

22ndAnnual Report for the year ended June 30,

2018

November 30, 2018



Always One Step Ahead!

Vision

To be Best-in-Class Bank in Africa.

Mission

To provide efficient, customer-centric banking services, using the expertise of inspired professionals and cutting edge technology, while creating sustainable value for our stakeholders.

Values

Customer centricity

Diversity

Professionalism

Teamwork

Integrity

Social responsibility

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Our Scorecard



Board of Directors



Neway Beyene Chairman



Abebe Teklu Director



Engidawork Fekadu Director



Getachew Hagos Director



Getaw Yalew Director



Negussie Deme Director



Shimeles Eshete Director



Shisema Shewaneka Director



Seid Ahmed Director

Shari'ah Advisory Committee



Shaikh Mohammad Yasin Ibrahim
Chairman



Ustaz/ Mahmoud Hassen Hussen
Vice Chairman



Ustaz Mustaffa Hamid Yusuf



Dr. Kamal Haji Galatu Mame Member



Ustaz Ramedan Ahmed Abdo Member



DASHEN BANK'S INTEREST FREE BANKING SERVICE

We are your partner in your Sharia compliant banking.

Wadiah | Qard | Mudarabah | Salam | Istisna | Murabahah | Musharakah المشاركة | المرابحة | الإستصناع | السلّم | المضاربة | القرض | الوديعة

Corporate Management Council



Asfaw Alemu President



Yared Mesfin V/President - Resources & Facilities Management



Henok Kebede V/President - Operations Management



Samuel Adane V/President - Marketing & Business Development



Shimeles Legesse V/President - Information Systems & E-banking Services



Aberra Bekele Director, Legal & Credit Recovery



Abiyot Weldeyesus
Director - Customer Accounts
& Currency Management



Afework Gugssa Director - Program Management Office



Alemneh Abebe Director, Trade & International Banking Services



Andualem Hailu
Advisor to the Presdent



Anteneh Tadesse Director - IT Infrastructure



Armaye Gelaw Director - Customer Relationship



Ayele Teshome Director - Research & Development



Eyerusalem Wagaw Director - Human Resource Development



Freegzi Berhane Director - Credit Analysis & Appraisal



Getenet Dessie Chief Risk & Compliance Officer



Giragn Garo Director - Finance & Accounts



Hailu Moges
Director - Human Resources
Management



Mesfin Bezu Director - Interest Free Banking



Mulugeta Alebachew Director - Marketing & Corporate Communications



Robel Alemayehu Director - E-Banking Services



Tamirat Tilahun Director - Engineering Service



Tibebu Solomon Chief Internal Auditor



Yeshanew Ayalew Director - Application Support & Development



Yeshiwork Yimer Executive Assistant to the President



Yihenalem Aknaw Director - Office of Strategy Management



Zelalem Tadesse Director - Facilities Management

Statement of the Board Chairman



Esteemed Shareholders!

IOn behalf of the Board of Directors, it is a great honor and pleasure to present the 2017/18 Annual Report of Dashen Bank.

Our bank, despite the unusually volatile and unstable local conditions, has managed to execute major landmark projects and demonstrate yet another year of improved financial performance. This is attributable to the continued support of our customers and the strong dedications and commitment of the bank's staff.

The global economy though has witnessed improvement; uncertainties remained above ground as global inequalities and vulnerabilities carried on. In the domestic space, during the review period, the country experienced unprecedented social and political unrest that put both citizens and foreign investors into gloomy depiction and challenged the business environment. The effects of these social unrests in different parts of the country were many-sided including physical damages on businesses of customers, interruptions of banking services due to forced daily closures of branches and difficulties in transporting cash from place to place. Fortunately, situations improved considerably following the government's unrelenting efforts to resolve conflicts through continued engagements with various stakeholders. The government's gesture to open up some public owned enterprises for private investment, and the historic peace deal made with Eritrea, as well as the positive response from local citizens and the diaspora community in channeling foreign currency exchange back through the formal banking channels are worth mentioning among the positive measures taken and outcomes that promised a positive economic outlook for the country.

Though there were no new entrants to the banking industry, competition among the existing players particularly in deposit and foreign currency mobilization activities has reached a sever stage. In addition to the NBE bill purchase requirement, the newly introduced directive of surrendering of 30% of foreign currency from the total inflow on a monthly basis has not only challenged the allocation of foreign currency to customers on the waiting list but also had its own direct negative impact on the revenue of the Bank.

Despite the challenges faced, however, the Bank has managed to mobilize a record high incremental deposit of Birr 8.1 billion and raised the stock to Birr 36 billion showing a 29.2% growth to the position last year. Similarly, the effort made to deploy the resources has boosted the outstanding loans and advances to Birr 23 billion recording 28.5% year-on-year growth. The net operating income of the Bank has surged by 21.7% to Birr 2.8 billion. After covering its expenses, I am glad to announce that the Bank has managed to attain a record high profit of Birr 1.14 billion before tax. The earnings per share stood at 43%. The total asset of the Bank grew by 26% and has reached Birr 45.4 billion. The Bank's primary capital has reached Birr 4.4 billion out of which the paid up capital constitutes Birr 2.2 billion.

There were number of major projects the bank was implementing with the Board's oversight. These included the first-time adoption of the International Financial Reporting Standards (IFRS),), the upgrading of the Core Banking system to the latest version, the implementation of the long-awaited Interest Free Banking service, the enhanced mobile banking product under the brand "Amole" and the formulation and implementation of the transformational 5-year strategic plan with the engagement of the services of KPMG consultants. Subsequent to the dictate of the Financial Reporting Proclamation No. 847/2014, the extensive and taxing journey of the first-time adoption of IFRS has been successfully completed and the Bank has fully complied to the requirement. Thanks to the dedicated management and staff of the Bank we have witnessed the successful implementation the migration to the new version of the core banking system,

the launching of "Sharik", the banks new Interest Free Banking service and "Amole" its new mobile banking solution. The design and formulation phases of the 5-year strategic plan have been completed and the bank is embarking currently on the implementation activities.

Under the transformational strategic plan formulation process an extensive diagnostic assessment were done to identify the gaps that need to be addressed to be more competitive and attain the strategic aspirations. Wide range of surveys including staff, customers and stakeholders were administered to better understand expectations. The Bank has set a new strategic vision statement that is to be "Best in class Bank in Africa". Accordingly, it has reviewed the mission and value statements and identified its strategic pillars and key enablers. The business and operational models of the Bank have been reviewed to ensure customer centricity and clear value propositions, with simplified and standardized services among others.

In view of leveraging from the investment made on crafting the transformational strategic document and ensuring the professional implementation of these strategies, the board of directors has established a Strategic Management sub-committee, besides the existing sub-committees required as per the directives of the National Bank of Ethiopia. The capacity building trainings, professional engagement of all board directors both in their respective sub-committees and at full board meetings and the periodic performance evaluations made have been instrumental in enhancing the board's overseeing tasks and effectiveness.

