# LION INTERNATIONAL BANK S.C

# ANNUAL REPORT 2021/22

LIB - KEY TO SUCCESS!!


**Spend less time on your banking and always use LIB's digital banking services**

**LIB-Key to Success!**

# Table of Contents

# BOARD OF DIRECTORS

**Tsegay Tetemke**
Vice Chairperson & Chairperson of Audit Subcommittee

**Alem Asfaw**
Director and Member of Audit Subcommittee

**Wro. Meaza Alemayehu**
Director and Member of Audit Subcommittee

**Tsegabrhan Mekonen (PhD)**
Director & Chairperson of Risk and Compliance Management Subcommittee

**Gebrehiwot Ageba (PhD)**
Chairperson

**Fassil Tadese**
Director and Chairperson of Human Affairs & Business Development Subcommittee

**Tewelde Asfaw**
Director and Member of Risk & Compliance Management Subcommittee

**Yirga Tadese**
Director and Member of Human Affairs & Business Development Subcommittee

**Guush Berhane (PhD)**
Director and Member of Risk and Compliance Management Subcommittee

**Tadele Hagos (PhD)**
Director & Member of Human Affairs & Business Development Subcommittee

**Haile Berhe**
Director and Member of Human Affairs & Business Development Subcommittee

# SENIOR EXCUTIVE MANAGEMENT

Gebru Meshesha
VP - Resource Management

Aklilu Hayelom
VP-Northern Regional Office

Daniel G/Egziabher
VP-Business Strategy & Innovation

Daniel Tekeste
President

Hailay Haftu
VP-Retail Banking

Solomon Tesfaye
VP-Information Technology

Tsebele Hadush
AVP-Corporate Banking

# Mission

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

# Vission

**To be the leading Bank in Ethiopia by 2035**

# Value

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

# Message from the Board Chairperson

### DEAR SHAREHOLDERS AND COLLEAGUES

The global economy that had shown improvement in 2021 from the effects of the pandemic experienced another shock due to the Russia-Ukraine war. Global growth has been forecast to decline from 6.0 per cent in 2021 to 3.2 per cent and 2.7 percent in 2022 and 2023 respectively. The impact on world energy and food prices is particularly significant, leading to cost-of-living crisis in most countries. Being dependent on imported fuel, fertilizer, food and other consumer items, Ethiopia has not been spared. This came on top of the cumulative effects of the conflict that raged in the country over the past two years. These developments have casted a shadow over the performance of the country's banking industry including LIB.

The conflict in Northern Ethiopia had put more than 50% of our branches out of operation. Many branches also suffered looting and damages to property, causing immense financial loss. With the closure of businesses in the region across the board loan collection and resource mobilization (both local and FCY) proved difficult. Unfounded defamation against our bank coupled with pouching of employees, a common unhealthy practice in the industry, has also caused high staff turnover. These, together, negatively impacted the performance of our Bank.

Operating within such a context required a range of short and medium term measures. Thus, key strategic initiatives were identified and corresponding targets and action plans prepared and implemented. A proposal requesting for special support, in line with its regulatory role, was submitted to the NBE. My colleague board members and I greatly acknowledge the encouraging positive response received as well as its understanding of the extraordinary situation we faced. Ad-hoc joint teams were established with members from the board, management, shareholders, and exporters. They were tasked to assist with resource mobilization (local and FCY), enhancing capital of the bank and strengthening loan collection. This movement has contributed in enhancing relationship among the various stakeholders of the bank and helped in attaining some of the objectives. Let me seize this opportunity to express my sincere appreciation to all members of the joint teams for their relentless contribution.

### Dear Shareholders,

Our Bank's overall performance in 2021/22 Budget Year was not favorable; it experienced notable drops in many areas that overshadowed some accomplishments. However, the various efforts undertaken began to pay off during the fourth quarter on both financial and non-financial aspects. LIB thus ended the year with a profit before tax of Birr 301 million which, in view of the immense challenges experienced, may be considered acceptable.

Total assets of the bank reached Birr 33.2 billion while its paid-up capital stood at Birr 2.57 billion. In terms of resource mobilization, total deposits reached Birr 26 billion but still remained far below the plan and last year's performance. Total inflow of foreign currency, at USD 24.4 million, fell far short of the plan and last year's performance; it was 18.5 percent of the plan and lower than last year by USD 59.6 million (78.7 per cent). Total annual loan collection reached Birr 1.9 billion, which is lower than the plan by 50 percent (Birr 1.9 billion). Total forex allocation and disbursement of loans to various sectors during the fiscal year amounted to USD15.8 million and Birr and 1.2 billion respectively. The major recipients were the export and import sectors taking 42 percent (Birr 499 million) and 22 percent (Birr 257 million) respectively. Total outstanding loans and advances of the Bank stood at Birr 25.2 billion. The total NPL balance was Birr 4.1 billion; with the NPL ratio at 16.23 percent. The unhealthy loans and advances are, however, well covered as a total of Birr 1.4 billion has been put aside as a provision to backup them up. Of this amount, Birr 251 million (17 percent) is reserved for loans under regular status, whereas Birr 1.2 billion (83 percent) is held for loans under the non-performing category.

## Esteemed Shareholders,

During the budget year, the board exerted its full commitment to lay down institutional bases that serve the bank to stretch out for sustainable growth and better performance. The more than 20 meetings by the full board and 12-15 meetings each by its sub-committees, passing various decisions and providing close oversight, may provide an indication. Among the institutional bases laid down by the board, the most noticeable include re-strengthening of the Senior Executive Management Team and ensuring its independence of decision-making. With the growing importance of IT technology in the banking business, the board also oversaw upgrading of its core banking system and network infrastructure to gain a competitive edge. The SOPRA Core Banking System is being implemented and is expected to be launched in the coming few months. The IT Network and security infrastructure project, which lays a solid foundation for LIB's transition towards digitalization, is also being implemented. To facilitate for full utilization of our investment, the IT department has also been reorganized into two departments and raising the position of its director to a Vice President level.

LIB extends its services using both branch and non-branch based outlets, reaching 1.5 million depositors. The number of agents reached 3,387 serving 667 thousand customers. However, total number of ATMs remained at 69 with 218 thousand card users. Mobile banking users have reached 319 thousand while number of CBS-linked accounts with the hello cash service increased to 217 thousand, Internet banking users increased to 42 thousand.

As mentioned earlier, LIB has faced exceptional challenges in retaining its human capital. While several factors may have contributed to this including the baseless defamations from certain corners, offers of attractive remuneration and career advancement opportunities by other banks are important. The costly nature of high staff turnover and the importance of having a motivated and committed staff need not be emphasized. Therefore, the Board and Management of the bank approved and implemented Salary increment effective the start of the 2022/23 fiscal year.

The Board of Directors of LIB recognizes the unparalleled support it receives from you the shareholders and customers, and the efforts management and staff exerted to realize its objectives. I would like to say thank you to you all. As mentioned above, the board along with the management and the entire staff of the Bank has laid down a strong foundation that ensures sustainable growth and competitiveness of the Bank. Despite the challenges being experienced, the future is promising; standing united, we will realize the bank's vision to become A Leading Bank in Ethiopia.

Moreover, I would like to remind our esteemed shareholders that election of board of directors will be held later today. Thus, I strongly encourage you to actively participate in the election process and elect candidates whom they consider would serve the bank to achieve its vision.

Finally, let me convey my heartfelt appreciation to our esteemed customers and shareholders for their confidence as well as their support and feedback. I would also like to reiterate my sincere thanks and appreciation to the NBE, the Financial Intelligence Center and pertinent government organs which extended their relentless supervision, guidance and expertise support to our overall activities.

Thank you!

Gebrehiwot Ageba (PhD)
Chairperson, Board of Directors - LIB

# PERFORMANCE HIGHLIGHTS

**4,189**
Employee

**278**
Branches

**1.5 Mil.**
Customers

**26 Bln.**
Deposits

**218,126**
Cards issued

**2.6 Bln.**
Paid-up capital

HelloCash

**3,387**
Agents

**69**
ATMs

**Birr 3.3 Bil.**
Treasury Bills & DBE Bonds

**Birr 310.6 Mil.**
Profit before tax

**Birr 25.4 Bil.**
Loans & Advances

**Birr 33 Bil.**
Total Asset

## DIRECTORS' REPORT

Fiscal Year 2021/22 FY

The Board of Directors of Lion International Bank S.C. has presented the annual performance report and financial statements audited in accordance with IFRS for the year ended June 30, 2022 to the 18th Annual General Meeting of its Shareholders as follows.

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## 1. OPERATIONAL PERFORMANCE HIGHLIGHTS

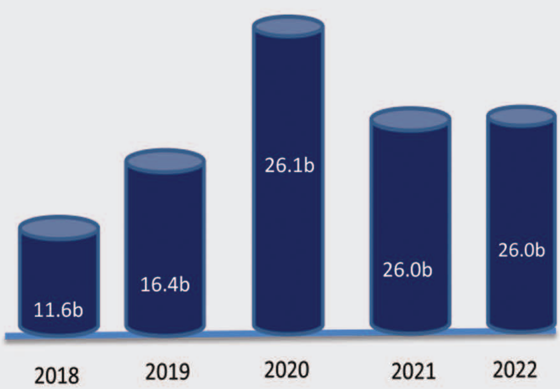
The fiscal year 2021/22 was a challenging year for Lion International Bank. The continued conflict in the northern part of the country that left branches in the war-torn areas dysfunctional, coupled with instability of customers to sustain their business have impacted the overall performance of the bank. As a result, the bank has been subject to exhibit a declined performance. Hadn't the management taken quick remedial strategic actions to curb the situation, the impact would have been sever than expected. However, it will be a mistake to totally discredit the year, as the Bank was able to demonstrate encouraging results mitigating all the challenges.

### 1.1 DEPOSIT

The fiscal year began in unfavorable deposit position that were going down the hill, which put maintaining the then existing portfolio and liquidity under question. Nonetheless, the performance turned around and continued to show positive progress since the mid of the third quarter following the revamp of focus and follow-up on such critical factors. Accordingly, the Bank has managed to reverse the dropped amount of deposit from last year same period position.

As a result, the Bank's total outstanding deposit amount was 26.0 billion Birr, matching the amount of last year's same period.

Graph-1 Deposit Five Year's Trend




The deposit structure continued to confirm that the Bank still has a strategic advantage for the more reliable resources as savings hold the principal share of 82 percent, while demand and fixed time deposits follow by 8 percent and 10 percent, respectively.

On the other hand, Customer base of the Bank grew by 6 percent over the prior year and reached 1.5 million customers. As a result, the average deposit size per depositors represents birr 17,363 reflecting stability of the Bank's resource.

### 1.2 CREDIT MANAGEMENT

The Bank is proud to keep in balance the interest of its stakeholders by procuring its fair share of NBE's bill and putting the required reserve while utilizing its maximum lending capacity. By the end of the fiscal year, the total outstanding balance of loans & advances has reached Birr 25.4 billion, showing an increment of 11 percent from the preceding year's balance.

As part of its role in stimulating the economy, the bank has channelled funds to various sectors of the economy. As a result, Export, Domestic Trade, and Import sectors comprise 35 percent, 24 percent and 20 percent of the portfolio respectively.

Similarly, the Bank is aggressively working to keep the accumulated NPLs within acceptable range by placing greater emphasis on the analysis process and post-disbursement follow-up.

### 1.3 INTERNATIONAL BANKING

In the midst of the challenges, particularly as the result of continued conflict at the north region and the competition that came along, the Bank was able to collect 17 million USD in the fiscal year from export providing the lion's share.

Business slow down, the inaccessibility of branches in the north, and the surge in the parallel market had negative effect on the Bank's overall foreign currency mobilization efforts during the budget year.

On the other hand, to enhance the options for partners, the bank is working with eleven well known international money transfer agents.

## 2. HIGHLIGHTS OF FINANCIAL PERFORMANCE

### 2.1. REVENUE

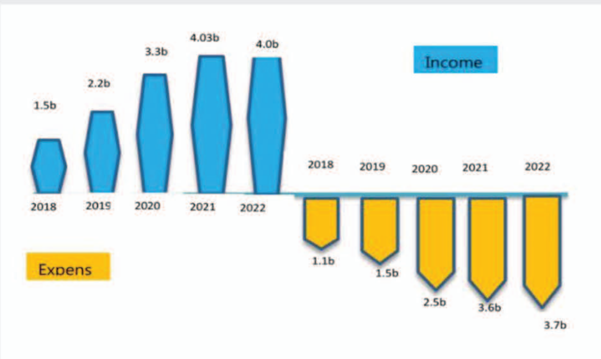
The Bank has collected Birr 4.0 billion income in the just ended fiscal year. Its income composition indicates that 95 percent from interest income, while non-interest income accounted the remaining 5 percent.

### 2.2. EXPENSE

The Bank has invested on human, material and financial resources amounting Birr 3.7 billion to earn the revenue stated above representing a 2 percent increase over last year same period.

The spending has been tuned by a cost optimization strategy without compromising the service quality of the bank. Accordingly, the spending on non-interest components dominates the total expense by 52 percent share as the expense on interest constitutes 48 percent.

Graph 3-Total Income & Expense Trend




### 2.3 PROFITABLITY

The Bank recorded a pre-tax profit of Birr 310.6 million profits before tax in the reporting period. Managing controllable expenses at a reasonable level and taking computable actions for challenges on the counter could be mentioned among the remedial actions taken by the management to increase the profitability of the bank.

### 2.4 ASSETS

The total assets of the Bank stood at Birr 33.0 billion at the end of June 30, 2022 that increased by 2 percent from last year's same period position of Birr 32.2 billion, which primarily attributed to the growth in loans and advances. In line of that, 77 percent of the total asset was made up of loans and advances; while the outstanding bills purchased from the National Bank of Ethiopia reached Birr 3.3 billion which is 10 percent of the total asset. At the same time, the bank's total liability reached Birr 29.1 billion as deposit constituted 89 percent of the total.

