	-
Other expenses	1,547	3,495
	376,835	253,895

13a) General and administrative expenses	30 June 2020 Birr'000	30 June 2019 Birr'000
Entertainment Expenses	1,854	1,164
Donation and Contribution(provision)	31,474	5,060
Penalty	166	629
Amortization Expese on ROU	89,074	-
Finance Charge (Lease Liablity)	12,804	-
Other General and administrative expenses	20,087	13,092
	155,459	19,945

14 Current income and deferred tax 14a Income tax expense	30 June 2020 Birr'000	30 June 2019 Birr'000
Current income tax expense	106,409	161,231
Prior year (over)/ under provision		
Deferred income tax/(credit) to profit or loss	31,120	(4,740)
Total charge to profit or loss	137,529	156,491
Tax (credit) on other comprehensive income	-	-
Total tax in statement of comprehensive income	137,529	156,491

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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 2020 Birr'000	30 June 2019 Birr'000
IFRS Accounting profit	780.639	695.525
Add : Disallowed expenses		
Entertainment	1.854	1.164
Donation	-	50
Penalty	166	629
Provision for loans and advances as per IFRS	246.034	99.372
Depreciation for accounting purpose	40.344	26.531
Amortization for accounting purpose	5.223	4.156
Impairment losses on other assets	606	43.045
Provision for legal cases	2.451	2.070
Amortization Expense/ Finance Charge on Leased Asset/Liability	107.058	-
Severance pay	-	11.359
	403.736	188.377
Less :		
Depreciation for tax purpose	52.026	29.201
Provision for loans and advances for tax NBE 80%	216.294	28.902
Amortization of deferred charge as per tax law	6.738	5.242
Written back of doubtful debts other than loans and Advance	-	1
Written off of doubtful debts other than loans and advance	-	-
Gain on disposal of Property,plant & equipment	20	154
Dividend income taxed at source	1.759	1.211
Interest income taxed at source-NBE Bills	160.948	118.379
Interest income taxed at source-deposits	251.827	147.925
Provision for legal cases	-	-
Office Rent Expense	104.512	
Severance pay	21.928	-
Unrealized Gain(Loss) on Equity Investment	13.627	15.451
	829,679	**346,466**
Taxable profit	**354,697**	**537,436**
Current tax at 30%	**106,409**	**161,231**

(c) The movement of Profit tax Payable		
Balance brought forward	161.099	90,441
Add : Provision for the year	106.409	161,231
Less: Direct settlement	161.099	90,441
Withholding tax paid	165	131
	106,244	**161,099**
Tax Provision as Per IFRS	106,409	161,231
Tax provision as per GAAP		-
Additional Current Tax Expense to be (claimed)/settled	(165)	(131)
Tax Payable for 2019/2020	**106,244**	**161,099**

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14c Current income tax liability

	30 June 2020 Birr'000	30 June 2019 Birr'000
Current income tax payable	106,409	161,231
	106,409	**161,231**
Balance at the beginning of the year	161,231	90,441
Income tax expense	106,409	161,231
Prior year (over)/ under provision	-	-
Payment during the year	(161,231)	(90,441)
Balance at the end of the year	106,409	161,231

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 2020 Birr'000	30 June 2019 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	(21,191)	9,929
	(21,191)	9,929

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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 2019 Birr'000	Credit/ (charge) to Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, Plant and Equipment (Including intangibles)	(9,479)	(27,996)	-	(37,475)
Post employment benefit obligation	19,408	(3,124)	-	16,284
Total deferred tax assets/(liabilities)	9,929	(31,120)	-	(21,191)

Deferred income tax assets/(liabilities):	At 1 July 2018 Birr'000	Credit/ (charge) to 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

15 Cash and balances with banks

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash in hand	2,193,917	1,218,332
Deposits with local banks	2,855,835	1,251,714
Deposits with foreign banks	411,745	33,930
Balance held with National Bank of Ethiopia	130,020	279,786
Reserve with National Bank of Ethiopia	1,301,830	825,000
Gross amount	6,893,347	3,608,762
Less: Impairment allowance to Deposit with local banks		
Beginning Provision	(63)	
Charge for the year	(80)	
Impairment allowance	(143)	(63)
Net Amount	6,893,204	3,608,699

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	5,591,517	2,783,762
Non-Current	1,301,830	825,000
	6,893,347	3,608,762

The reserve with National Bank of Ethiopia represents regulatory cash ratio requirements based on customer deposits with the Bank. As at 30 June 2020, 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'.