The immediate center of attention of the Bank in the next year will be the implementation of the year-one strategic plans where we build our foundational capabilities and ensuring the successful large-scale roll out of "Sharik" Interest free banking and "Amole" products and services. We believe the challenges to operate more efficiently and effectively will be tackled through the well thought and enumerated strategic intents set for the periods ahead.

Given the tone and openly declared aspirations of the government to see a unified Ethiopia, transformed bureaucracy, readiness for inclusive democracy and a genuine ambition to make Ethiopia a place to do good business and attract investment, our outlook for the future is very encouraging. It is our strong hope that the willingness and the direction of the newly appointed Governor of the National Bank in critically reviewing some of the directives that challenged the role of private banks in the development endeavor of the nation will continue.

Lastly, I would like to extend a very hearty vote of thanks to our esteemed customers not only for banking with Dashen but also for their intact confidence during difficult times; honorable shareholders for your confidence and extraordinary support; my fellow board directors for their dedication and invaluable leadership; the management and staff of the Bank for their tireless efforts and sense of ownership; the National Bank of Ethiopia for their guidance and inclinations to continuously reform the sector and to all other stakeholders for their support and cooperation.

Thank you,

Neway Beyene Chairman, Board of Directors November 15, 2018

The President's Message



Dear shareholders,

I am pleased and honored to present the performance of Dashen Bank S.C. for the fiscal year ended June 30, 2018. The report covers the operating environment, the Bank's financial performance, business and organizational development, the way forward, and finally vote of thanks.

The Operating Environment

According to the UN's World Economic Situation and Prospects 2018 Report, the last decade has been punctuated by a series of broad-based economic crises and negative

shocks, starting with the global financial crisis of 2008–2009, followed by the European sovereign debt crisis of 2010–2012 and the global commodity price realignments of 2014–2016. As these crises and the persistent headwinds that accompanied them subside, the world economy has strengthened, offering greater scope to reorient policy towards longer-term issues that hold back progress along the economic, social and environmental dimensions of sustainable development. According to UN's report, in 2017, global economic growth was estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011.

In the domestic front, the economy had been challenged by public unrest, foreign exchange shortages, and weak prices for export commodities. Proceeds from exports continued to disappoint. In the government's effort to reverse the situation, the fiscal year saw a 15% surge in the official exchange rate of Birr against the US Dollar. Despite the socio-economic upheavals that marked much of the reporting period, the Country has been overwhelmed by change of tides in the political environment. The change of tone atop appealed to Ethiopians at home and abroad, prompting a sudden upsurge in remittances inflow through bank channels, a very welcome development for the economy in general and the banking industry in particular.

The government's decision to sale stakes of key public enterprises to private sector operators and the prospect for regional peace and stability following the normalization of relations with Eritrea; as well as the continued effort to pacify the Horn, will have positive impacts on the Ethiopian economy and beyond. Further positive development inviting the private sector's participation in the economy has been recently heralded with the promulgation of the Public Private Partnership (PPP) Proclamation.

In the banking industry, competition continued stiffening as manifested in customer outreach, new and modified products/services introductions, pricing, adoption of banking technologies and efforts to emulate regional and global best practices by employing the services of international consulting firms. Combined outreach of banks grew by 11.8% year-on-year and reached 4,757 at the end of June 2018. According to the National Bank of Ethiopia (NBE), the financial industry had been able to mobilize deposits to the tune of Birr 730.3 billion, while maintaining outstanding credit (excluding bonds and treasury bills) of Birr 394.6 billion as of June 30, 2018.

During the reporting period, the NBE devalued the Birr, set credit ceiling on all economic sectors except export and required the direct transfer of 30% of foreign currency mobilized by commercial banks, all have had repercussions on the banking industry. The Bank further raised the minimum interest rate on savings from five per cent to seven per cent, which was later followed by upward revision of the interest paid on NBE Bills from three per cent to five per cent. In another positive development, the Bank lifted the credit cap on the manufacturing sector in a short while.

Operating and Financial Performance

While embarked on momentous transformational endeavors ranging from commercialization of fully-fledged Shari'ah-compliant alternate banking services to introduction of ground-breaking mobile money platform to core banking upgrade to successful completion of the first time adoption of IFRS (International Financial Reporting Standards) and formulation of strategic roadmap; unrelenting efforts have been made to maintain the Bank's growth trajectory. As a result, customer deposits grew by 29.2% during the reporting period, scoring an unprecedented year-on-year increase of Birr 8.1 billion, which enabled a corresponding 28.9% surge in outstanding loans and advances. Though growth in operating expenses surpassed that of operating income due to skyrocketing cost of doing business and expansion in operations, the Bank had been able to achieve a 14% growth in profit after tax.

Business & Organizational Development

Despite intensifying competition, regulatory constraints and social unrest observed in the operating environment, there remains ample market opportunity for Dashen Bank to capitalize on. During the reporting fiscal year, 70 branches were opened. To tap in to opportunities existing and new markets offer, much of the focus has been geared towards introduction of interest free banking and a revamped mobile payments platform. After a great deal of preparation, Dashen Bank, together with its partner, Moneta Technologies, and pioneering ecosystem players, has recently re-launched an Omni-channel e-commerce and payment platform dubbed Amole. Given the large section of the society that is still unbanked and/or under-banked for cultural reasons, the other product introduction that Dashen Bank has long been working on, and successfully commercialized during the reporting period, is Interest Free Banking (IFB). Dashen Bank's whole set of interest free, Shari'ah compliant alternate banking services are being marketed under the brand name Sharik, which denotes the Bank's commitment to prosper in partnership with its customers. The three months performance of our Shari'ah compliant Interest Free Banking windows was found indeed encouraging. The resource mobilized by the end of the reporting period has reached Birr 136.4 million.

During the fiscal year, the Bank has successfully upgraded its core-banking solution. Alongside, the product introductions, technology upgrade and continued aggressive market expansion, the reporting period had been a year for reflections and contemplations as part of the development of the Bank's 2023 strategy. The extensive and participatory evaluation, strategy articulation and validation exercises have culminated in a five years' strategy plan with aspirations and strategic interventions, which the Bank will be pursuing in the coming five years. Preparations are in full swing towards successful implementation of the strategy that sets a strategic aspiration for Dashen Bank to become Best-in-Class Bank in Africa.

Vote of Thanks

Dashen Bank is thriving on the trust and confidence of its customers. On behalf of myself and my colleagues, I would like to thank all our valued customers for their continued patronage. I would also like to applaud the shareholders of the Bank for your firm commitment and confidence. I owe the Board of Directors my heartfelt gratitude for their unrelenting engagement, guidance and support. I am also very grateful to the entire staff and management of the Bank for all that our collective endeavor has achieved. My appreciation further goes to the National Bank of Ethiopia, Ethio Telecom and all other stakeholders for their continued support and cooperation.