# 3. CAPITAL GROWTH

## 3.1. FINANCIAL CAPITAL

At the end of June 30, 2022, the total capital of the Bank reached Birr 3.8 billion, registering a growth of 5 percent compared to last year's same period position. Similarly, the paid-up capital stood at Birr 2.6 billion exhibiting a growth of 2 percent; while the total number of shareholders reached 12,320.

## 3.2. HUMAN CAPITAL

The Bank pays due attention to its invaluable assets, human capital, as being critically determinant factor of organizational effectiveness. During the reporting year, the Bank has provided various kinds of technical and developmental trainings having an overall number of participants of 1,075 employees drawn from different units to bridge employees' skill gaps, to help them adapt with new changes and developments, and shape their workplace attitude. On top of providing various trainings for its employees, the Bank continued to sponsor educational fees for those who attend higher education.

The number of employees of the Bank at the end of the financial year 2021/22 reached 4,189. Of the total number of employees, 63 percent (2,626) were permanent while the remaining 37 percent (1,563) were outsourced. During the period under review, the Bank recruited 302 additional employees to fill the vacant posts at the Head office and branches. On the other hand, 528 employees left the bank looking for better opportunities and personal reasons. To reduce the number of employees leaving the bank, competitive salary adjustment has been implemented in the budget year.

In addition, the bank is working with great attention to make the working environment more convenient for its employees to enhance their productivity and bring about service excellence.

## 3.3. BRANCH EXPANSION

The Bank has been opening new branches to strengthen the capacity of the existing branches through expanded network and support, plus to charter new market and enhance the potentials that stimulate the process. Having this in mind, two new branches commenced operation in Addis Ababa during the fiscal year making the total number of branches 278 at the close of the financial year.

## 3.4. DIGITAL-BANKING SERVICES AND INFORMATION TECHNOLOGY

Now-a-days, technology and banking services are becoming two sides of the same coin as technology has a considerable impact on the way banking and financial services are delivered. Considering this, the bank is paying great attention to technology-based financial services. So far, LIB has taken different actions to enhance the application of digital banking and provide competitive services by employing state-of-the-art technology.

Currently, LIB has dedicated a significant investment to upgrade its Core Banking Solutions to the latest version, where the course implementation is in good progress. Moreover, to cope-up with the future demand and stiffer competition, LIB has finalized system integration with Telebirr.

As part of enhancing the service provision and outreach via technology platforms, the Bank deployed 69 ATMs and recruited 3,387AnbesaHelocash Agents throughout the country. On the other hand, an effort has also been exerted to broaden the number of users of digital banking services; the Bank registered an encouraging result in increasing the number of mobile, card, and internet banking users.

### 3.5. BUSINESS DEVELOPMENT

It's easy to understand that customer satisfaction plays an essential and leading role in customer loyalty. Keeping this in mind, the bank has been providing various products and services helping entertain and attract new customers. Apart from that, the bank has completed preparations to launch various community-centric savings schemes. And a wide range of policy documents that seek to improve business interactions and operational efficiency were produced and put to use during the reporting period. Pricing of products and services was also reviewed against value propositions resulting in revision on certain terms and tariffs.

### 3.6. CORPORATE SOCIAL RESPONSIBILITY

LIB, as a corporate citizen, has been carrying out its social responsibility, and has proven its worth on many occasions. During the concluded budget year, in addition to paying the appropriate tax to the government and creating employment opportunities for the communities where it renders banking services, the bank has continued to extend donations and contributions to support different development activities of the society.

### 3.7. RISK AND COMPLIANCE MANAGEMENT

It is the main and primary task of the bank to have an integrated risk and compliance management functions. Endeavors had been made to improve risk management assessment and monitoring capabilities of the Bank. Credit, liquidity, market and operational risks were monitored by applying different techniques. In addition, with a view of ensuring a sustainable return to shareholders and having required in the interest of all stakeholders, LIB places high importance on corporate governance. The various sub-committees (Audit, Risk & Compliance, and Human Affairs & 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, trainings on risk management, anti-money laundering, combating financing of terrorism and customer due diligence (AML/CFT/CDD) were given to 192 staff members of the bank during the fiscal year under review.

## 4. WAY FORWARD

The banking industry is being hit hard by the global factors particularly the continued Russia-Ukraine war and the domestic conflict, where Lion International Bank has been operating at less than 50 percent of its capacity for the last two years because of the conflict ignited and continued in the region which makes it even worse for the bank to operate smoothly and overcome its financial and non-financial constraints.

In the past years, LIB has played an important role in supporting the country's economy and allocating its resources to sectors that are accorded high national priority. Furthermore, the Bank has been expanding its branch network and created job opportunities for thousands in the communities.

Although the bank has been facing unprecedented challenges for the past two years, it has taken multifaceted vital lessons that could change its fate in the years to come, reaching out to new markets and working hard to take digital banking to a higher level. Moreover, it is working to modernize its customer service and thereby implementing modern technology platforms to help the bank's overall growth and enhance shareholders' return.

To realize the digital banking transformation and enhance operational efficiency and its capability, the Bank is at the verge of finalizing the implementation of CBS upgrading project. Apart from that, branch expansion will go hand in hand with the digital banking service to reach various segments of the population by enabling customers to receive a seamless service across service points. The Bank will also invest more time and energy to strengthen the sustainable growth of resource mobilization and its optimal allocation.

The bank will also focuses on investing in human capital, making the work environment comfortable for its employees and fostering leadership. Similarly, innovation of new products and services within the appropriate risk parameters will also get the Bank's higher concern.

The bank also deals with high-risk non-performing loans; converting non-performing loans into healthy loans will not only improve the quality of the bank's assets, but also plays an important role in profitability of the bank.

In addition, the Bank is looking forward to employ various image building techniques including re-branding, aggressive promotion and involving on various corporate social responsibility activities.

Based on the foundation laid in the past years, the Board of Directors and the management team will strive to achieve the Bank's strategic goals to deliver a greater return to the Bank's shareholders.

## 5. VOTE OF THANKS

The Board of Directors and the Executive management of LIB would like to express their gratitude to the Bank's valued customers, shareholders, employees and regulatory bodies for their continued support during these difficult times. Without your unreserved support, it would have been difficult for the bank to survive let alone to achieve the results it has achieved within these difficult situations.

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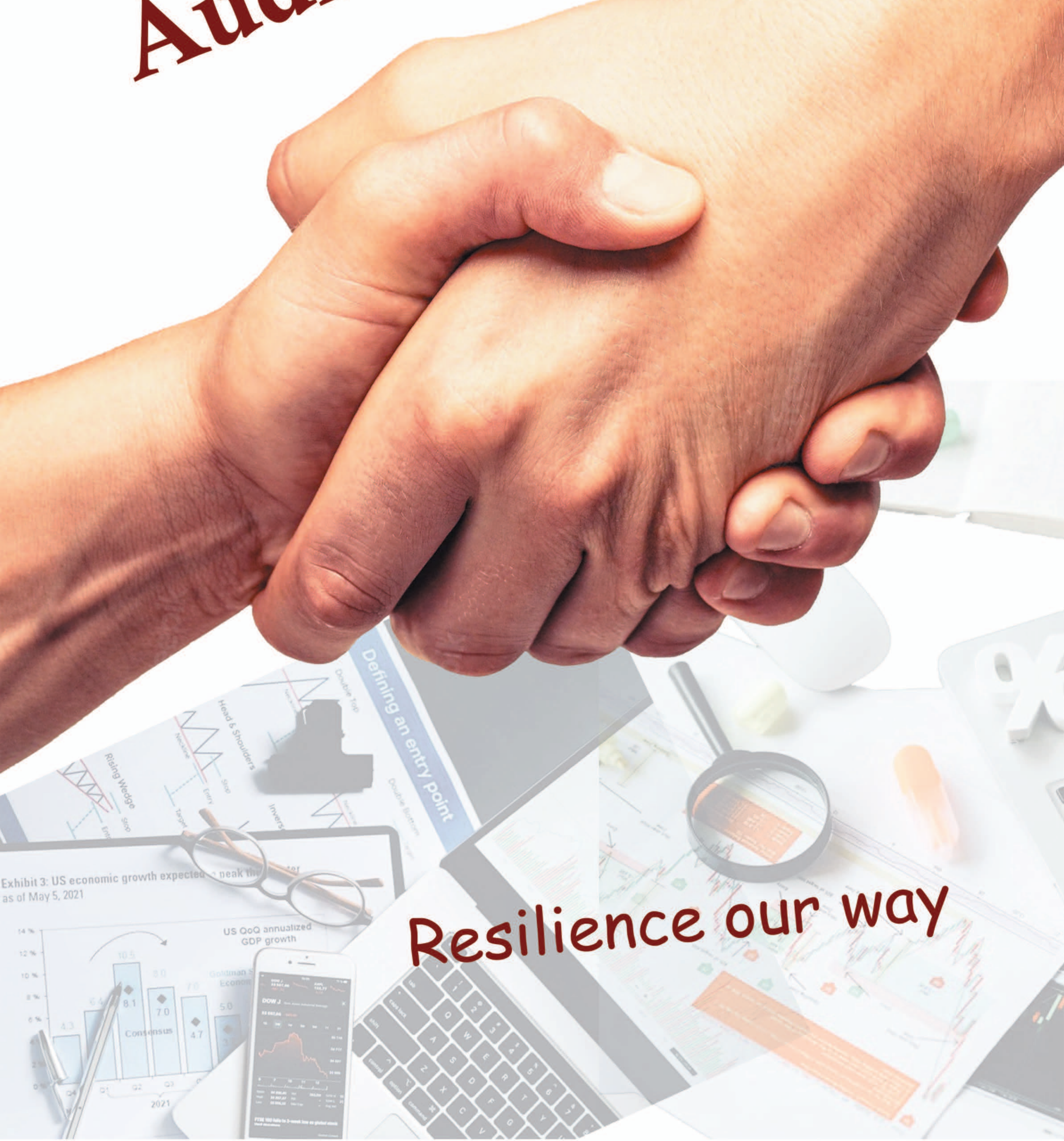
# LIB-Happily presents Mortgage and Vehicle Loan service to Ethiopian Diaspora

# Auditors’ Report




Resilience our way

# Lion International Bank S.C.
# Auditors Report and Financial Statements
# For the year ended 30 June 2022

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Contents

# Lion International Bank S.C.
# Directors, professional advisers and registered office
# For the year ended 30 June 2022

## License for the Banking Business

Banking Business Proclamation No. 84/1994

## Board of Directors *2021/22*

| | | |
|---|---|---|
| Gebrhiwot Ageba Kebedew (Dr. | Chairperson | (Appointed 20/03/2020) |
| Tsegay Tetemke Gebrezgi | 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) |
| Tsegabrhan Mekonen Wubie (Di | 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) |
| Meaza Alemayehu | Non-Executive Director | (Appointed 26/05/2021) |
| Tadele Hagos Belay (Dr.) | Non-Executive Director | (Appointed 20/03/2020) |

## Executive Management *2021/22*

| | | |
|---|---|---|
| Daniel Tekeste Kidane | President | (Appointed 01/02/2022) |
| Gebru Meshesha Kahsay | VP - Resource Management | (Appointed 13/10/2018 ) |
| Aklilu Hayelom Godefay | VP - Northern Regional Office | (Appointed 24/06/2019) |
| Daniel G/ Egziabher Teferi | VP - Business Strategy and Innoviation | (Appointed 09/04/2022) |
| Hailay Haftu Abreha | VP - Retail Banking | (Appointed 09/04/2022) |
| Solomon Tesfay Hailemariam | VP-Information Technology | (Appointed 09/04/2022) |
| Tsebele Hadush G/Giorgis | On acting bases - VP Corporate Banking | (Appointed 04/05/2022) |
| 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) |
| Yishak Mengesha Bayru | Director - Strategy Management Department | (Appointed 01/11/2022) |
| Mulugeta Teklu Hagos | Director - Marketing Department | (Appointed 01/11/2018) |
| Girum Shitta Assefa | Director - Alternative Banking Channels Department | (Appointed 03/06/2022) |
| Muluberhan Embafrash Berhe | Director - IT Infrastructure and Security Management Department | (Appointed 01/07/2022) |
| Tsebele Hadush G/Giorgis | Director - Credit Management Department | (Appointed 08/10/2014) |
| 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) |
| Merha Adessew Tafesse | Director - Applications Development, Customization & Support Dep't | (Appointed 01/07/2022) |
| 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
Meskel Flower Road,Aster Surafel Building 2nd Floor, Room No. 205
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Fax-251-11-470 0394, Po.Box-13735
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Website:- www.anbesabank.com
Addis Ababa, Ethiopia

# Lion International Bank S.C.
# Principal Bankers
# For the year ended 30 June 2022

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Cooperative Bank of Oromia S.C
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Debub Global Bank S.C
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E-Mail:info@debubglobalbank.com
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## Lion International Bank S.C.
## Principal Bankers
## For the year ended 30 June 2022

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Bank of Africa /Djibouti/
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Fax : (253) 35 16 38
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Website: www.boamerrouge.com
Djibouti, Djibouti

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Fax: 00253 21 35 67 55
P.O. Box:1868
Email: info@cacintbank.com
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Fax: +49 69 285-389
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Website: www.commerzbank.com
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Email: infos-dj@eximbank.co.tz
Web site: www.https://rsb17.rhosbh.com
Rep De DJIBOUTI

# Lion International Bank S.C.
# Report of the Directors
# For the year ended 30 June 2022

The Board of Directors submit their report together with the financial statements for the year ended 30 June 2022, 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 2021.