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	30 June 2020 Birr'000	30 June 2019 Birr'000
16 Loans and advances		
Analysis by sector		
Transportation and communication	281,341	235,112
Export loans	7,547,526	4,812,213
Import loans	3,563,339	2,195,240
Manufacturing and production	966,137	499,392
Building and construction	1,811,465	1,598,469
Domestic trade	4,262,749	1,824,281
Staff emergency and mortgage loans	398,423	297,136
Agricultural loans	60,181	37,004
Hotel and Tourism	666,732	353,730
Gross loans and advances to customers	19,557,893	11,852,577
Less: Impairment allowance (note 15a)		
- Allowance for Impairment	(476,159)	(230,201)
	-	-
Net loans and advances to customers	19,081,734	11,622,376

Analysis by maturity	30 June 2020 Birr'000	30 June 2019 Birr'000
Loans and advances due:		
Not later than 1 year	1,995,621	6,289,816
Later than 1 year but not later than 5 years	15,161,671	4,469,681
Later than 5 years	2,400,600	1,093,080
Gross loans and advances to customers	19,557,893	11,852,577
Less: Provision for doubtful debts	(476,159)	(230,201)
Net loans and advances to customers	19,081,734	11,622,376

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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 2019 Birr'000	Charge for the year Birr'000	As at 30 June 2020 Birr'000
Allowance for Impairment	230,201	245,958	476,159
	230,201	245,958	476,159

	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

17 Investment Securities

	30 June 2020 Birr'000	30 June 2019 Birr'000
Investment Securities at FVTPL		
EthSwitch S.C.	26,802	12,002
Lion Insurance Co. S.C.	9,864	6,211
SWIFT	238	30
Goda Bottle and Glass S.C.	18,870	18,870
Diramba Trade and Industry S.C.	6,156	-
Gross amount	61,930	37,113
Add (Less): Investment Security (Equity)- Fair Value	-	-
IFRS 9 adjustment as at 01 July 2018	-	1,450
Charge for the year	13,627	15,451
Total Investment Security (Equity)- Fair Value	**13,627**	**16,902**
Net amount	75,557	54,015

Investment Securities at Cost

Name of investees	Principal activity	Shares	30 June 2020 Birr'000
EthSwitch S.C.	Money transfer	12	12,002
Lion Insurance Co. S.C.	Insurance	319	7,970
SWIFT	Money transfer	1	30
Goda Bottle and Glass S.C.	Manufacturing	377	18,870
Diramba Trade and Industry S.C.	Manufacturing	6	6,156
			45,028

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NBE Bills at Amortized Cost

	30 June 2020 Birr'000	30 June 2019 Birr'000
National Bank of Ethiopia bills (Net)	3,919,930	4,229,795
-	3,919,930	4,229,795
Movement		
At start of year	4,230,006	3,311,509
Additions	804,036	1,091,279
Maturities	(1,193,433)	(193,176)
Increase in accrued interest at end of year	79,517	20,395
Gross amount	3,920,126	4,230,006
Less: Impairment allowance to NBE Bills		
Beginning Provsion	(212)	
Charge for the year	15	
Total Impairment allowance	(196)	(212)
At end of year	3,919,930	4,229,795
Maturity profile		
Bills maturing within 91 days from the date of acquisition	-	-
Bills maturing after 91 days after the date of acquisition	3,919,930	4,229,795
Total	3,919,930	4,229,795

This represents the cost of bills acquired from the National Bank of Ethiopia in accordance with directives on the establishment and operation of National Bank of Ethiopia Bills market No. MFA / NBEBILLS/002/2011.
The maturity period of the bills is 5 years.