Thank you,

Asfaw Alemu, President

November 15, 2018

Board of Directors' Report

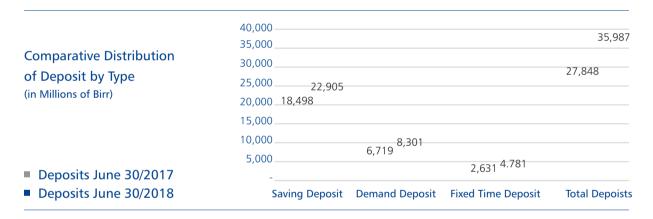
On behalf of the Board of Directors of Dashen Bank S.C., we are pleased to present the annual report of the Bank for the year ended June 30, 2018. Highlights of the major performances of the Bank during 2017/18 fiscal year (F.Y.) are summarized hereunder.

OPERATIONAL HIGHLIGHTS

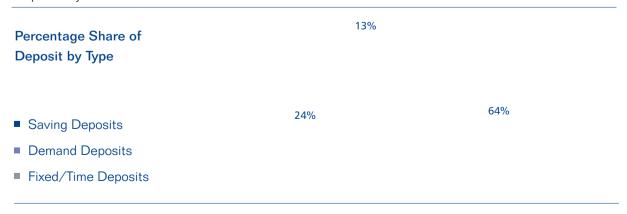
Deposit

Continued growth in the Bank's market outreach through branch expansion and deployment of digital channels had been instrumental towards customer attraction and retention, which in turn boosted resource mobilization endeavors. During the fiscal year the Bank had been able to operationalize 70 new branches across the length and breadth of the country. On the back of increased market outreach, the Bank's customer base exhibited a growth of 6.2 % and reached 1.9 million by the close of the reporting period.

At the end of June 2018, customer deposits totaled Birr 36 billion, growing by a record Birr 8.1 billion or 29% year-on-year. The Bank achieved to mobilize Birr 136 million from Interest Free Banking services.



There had been marked surge in fixed time deposits during the fiscal year. To tame unwarranted growth in cost of funding, efforts had been made to boost savings deposits. By the end of June 2018, deposit performance by category revealed that Savings deposit accounted for 64%, giving solid assurance on the stability of the Bank's funding source. Current and Fixed Time deposits took 23% and 13% share, respectively.

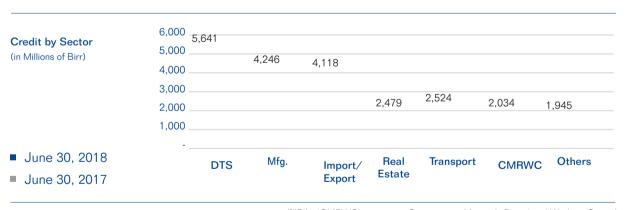


Loans and Advances

At the close of the reporting period, the Bank's outstanding loans & advances, net of provision, stood at Birr 23 billion, up by Birr 5.2 Billion or 28.9% from last year same period. As a result, the loan to deposit ratio of the Bank stood at 0.64:1; which happened to be equivalent to last year's same period position.



In terms of sectoral distribution, the Bank's credit portfolio covered a wide range of sectors of the economy. Domestic Trade and Services still takes the lion's share followed by Manufacturing and International Trade Services (import and export)..



'NB"1. 'CMRWC' represents Construction Materials Rental and Working Capital 2. 'DTS' refers to Domestic Trade & Services

 $3.\ Others\ include\ Mining,\ Advance\ on\ LC,\ Personal\ and\ Staff\ Housing\ Loans\ and\ Loans\ and\ Advances\ under\ Litigations.$



E-Banking Services

As part of the Bank's continued endeavor to leverage technology to deliver value to customers' evolving needs, concerted efforts had been made to revamp existing digital financial services and re-introduce an omnichannel digital platform, which culminated in the launching of Amole, Dashen Bank's trademark digital financial platform realized together with the Bank's partner Moneta Technologies. The Amole Platform supports e-commerce and payments, and has already brought on-board diverse eco-system players.

As regard to card banking, the Bank has further expanded its card accepting network with the deployment of 103 additional ATMs, which raised the Bank's ATM network to 305. At the close of the reporting period, the cardholder base of the Bank hit 710,447, scoring a 28% year-on-year growth. Apart from the existing VISA and AMEX branded debit cards, Dashen Bank is also finalizing preparations to introduce proprietary debit cards tailored to interest free banking customers.



 $\frac{385}{\text{distributed all}}$



Dashen Bank is everywhere!

that's where a bank is supposed to be.



362 ATMs in convenient locations



 $\underline{24/7\,^{\text{Omni-channel}}_{\text{banking}}}$

International Banking

In the backdrop of stagnant export and the regulatory requirement for surrendering 30% of forex earning, the Bank's international banking operation had been constrained. On a positive note, however, the changes in the Country's political landscape brought unprecedented inflow in remittances through banking channels during the second half of the reporting fiscal year. The Bank had endeavored to tap the opportunities created and marked achievements were registered. During the fiscal year, Dashen Bank inked agency agreement with World Remit, raising the number of international money transfer operators working with the Bank to nine.

FINANCIAL HIGHLIGHTS

Assets

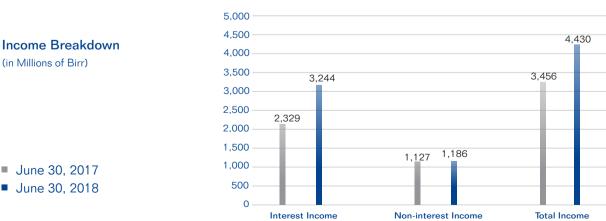
At the end of June 30, 2018, the total assets of the Bank scored Birr 45.4 billion, exceeding the preceding year's level by Birr 9.4 billion or 26.2%. The significant growth in assets was largely contributed by the rise in outstanding loans and advances coupled with a corresponding increase in long term investment in NBE Bills.

Capital

By the close of the reporting fiscal year, the total shareholders' equity of the Bank reached Birr 5.9 billion, indicating a 12.2% year-on-year growth. Paid up capital of the Bank increased by Birr 300 million during the reporting period to reach Birr 2.2 billion, and accounted for 38% of total capital.

Income

The total revenue generated by the Bank from various sources stood at Birr 4.4 billion, showing an increment of Birr 869.1 million or 25% relative to the balance achieved in 2016/17 fiscal year. Interest income on loans and advances, which grew by 39.3% year-on-year, contributed the lion's share for the substantial growth in revenues.