## Principal activities

The Bank`s principal activity is commercial banking.

## Results

The Bank's results for the year ended 30 June 2022 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.

| | 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Net operating income | 1,474,421 | 1,620,764 |
| Profit / (loss) before tax | 310,645 | 414,081 |
| Tax (charge) / credit | (41,830) | (79,541) |
| Profit / (loss) for the year | 268,815 | 334,541 |
| Other comprehensive profit / (loss) net of taxes | 10,766 | (254) |
| Total comprehensive profit / (loss) for the year | 279,581 | 334,287 |

## 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.

Gebrhiwot Ageba (Dr.)
**Chairperson, Board of Directors**
Addis Ababa, Ethiopia
17 November 2022

# Lion International Bank S.C.
## Statement of Directors' Responsibilities
## For the year ended 30 June 2022

The Commercial Code of Ethiopia, 2021 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 2021, 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 2021 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:

| | |
|---|---|
| **G.Hiwot Ageba Kebedew (Dr.)** | **Daniel Tekeste (Ato)** |
| **Chairperson, Board of Directors** | **President** |
| Addis Ababa, Ethiopia | Addis Ababa, Ethiopia |
| 17 November 2022 | 17 November 2022 |

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Ama - Hai Chartered 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 2022 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 2022 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.

## Key Audit Matters

Key Audit Matters are those matters that, in our proffessional judgement, were of most significance in our audit or the financial statements of the current period. Those matters were adressed in the context of our audit of the financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matter.

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

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

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

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

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Ama - Hai Certified Accountants & Auditors

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**Ama - Hai Chartered Certified Accountants & Auditors**

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

**Auditors' Responsibility for the audit of financial Statements**

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

**Reporting on other legal requirements**

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

i) Pursuant to Article 375 (1) of the Commercial Code of Ethiopia 1960 and based on our review of the board of i. 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, 2022**

**Ama – Hai**
**Chartered Certified Accountants**

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WorldRemit
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# Lion International Bank S.C.
## Statement of Profit or Loss and Other Comprehensive Income
## For the year ended 30 June 2022

| | Notes | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| Interest income | 5 | 3,788,259 | 3,683,621 |
| Interest expense | 6 | (1,761,805) | (1,548,812) |
| **Net interest income** | | **2,026,454** | **2,134,809** |
| Fee and commission income | 7 | 73,583 | 160,435 |
| Fee and commission expense | 7 | - | - |
| **Net fees and commission income** | | **73,583** | **160,435** |
| Net foreign exchange income | 8 | (176,725) | (174,082) |
| Other operating income | 9 | 127,373 | 189,347 |
| **Total operating income** | | **2,050,685** | **2,310,509** |
| Loan impairment charge | 10 | (518,886) | (623,010) |
| Impairment losses on other assets | 11 | (57,378) | (66,735) |
| **Net operating income** | | **1,474,421** | **1,620,764** |
| Employee benefits | 12 | (787,964) | (752,904) |
| Amortization of intangible assets | 19 | (6,069) | (6,036) |
| Depreciation of property and equipment | 20 | (65,826) | (61,805) |
| Other operating expenses | 13 | (303,914) | (385,938) |
| **Profit before tax** | | **310,645** | **414,081** |
| Income tax expense | 14 | (41,830) | (79,541) |
| **Profit after tax** | | **268,815** | **334,541** |
| **Other comprehensive income (OCI) net on income tax** | | | |
| *Items that will not be subsequently reclassified into profit or loss:* | | | |
| benefits obligations | 23 | 10,766 | (254) |
| gain or loss | 14 | | |
| | | 10,766 | (254) |
| **Total comprehensive income for the period** | | **279,581** | **334,287** |

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

# Lion International Bank S.C.
## Statement of Financial Position
## As at 30 June 2022

| | Notes | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks | 15 | 3,818,385 | 3,899,028 |
| Loans and advances | 16 | 23,792,718 | 21,828,927 |
| Investment securities: | | | |
| - Equity Investment | 17 | 125,350 | 87,777 |
| - National Bank of Ethiopia Bills | 17 | - | 3,927,386 |
| - Treasury Bills and DBE Bonds | 17 | 3,286,694 | - |
| Other assets | 18 | 545,891 | 759,637 |
| Right Use of Asset (ROU)-Building and Land Lease | 18 | 380,926 | 702,577 |
| Property,plant and equipment | 20 | 924,763 | 982,187 |
| Intangible Assets | 19 | 98,118 | 16,666 |
| | | - | - |
| Deferred income tax | 14 | - | - |
| **Total assets** | | **32,972,846** | **32,204,185** |
| **LIABILITIES** | | | |
| Deposits from customers | 21 | 25,937,719 | 25,992,003 |
| Current income tax | 14 | 28,413 | 95,969 |
| Other liabilities | 22 | 2,949,877 | 1,947,888 |
| Lease Liability-Premises/Building | 22 | 143,091 | 456,867 |
| Deferred income tax | 14 | 17,737 | 4,624 |
| Defined Benefit Obligation | 23 | 62,171 | 67,208 |
| **Total liabilities** | | **29,139,009** | **28,564,561** |
| **EQUITY** | | | |
| Share capital | 24 | 2,574,774 | 2,513,049 |
| Share premium | | 45,242 | 45,036 |
| Legal reserve | 27 | 747,643 | 712,912 |
| Special reserve | 28 | - | 20,918 |
| Retained earnings | 26 | 73,184 | 128,727 |
| Regulatory risk reserve | 29 | 350,423 | 220,532 |
| Other reserves | 30 | 42,571 | (1,551) |
| **Total equity** | | **3,833,837** | **3,639,624** |
| **Total equity and liabilities** | | **32,972,846** | **32,204,185** |

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 2022 and

**G.Hiwot Ageba Kebedew (Dr.)**
Chairperson, Board of Directors
Addis Ababa, Ethiopia
17 November 2022

**Daniel Tekeste (Ato)**
President
Addis Ababa, Ethiopia
17 November 2022

# Lion International Bank S.C.
## Statement of Changes in Equity
## For the year ended 30 June 2022

| | 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 2020** | | 2,175,463 | 42,255 | 667,566 | 42,548 | 67,375 | 45,077 | 440,750 | 3,481,034 |
| Profit for the period | | | | | | | | 334,541 | 334,541 |
| *Other comprehensive income:* | | | | | | | | | - |
| tax) | 14 | | | | | | (254) | - | (254) |
| Transfer to legal reserve | 27 | | | 45,346 | | | | (45,346) | - |
| Transfer to special reserve | | | | | 5,738 | | | (5,738) | - |
| Transfer to regulatory risk reserve | 28 | | | | | 153,157 | | (153,157) | - |
| Transfer to other reserve | 30 | | | | | | 7,310 | (7,310) | - |
| Declared dividend | | | | | (27,367) | | (53,684) | (435,013) | (516,064) |
| Prior year adjustment | | | | | - | | | - | - |
| Contribution to subscribed capital | | 337,586 | 2,781 | | | | | | 340,367 |
| **Total Change in Equity for the period** | | 337,586 | 2,781 | 45,346 | (21,629) | 153,157 | (46,628) | (312,023) | 158,589 |
| **As at 30 June 2021** | | 2,513,050 | 45,036 | 712,912 | 20,918 | 220,532 | (1,551) | 128,727 | 3,639,624 |
| **As at 1 July 2021** | | 2,513,050 | 45,036 | 712,912 | 20,918 | 220,532 | (1,551) | 128,727 | 3,639,624 |
| Profit for the period | | | | | | | | 268,815 | 268,815 |
| *Other comprehensive income:* | | | | | | | | | - |
| Re-measurement gains on defined benefit plans (net of | 14 | | | | | | 10,766 | - | 10,766 |
| Transfer to legal reserve | 27 | | | 34,731 | | | | (34,731) | - |
| Transfer to special reserve | | | | | | | | - | - |
| Transfer to regulatory risk reserve | 28 | | | | | 129,890 | | (129,890) | - |
| Transfer to other reserve | 30 | | | | | | 33,356 | (33,356) | - |
| Declared dividend | | | | | | | - | (69,958) | (69,958) |
| Adjustment for tax liability | | | | | (20,918) | | | (56,424) | (77,342) |
| Prior year adjustment | | | | | | | | - | - |
| Contribution to subscribed capital | | 61,725 | 206 | | | | | | 61,931 |
| **Total Change in Equity for the period** | | 61,725 | 206 | 34,731 | (20,918) | 129,890 | 44,122 | (55,543) | 194,212 |
| **As at 30 June 2022** | | 2,574,774 | 45,242 | 747,643 | - | 350,423 | 42,571 | 73,184 | 3,833,837 |

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 2022

| | Notes | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | (436,724) | (2,561,706) |
| Income tax and WHT paid | | (96,273) | (106,384) |
| Additional tax paid on prior period accounts | | (77,342) | |
| Defined benefit paid | | (12,337) | (3,494) |
| **Net cash (outflow)/inflow from operating activities** | | **(622,676)** | **(2,671,584)** |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 19 | (87,522) | - |
| Purchase of property, plant and equipment | 20 | (10,555) | (162,994) |
| Reclassification of stock to property, plant and equipment | | 2,726 | 21,005 |
| Proceeds from Disposal property, plant and equipment | | 3,142 | - |
| Purchases of investment securities | | (4,217) | (4,910) |
| Purchases of Treasury Bills and DBE Bonds | | (3,285,790) | - |
| Disposal of NBE Bills | | 3,927,386 | - |
| **Net cash (outflow)/inflow from investing activities** | | **545,170** | **(146,899)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of shares | | 61,725 | 337,586 |
| Share premium received | | 206 | 2,781 |
| Dividends paid | | (65,067) | (516,061) |
| **Net cash (outflow)/inflow from financing activities** | | **(3,136)** | **(175,694)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(80,641)** | **(2,994,177)** |
| Cash and cash equivalents at the beginning of the year | 15 | 3,899,027 | 6,893,204 |
| Foreign exchange (losses)/ gains on cash and cash | | | - |
| **Cash and cash equivalents at the end of the year** | 15 | **3,818,385** | **3,899,027** |

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

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# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 2021 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 2022 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 2022 is the bank's fifth financial statement prepared in accordance with IFRS.

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.

### 2.2.2 Changes in accounting policies and disclosures

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

The Bank's has inline with the following amendments including any consequential amendments to other standards with initial date of application of January 1, 2021.

### Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16

Interest Rate Benchmark Reform - Phase 2 'Phase 2' of the amendments requires that, for financial instruments measured using amortized cost measurement (that is, financial instruments classified as amortized cost and debt financial assets classified as FVOCI), changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognized. A similar practical expedient exists for lease liabilities.

These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or de-recognition, with the resulting modification gain / loss recognized immediately in profit or loss where the instru[illegible]ot de-recognized).

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is re-measured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform. If lease modifications are made in addition to those required by IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including those changes required by IBOR reform. Interest rate benchmark reform Overview A reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

Almost all banks in Ethiopia consider the lending rate as an effective interest rate due to the immaterial changes between the two rates. Therefore these kinds of new issues may be assessed and quantified through the Ethiopian Banker Association (EBA) to replace existing interbank-offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets.

## 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 Treasury Bills and Bonds. 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.

### 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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 Comprehensive 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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 premeasured and accounted for in accordance with the accounting policies for these categories of assets.

### 2.9 Cash and cash equivalents

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

### 2.10 Net Trading Income

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

### 2.11 Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

## Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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 | 2% (50 years) |
| Elevator | 6.7% (15 years) |
| Motor vehicles | 10% (10 years) |
| Computer and Related Items | 14.3% (7 years) |
| Long-Lived Furniture & fittings | 5% (20 years) |
| Medium-Lived Furniture & fittings | 10% (10 years) |
| Long-Lived Equipment | 5% (20 years) |
| Medium-Lived Equipment | 10% (10 years) |
| Short-Lived Equipment | 20% (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.

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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

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

## 2.13 Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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:

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

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

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

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

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

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

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

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## (b) Defined benefit plan

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

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

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

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

Past-service costs are recognized immediately in income.

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

## (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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### (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 inconsideration of current financial performance. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.17 Provisions

Provisions are recognized when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

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

### 2.18 Share capital

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

### 2.19 Earnings per share (EPS)

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

### 2.20 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

*(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:

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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.

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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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

### 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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 2022 | Notes | FVTPOL<br>Birr'000 | Amortized Cost<br>Birr'000 | Total<br>Birr'000 |
|---|---|---|---|---|
| Cash and balances with banks | 15 | - | 3,818,385 | 3,818,385 |
| Loans and advances | 16 | - | 23,792,718 | 23,792,718 |
| Investment securities: | | | | - |
| - Equity Investment | 17 | 125,350 | | 125,350 |
| - National Bank of Ethiopia Bills | 17 | | - | - |
| - Treasury bills | 17 | | 3,216,844 | |
| - Development Bank of Ethhiopia Bonds | 17 | | 69,850 | |
| Other assets | 18 | | 361,417 | 361,417 |
| **Total financial assets** | | **125,350** | **31,259,214** | **28,097,870** |

| 30 June 2021 | Notes | FVTPOL<br>Birr'000 | Amortized Cost<br>Birr'000 | Total<br>Birr'000 |
|---|---|---|---|---|
| Cash and balances with banks | 15 | - | 3,899,028 | 3,899,028 |
| Loans and advances | 16 | - | 21,828,927 | 21,828,927 |
| Investment securities: | | | | - |
| - Equity Investment | 17 | 87,777 | | 87,777 |
| - National Bank of Ethiopia Bills | 17 | | 3,927,386 | 3,927,386 |
| Other assets | 18 | | 553,579 | 553,579 |
| **Total financial assets** | | **87,777** | **30,208,920** | **30,296,697** |

## 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 4.3.1 Management of credit risk

Credit management is conducted as per the risk management policy and guideline approved by the board of directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors. Our credit exposure comprises wholesale and retail loans and receivables which are developed to reflect the needs of our customers. The Bank's policy is to lend principally on the basis of our customer's repayment capacity through quantitative and qualitative evaluation.
In the estimation of credit risk, the Bank estimate the following parameters:

#### (a) Probability of Default

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

#### (b) Loss Given Default

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

#### (c) Exposure at Default

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

### 4.3.2 Impairment assessment

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

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

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

### 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

### 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 [illegible] 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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.