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		30 June 2020	30 June 2019
18	**Other assets**	Birr'000	Birr'000
	Financial assets		
	Sundry receivables	451,889	407,245
		451,889	407,245
	Less: Impairment allowance for other assets	(47,801)	(47,259)
		404,088	359,986
	Non-financial assets		
	Prepaid staff benefit	11,613	9,146
	Prepayments	31,694	230,290
	Right Use of Asset (ROU)-Premises/Building	404,460	-
	Stock of supplies	16,991	9,094
	Acquired property	19,329	38,965
		484,087	287,495
	Net amount	888,175	647,481

		30 June 2020
		Birr'000
18a)	Right Use of Asset-Premises/Building	
	Right Use of Asset (ROU)-Premises/Building	493,534
	Amortization Expese on ROU	(89,074)
	Net Right Use of Asset (ROU)-Premises/Building	404,460

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	378,765	360,290
Non-Current	509,411	287,191
	888,175	647,481

Impairment allowance on other assets

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Balance at the beginning of the year	47,259	2,973
Addition for the year	4,269	2,413
Charge for the year	(3,727)	43,044
Written off during the period	-	(1,169)
(Reversal)/charge for the year (note 10)	-	(1)
Balance at the end of the year	47,801	47,259

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19 Intangible Assets	Software Birr'000	Work in progress Birr'000	Total Birr'000
Cost:			
As at 1 July 2018	36,130	-	36,130
Acquisitions	741	578	1,319
As at 30 June 2019	36,872	578	37,449
As at 1 July 2019	36,872	578	37,449
Acquisitions	12,750	353	13,103
As at 30 June 2020	**49,622**	**931**	**50,552**
Accumulated amortisation and impairment losses:			
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
As at 1 July 2019	22,628	-	22,628
Amortisation for the year	5,223	-	5,223
Impairment losses	-	-	-
As at 30 June 2020	**27,850**	**-**	**27,850**
Net book value			
As at 30 June 2019	**14,244**	**578**	**14,822**
As at 30 June 2020	**21,771**	**931**	**22,702**

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	Motor vehicles	Furniture and fittings	Office & other equipment	IT equipment	Building & premises	Construction in progress	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
20 Property,plant and equipment							
Cost:							
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
As at 1 July 2019	61,016	78,197	73,521	87,835	12,873	834	314,274
Additions	53,371	22,657	10,883	32,518	588,824	610	708,862
Disposals	-	(81)	(145)	-		-	(226)
Reclassification	-	(528)	23,485	5,510			28,467
As at 30 June 2020	114,386	100,246	107,743	125,862	601,697	1,443	1,051,377
Accumulated depreciation							
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
As at 1 July 2019	22,096	23,020	27,059	36,803	883	-	109,861
Charge for the year	7,595	8,437	8,294	12,776	3,242	-	40,344
A/D Adjustment (Stock PPE)		(3)	(29)	(42)			(74)
Disposals	-	(26)	(21)	-	-	-	(47)
Reclassification	-	(27)	27	-	-	-	-
As at 30 June 2020	29,691	31,401	35,330	49,537	4,125	-	150,084
Net book value							
As at 30 June 2019	**38,920**	**55,177**	**46,461**	**51,032**	**11,990**	**834**	**204,414**
As at 30 June 2020	**84,696**	**68,845**	**72,413**	**76,325**	**597,572**	**1,443**	**901,294**

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

21 Customer deposits

	30 June 2020 Birr'000	30 June 2019 Birr'000
Foreign currency deposits	246,403	131,928
Demand deposits	3,477,277	2,715,996
Saving deposits	20,926,352	12,275,643
Time deposits	1,481,707	1,273,099
Total deposits from customers	26,131,739	16,396,666

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.