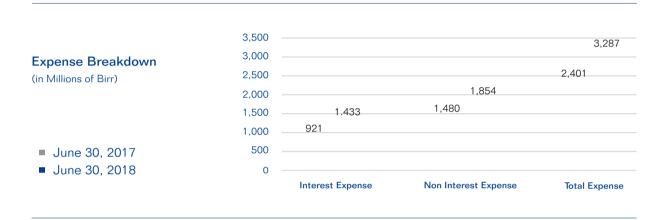
Board of Directors' Report (continued)

Interest income accounted for 75% of the total income reaching Birr 3.2 billion and remained a major driver of earnings on the back of increased lending activities.

Non-interest income exhibited a 4.1% decline during the fiscal year, which is largely attributed to the shortage in supply of foreign currency.

Expense

The total expense of the Bank climbed to Birr 3.3 billion, exhibiting a 36.9 upsurge over the previous year's level of Birr 2.4 billion. The increase was driven mainly by increase in interest paid on deposits and overheads particularly staff salaries and benefit and rentals, which resulted from the Bank's on-going branch expansion.

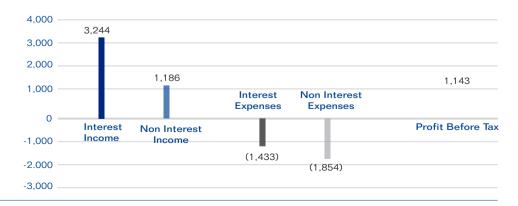


As compared to the previous fiscal year, interest paid on deposits soared by Birr 511.5 million or 55.5% to reach at Birr 1.4 billion. Record high growth in savings and fixed time deposits and the upward adjustment on the minimum interest paid on savings prompted the sharp rise in interest expense.

Profit

Profit before tax hit yet another record high and reached at Birr 1.14 billion, higher by 8.3% compared with the preceding fiscal year. Earnings per share stood at Birr 430.





OTHER ACTIVITIES

Branch Expansion

The Bank's physical foot print further expanded across the country with the opening of additional 70 branches during the reporting period alone. As a result, the branch network of the Bank reached 373, the second biggest network in the industry. With increased outreach, the Bank has come ever more closer to the general public and its customers, which substantially supported resource mobilization.

Out of the 70 branches that went operational during the reporting period, 58 of them were opened outside Addis Ababa, a manifestation of the Bank's commitment to support the national agenda for access to finance & financial inclusion.

Human Resource Development

Aggressive expansion of the Bank has created job opportunities for over a thousand citizens during the reporting period. Acquainting new and existing staff as well as the management team with the required skills and competencies had been one of the priorities of the Bank, which underpinned the substantial investment made on human capital development.

Risk Management and Compliance

Prudent risk management has become an integral part of the Bank's day-to-day business. Periodic measurement of the Bank's risk exposure against key risk metrics had been conducted and alerts were signaled for proactive intervention. The Bank endeavors to pursue its business prudently with unwavering commitment for compliance to applicable national and international rules and regulations.

Corporate Governance

The Bank remains committed to observing and adhering to the highest standards of corporate governance and business ethics as set out by the National Bank of Ethiopia and other pertinent government organs. Governance principles are engrained in the Bank's business practices. The various sub Committees (Audit, Risk, Human Resources and Strategy) instituted by the Board of Directors oversee application of corporate governance principles in the Bank's business undertakings. The Board has established Strategy and Business Development Sub-Committee to oversee the implementation of the newly crafted strategic road-map of the Bank.

Corporate Social Responsibility (CSR)

Dashen Bank acknowledges its social responsibility as a corporate citizen, and endeavors to discharge its responsibilities as manifested in numerous occasions. During the reporting period, the Bank donated to the tune of Birr 4.1 million in support of endeavors to rescue Lake Tana from Water Hyacinth (Emboch), assist noble causes of Muday Charity Organization, Ethiopia Cancer Association, and Children's Heart Fund of Ethiopia.

Own Building

During the reporting period, the Bank completed construction and put to use two of its own buildings, Arat Kilo and Dessie. The former accommodates North Addis District Office and Arbegnoch Branch, while Dessie District office and the fifth branch of the Bank in Dessie, Buanbua, are domiciled in the latter. The move to our new Headquarters building is challenged by the delay in getting power. Now that the power is released, the electrical and technical testing of the overall system in the building is undergoing.

Board of Directors' Report (continued)

Going Forward

The Bank achieved momentous milestone during the reporting period, from core banking upgrade to adoption of the International Financial Reporting Standards (IFRS) to commercialization of Sharik (The Bank's full-fledged Shari'ah compliant, interest free banking services) and Amole (Dashen Bank's revamped omni-channel mobile financial services platform) to formulation of vision 2023, the Bank's five years' strategic plan and 10 years' roadmap.

Going forward, aggressive commercialization of Amole and Sharik as well as full-scale implementation of the transformational strategies will be prior agenda of the Bank.

Sincerely,

Neway Beyene Chairman, Board of Directors November 15, 2018

Picture Gallery











Dashen Bank's Headquarters Inauguration Ceremony

Picture Gallery





Meeting 23rd Ordinary & 20th Extraordinary Annual General Meeting of Shareholders









Conference 22nd Annual Managers' Conference











Amole Launching





Donation

Dashen Bank Customers' day

-Financed Projects From left to right

-Belayneh Kindie Import & Export's Automotive Assembly

-United Beverages S.Co.







Dashen Bank S.C. Report of the Shari'ah Advisory Committee For the Financial Year Ended June 30, 2018

To the Shareholders, Customers and other Stakeholders of Dashen Bank S.C.

In carrying out our roles and responsibilities as members of the Shari'ah Advisory Committee ("the Committee") of Dashen Bank S.C. ("the Bank") pursuant to the Bank's Shari'ah Governance Framework and Charter of the Committee, we hereby submit the Committee's report for the financial year ended June 30, 2018:

The Committee has officially started its operations on December 1, 2017. Since then, it has held successive regular and extraordinary meetings to effectively discharge its responsibilities. The Bank has established a Secretariat for the Committee, It has also employed fulltime personnel who are in charge of the Shari'ah review and advisory functions internally.

During the reporting period, we have reviewed the Bank's II-B policies, ITB window governance framework (including the Shari'ah governance framework), the various formats, contracts, terms and conditions, marketing materials etc used at the Bank's II-B window service in order to determine that the relevant Shari'ah rules and principles are strictly applied. We have given fatwas (rulings) on the two II-B deposit products, Wadi'ah and Qard, that the Bank has introduced during the financial period ended June 30, 2018 as well as on other Shan'ah related matters referred to us.

The management of the Bank is responsible for ensuring that the Bank conducts its Interest Free Banking ("IFB") business in accordance with Islamic finance principles and mode of operations or Shari'ah principles. It is our responsibility to form an independent opinion as to whether the Bank has complied with the Shari'ah rules and principles and also with the specific fatwas/ Shari'ah decisions made by us, based on the information provided to us and our review of the operations of the Bank, and to produce this report.