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

### 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;

#### (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

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

(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.

iv) Determining whether credit risk has increased significantly

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

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

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

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

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

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### v) Definition of default

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

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

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

### vi) Incorporation of forward-looking information

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

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

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

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

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

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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

| Cluster Sector | Macroeconomic factors | | | | |
|---|---|---|---|---|---|
| **Cluster 1**<br>Agriculture<br>Consumer Loans<br>Overdraft<br>Interest Free Financing | Goods exports, USD | EXCHANGE RATE: ETB/USD, ave | Services imports, USD | - | - |
| **Cluster 2**<br>Domestic Trade Services<br>Mining and Energy<br>Transport<br>Health<br>Merchandise<br>Financial Services | - | - | - | - | - |
| **Cluster 3**<br>Building and Construction<br>Hotel and Tourism<br>Manufacturing and Production<br>Industry<br>Real Estate<br>Housing and Construction | Goods imports, USD | Real GDP, LCU (2010 prices) | Real GDP, USD (2010 prices) | - | - |
| **Cluster 4**<br>Export<br>Import<br>Advance against Import Bills<br>International Trade | Goods imports, USD | Consumer price index inflation, 2010=100, eop | Real GDP, USD (2010 prices) | Current account balance, USD | Import cover months |

The Bank defined a statistically significant correlation threshold with macroeconomic of 50%. No statistically significant correlation was observed for Cluster 2, as a result no macroeconomic adjustment is observed.

The economic scenarios used included the following key indicators for Ethiopia :

| Macro-economic factor | Years | | |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Total domestic demand, LCU | 4,094,336 | 5,199,565 | 2,953,086 |
| Total household spending, LCU | 3,112,045 | 4,197,597 | 2,446,608 |
| Total domestic demand, USD | 104,195 | 108,379 | 57,089 |
| Total revenue, LCU | 296,550 | 363,207 | 204,726 |
| Total revenue, USD | 7,571 | 7,576 | 3,958 |
| Total expenditure, LCU | 398,379 | 523,143 | 307,089 |
| Total expenditure, USD | 10,153 | 10,869 | 5,937 |
| Total reserves ex gold, USD | 3,016 | 2,955 | 1,463 |
| Total external debt stock, USD | 31,859 | 35,573 | 18,896 |
| Total government debt, USD | 55,355 | 60,625 | 32,895 |
| Total debt service, USD | 1,999 | 2,172 | 1,172 |

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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. The below scenario weightings have been observed:

| Summary of scenario weightings | | | |
|---|---|---|---|
| Scenario | Base | Downturn (downside) | Optimistic (upside) |
| Cluster 1 | 97% | 3% | - |
| Cluster 2 | 94% | 3% | 3% |
| Cluster 3 | 91% | 5% | 5% |
| Cluster 4 | 94% | 3% | 2% |

### 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.

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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## viii) Key Inputs for Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

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

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

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- Instrument type;
- Credit risk grading;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Remaining term to maturity;
- Industry; and
- Geographic location of the borrower.

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

## 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 2022 and 30 June 2021 respectively, is represented by the net carrying amounts in the statement of financial position.

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Cash and balances with banks | 3,276,330 | 3,344,173 |
| Loans and advances | 23,792,718 | 21,828,927 |
| Investment securities: | | |
| - Equity Investment | - | - |
| - National Bank of Ethiopia Bills | - | 3,927,386 |
| - Treasury bills | 3,216,844 | |
| - Development Bank of Ethhiopia Bonds | 69,850 | |
| Other assets | 361,417 | 553,579 |
| | **30,717,159** | **29,654,065** |
| **Credit risk exposures relating to off balance sheets are as follows:** | | |
| Loan commitments (Approved but not drawn) as per NBE Guideline | 375,436 | 423,215 |
| Guarantees issued | 1,968,236 | 1,724,302 |
| Letter of credit and other credit related obligations | 1,352,873 | 790,622 |
| | 3,696,545 | 2,938,139 |
| **Total maximum exposure** | **34,413,704** | **32,592,205** |

### (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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Properties | 24,464 | 33,154 |
| | **24,464** | **33,154** |

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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### (c) Loans and Advances at amortized cost

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

| | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Transportation and communication | 365,452 | 272,276 |
| Export loans | 8,720,860 | 8,268,772 |
| Import loans | 4,987,773 | 4,287,199 |
| Manufacturing and production | 1,278,398 | 1,218,920 |
| Building and construction | 2,164,009 | 2,016,651 |
| Domestic trade | 6,122,273 | 5,438,175 |
| Staff emergency and mortgage loans | 374,299 | 373,144 |
| Agricultural loans | 163,969 | 139,787 |
| Hotel and Tourism | 1,233,643 | 913,075 |
| | **25,410,676** | **22,927,999** |

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

| | 30 June 2022<br>Birr'001 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Pass | 18,910,250 | 16,909,716 |
| Special mention | 1,991,422 | 2,336,310 |
| Substandard | 1,120,090 | 1,410,447 |
| Doubtful | 1,361,258 | 1,751,449 |
| Loss | 2,027,657 | 520,076 |
| | **25,410,678** | **22,927,999** |

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.

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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

| Loans and advances to customers at amortized cost | 30 June 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Stage 1 – Pass | 18,910,250 | - | - | 18,910,250 |
| Stage 2 – Special mention | - | 1,991,422 | - | 1,991,422 |
| Stage 3 - Non performing | - | - | 4,509,005 | 4,509,005 |
| Total gross exposure | 18,910,250 | 1,991,422 | 4,509,005 | 25,410,678 |
| Loss allowance | (280,148) | (98,047) | (1,239,764) | (1,617,958) |
| Net carrying amount | 18,630,103 | 1,893,375 | 3,269,241 | 23,792,720 |

| Loans and advances to customers at amortized cost | 30 June 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Stage 1 – Pass | 16,909,716 | - | - | 16,909,716 |
| Stage 2 – Special mention | - | 2,336,310 | - | 2,336,310 |
| Stage 3 - Non performing | - | - | 3,681,972 | 3,681,972 |
| Total gross exposure | 16,909,716 | 2,336,310 | 3,681,972 | 22,927,999 |
| Loss allowance | (234,289) | (89,718) | (775,065) | (1,099,072) |
| Net carrying amount | 16,675,427 | 2,246,593 | 2,906,906 | 21,828,927 |

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

| | | | | 30 June 2022 |
|---|---|---|---|---|
| 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 | 200,086 | (10) | 200,076 |
| National Bank of Ethiopia bills | 12 Month ECL | 0 | 0 | 0 |
| Treasury bills | 12 Month ECL | 3,217,005 | (161) | 3,216,844 |
| Development Bank of Ethhiopia Bonds | 12 Month ECL | 69,854 | (3) | 69,850 |
| Other receivables and financial assets | Lifetime ECL | 86,523 | (7,520) | 79,003 |
| | | 3,573,469 | (7,694) | 3,565,774 |

| | | | | 30 June 2021 |
|---|---|---|---|---|
| Other financial assets (debt instruments) | SICR | Gross exposure | Loss allowance | Net carrying amount |
| Cash and balances with banks | 12 Month ECL | 1,629,463 | (81) | 1,629,382 |
| National Bank of Ethiopia bills | 12 Month ECL | 3,927,794 | (196) | 3,927,598 |
| Other receivables and financial assets | Lifetime ECL | 25,268 | (807) | 24,461 |
| | | 5,582,526 | (1,085) | 5,581,441 |

### 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.

## Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

During the period ended 30 June 2022, the Bank transferred an amount of Birr 129.89 million and 153.15 million during the period ended June 30, 2021 to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IFRS 9 as at year end and the amount of suspended interest income (net of tax) transferred from memo accounts to balance sheet accounts.

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

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Total impairment based on IFRS | 1,617,958 | 1,099,072 |
| Total impairment based on NBE Directives | 1,453,808 | 851,203 |
| Interest in suspense booked | 515,853 | 315,046 |
| **Regulatory risk reserve** | **361,097** | **220,532** |

### 4.9 Credit concentrations

The Bank monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2022 and 30 June 2021. The Bank concentrates all its financial assets in Ethiopia.

| 30 June 2022 | Domestic and Trade Services Birr'000 | Import and Export Birr'000 | Building and construction Birr'000 | Others Birr'000 |
|---|---|---|---|---|
| Cash and balances with banks | - | - | - | 3,276,330 |
| Loans and receivables | 6,122,273 | 13,708,633 | 2,164,009 | 3,415,761 |
| Investment securities: | | | | |
| Equity Instrument | | | | |
| - NBE Bill | - | - | - | - |
| - Treasury bills | | | | 3,216,844 |
| - Development Bank of Ethhiopia Bonds | | | | 69,850 |
| Other assets | - | - | - | 361,417 |
| Loan commitments (Approved but not drawn) as per NBE | - | - | - | 375,436 |
| | **6,122,273** | **13,708,633** | **2,164,009** | **10,715,638** |

| 30 June 2021 | Domestic and Trade Services Birr'000 | Import and Export Birr'000 | Building and construction Birr'000 | Others Birr'000 |
|---|---|---|---|---|
| Cash and balances with banks | - | - | - | 3,344,173 |
| Loans and receivables | 5,438,175 | 12,555,971 | 2,016,651 | 2,917,202 |
| Investment securities: | | | | |
| - Equity Instrument | - | - | - | - |
| - NBE Bill | - | - | - | 3,927,386 |
| Other assets | - | - | - | 553,579 |
| Loan commitments (Approved but not drawn) as per NBE | - | - | - | 423,215 |
| | **5,438,175** | **12,555,971** | **2,016,651** | **11,165,555** |

8803

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# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 4.10 Nature of security in respect of loans and Advances

| 30 June 2022 | Secured against | | | | |
|---|---|---|---|---|---|
| | Building Birr'000 | Machinery Birr'000 | Vehicle Birr'000 | Merchandise Stock Birr'000 | Others Birr'000 |
| Agriculture | 121,537 | 7,358 | 530 | - | 21,730 |
| Building and Construction | 648,056 | 85,630 | 282,884 | 14,410 | 1,133,029 |
| Domestic Trade Service | 5,639,549 | 661 | 65,716 | 69,593 | 359,568 |
| Emergency Staff Loan | - | - | - | - | 145,939 |
| Export | 1,915,729 | 39,286 | 229,698 | 11,814 | 6,736,005 |
| Hotel and Tourism | 988,912 | - | 4,757 | - | 28,301 |
| Import | 2,703,171 | 8,418 | 110,238 | 753,774 | 1,503,541 |
| Manufacturing and Production | 879,179 | 3,104 | 20,246 | - | 375,868 |
| Staff Mortgage Loan | 200,474 | - | 16,016 | - | 9,950 |
| Transport and Communication | 23,110 | 2,675 | 117,565 | - | 132,653 |
| | **13,119,717** | **147,134** | **847,649** | **849,591** | **10,446,586** |

| 30 June 2021 | Secured against | | | | |
|---|---|---|---|---|---|
| | Building Birr'000 | Machinery Birr'000 | Vehicle Birr'000 | Merchandise Stock Birr'000 | Others Birr'000 |
| Agriculture | 104,980 | 8,608 | 471 | - | 25,728 |
| Building and Construction | 628,034 | 60,290 | 297,155 | 49 | 1,031,123 |
| Domestic Trade Service | 4,991,136 | 574 | 46,498 | 57,183 | 342,785 |
| Emergency Staff Loan | - | - | - | - | 146,448 |
| Export | 1,215,050 | - | 111,178 | 15,192 | 6,927,353 |
| Hotel and Tourism | 879,205 | - | 4,629 | - | 29,241 |
| Import | 2,287,980 | - | 36,693 | 618,516 | 1,344,011 |
| Manufacturing and Production | 780,270 | - | 14,353 | 31,829 | 392,467 |
| Staff Mortgage Loan | 201,142 | - | 16,303 | - | 9,252 |
| Transport and Communication | 28,317 | 2,377 | 136,948 | - | 104,635 |
| | **11,116,111** | **71,849** | **664,228** | **722,769** | **10,353,042** |

## 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.

## Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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

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

### Write-off policy

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

### 4.12 Commitments and guarantees

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

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

| | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Loan commitments (Approved but not drawn) as per NBE | 375,436 | 423,215 |
| Guarantees issued | 1,968,236 | 1,724,302 |
| Letter of credit and other credit related obligations | 1,352,873 | 790,622 |
| **Total maximum exposure** | **3,696,545** | **2,938,139** |

### 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

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

### 4.13.2 Maturity analysis of financial liabilities

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

| 30 June 2022 | 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 | 839,881 | 1,973,646 | 3,297,141 | 6,788,156 | 13,038,894 |
| Other liabilities and Lease Liability | 1,139,859 | 515,705 | 121,350 | 22,950 | 500,311 |
| Borrowing | 650,000 | - | - | - | - |
| **Total financial liabilities** | **2,629,740** | **2,489,351** | **3,418,491** | **6,811,106** | **13,539,205** |

| 30 June 2021 | 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 | 1,588,147 | 3,176,295 | 7,125,834 | 10,505,994 | 3,735,470 |
| Other liabilities and Lease Liability | 1,572,947 | 759,459 | 14,280 | 21,265 | 10,805 |
| Borrowing | 17,192 | 8,301 | 156 | 232 | 118 |
| **Total financial liabilities** | **3,178,287** | **3,944,054** | **7,140,270** | **10,527,491** | **3,746,394** |

### 4.14 Market risk

Market risk is defined as the risk of loss risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions.