22 Other liabilities

	30 June 2020 Birr'000	30 June 2019 Birr'000
Financial liabilities		
Cash payment orders	181,986	290,252
Margin held on letters of credit	689,900	539,848
Blocked accounts	520,322	73,130
Leave accrual	39,999	27,261
Local transfers payable	1,702	2,127
Exchange commission	29,093	29,318
Share premium - NBE	-	10
Miscellaneous payables	5,393	2,579
Retention payable	-	-
Retention on foreign currency	71,898	26,063
Accruals	105,623	80,039
Dividend payable	40,521	38,588
Provident and pension fund	2,502	1,635
Other payables	4,598	3,095
Lease Liability-Premises/Building	153,261	-
Foreign transactions payable	4,819	3,187
Temporary customer accounts	3,182	14,299
Local Borrowings NBE	10,000	-
Local Borrowings Other banks	7,833	-
	1,872,632	1,131,431
Non-financial liabilities		
Advances on import bills	33,125	33,125
Taxes and stamp duty charges	13,896	9,080
Unearned Income-LG Commission	36,103	19,517
Unearned Income-LC Opening S/Charges	27,614	14,168
Provision for legal cases	4,737	2,286
	-	-
Total	115,475	78,176
Total	**1,988,108**	**1,209,608**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	1,986,912	1,190,070
Non-Current	1,196	19,538
	1,988,108	**1,209,608**

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

	30 June 2020 Birr'000	30 June 2019 Birr'000
23 Retirement benefit obligations		
Defined benefits liabilities:		
Defined Benefit Liability/(Asset)	54,279	64,693
Liability in the statement of financial position	**54,279**	**64,693**
Income statement charge included in personnel expenses:		
Employee defined benefit (Income) expense	(20,448)	11,674
Total defined benefit expenses	**(20,448)**	**11,674**
Remeasurements for:		
– Severance and retirement benefit gratutity benefits	(11,514)	(11,864)
	(11,514)	**(11,864)**

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 2020 Birr'000	30 June 2019 Birr'000
Current	3,133	2,026
Non-Current	51,146	62,667
	54,279	64,693

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 2020 Birr'000	30 June 2019 Birr'000
A Liability recognised in the financial position	54,279	64,693

B Amount recognised in the profit or loss	30 June 2020 Birr'000	30 June 2019 Birr'000
Current service cost	8,829	5,616
Interest cost	9,098	6,058
Past Service cost	(38,375)	-
	(20,448)	11,674

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

23 Retirement benefit obligations (Contd)

C Amount recognised in other comprehensive income:

Remeasurement (gains)/losses arising from changes in demographic assumptions	(5,709)	(2,772)
Remeasurement (gains)/losses arising from changes in the economic assumptions	13,440	(1,820)
Remeasurement (gains)/losses arising from changes exeperience	(19,245)	(7,272)
	(11,514)	(11,864)

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	64,693	41,470
Current service cost	8,829	5,616
Interest cost	9,098	6,058
Past Service cost	(38,375)	-
Remeasurement (gains)/ losses	11,514	11,864
Benefits paid	(1,480)	(315)
At the end of the year	54,279	64,693

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2020 Birr'000	30 June 2019 Birr'000
Discount Rate (p.a)	14.90%	12.50%
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 2019 and 11.83% as at 30 June 2020.

Long term salary increases

Future salary increases are usually linked with a long-term future inflation assumption, plus a margin in respect of merit or promotional increases. Long term salary increases of 2% higher than the assumed long-term inflation rate on average, has been applied.
Inflation in Ethiopia has been volatile over 5 years leading up to the valuation dates, ranging from 7% to 23% 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%.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

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.):

Age	Resignation rates per(2020) annum	Resignation rates per(2019) annum
20	13.50%	13.18%
25	6.10%	6.06%
30	5.80%	5.87%
35	5.00%	5.03%
40	2.80%	3.22%
45	2.60%	2.09%
50	4.30%	2.02%

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 2020. Defined Benefit Obligation and the Current Service Cost are reflected below:

		Impact on defined benefit 30 June 2020	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	1%	54,279	54,279

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 2020

	30 June 2020 Birr'000
Within the next 12 months (next annual reporting period)	(4,114)
Year ending 30 June 2022	(5,191)
Year ending 30 June 2023	(6,381)
Year ending 30 June 2024	(7,968)
Year ending 30 June 2025	(10,168)
	(33,822)