In our opinion:

- The Bank has adopted a robust Shari'ah governance framework that provides a proper structure and system to govern all If'B business activities of the Bank in order to ensure Shari'ah compliance at all times and at all levels;
- The Bank has developed and put in place appropriate IFB polices to govern effectively the overall conduct
 of the Bank's IFB window service in strict compliance to regulatory requirements and Shari'ah rules and
 principles;
- 3) The Bank has deployed a CORE banking system that keep separate books of accounts in respect of the Bank's IFB operations and ensure proper maintenance of records for all transactions for segregation of funds; and
- The contracts, transactions and dealings entered into by the Bank during the financial year ended June 30,2018 that we have reviewed are in compliance with the Shari'ah rules and principles;

Finally, the members of the Committee would like to appreciate the Bank's genuine efforts to comply with all regulatory requirements as well as adopt best industry governance practices in its IIB window service. We would also like to extend our gratitude to the Board of Directors, Management and Staff of the Bank for their commitment to adhere to Shari'ah rules and principles in the IIB window service.

Addis Abeba, November 19, 2018 On Behalf of the Shari'ah Advisory Committee

Sheikh Muhammed Yasin Ibrahim (Chairman - SAC)

Ustaz Mahmoud Hassen Hussen (D/Chairman - SAC)

Ustaz Mustaffa Hamid Yussuf Ustaz Remedan Ahmed Abdo (Member SAC) (Member SAC)

Dr. Kemal Hajji-Geletu Mamme Usfaz Mustaffa Hami (Member - SAC) (Member

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

A.W.THOMAS Chartered Certified Accountants

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DASHEN BANK S.C. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

Principal registration number: KK/AA/3/0001272/2004 NBE registration number: LBB/002/95

Directors

| Neway Beyene Mulatu Ato | Chairman, Board of Directors | Appointed November 2014 |
|---------------------------------|------------------------------|-------------------------|
| Abebe Teklu G/Selassie Ato | Director | Appointed November 2017 |
| Engidawork Fekadu Emeshaw Ato | Director | Appointed November 2014 |
| Getachew Hagos Equbemichael Ato | Director | Appointed November 2014 |
| Getaw Yalew Endeshaw Ato | Director | Appointed November 2017 |
| Nigussie Demie Buta Ato | Director | Appointed November 2017 |
| Saeed Ahmed Hussien Ato | Director | Appointed November 2017 |
| Shimelis Eshete Tsegaye (Eng.) | Director | Appointed November 2017 |
| Shisema Shewaneka Fenkir Ato | Director | Appointed November 2014 |

Corporate Council Members:

Dates of appointment to current position

| | | to current position |
|---------------------------------|--|---------------------|
| Asfaw Alemu Tessema Ato | President | May-15 |
| Henok Kebede Tadesse Ato | Vice President-Operations Management | Oct-15 |
| Samuel Adane Yazew Ato | Vice President-Marketing & Business Development | Sep-16 |
| Shimelis Legesse Wossenie Ato | Vice President-Information Systems & E-Banking Service | Sep-17 |
| Yared Mesfin Belayneh Ato | Vice President-Resources & Facilities Management | Nov-15 |
| Andualem Hailu Gudeta Ato | Advisor to the President | Apr-18 |
| Yeshiwork Yimer Yimam W/ | Executive Assistant to the President | Aug-16 |
| Aberra Bekele Gebreyohannes Ato | Director-Legal Services and Credit Recovery | Oct-16 |
| Abiyot WoldeYesus Teka Ato | Director-Customer Accounts & Currency Management | Jan-18 |
| Afework Gugsa Mideksa Ato | Director-Program Management Office | Sep-14 |
| Alemneh Abebe Kabtyemer Ato | Director-Trade & International Banking Services | Jun-17 |
| Anteneh Tadesse Abebe Ato | Director, IT Infrastructure | Dec-17 |
| Armaye Gelaw Amare Ato | Director-Customer Relationship | Aug-16 |
| Ayele Teshome Mulatu Ato | Director-Research & Development | Jul-12 |
| Eyerusalem Wagaw Dubale W/rt | Director-Human Resources Development | Aug-16 |
| Freegzi Berhane GebreMariam Ato | Director-Credit Analysis & Appraisal | Sep-12 |
| Getnet Dessie Berhe | Chief Risk and Complaince Officer | Jul-16 |
| Giragn Garo Dadi Ato | Director-Finance & Accounts | Aug-16 |
| Hailu Moges Teklu Ato | Director-Human Resources Management | Aug-16 |
| Mesfin Bezu Yimam Ato | Director-Interest Free Banking | Feb-16 |
| Mulugeta Alebachew Chifraw Ato | Director-Marketing & Corporate Communications | Aug-16 |
| Robel Alemayehu Assefa Ato | Director-E-Banking Services | Nov-15 |
| Tamirat Tilahun Haile Ato | Director-Engineering Services | Mar-13 |
| Tibebu Solomon Tadesse | Chief Internal Auditor | Oct-17 |
| Yeshanew Ayalew Shibeshi Ato | Director-Application Support & Development | Dec-16 |
| Yihnalem Aknaw Mesheshaa Ato | Director-Office of Strategy Management | Oct-13 |
| Zelalem Taddesse Feyisa Ato | Director-Facilities Management | Aug-16 |
| | | |

Independent auditor

Company secretary

The Board Secretary

Addis Ababa, Ethiopia

Dashen Bank S. C.

Principal bankers and their addresses

A.W. Thomas LP. Chartered Certified Accountants P.O. Box 1162, Tel.+25111536364 Addis Ababa Ethiopia Citibank NA, New York, USA Commerzbank Ag, Frankfurt, Germany Standard Chartered Bank, New York, USA

Banque Pour Le Commerce Et L'industrie - Mer Rouge, Djibouti

Bank of Africa Group, Djibouti Intesa Sanpaolo spa, Milano, Italy

Natixis (Formerly Natexis Banque Populaire), Paris, France

The Bank of Tokyo-Mitsubishi, UFJ, Tokyo, Japan EBI SA (LA Defense) - Ecobank, Paris, France

The Standard Bank of South Africa Limited, Johannesburg, South Africa

Swedbank, Stockholm, Sweden

National Bank of Ethiopia, Addis Ababa, Ethiopia

Sharia Advisory Committee: (Appointed as from Dec. 1,2017)

P.O Box 12752, Tel.+251114 70 47 97

Corporate office

Kemal Geletu Mamme (PhD) Muhammed Yasin Ibrahim (Sheikh) Mahmoud Hassen Hussen(Ustaz) Mustaffa Hamid Yussuf(Ustaz) Remedan Ahmed Abdo (Ustaz) Garad Building, 5th Floor Debrezeit Road P.O Box 12752, Tel. +251-114-661380 Addis Ababa, Ethiopia



DASHEN BANK S.C. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

REPORT OF THE DIRECTORS

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

Incorporation and address

Dashen Bank S.C was incorporated in Ethiopia in 1995 as a privately owned financial institution, and is domiciled in Ethiopia.