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

### 4.14.1 Management of market risk

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

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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 2022 | Interest bearing Birr'000 | Non-interest bearing Birr'000 | Total Birr'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with banks | 200,076 | 3,618,309 | 3,818,385 |
| Loans and Advances | 23,792,718 | - | 23,792,718 |
| NBE Bill | - | - | - |
| Treasury bills | 3,216,844 | | 3,216,844 |
| Development Bank of Ethiopia Bonds | 69,850 | | 69,850 |
| Investment securities- (Equity Instrument) | - | 125,350 | 125,350 |
| **Total** | **27,279,488** | **3,743,659** | **31,023,147** |
| **Liabilities** | | | |
| Deposits from customers | 23,886,819 | 2,050,900 | 25,937,719 |
| Debt securities issued | - | - | - |
| Borrowings | 650,000 | - | 650,000 |
| Other liabilities | - | 2,442,968 | 2,442,968 |
| **Total** | **24,536,819** | **4,493,868** | **29,030,687** |
| **Gap between Interest sensitive Asset and Liabilities** | **2,742,669** | | |

| 30 June 2021 | Interest bearing Birr'000 | Non-interest bearing Birr'000 | Total Birr'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with banks | 1,629,382 | 2,269,646 | 3,899,028 |
| Loans and Advances | 21,828,927 | - | 21,828,927 |
| Investment securities- NBE Bills (Debt Instrument) | 3,927,386 | - | 3,927,386 |
| Investment securities- (Equity Instrument) | - | 87,777 | 87,777 |
| **Total** | **27,385,695** | **2,357,423** | **29,743,118** |
| **Liabilities** | | | |
| Deposits from customers | 23,093,175 | 2,898,828 | 25,992,003 |
| Debt securities issued | - | - | - |
| Borrowings | 26,000 | - | 26,000 |
| Other liabilities | - | 2,378,755 | 2,378,755 |
| **Total** | **23,119,175** | **5,277,583** | **28,396,758** |
| **Gap between Interest sensitive Asset and Liabilities** | **4,266,520** | | |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

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 2022 and 30 June 2022. 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 2022 is Birr (5.24) million and 30 June 2021 is Birr (12.48)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 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Cash and bank balances | (668.76) | 7,995 |
| Customers' Deposits | 2,985 | (17,456) |
| Other Liabilities | 2,924 | (3,021) |
| | 5,240 | (12,482) |

### 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 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Impact on profit or loss | | |
| 10% change in exchange rates | 524 | (1,248) |

| 30 June 2022 | Increase (decrease) in basis points<br>Birr'000 | Sensitivity of profit or loss<br>Birr'000 | Sensitivity of equity<br>Birr'000 |
|---|---|---|---|
| USD | 10% | (5,519) | (5,519) |
| Euro | 10% | 247 | 247 |
| GBP | 10% | 32 | 32 |
| | | (5,240) | (5,240) |

| 30 June 2021 | Increase (decrease) in basis points<br>Birr'000 | Sensitivity of profit or loss<br>Birr'000 | Sensitivity of equity<br>Birr'000 |
|---|---|---|---|
| USD | 10% | (12,823) | (12,823) |
| Euro | 10% | 232 | 232 |
| GBP | 10% | 109 | 109 |
| | | (12,482) | (12,482) |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| Total Capital (A1+A2) | A | 3,367,659 | 3,291,915 |
| Primary Capital (sum A11 to A14) | A1 | 3,367,659 | 3,291,915 |
| Paid-up capital | A11 | 2,574,774 | 2,513,049 |
| Share Premium | A12 | 45,242 | 45,036 |
| General reserves | A13 | - | 20,918 |
| Legal reserves | A14 | 747,643 | 712,912 |
| Supplementary capital (specify) | A2 | | |
| Risk-weighted assets (RWA) (B1 t | B | 27,349,945 | 25,868,469 |
| On balance sheet (9) | B1 | 25,913,659 | 24,652,297 |
| Off balance sheet (16) | B2 | 1,436,286 | 1,216,172 |
| Ratios (%) | C | | |
| Primary capital to RWA (A1/B) | C1 | 12.31% | 12.73% |
| Total capital to RWA (A/B) | C2 | 12.31% | 12.73% |

### 4.15.2 Risk weighted assets (RWA)

a) A. Balance Sheet

| Assets | Weighted Assets 30 June 2022 Birr'000 | Weighted Assets 30 June 2021 Birr'000 |
|---|---|---|
| Claims on Domestic & foreign | | |
| Less than 1 year maturity | 160,074 | 391,186 |
| Residential mortgage loans | 114,181 | 113,348 |
| Loans & advances (net)-Residential mortgage loans | 23,564,356 | 21,602,231 |
| Investments | 125,350 | 87,777 |
| Fixed assets (net) | 924,763 | 982,187 |
| Accounts receivable | 361,417 | 553,579 |
| Supplies stock account | 39,590 | 29,613 |
| Others | 623,928 | 892,376 |
| Total RWBSA* | 25,913,659 | 24,652,297 |

RWBSA = Risk Weighted Balance Sheet Assets

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

b) B. Off Balance Sheet

| Off-Balance Sheet Assets (OBSA) | Credit Equivalent 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Undrawn Loan commitments | 187,718 | 211,608 |
| Guarantees issued | 984,118 | 862,151 |
| Commercial letter of credit | 264,450 | 142,413 |
| **Total Risk weighted Off - BSA** | **1,436,286** | **1,216,172** |

## 4.16 Lease

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

i) Right Use of Asset (ROU)-Premises/Building and Land Use Right

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **Cost** | | |
| Right Use of Asset (ROU)-Premises/Building | 377,836 | 794,850 |
| Right Use of Asset (ROA)-Land | 3,090 | 3,382 |
| **Amortization Expense on ROU and Land Use Right** | | |
| Amortization Expense for the year | (91,634) | (95,655) |
| **Net Book Value - ROU + Land Use Right** | **289,291** | **702,577** |

ii) Lease Liability-Premises/Building and Land Use Right

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Lease Liability-Premises/Building + Land and Finance Charge | 456,867 | 153,261 |
| Charge for the year | (313,776) | 303,606 |
| **Total Lease Liability-Premises/Building and Land Use Right** | **143,091** | **456,867** |

The Bank has elected not to recognize 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 recognizes 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.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

### 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.

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 2022 | 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 | 3,818,385 | 3,818,385 | - | - | 3,818,385 |
| Loans and Advances | 23,792,718 | - | - | 23,792,718 | 23,792,718 |
| Investment securities | 3,412,044 | - | 125,350 | 3,286,694 | 3,412,044 |
| **Total** | **31,023,147** | **3,818,385** | **125,350** | **27,079,412** | **31,023,147** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Deposits from customers | 25,937,719 | 25,937,719 | | | 25,937,719 |
| Debt securities issued | - | - | | | - |
| Borrowings | 650,000 | - | | 650,000 | 650,000 |
| Other liabilities | 2,316,461 | - | | 2,316,461 | 2,316,461 |
| **Total** | **28,904,180** | **25,937,719** | **-** | **2,966,461** | **28,904,180** |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

| 30 June 2021 | 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 | 3,899,028 | 3,899,028 | - | - | 3,899,028 |
| Loans and Advances | 21,828,927 | - | - | 21,828,927 | 21,828,927 |
| Investment securities | 4,015,163 | 87,777 | - | 3,927,386 | 4,015,163 |
| **Total** | **29,743,118** | **3,986,805** | **-** | **25,756,313** | **29,743,118** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Deposits from customers | 25,992,003 | 25,992,003 | | | 25,992,003 |
| Debt securities issued | - | - | | | - |
| Borrowings | 26,000 | - | | 26,000 | 26,000 |
| Other liabilities | 2,328,741 | - | | 2,328,741 | 2,328,741 |
| **Total** | **28,346,744** | **25,992,003** | **-** | **2,354,741** | **28,346,744** |

### 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.

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

| | | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|---|
| 5 | **Interest income** | | |
| | Interest on Loans & Advances | 3,525,464 | 3,233,564 |
| | Interest on deposits held with local and foreign banks | 42,932 | 297,798 |
| | Interest on NBE bills | 45,527 | 149,983 |
| | Interest on Treasury bills | 169,050 | |
| | Interest on DBE Bond | 1,069 | |
| | Interest-on Local Investment | 4,217 | 2,276 |
| | | 3,788,259 | 3,683,621 |

Included within various line items under interest income for the year ended 30 June 2022:Birr 343,440,687 is a total of Birr and 30 June 2021: Birr 262,294,354 relating to impaired financial assets.

| | | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|---|
| 6 | **Interest expense** | | |
| | - Saving deposits | 1,319,512 | 1,278,595 |
| | - NBE borrowings | 89,616 | 39,154 |
| | - Other Bank borrowings | - | 63 |
| | - Fixed deposits | 352,677 | 231,000 |
| | | 1,761,805 | 1,548,812 |

| | | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|---|
| 7 | **Net fees and commission income** | | |
| | **Fee and commission income** | | |
| | Commission on Letter Of Credit | 12,195 | 55,325 |
| | Commission on Letter Of guarantee | 60,847 | 103,893 |
| | Commission on Local transfers and other transactions | 541 | 1,217 |
| | | 73,583 | 160,435 |
| | **Fee and commission expense** | | |
| | | - | - |
| | **Net fees and commission income** | 73,583 | 160,435 |

| | | 30 June 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|---|
| 8 | **Net foreign exchange income** | | |
| | Gain on foreign exchange | 162,064 | 183,872 |
| | Loss on foreign exchange | (338,789) | (357,954) |
| | | - | - |
| | Net foreign exchange income | (176,725) | (174,082) |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| 9 | **Other operating Income** | | |
| | Telephone, telegraph and postage charges | - | 152 |
| | Service charge on foreign and local transactions | 69,428 | 137,809 |
| | Gain on Disposal of Property,plant and Equipment | 2,837 | - |
| | Other income | 55,108 | 51,386 |
| | | **127,373** | **189,347** |

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| 10 | **Loan Impairment charge** | | |
| | Loans and Advances - charge for the year (note 16a) | 518,886 | 622,913 |
| | Loans and Advances -Direct Writeoff | - | 97 |
| | | **518,886** | **623,010** |

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| 11 | **Impairment losses on other assets** | | |
| | Other assets - charge for the year (note 18) | 57,378 | 66,735 |
| | Other assets - reversal of impairment losses (note 18) | - | - |
| | | **57,378** | **66,735** |

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| 12 | **Employee benefits** | | |
| | Salaries and wages | 527,378 | 542,337 |
| | Staff allowances | 121,491 | 100,957 |
| | Provident fund and pension contribution | 77,292 | 64,849 |
| | Accrued leave pay | 20,509 | -1,737 |
| | Amortisation of prepaid staff benefit | 5,936 | 12,897 |
| | Employee defined benefit (Income) expense | 18,066 | 16,169 |
| | Other staff expenses | 17,292 | 17,432 |
| | | **787,964** | **752,904** |

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| **13** | **Other operating expenses** | | |
| | General and administrative expenses | 130,283 | 147,408 |
| | Advertisement and Publicity | 17,556 | 24,927 |
| | Insurance Expenses | 4,984 | 7,419 |
| | Stationery & Printings | 6,613 | 13,608 |
| | Transportation of Currencies | 2,652 | 9,812 |
| | Wages Expense | 90,821 | 85,342 |
| | Office Rent | - | 12,697 |
| | Communication expenses | 14,080 | 21,152 |
| | Repairs and maintenance | 8,515 | 10,409 |
| | Maintenance, consultancy and support fees | 16,995 | 27,771 |
| | Service charge | 2,031 | 4,685 |
| | Directors' fees | 3,143 | 2,867 |
| | Issuer fees on ATM | 2,359 | 2,807 |
| | Administration of acquired property | - | 3 |
| | Office supplies | 861 | 2,055 |
| | Subscription and membership fees | 426 | 243 |
| | Fuel and lubricants | 770 | 953 |
| | Audit fees | 948 | 816 |
| | Other expenses | 877 | 10,964 |
| | | **303,914** | **385,938** |