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

23 Retirement benefit obligations (Contd)

Risk exposure

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

(i) Liquidity risk

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

(ii) Life expectancy

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

(ii) Inflation risk

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

24 Ordinary share capital

	30 June 2020 Birr'000	30 June 2019 Birr'000
Authorised:		
3 Billion Ordinary shares of 25 Birr each	2,175,463	1,554,351
Issued and fully paid:		
87,018,515 Ordinary shares of 25 Birr each (as of 30 June 2020)	2,175,463	1,554,351

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 2020 Birr'000	30 June 2019 Birr'000
Profit attributable to shareholders	643,110	539,034
Rollover IFRS adjustment from Regulatory risk reserve	-	-
Profit attributable to shareholders (after IFRS adjustments)	643,110	539,034
Weighted average number of ordinary shares issued as at 30 June 30,2020 and 30 June 2019	76,454	56,737
Basic & diluted earnings per share (Birr)	8.41	9.50

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.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

26 Retained earnings

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	383,813	225,345
Declared dividend	(356,450)	(212,875)
Prior year adjustment	20	55,213
Profit/ (Loss) for the year	643,110	539,034
Transfer to legal reserve	(160,777)	(134,758)
Transfer to special reserve	(27,367)	-
Transfer to Other Reserve	(13,627)	(70,586)
Transfer to Regulatory Risk Reserve	(27,972)	(17,558)
At the end of the year	**440,750**	**383,813**

27 Legal reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	506,788	372,029
Transfer from profit or loss	160,777	134,758
At the end of the year	**667,566**	**506,788**

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.

28 Special reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	15,181	15,181
Transfer (from) / to retained earnings	27,367	-
Prior year adjustment	-	-
At the end of the year	**42,548**	**15,181**

According to the resolution of the 15th shareholders' general assembly, the shareholders passed a resolution to retain a special reserve from the profit of the year ended 30 June 2019. This reserve is not subject to distribution to shareholders.

29 Regulatory risk reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	39,404	21,846
Transfer (from) / to retained earnings	27,972	17,558
At the end of the year	**67,375**	**39,404**

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.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

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 2020 Birr'000	30 June 2019 Birr'000
30 Other reserves		
At the beginning of the year	42,964	(15,758)
Remeasurement gain/(loss) on retirement benefits obligations	(11,514)	(11,864)
Other Reserve- unapportioned Earnings	13,627	70,586
At the end of the year	45,077	42,964

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

	Notes	30 June 2020 Birr'000	30 June 2019 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		780,639	695,525
Adjustments for non-cash items:			
Depreciation of property and equipment	20	40,270	26,531
Amortisation of intangible assets	19	5,223	4,156
Loan impairment Charge	16	245,958	99,355
Impairment loss on other assets	18	542	42,832
Impairment on NBE Bills	18	(15)	212
Gain on Disposal of Property and Equipment	9	(47)	(154)
Current Service Cost on Defined Benefit Obligation	23	(20,448)	11,674
Fair value adjustment on Investment Security (Equity)	13	(13,627)	(15,451)
Prior year adjustment		20	(1,150)
Changes in operating assets and liabilities:			
-Decrease/ (Increase) in loans and advances	16	(7,705,316)	(4,291,323)
-Decrease/ (Increase) in other assets	18	163,224	(275,677)
-Decrease/ (Increase) in Right use of asset (ROU)	18a	(404,460)	-
-Increase/ (Decrease) in customer's deposit	19	9,735,073	4,757,078
-Increase/ (Decrease) in other liabilities	22	776,567	464,094
		3,603,602	**1,517,703**

b) Cash and balances with banks	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash in hand	14	2,193,917	1,218,332
Cash and balances with National Bank of Ethiopia		130,020	279,786
Deposits with local banks		2,855,835	1,251,714
Deposits with foreign banks		411,745	33,930
Reserve with National Bank of Ethiopia		1,301,830	825,000
Less: Impairment allowance to Deposit with local banks		(143)	(63)
		6,893,204	**3,608,699**