Principal activities

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.

Results and dividends

The Bank's results for the year ended 30 June 2018 are set out on page 6. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|--|--------------------------|--------------------------|
| Net interest income | 1,811,106 | 1,407,828 |
| Profit before tax | 1,143,410 | 1,055,975 |
| Tax charge | (214,456) | (241,159) |
| Profit for the year | 928,954 | 814,816 |
| Other comprehensive income / (loss) net of taxes | (24,620) | 1,865 |
| Total comprehensive income for the year | 904,334 | 816,681 |

A.W. THOMAS

ADDIS ABABA ETHIOPIA

SHATERED CERTIFIED ACCOUNTANT

Directors

The directors who held office during the year and to the date of this report are set out on page 1.

Neway Beyene Mulatu Board Chairman

Addis Ababa, Ethiopia

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DASHEN BANK S.C. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Banking Business Proclamation No. 592/2008, indicates that the National Bank of Ethiopia (NBE) may direct the Bank to prepare financial statements in accordance with international financial statements standards, whether their designation changes or they are replaced, from time to time.

Further, the Accounting and Auditing board of Ethiopia, in lieu of the power vested to it under Financial Reporting Proclamation 847/2014 Art.4, obligates the Bank to prepare and submit financial statements in compliance with financial reporting and auditing standards issued by the IASB.

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

- a) exhibit clearly and correctly the state of its affairs;
- b) explain its transactions and financial position; and
- c) enable the National Bank to determine whether the Bank had complied with the provisions of the Banking Business Proclamation and regulations and directives issued for the implementation of the aforementioned

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

The Bank's Directors are of the opinion that the financial statements give true and fair view of the state of the financial affairs of the company and of its profit and loss.

The Directors further accept 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 directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

A.W. THOMAS

ADDIS ABABA

CHAPTERED CERTIFIED ACCOUNTANT

Signed on behalf of the Directors by:

Neway Beyene Mulatu

Chairman

15 November 2018

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DASHEN BANK SHARE COMPANY

Opinion

We have audited the financial statements of Dashen Bank Share Company (the Bank), which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2018, and its financial performance and its each 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 (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial statements section of our report. We are independent of the Bank in accordance 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do

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

Auditor's Responsibilities for the Audit of the 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 decisions of users taken on the basis of these financial statements.

Report on legal and other regulatory requirements

In our opinion, the financial statements have been properly prepared in compliance with the disclosure requirements of the Commercial Code of Ethiopia, 1960, the Banking Business Proclamation No. 592/2008 and the Financial Reporting Proclamation No. 847/2014.

W. THOWAS

ADDIS ABABA

P.O. Box 1162, Addis Ababa Ethiopia

Telephone: 251 (0)11 552 5575, Forax: 251 (0)10 552 4855

E-mail: awthomaslp@gmail.com
Partners: A.W. Thomas, Melaku Abeje and Seid Abdela

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 reviews of the board of Directors' report in section 3, 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 approval of the financial statements.

A. W. Thomas L. P. 211 Chartered Certified Accountants

A W. THOMAS

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Addis Ababa 15 November 2018

DASHEN BANK S.C. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|--|-------------|--------------------------|--------------------------|
| Interest income | 5 | 3,243,903 | 2,329,085 |
| Interest expense | 6 | (1,432,797) | (921,257) |
| Net interest income | | 1,811,106 | 1.407,828 |
| Fee and commission income | 7 | 815,060 | 743,134 |
| Fee and commission expense | 7 | (159,075) | (102,655) |
| Net fees and commission income | | 655,985 | 640,479 |
| Other operating income | 8 | 266,742 | 384,349 |
| Total operating income | | 2,733,833 | 2,432,656 |
| Loan impairment charges | 9 | 104,887 | (99,795) |
| Impairment losses on other assets | 10 | (13,199) | (3,257) |
| Net operating income | | 2,825,521 | 2.329,604 |
| Employee benefits expense | 11 | (1,094,810) | (806,602) |
| Other operating expenses | 12 | (587,301) | (467,027) |
| Profit before tax | | 1,143,410 | 1,055,975 |
| Income tax expense. | 13 | (214,456) | (241,159) |
| Profit after tax | | 928,954 | 814,816 |
| Other comprehensive income (OCI) net on income tax | | | |
| Items that will not be subsequently reclassified into profit | it or loss: | | |
| Remeasurement gain/(loss) on retirement benefits obligation | on 24 | (35,172) | 2,664 |
| Deferred tax (liability)/asset on remeasurement gain or los | ss | 10,552 | (799) |
| Other comprehensive income for the year | | (24,620) | 1,865 |
| Total comprehensive income for the | | 904,334 | 816,681 |
| Basic & diluted earnings per share (in Birr) | 26 | 430 | 425 |
| | | | |

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

The financial statements were approved and authorised for issue by the board of directors and the president on 15 November 1.94. 7860 MAS

2018 and were signed on its behalf by:

Neway Beyene Mulatu

Chairman

ADDIS ABABA ETHIOPIA PATERED CERTIFIED ACCOUNTABLE

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Asfaw Alemu Tessema

and

President

DASHEN BANK S.C. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

| | Service . | 30 June 2018 | 30 June 2017 | 1 July 2016 |
|---|-----------|--------------|--------------|-------------|
| ASSETS | Notes | Birr'000 | Birr'000 | Birr'000 |
| | | | | |
| Cash and balances with banks | 14 | 7,041,058 | 5,254,860 | 6.899.470 |
| Loans and advances | 15 | 23,057,535 | 17,890,544 | 12.586.348 |
| Investment securities: | | | | |
| - Available for sale | 16 | 54,848 | 35,014 | 30.318 |
| Loans and receivables | 16 | 10,175,047 | 8,347,163 | 6.532.982 |
| Other assets | 17 | 1,325,633 | 1,172,299 | 1,054.723 |
| Investment properties | 19 | 813,896 | 827,924 | 842,116 |
| Intangible assets | 20 | 125,617 | 49,983 | 62,568 |
| Property and equipment | -21 | 2,813,599 | 2,422,579 | 1,906.874 |
| Deferred tax assets | 13 | 18,145 | | |
| Total assets | | 45,425,378 | 36,000,366 | 29,915,399 |
| LIABILITIES | | | | |
| Deposits from customers | 22 | 35,986,800 | 27,848,323 | 22,803.649 |
| Current tax liabilities | 13 | 281,327 | 275,191 | 250,156 |
| Other liabilities | 23 | 3,166,886 | 2.564.692 | 2,248,786 |
| Deferred tax liabilities | 1.3 | | 7,681 | 14,289 |
| Retirement benefits obligation | 24 | 123,754 | 74,059 | 63,901 |
| Total liabilities | | 39,558,767 | 30,769,946 | 25,380.781 |
| EQUITY | | | | |
| Share capital | 25 | 2,226,734 | 1,927,141 | 1,492,331 |
| Retained earnings | 27 | 1,656,888 | 1,676,950 | 1,658,617 |
| Legal reserve | 28 | 1,731,004 | 1,498,765 | 1,309,739 |
| Special reserve | 29 | 100 | 100 | 10,469 |
| Regulatory risk reserve | 30 | 274,329 | 125,429 | 63,359 |
| Other reserves | 31 | (22,444) | 2,035 | 103 |
| Total equity | | 5,866,611 | 5,230,420 | 4,534,618 |
| Total equity and liabilities | | 45,425,378 | 36,000,366 | 29,915,399 |
| | | | | |