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| **13a)** | **General and administrative expenses** | | |
| | Entertainment Expenses | 1,838 | 1,282 |
| | Donation and Contribution(provision) | 2,000 | 21,000 |
| | Penalty | 9,537 | 1,744 |
| | Amortization Expense on ROU | 91,634 | 90,475 |
| | Finance Charge (Lease Liablity) | 12,320 | 16,657 |
| | Water & Electricity Expenses | 2,546 | 2,492 |
| | Correspondent Charges | 2,365 | 2,119 |
| | Cleaning Supplies | 1,196 | 1,882 |
| | Other General and administrative expenses | 6,272 | 9,757 |
| | | **129,708** | **147,408** |

| | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| **14** | **Current income and deferred tax** | | |
| **14a** | **Income tax expense** | | |
| | Current income tax expense | 28,717 | 96,109 |
| | Prior year (over)/ under provision | | |
| | Deferred income tax/(credit) to profit or loss | 13,113 | (16,568) |
| | Total charge to profit or loss | 41,830 | 79,541 |
| | Tax (credit) on other comprehensive income | - | - |
| | Total tax in statement of comprehensive income | **41,830** | **79,541** |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| IFRS Accounting profit | 310,645 | 414,081.89 |
| **Add : Disallowed expenses** | | |
| Entertainment | 1,838 | 1,282.21 |
| Penalty | 9,537 | 1,744.23 |
| Provision for loans and advances as per IFRS | 518,886 | 623,009.68 |
| Depreciation for accounting purpose | 65,826 | 61,804.62 |
| Amortization for accounting purpose | 6,069 | 6,036.21 |
| Impairment losses on other assets | 57,378 | 66,735.21 |
| Provision for legal cases | 1,518 | - |
| Amortization Expense/Finance Charges on Leased Asset/Liability | 103,954 | 119,828.13 |
| Accrued Leave | 13,324 | - |
| Prepaid Staff Asset Expense | 5,936 | - |
| Tax Expense | 38 | 9,555.66 |
| Severance pay | 5,729 | 12,675.00 |
| | **790,033** | **902,671** |
| **Less :** | | |
| Depreciation for tax purpose | 97,251 | 93,151.11 |
| Provision for loans and advances for tax NBE 80% | 482,084 | 317,459.27 |
| Amortization of deferred charge as per tax law | 799 | 6,200.93 |
| Gain on disposal of Property,plant & equipment | 2,837 | - |
| Dividend income taxed at source | 4,217 | 2,276.10 |
| Interest income taxed at source-NBE Bills | 45,527 | 149,983.23 |
| Interest income taxed at source-Treasury Bills | 169,050 | |
| Interest income taxed at source-DBE Bond | 1,069 | |
| Interest income taxed at source-Deposits | 42,919 | 297,698.24 |
| Provision for legal cases | - | 554.08 |
| Office Rent Expesne | 124,369 | 117,407.85 |
| Operating Lease Expense | 350 | |
| Accrued Leave | - | 4,349.34 |
| Cash Indemity Allowance | 1,128 | - |
| Severance pay | - | - |
| Unrealized Gain(Loss) on Equity Investment | 33,356 | 7,310.30 |
| | **1,004,955** | **996,390** |
| **Taxable profit** | **95,723** | **320,362** |
| **Current tax at 30%** | **28,717** | **96,109** |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

(c) The movement of Profit tax Payable

| | | |
|---|---|---|
| Balance brought forward | 95,969 | 106,244 |
| Add : Provision for the year | 28,717 | 96,109 |
| Less: Direct settlement | 95,969 | 106,244 |
| Withholding tax paid | 304 | 140 |
| | **28,413** | **95,969** |

| | | |
|---|---|---|
| Tax Provision as Per IFRS | 28,717 | 96,109 |
| Tax provission as per GAAP | | |
| Additional Current Tax Expense to be (claimed)/settled | (304) | (140) |
| **Tax Payable for 2021/22** | **28,413** | **95,969** |

| **14c Current income tax liability** | **30 June 2022 Birr'000** | **30 June 2021 Birr'000** |
|---|---|---|
| Current income tax payable | 28,717 | 96,109 |
| | **28,717** | **96,109** |
| Balance at the beginning of the year | 96,109 | 106,409 |
| Income tax expense | 28,717 | 96,109 |
| Payment during the year | (96,109) | (106,409) |
| Balance at the end of the year | **28,717** | **96,109** |

## 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 2022 Birr'000** | **30 June 2021 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 | (17,737) | (4,624) |
| | **(17,737)** | **(4,624)** |

# Lion International Bank S.C.
## Notes to the financial statements
## For the year ended 30 June 2022

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 2021 Birr'000 | Credit/Charge to P/L Birr'000 | Credit/Charge to equity Birr'000 | 30 June 2022 Birr'000 |
|---|---|---|---|---|
| Property, Plant and Equipment (Including intang | (24,786) | (6,654) | | (31,440) |
| Post employment benefit obligation | 20,162 | (1,511) | | 18,651 |
| Lease ROU & ROA - Temporary difference | - | (4,948) | | (4,948) |
| **Total deferred tax assets/(liabilities)** | **(4,624)** | **(13,113)** | **-** | **(17,737)** |

| Deferred income tax assets/(liabilities): | At 1 July 2020 Birr'000 | Credit/(charge) to P/L Birr'000 | Credit/(charge) to equity Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|---|
| Property, Plant and Equipment (Including intang | (37,475) | 12,689 | | (24,786) |
| Post employment benefit obligation | 16,284 | 3,879 | | 20,162 |
| **Total deferred tax assets/(liabilities)** | **(21,191)** | **16,568** | **-** | **(4,624)** |

| 15 Cash and balances with banks | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Cash in hand | 542,065 | 554,936 |
| Deposits with local banks | 200,086 | 1,629,463 |
| Deposits with foreign banks | 600,294 | 326,550 |
| Balance held with National Bank of Ethiopia | 654,083 | 93,330 |
| Reserve with National Bank of Ethiopia | 1,821,867 | 1,294,830 |
| **Gross amount** | **3,818,395** | **3,899,109** |
| Less: Impairment allowance to Deposit with local banks | | |
| Beginning Provision | (81) | (143) |
| Charge for the year | 71 | 61 |
| Impairment allowance | (10) | (81) |
| **Net Amount** | **3,818,385** | **3,899,028** |

| *Maturity analysis* | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Current | 1,996,528 | 2,604,279 |
| Non-Current | 1,821,867 | 1,294,830 |
| | **3,818,395** | **3,899,109** |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

The reserve with National Bank of Ethiopia represents regulatory cash ratio requirements based on customer deposits with the Bank. As at 30 June 2022, the cash ratio requirement was 7% . The funds are not available for the day to day operations of the Bank and are non interest bearing.

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

## 16 Loans and advances

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **Analysis by sector** | | |
| Transportation and communication | 365,452 | 272,276 |
| Export loans | 8,720,860 | 8,268,772 |
| Import loans | 4,987,773 | 4,287,199 |
| Manufacturing and production | 1,278,398 | 1,218,920 |
| Building and construction | 2,164,009 | 2,016,651 |
| Domestic trade | 6,122,273 | 5,438,175 |
| Staff emergency and mortgage loans | 374,299 | 373,144 |
| Agricultural loans | 163,969 | 139,787 |
| Hotel and Tourism | 1,233,643 | 913,075 |
| **Gross loans and advances to customers** | **25,410,676** | **22,927,999** |
| Less: Impairment allowance (note 15a) | | |
| - Allowance for Impairment | (1,617,958) | (1,099,072) |
| **Net loans and advances to customers** | **23,792,718** | **21,828,927** |

| Analysis by maturity | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Loans and advances due: | | |
| Not later than 1 year | 5,466,879 | 2,597,870 |
| Later than 1 year but not later than 5 years | 14,923,793 | 17,267,607 |
| Later than 5 years | 5,020,005 | 3,062,522 |
| Gross loans and advances to customers | **25,410,676** | **22,927,999** |
| Less: Provision for doubtful debts | (1,617,958) | (1,099,072) |
| Net loans and advances to customers | **23,792,718** | **21,828,927** |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 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 2021 Birr'000 | Charge for the year Birr'000 | As at 30 June 2022 Birr'000 |
|---|---|---|---|
| Allowance for Impairment | 1,099,072 | 518,886 | 1,617,958 |
| | 1,099,072 | 518,886 | 1,617,958 |

| | As at 30 June 2020 Birr'000 | Charge for the year Birr'000 | As at 30 June 2021 Birr'000 |
|---|---|---|---|
| Allowance for Impairment | 476,159 | 622,913 | 1,099,072 |
| | 476,159 | 622,913 | 1,099,072 |

## 17 Investment Securities

| Investment Securities at FVTPL | | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| EthSwitch S.C. | | 40,876 | 39,687 |
| Lion Insurance Co. S.C. | | 23,345 | 13,031 |
| SWIFT | | 113 | 89 |
| Goda Bottle and Glass S.C. | | 21,504 | 21,504 |
| Diramba Trade and Industry S.C. | | 6,156 | 6,156 |
| Gross amount | | 91,994 | 80,467 |
| **Add (Less):** Investment Security (Equity)- Fair Va | - | | |
| Charge for the year | | 33,356 | 7,310 |
| Total Investment Security (Equity)- Fair Value | | 33,356 | 7,310 |
| Net amount | - | 125,350 | 87,777 |

### Investment Securities at Cost

| Name of investees | Principal activity | Shares | 30 June 2022 Birr'000 |
|---|---|---|---|
| EthSwitch S.C. | Money transfer | 14 | 14,482 |
| Lion Insurance Co. S.C. | Insurance | 479 | 11,983 |
| SWIFT | Money transfer | 1 | 30 |
| Goda Bottle and Glass S.C. | Manufacturing | 430 | 21,504 |
| Diramba Trade and Industry S.C. | Manufacturing | 6 | 6,156 |
| | | | 54,155 |

| Name of investees | Principal activity | Shares | 30 June 2021 Birr'000 |
|---|---|---|---|
| EthSwitch S.C. | Money transfer | 13 | 12,502 |
| Lion Insurance Co. S.C. | Insurance | 390 | 9,746 |
| SWIFT | Money transfer | 1 | 30 |
| Goda Bottle and Glass S.C. | Manufacturing | 430 | 21,504 |
| Diramba Trade and Industry S.C. | Manufacturing | 6 | 6,156 |
| | | | 49,938 |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

| NBE Bills at Amortized Cost | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| National Bank of Ethiopia bills (Net) | - | 3,927,386 |
| - | - | 3,927,386 |
| **Movement** | | |
| At start of year | 3,927,794 | 3,920,126 |
| Additions | - | - |
| Maturities | (3,927,794) | - |
| Increase in accrued interest at end of year | - | 7,668 |
| **Gross amount** | - | 3,927,794 |
| Less: Impairment allowance to NBE Bills | | |
| Beginning Provsion | - | (196) |
| Charge for the year | - | (212) |
| Total Impairment allowance | - | (408) |
| **At end of year** | - | 3,927,386 |
| **Maturity profile** | | |
| Bills maturing within 91 days from the date of acquisition | | |
| Bills maturing after 91 days after the date of acquisition | - | 3,927,386 |
| Total | - | 3,927,386 |

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. In the current reporting period 2022, the regulation was surpassed and the outstanding value switched to Ethiopian Government Treasury Bills.

| Treasury Bills at Amortized Cost | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Treasury bills (Net) | 3,216,844 | - |
| - | 3,216,844 | - |
| **Movement** | | |
| At start of year | - | - |
| Additions | 3,217,005 | |
| Maturities | - | |
| Increase in accrued interest at end of year | - | |
| **Gross amount** | 3,217,005 | - |
| Less: Impairment allowance to Treasury Bills | | |
| Beginning Provsion | - | - |
| Charge for the year | (161) | - |
| Total Impairment allowance | (161) | - |
| **At end of year** | 3,216,844 | - |
| **Maturity profile** | | |
| Bills maturing within one year's from the date of acquisition | 3,216,844 | - |
| Total | 3,216,844 | - |

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

Treasury Bills issued pirsuant to the Treasury Bills Proclamation No. 267of 1969

The maturity period of the bills is 1 years.

### Development Bank of Ethhiopia Bonds at Amortized Cost

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Development Bank of Ethhiopia Bonds (Net) | 69,850 | - |
| - | 69,850 | - |
| **Movement** | | |
| At start of year | - | - |
| Additions | 68,785 | |
| Maturities | - | |
| Increase in accrued interest at end of year | 1,069 | |
| **Gross amount** | 69,854 | - |
| Less: Impairment allowance to NBE Bills | | |
| Beginning Provsion | - | - |
| Charge for the year | (3) | - |
| Total Impairment allowance | (3) | - |
| **At end of year** | 69,850 | - |
| **Maturity profile** | | |
| Bills maturing within 91 days from the date of acquisition | | |
| Bills maturing after 91 days after the date of acquisition | 69,850 | - |
| Total | 69,850 | - |

This represents the cost of Bonds acquired from the Development Bank of Ethiopia in accordance with directives on the establishment and operation of National Bank of Ethiopia investment on DBE Bonds dirctive No. SBB/81/2021.

A commercial bank annually invest a minimum of 1% of outstanding loan and advance in DBE Bond until the aggregated bond holding equals 10% of totla outstanding loans and advances.

The maturity period of the bills is 3 years.