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

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 2020 Birr'000	30 June 2019 Birr'000
32a *Transactions with related parties*		
Transaction with related borrower	-	-
Transaction with Insurance Company		
- Payment for staff insurance	2,287	1,496
- Payment for Money, Motor, Fire & Lightening and Fidelity Insurances	6,324	5,092
	8,611	**6,589**

32b Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management for is shown. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2020.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Board of directors remuneration	2,907	1,650
Salaries and other short-term employee benefits	18,943	13,050
Post-employment benefits	-	-
Termination benefits	-	-
	21,850	14,700
Loans and		
Loan to senior management	23,407	14,699
	45,257	29,399

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

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

33 Directors and employees

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

	30 June 2020 Number	30 June 2019 Number
Professionals and High Level Supervisors	2,066	1,557
Semi-professional, Administrative and Clerical	636	618
Technician and Skilled	5	4
Manual and Custodian	113	118
	2,820	**2,297**

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 2020 Birr'000	30 June 2019 Birr'000
Loans and Advances approved but not drawn (as per NBE Guideline)	702,220	411,722
Guarantees Issued	2,904,919	1,892,869
Letters of credit	1,447,063	992,943
CAD-Export sight	64,186	70,859
	5,118,387	**3,368,393**

35 Commitments

The Bank has no commitments, provided for in these financial statements, as of 30 June 2020 and 30 June 2019 for purchase of various capital items.

36 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 2020 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.

Lion International Bank S.C.
Notes to the financial statements
For the year ended 30 June 2020

37 Adoption of IFRS 16 - Leases

The bank has adopted IFRS 16 in accordance with International Financial Reporting Standards (IFRS) which surpassed IAS 17 for the year ended 30 June 2020 as issued by the International Accounting Standards Board (IASB).

The effective date of IFRS 16- Leases is 1 January 2019 and this new standard permits early application but it can't be applied before an entity adopts IFRS 15- Revenue from Contracts with Customers. A lessee has to choose either a full retrospective approach or a modified retrospective approach to transition to the new standard. standard permits early application but it can't be applied before an entity adopts IFRS 15- Revenue from Contracts with Customers. A lessee has to choose either a full retrospective approach or a modified retrospective approach to transition to the new standard.

IFRS 16- Adoption Key Activities

The first critical steps for an IFRS 16 adoption are to form a project team within the Bank and at EBA (Ethiopian Bankers Association) level. The main task of this team is to gather all pertinent information that help to assess the impact of the standard, to analyze the data and to prepare for the longer-term actions and decisions required.

The Follwing are Key activities performed within this Steps:
- Formation of taskforce;
- Create a common understanding among the taskforce about the standard;
- Understand transitional options, scope and recognition exemptions;
- Gather the required data from the concerned organ;
- Made impact assessment of the standard
- Assess the impact on business plans for the upcoming years; and
- Make key decisions and judgments, including defining an accounting policy.

Data Manipulation

With lease data in hand and validated, and accounting policy established, businesses will need to consider how to implement the calculations necessary for IFRS 16 in a sufficiently robust manner. Therefore, the bank develops in house tool for data input cleansing and computation model.

Accounting Policy

The new standard will require changes to accounting policy. The transitional provisions available are complex and include the cost/benefit implications of adopting the modified retrospective or the full retrospective approach.
The bank selected the modified retrospective approach and applied it to the entire lease portfolio. Under this approach, a lessee does not restate comparative information. Consequently, the date of the initial application is the first day of the annual reporting period in which a lessee first applies the requirements of the new leases standard. At the date of the initial application of the new leases standard, lessees recognize the cumulative effect of the initial application as an adjustment to the opening balance of equity as of 1 July 2019.
The applicability of the available recognition exemptions for short-term and low-value leases also addressed as required by the standard. Similarly, the definition of a lease refreshed to IFRS 16, and determination of discount rate assumption point is made based on major resource and expenditure of the bank.

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