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

The financial statements were approved and authorised for issue by the board of directors and the president on 15 November 2018 and were signed on its behalf by:

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₩ 1162 ADDIS ABABA ETHIOPIA

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Neway Beyene Mulatu

Chairman

Asfaw Alemu Tessema

President

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018 DASHEN BANK S.C.

| TON THE TEAN ENDED SO JOINE 2018 | Notes | Share capital Birr'000 | Retained earnings Birr'000 | Legal reserve Birr'000 | Special reserve Birr'000 | Regulatory reserve Birr'000 | Other reserves Birr'000 | Total Birr'000 |
|--|---------------|---------------------------|----------------------------------|--|-----------------------------|-----------------------------------|----------------------------|-------------------|
| As at 1 July 2016 | | 1,492,331 | 1,658,617 | 1,309,739 | 10.469 | 63.359 | 103 | 4 534 618 |
| Profit for the year | 27 | Þ | 814.816 | | | | | 814.816 |
| Other comprehensive income for the year | 3.1 | | | | | | 1.865 | 1.865 |
| Total comprehensive income for the year | | | 814,816 | | | | 1.865 | 816.681 |
| Transfer to legal reserve | 28 | | (189,026) | 920 681 | | | | |
| Transfer from special reserve | 29 | à | 10,369 | 1 | (10.369) | | | |
| Transfer to regulatory reserve | 30 | | (62,070) | î | | 62.070 | | , |
| Fair value gain on equity instruments | 31 | r | í | J | | | 29 | 67 |
| Dividends paid | 27 | -1 | (120,596) | · A | . (| g | , | (120.596) |
| Shares issued to employees | | 550 | , | ii | ¥ | ı | | 550 |
| Transfer to capital | 25 | 434.260 | (434,260) | | 9 | 1 | 1 | |
| Directors remuneration | 27 | | (006) | | | ٠ | 1 | (006) |
| Transactions with owners | | 434,810 | (796,483) | 189,026 | (10,369) | 62,070 | 19 | (120,879) |
| As at 30 June 2017 | | 1,927,141 | 1,676,950 | 1,498,765 | 100 | 125,429 | 2,035 | 5,230,420 |
| As at 1 July 2017 | | 1,927,141 | 1.676,950 | 1,498,765 | 100 | 125,429 | 2.035 | 5.230,420 |
| Profit for the year | 27 | , | 928.954 | 1 | 4 | , | | 078.954 |
| Other comprehensive income for the year | 31 | | 4 | i | ì | | (24,620) | (24.620) |
| Total comprehensive income for the year | | | 928,954 | | | | (24,620) | 904,334 |
| Issue of new shares | 25 | 82.663 | y | | | | | 82 663 |
| Shares issued to employees | | 2,990 | 4 | | | 4 | 1 | 066.6 |
| Transfer to legal reserve | 28 | | (232,239) | 232.239 | | | Į, a | |
| Transfer from special reserve | 29 | • | | | | | 3.0 | |
| Transfer to regulatory reserve | 30 | t | (148,900) | e | 4 | 148,900 | ì | |
| Fair value gain on equity instruments | 30 | | | | 11 | | 141 | 1+1 |
| Dividends paid | 27 | 1 | (353,037) | si | t | | 0 | (353.037) |
| Transfer to capital | 25 | 213,940 | | SHIPPING. | 4 | ř. | u. | 4 |
| Directors remuneration | 27 | , | (006) | Maria Maria | | | | (006) |
| Transactions with owners | | 299,593 | (949,016) | 232.23977 | | 148.900 | 141 | (268.143) |
| As at 30 June 2018 | | 2,226,734 | 1,656,888 | 区 1,73 F,004 | 901 参 | 274,329 | (22,444) | 5.866.611 |
| The accompanying notes are an integral part of these financial statements. | rese financia | il statements. | * | # RETHINGS AND | SINKING | | | |
| | | | FIRE | CERTIFIED ACC | 1 | | | |
| | | | | | | | | |

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

DASHEN BANK S.C. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

| | Notes | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|--|--------|--------------------------|--------------------------|
| | Tittes | DIT 000 | Bir 1 000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | 4,327,791 | 906,285 |
| Income tax paid | 13c | (223,014) | (223,375) |
| Defined benefit paid | 24 | (3,016) | (2,276) |
| Directors' remuneration paid | 27 | (900) | (900) |
| Net cash generated from operating activities | | 4,100,861 | 679,734 |
| | | 2423744544 | 0.51(=. |
| Cash flows from investing activities | | | |
| Purchase of investment securities | 16 | (1,827,884) | (1.814,181) |
| Purchase of shares | 16 | (19,693) | (4.629) |
| Purchase of intangible assets | 20 | (93,324) | |
| Purchase of property and equipment | 21 | (501,022) | (607,603) |
| Purchase of investment property | | (2,972) | (2,513) |
| Proceeds from sale of property and equipment | 31 | 4,606 | 1,478 |
| Net cash used in investing activities | | (2,440,289) | (2,427,448) |
| Cash flows from financing activities | | | |
| Dividends paid | | (353,037) | (120,596) |
| Proceeds from issued shares | | 82,663 | (1,00,00,00) |
| Net eash used in financing activities | | (270,374) | (120,596) |
| Net increase/(decrease) in cash and cash equivalents | | 1,390,198 | (1,868.310) |
| Cash and cash equivalents at the beginning of the year | 14 | 3,879,860 | 5,748,170 |
| Cash and cash equivalents at the end of the year | 14 | 5,270,058 | 3,879,860 |

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

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DASHEN BANK S. C. NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

1 General information

Dashen Bank S. C. ("Dashen" or the "Bank") is a private commercial Bank domiciled in Ethiopia. The Bank was established on 20 September 1995 in accordance with the Commercial Code of Ethiopia, 1960, and the licensing and supervision of the banking business proclamation No. 84/1994. The Bank's registered office is at:

Dashen Bank S. C. Debrezeit Road,Garad Building Addis Ababa Ethiopia

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

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the period ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept.