# Lion International Bank S.C.
# Notes to the financial statements
# For the year ended 30 June 2022

## 18 Other assets

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **Financial assets** | | |
| Sundry receivables | 533,495 | 667,964 |
| | 533,495 | 667,964 |
| Less: Impairment allowance for other assets | (172,078) | (114,385) |
| | **361,417** | **553,579** |
| **Non-financial assets** | | |
| Prepaid staff benefit | (30,034) | 99,740 |
| Prepayments | 150,454 | 43,551 |
| Right Use of Asset (ROU)-Premises/Building | 377,836 | 699,265 |
| Right Use of Asset (ROA)-Land | 3,090 | 3,312 |
| Stock of supplies | 39,590 | 29,613 |
| Acquired property | 24,464 | 33,154 |
| | **565,400** | **908,635** |
| Net amount | **926,817** | **1,462,214** |

## 18a) Right Use of Asset-Premises/Building

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Right Use of Asset (ROU)-Premises/Building | 377,836 | 794,850 |
| Right Use of Asset (ROA)-Land | 3,090 | 3,382 |
| Amortization Expense on ROU and ROA | (91,634) | (95,655) |
| Net Right Use of Asset (ROU)-Premises/Building and Land | **289,291** | **702,577** |

### Maturity analysis

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Current | 414,109 | 436,760 |
| Non-Current | 512,708 | 1,025,454 |
| | **926,817** | **1,462,214** |

### Impairment allowance on other assets

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

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **Balance at the beginning of the year** | 114,385 | 47,803 |
| Addition for the year | 50,992 | 66,498 |
| Charge for the year | 6,701 | 85 |
| Written off during the period | - | - |
| (Reversal)/charge for the year (note 10) | - | - |
| **Balance at the end of the year** | **172,078** | **114,385** |

# Lion International Bank S.C.
## For the year ended 30 June 2022
## Notes to the financial statements

| 19 Intangible Assets | Software Birr'000 | Work in progress Birr'000 | Total Birr'000 |
|---|---|---|---|
| **Cost:** | | | |
| **As at 1 July 2020** | 49,622 | 931 | 50,552 |
| Acquisitions | - | - | - |
| De-recognition | (11,624) | - | (11,624) |
| **As at 30 June 2021** | **37,998** | **931** | **38,928** |
| **As at 1 July 2021** | 37,998 | 931 | 38,928 |
| Acquisitions | 730 | 86,792 | 87,522 |
| De-recognition | - | - | - |
| **As at 30 June 2022** | **38,727** | **87,723** | **126,450** |
| **Accumulated amortisation and impairment losses:** | | | |
| **As at 1 July 2020** | 27,850 | - | 27,850 |
| Amortisation for the year | 6,036 | - | 6,036 |
| Impairment losses | - | - | - |
| De-recognition | (11,624) | - | (11,624) |
| **As at 30 June 2021** | **22,263** | - | **22,263** |
| **As at 1 July 2021** | 22,263 | - | 22,263 |
| Amortisation for the year | 6,069 | - | 6,069 |
| Impairment losses | - | - | - |
| De-recognition | - | - | - |
| **As at 30 June 2022** | **28,332** | - | **28,332** |
| **Net book value** | | | |
| As at 30 June 2021 | 15,735 | 931 | 16,666 |
| As at 30 June 2022 | 10,395 | 87,723 | 98,118 |

# Lion International Bank S.C.
## For the year ended 30 June 2022
## Notes to the financial statements

| | Motor vehicles Birr'000 | Furniture and fittings Birr'000 | Office & other equipment Birr'000 | IT equipment Birr'000 | Building & premises Birr'000 | Construction in progress Birr'000 | Total Birr'000 |
|---|---|---|---|---|---|---|---|
| **20 Property,plant and equipment** | | | | | | | |
| **Cost:** | | | | | | | |
| **As at 1 July 2020** | 114,386 | 100,246 | 107,743 | 125,862 | 601,697 | 1,443 | 1,051,377 |
| Additions | 50,449 | 13,064 | 30,370 | 21,307 | - | 47,805 | 162,994 |
| Disposals | - | - | - | - | | - | - |
| Reclassification | - | 2,621 | (22,786) | (132) | | | (20,297) |
| **As at 30 June 2021** | 164,835 | 115,931 | 115,327 | 147,037 | 601,697 | 49,248 | 1,194,075 |
| **As at 1 July 2021** | 164,835 | 115,931 | 115,327 | 147,037 | 601,697 | 49,248 | 1,194,075 |
| Additions | - | 1,777 | 5,424 | 3,354 | - | - | 10,555 |
| Disposals | (2,095) | (875) | (554) | (2,032) | | - | (5,557) |
| Reclassification | - | (349) | 1,430 | (2,930) | | | (1,848) |
| **As at 30 June 2022** | 162,740 | 116,484 | 121,627 | 145,429 | 601,697 | 49,248 | 1,197,225 |
| **Accumulated depreciation** | | | | | | | |
| **As at 1 July 2020** | 29,691 | 31,401 | 35,330 | 49,537 | 4,125 | - | 150,084 |
| Charge for the year | 11,959 | 10,208 | 10,902 | 16,455 | 11,571 | - | 61,096 |
| A/D Adjustment (Stock PPE) | - | 198 | 37 | 473 | - | | 708 |
| Disposals | - | - | - | - | - | - | - |
| Reclassification | - | - | - | - | - | - | - |
| **As at 30 June 2021** | 41,650 | 41,808 | 46,270 | 66,465 | 15,695 | - | 211,889 |
| **As at 1 July 2021** | 41,650 | 41,808 | 46,270 | 66,465 | 15,695 | - | 211,889 |
| Charge for the year | 14,876 | 10,397 | 11,029 | 17,076 | 11,571 | - | 64,949 |
| A/D Adjustment (Stock PPE) | - | 336 | 291 | 250 | - | | 878 |
| Disposals | (1,990) | (747) | (548) | (1,967) | - | - | (5,252) |
| Reclassification | - | - | - | - | - | - | - |
| **As at 30 June 2022** | **54,535** | **51,794** | **57,042** | **81,825** | **27,266** | - | **272,463** |
| **Net book value** | | | | | | | |
| As at 30 June 2021 | **123,185** | **74,123** | **69,057** | **80,572** | **586,002** | **49,248** | **982,187** |
| As at 30 June 2022 | **108,205** | **64,690** | **64,585** | **63,604** | **574,431** | **49,248** | **924,763** |

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **21 Customer deposits** | | |
| Foreign currency deposits | 146,098 | 177,385 |
| Demand deposits | 1,904,802 | 2,721,443 |
| Saving deposits | 21,162,466 | 20,027,093 |
| Time deposits | 2,724,353 | 3,066,082 |
| **Total deposits from customers** | **25,937,719** | **25,992,003** |

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

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **22 Other liabilities** | | |
| **Financial liabilities** | | |
| Cash payment orders | 70,671 | 96,819 |
| Margin held on letters of credit | 573,238 | 689,981 |
| Blocked accounts | 214,774 | 186,068 |
| Leave accrual | 48,973 | 35,649 |
| Local transfers payable | 137 | 137 |
| Exchange commission | 9,045 | 7,913 |
| Miscellaneous payables | 18,053 | 4,343 |
| Retention on foreign currency | 142,794 | 71,329 |
| Accruals | 495,432 | 37,149 |
| Dividend payable | 118,621 | 113,730 |
| Provident and pension fund | 4,010 | 4,348 |
| Other payables | 474,203 | 554,142 |
| Lease Liability-Premises/Building | 143,091 | 456,867 |
| Foreign transactions payable | 1,316 | 65,083 |
| Temporary customer accounts | 2,103 | 5,183 |
| Local Borrowings NBE | 650,000 | 26,000 |
| | **2,966,461** | **2,354,741** |
| **Non-financial liabilities** | | |
| Taxes and stamp duty charges | 20,005 | 19,153 |
| Unearned Income-LC Opening S/Charges | 101,411 | 26,678 |
| Provision for legal cases | 5,091 | 4,183 |
| | - | - |
| | **126,507** | **50,014** |
| **Total** | **3,092,968** | **2,404,755** |

| *Maturity analysis* | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Current | 2,449,863 | 2,393,833 |
| Non-Current | 500,311 | 10,923 |
| | **2,950,174** | **2,404,758** |

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

| 23 Retirement benefit obligations | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **Defined benefits liabilities:** | | |
| Defined Benefit Liability/(Asset) | 62,171 | 67,208 |
| **Liability in the statement of financial position** | **62,171** | **67,208** |
| | | |
| **Income statement charge included in personnel expenses:** | | |
| Employee defined benefit (Income) expense | 18,066 | 16,169 |
| **Total defined benefit expenses** | **18,066** | **16,169** |
| | | |
| **Remeasurements for:** | | |
| – Severance and retirement benefit gratutity benefits | 10,766 | (254) |
| | **10,766** | **(254)** |

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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Current | 3,232.54 | 2,557.28 |
| Non-Current | 58,938 | 64,651 |
| | **62,171** | **67,208** |

## 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 South Africa 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.

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

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

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| **A. Liability recognised in the financial position** | 62,171 | 67,208 |

| **B. Amount recognised in the profit or loss** | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Current service cost | 7,569 | 7,260 |
| Interest cost | 10,497 | 8,909 |
| Past Service cost | - | - |
| | **18,066** | **16,169** |

## 23 Retirement benefit obligations (Contd)

**C. Amount recognised in other comprehensive income:**

| | | |
|---|---|---|
| Remeasurement gains/(losses) arising from changes in demographic assumptions | - | - |
| Remeasurement gains/(losses) arising from changes in the economic assumptions | 5,284 | 2,324 |
| Remeasurement gains/(losses) arising from changes exeperience | 5,482 | (2,578) |
| | **10,766** | **(254)** |

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

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | 67,208 | 54,279 |
| Current service cost | 7,569 | 7,260 |
| Interest cost | 10,497 | 8,909 |
| Past Service cost | - | - |
| Remeasurement (gains)/ losses | (10,766) | 254 |
| Benefits paid | (12,337) | (3,494) |
| At the end of the year | **62,171** | **67,208** |

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Discount Rate (p.a) | 24.40% | 15.30% |
| Long term salary increases | 19.30% | 12.00% |

## Lion International Bank S.C.
## For the year ended 30 June 2022
## Notes to the financial statements

### 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 15.30% as at 30 June 2021 and 24.30% as at 30 June 2022.

### 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 in recent years leading up to the valuation dates. In addition, there are no index-linked government bonds or securities which could provide a market-based indication of future inflation.

In order to determine an estimate of long-term future inflation, we have considered historical inflation, projections made by the IMF inflation for 2023 to 2027 to determine the projected long-term inflation in a manner consistent with the setting of the discount rate.

### 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 | 0.00306 | 0.00223 |
| 25 | 0.00303 | 0.00228 |
| 30 | 0.00355 | 0.00314 |
| 35 | 0.00405 | 0.00279 |
| 40 | 0.00515 | 0.00319 |
| 45 | 0.0045 | 0.00428 |
| 50 | 0.00628 | 0.00628 |
| 55 | 0.00979 | 0.00979 |
| 60 | 0.01536 | 0.01536 |

**Lion International Bank S.C.**
**For the year ended 30 June 2022**
**Notes to the financial statements**

### 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 | (2022) annum | Resignation rates per (2021) annum |
|---|---|---|
| 20 | 17.30% | 13.50% |
| 25 | 13.50% | 6.10% |
| 30 | 6.10% | 5.80% |
| 35 | 5.80% | 5.00% |
| 40 | 5.00% | 2.80% |
| 45 | 2.80% | 2.60% |
| 50+ | 2.60% | 4.30% |

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 2022. Defined Benefit Obligation and the Current Service Cost are reflected below:

| | | Impact on defined benefit 30 June 2022 | |
|---|---|---|---|
| | Change in assumption | Impact of an increase Birr'000 | Impact of a decrease Birr'000 |
| Discount rate | 1% | 62,171 | 62,171 |

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 2022

| | 30 June 2022 Birr'000 |
|---|---|
| Within the next 12 months (next annual reporting period) | |
| Year ending 30 June 2023 | (5,986) |
| Year ending 30 June 2024 | (7,807) |
| Year ending 30 June 2025 | (10,436) |
| Year ending 30 June 2026 | (13,206) |
| Year ending 30 June 2027 | (16,853) |
| | (54,288) |

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 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 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| **Authorised:** | | |
| 120 Million Ordinary shares of 25 Birr each | 3,000,000 | 3,000,000 |
| **Issued and fully paid:** | | |
| 102,990,944 Ordinary shares of 25 Birr each (as of 30 June 2022) | **2,574,774** | **2,513,049** |

## 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 2022<br>Birr'000 | 30 June 2021<br>Birr'000 |
|---|---|---|
| Profit attributable to shareholders | 268,815 | 334,541 |
| Rollover IFRS adjustment from Regulatory risk reserve | - | - |
| Profit attributable to shareholders (after IFRS adjustments) | 268,815 | 334,541 |
| Weighted average number of ordinary shares issued as at 30 June 30,2022 and 30 June 2021 | 101,573 | 93,277 |
| Basic & diluted earnings per share (Birr) | **2.65** | **3.59** |

## Lion International Bank S.C.
## For the year ended 30 June 2022
## Notes to the financial statements

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.

### 26 Retained earnings

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | 128,727 | 440,750 |
| Declared dividend | (69,958) | (435,013) |
| Prior year adjustment | | - |
| Profit/ (Loss) for the year | 268,815 | 334,541 |
| Transfer to legal reserve | (34,731) | (45,346) |
| Transfer to special reserve | - | (5,738) |
| Transfer to Other Reserve | (33,356) | (7,310) |
| Adjustment for tax liability | (56,424) | |
| Transfer to Regulatory Risk Reserve | (129,890) | (153,157) |
| At the end of the year | **73,184** | **128,727** |

### 27 Legal reserve

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | 712,912 | 667,566 |
| Transfer from profit or loss | 34,731 | 45,346 |
| At the end of the year | **747,643** | **712,912** |

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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | 20,918 | 42,548 |
| Transfer (from) / to retained earnings | - | 5,738 |
| Adjustment for tax liability | (20,918) | |
| Transfer to declared divdend | - | (27,367) |
| At the end of the year | **-** | **20,918** |

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 29 Regulatory risk reserve

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | 220,532 | 67,375 |
| Transfer (from) / to retained earnings | 129,890 | 153,157 |
| At the end of the year | 350,423 | 220,532 |

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

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

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

## 30 Other reserves

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| At the beginning of the year | (1,551) | 45,077 |
| Remeasurement gain/(loss) on retirement benefits obligations | 10,766 | (254) |
| Transfer to declared dividend | - | (53,684) |
| Other Reserve- unapportioned Earnings | 33,356 | 7,310 |
| At the end of the year | 42,571 | (1,551) |

The Other reserve comprises both distributable and non distributable reserves. The distributable portion is subjected to future dividend apportionment based on general assembly decision.

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

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 31 Notes to the statement of cash flows

### a) Cash used in operations

| | Notes | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| Reconciliation of profit before income tax to cash from operations | | | |
| Profit before tax | | 310,645 | 414,081 |
| **Adjustments for non-cash items:** | | | |
| Depreciation of property and equipment | 20 | 64,949 | 61,096 |
| Gain on Disposal of Property and Equipment | 9 | (2,837) | |
| Amortization of intangible assets | 19 | 6,069 | 6,036 |
| Loan impairment Charge | 16 | 518,886 | 622,913 |
| Impairment loss on other assets | 18 | 57,693 | 66,582 |
| Impairment on NBE Bills | 17 | - | 212 |
| Impairment on Treasury Bills | 17 | 161 | |
| Impairment on DBE Bonds | 17 | 3 | |
| Accrued interest on NBE bill | 17 | - | (7,668) |
| Accrued interest on DBE Bonds | 17 | (1,069) | |
| Current Service Cost on Defined Benefit Obliga | 23 | 18,066 | 16,169 |
| Fair value adjustment on Investment Security (E | 13 | (33,356) | (7,310) |
| **Changes in operating assets and liabilities:** | | | |
| -Decrease/ (Increase) in loans and advances | 16 | (2,482,677) | (3,370,106) |
| -Decrease/ (Increase) in other assets | 18 | 156,053 | (342,506) |
| -Decrease/ (Increase) in Right use of asset (ROU | 18a | 321,651 | (298,117) |
| -Increase/ (Decrease) in customer's deposit | 19 | (54,284) | (139,736) |
| -Increase/ (Decrease) in other liabilities | 22 | 683,322 | 416,647 |
| | | **(436,724)** | **(2,561,706)** |

### b) Cash and balances with banks

| | Notes | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|---|
| Cash in hand | 14 | 542,065 | 554,936 |
| Cash and balances with National Bank of Ethiopia | | 654,083 | 93,330 |
| Deposits with local banks | | 200,086 | 1,629,463 |
| Deposits with foreign banks | | 600,294 | 326,550 |
| Reserve with National Bank of Ethiopia | | 1,821,867 | 1,294,830 |
| Less: Impairment allowance to Deposit with local banks | | (10) | (81) |
| | | **3,818,385** | **3,899,028** |

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 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:

### 32a *Transactions with related parties*

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Transaction with related borrower | | - |
| **Transaction with Insurance Company** | | |
| - Payment for staff insurance | 2,982 | 3,088 |
| - Payment for Money, Motor, Fire & Lightening and Fidelity Insurances | 4,984 | 7,419 |
| | **7,966** | **10,507** |

### 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 2022.

| | 30 June 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Board of directors remuneration | 3,143 | 2,867 |
| Salaries and other short-term employee benefits | 23,610 | 28,818 |
| | 26,753 | 31,685 |
| **Loans and Advances** | | |
| Loan to senior management | 21,075 | 24,111 |
| | **47,828** | **55,796** |

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.
# For the year ended 30 June 2022
# Notes to the financial statements

## 33 Directors and employees

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

| | 30 June 2022 Birr'000 | 30 June 2021 Number |
|---|---|---|
| Professionals and High Level Supervisors | 1,995 | 2,245 |
| Semi-professional, Administrative and Cleric | 531 | 498 |
| Technician and Skilled | 4 | 2 |
| Manual and Custodian | 96 | 107 |
| | 2,626 | 2,852 |

## 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.

## b 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 2022 Birr'000 | 30 June 2021 Birr'000 |
|---|---|---|
| Loans and Advances approved but not drawn (as per NBE Guideline) | 375,436 | 423,215 |
| Guarantees Issued | 1,968,236.42 | 1,724,302 |
| Letters of credit | 1,322,248 | 712,067 |
| CAD-Export sight | 30,624 | 78,555 |
| | 3,696,545 | 2,938,139 |

## 35 Commitments

The Bank has no commitments, provided for in these financial statements, as of 30 June 2022 and 30 June 2021 for purchase of various capital items.

## 36 Events after reporting period

There were no significant events after the reporting date that could affect the reported amount of assets and liabilities as of the reporting date.

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 37 Standards issued but not yet effective

The following standards and interpretations had been issued but were not mandatory for annual reporting period ended on January 1, 2021. The Bank has not early adopted the underlisted standards in preparing the financial statements as it plans to adopt them at their respective effective dates if applicable.

### Classification of Liabilities as current or noncurrent - Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be Converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023. The effective date is 1 January 2023.

### Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The effective date is 1 January 2023.

### Defnition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. The effective date is 1 January 2023.

### Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of

lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

right-of-use assets and lease liabilities, and decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained

earnings, or another component of equity, as appropriate. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. The effective date is 1 January 2023.

# Lion International Bank S.C.
# For the year ended 30 June 2022
# Notes to the financial statements

## 38 Suspended operations

In the northern part of our Country, particularly in the Tigray Region, the Bank was providing multifaceted banking services and products to a wide range of the Community in the Region through 135 branches and a well-organized Regional Office that cordinates and monitors the branches under its domain. However, due to the prevailing conflicts in the Region, the branches under discussion have ceased operation at around the beginning of the fiscal year end June 30, 2022. As a result, the Bank's financial and operational capabilities have been limited to the current business climate and related constraints.

To add up, as the stated branches have no any connection of any kind with the Head Quarter of the Bank, it has remained difficult to know the conditions of financial and non-financial assets and other properties under their custody until the fiscal year. Meanwhile, it has been tried to exercise professional judgments to hold provisions on periodic expenses such as staff salaries and benefits, amortization of prepayments, accruals and others. In connection with the stated provisions, as well as customer deposits, fixed assets and loans & advances associated with the Bank's branches in the Region, the following disclosures are brought down:

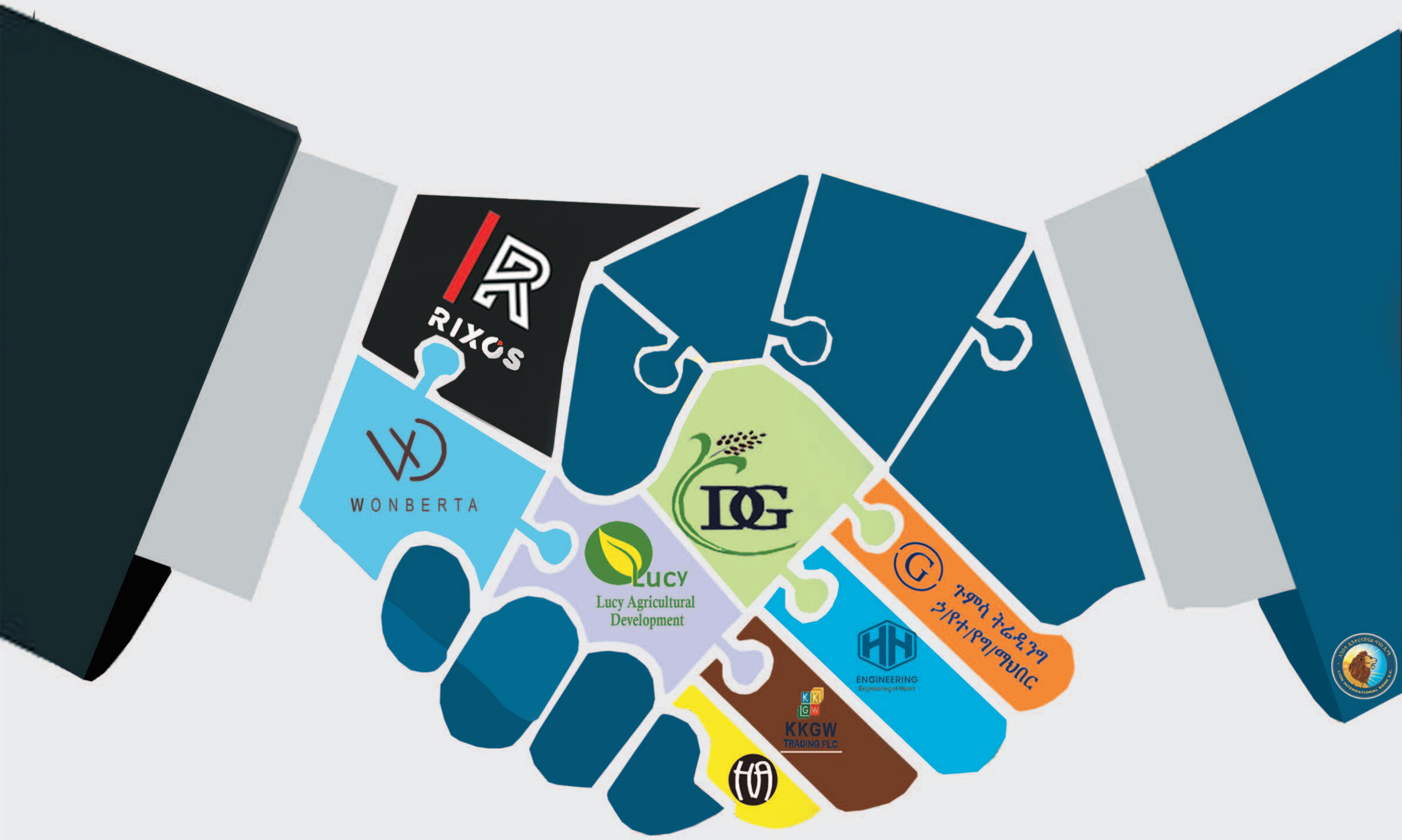
| Branchs | In Numbers |
|---|---|
| No. of branches whose operations have been affected by the conflict | 136 |

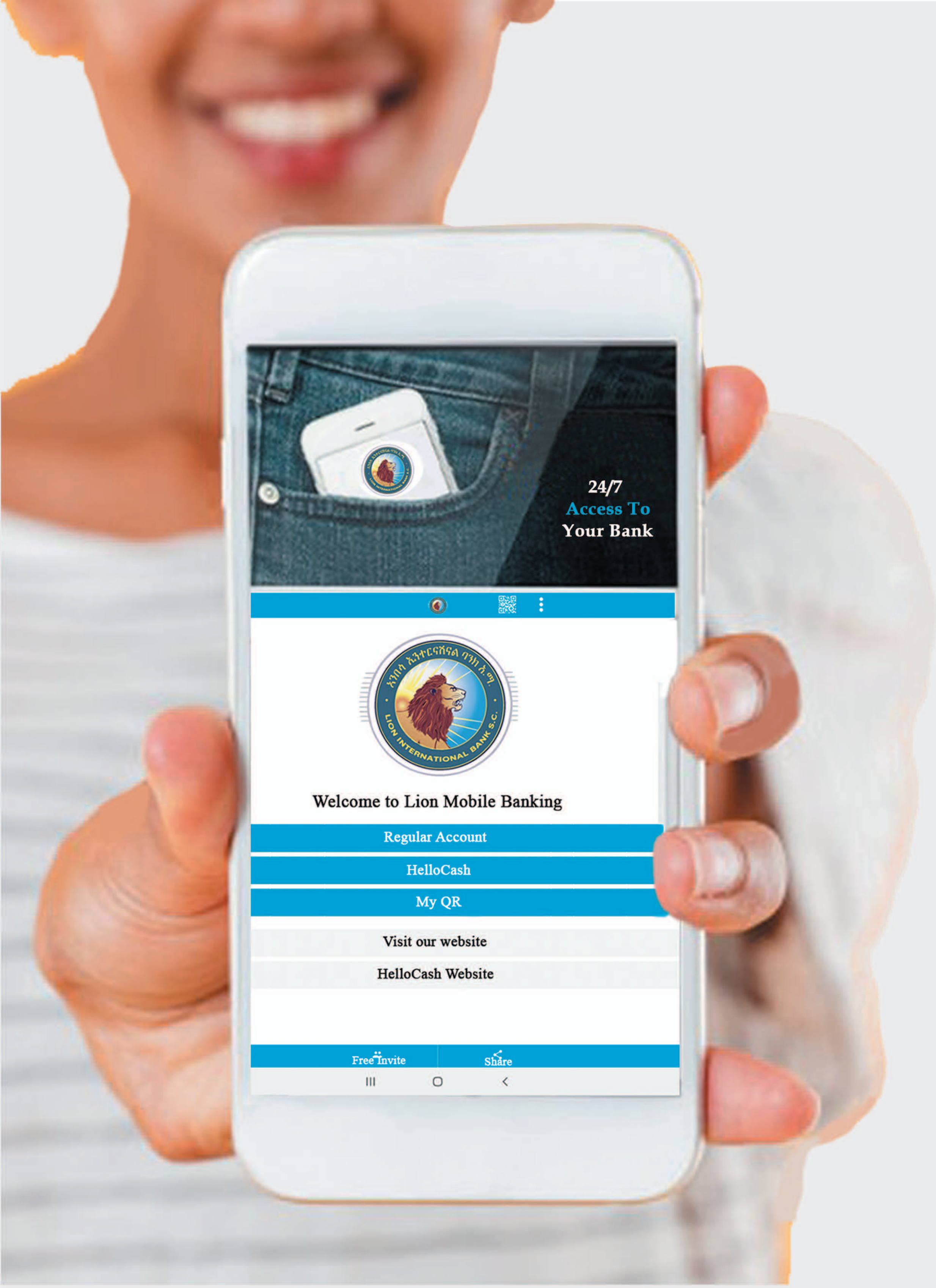
| Customer Deposits, Fixed asset and Loans & Advances | As of 30 June 2023 |
|---|---|
| | Birr'001 |
| Balance of customers deposits owed to the Bank | 15,653,195 |
| Balance of loans and advances provided to the Bank's debtors | 9,779,573 |
| Net Balance of Plant, property and equipment | 194,671 |

| Provision Held for | As of 30 June 2023 |
|---|---|
| | Birr'001 |
| Loan and Advance | 285,505 |
| Other Assets | 44,465 |
| Salary and Benefits | 344,137 |
| Lease (Office Rent) | 7,093 |
| General Expense | 25,064 |
| Land Lease | 219 |
| **Total** | **706,483** |

From the sustained dynamism of the conflict, the information presented above may not reflect the recent state of affairs and consequential changes thereupon. The bank has held collateral wherever it applies, to cover loan losses. And the lion's share of the collateral assets are located in Mekele city, which is one of the areas believed to have been affected in a lesser degree by the conflict until the time of issuance of this report. As a result, it is sencerely hoped that such a relatively less perilous status reduces the extent and vulnerability of the stated collaterals for damages/losses.

# Glimps of Partners



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