All values are rounded to the nearest thousand, except when otherwise indicated. The financial statements are presented in thousands of Ethiopian Birr (ETB' 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,

2.2.1 Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the Bank would remain in existence after 12 months from the date of these financial statements.



2.2.2 Changes in accounting policies and disclosures

New Standards, amendments, interpretations issued but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9 - Financial Instruments

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

The basis of classification depends on the Bank's business model and the contractual cash flow characteristics of financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

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

IFRS 15 - Revenue from contracts with customers

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

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

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

IFRS 16 - Leases

This standard was issued in January 2016 (Effective 1 January 2019). It sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. It also substantially carries forward the lessor accounting requirements in IAS 17.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

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

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DASHEN BANK S. C. NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Bank is yet to assess the impact of IFRIC 22.

2.3 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The functional currency and presentation currency of the Bank is the Ethiopian Birr (ETB).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are recognised in profit or loss, Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

2.4 Recognition of income and expenses

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

The Bank, earns income from interest on domestic trade and services, import, export, transport, real estate, building and construction, manufacturing, agriculture and personal loans. Other incomes includes margins on letter of credits and performance guarantees.

2.4.1 Interest and similar income and expense

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

The carrying amount of the government bills and bonds 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.

DASHEN BANK S. C. NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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

2.4.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on government bills and bonds are included in the measurement of the effective interest rate. Other fees and commission income (for example commission on purchase orders, Cash Payment Orders (CPOs), letters of guarantees etc.) are recognised as the related services performed.

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

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

2.4.3 Dividend income

This is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve and declare the dividend.

2.4.4 Foreign exchange revaluation gains or losses

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

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

Financial instruments - initial recognition and subsequent measurement 2.5

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.

2.5.1 Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value plus, transaction costs that are attributable to the acquisition of the financial asset.

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Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into the categories below: Loans and receivables ADDIS ABABA

Available-for-sale financial investments

Loans and receivables

PRED CERTIFIED ACCOUNT Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar income in income statement. The losses arising from impairment are recognised in income statement in loan impairment charge.

The Bank's loans and receivables comprise of Import and export loans, Domestic trade and services loans, Construction loans, Transport loans, Personal loans, Manufacturing loans, Agriculture loans, Staff loans and interest and other receivables.

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

AFS investments include equity instruments. Equity investments classified as AFS are those which are not designated at fair value through profit or loss,

The Bank has not designated any loans or receivables as AFS. Available-for-sale financial investments of the Bank include investments in equity instruments (unquoted shares).

After initial measurement, AFS financial investments whose fair value cannot be readily determined are subsequently carried at cost. All other available-for-sale investments are carried at fair value.

Reclassification of financial assets

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

- -the rights to receive cash flows from the asset have expired;
- -the Bank has transferred its rights to receive cash flows from the asset;
- -the Bank has transferred substantially all the risks and rewards of the asset; or
- -the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset,

Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and receivables), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded in the statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'loan impairment charge'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past—due status and other relevant factors.

(ii) Available-for-sale (AFS) financial instruments

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred.

An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

Renegotiated loans

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

Collateral valuation

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

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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 is best used for its internal operations or should be sold. Assets determined to be used for internal operations are initially recognised at the lower of their repossessed value or the carrying value of the original secured asset and included in the relevant assets depending on the nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

2.5.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities.

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Bank's financial liabilities include Customer deposits, Margins held on letters of credit and Other liabilities. Interest expenditure is recognised in interest and similar expenses.

Subsequent measurement

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

Financial liabilities at amortised cost

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities at amortised cost are subsequently measured at amortised cost.

The Bank's financial liabilities carried at amortised cost comprise of Customer deposits, Margins held on letters of credit and Other liabilities.

Derecognition of financial liabilities

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

2.5.3 Offsetting financial instruments

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

2.6 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities of three months or less.

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2.7 Property and equipment

Property 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 and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in income statement as incurred.

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| Asset class | Useful lives |
|----------------------------|--------------|
| Buildings | 50 years |
| Elevator | 15 years |
| Motor vehicles | 10 years |
| Computer and Related Items | 7 years |
| Furniture & fittings | |
| Medium-Lived | 10 years |
| Long-Lived | 20 years |
| Equipment | |
| Short-Lived | 5 years |
| Medium-Lived | 10 years |

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

Capital work-in-progress is not depreciated as these assets are not yet available for use. They are disclosed when reclassified during the year.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. 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 the statement of profit or loss when the asset is derecognised.

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

2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

Asset class

Armotisation period

Intangible assets

6 years(or contract period)

2.9 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the Bank and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at cost and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognised when they have been disposed. Gains or losses arising from disposal of investment property shall be determined as the difference of the net disposal proceeds and the carrying amount of the asset and it is recognized in the statement of profit or loss.

2.10 Impairment of non-financial assets

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

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

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

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

2.11 Other assets

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

(a) Prepayments

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortised over the period in which the service is to be enjoyed.

(b) Other receivables

Other receivables are recognised upon the occurrence of an event or transaction as they arise and cancelled when payment is received.

The Bank's other receivables are rent receivables and other receivables from debtors.

2.12 Employee benefits

The Bank is engaged in various post-employment schemes, including defined benefit and defined contribution plans and post employment benefits.

(a) Defined contribution plan

The Bank operates two defined contribution plans which include the following:

- i) A pension scheme in line with the provisions of the Ethiopian pension of private organisation employees proclamation 715/2011. Contributions made under the scheme amount to 7% and 11% of basic salary by employees and the Bank respectively. Besides, 4% of the basic salary is held as provident fund in the name of these employees.
- ii) A provident fund contribution. Contributions made under the scheme amount to 7% and 15% of basic salary by employees and the Bank respectively.

Both schemes are based on the employees' salary. Employer's contributions to these schemes are charged to profit or loss in the period in which they relate.

(b) Termination benefits

Termination benefits are payable to executive directors when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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(c) Profit-sharing and bonus plans

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

(d) Defined benefit obligations

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 (i.e. have not met the requirement to access the pension fund). 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.

This qualifies as a defined benefit plan. Typically defined benefit plans define an amount of benefit that an employee will receive when vesting conditions are met, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. 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. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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. Past-service costs are recognised immediately in income.

2.13 Provisions

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

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

2.14 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.

2.15 Earnings per share

The Bank presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic earnings per share is 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. Diluted EPS is determined by adjusting the period to ross attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares.

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2.16 Leases

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

Bank as a lessee

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

Bank as a lessor

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

2.17 Income taxation

(a) Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Ethiopia. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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 tax 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.

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2.18 Joint arrangements

Under IFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Dashen Bank has a joint operation.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Bank undertakes its activities under joint operations, the Bank as a joint operator recognises in relation to its interest in a joint operation:

- · Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Bank accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Bank transacts with a joint operation in which the Bank is a joint operator (such as a sale or contribution of assets), the Bank is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Bank's financial statements only to the extent of other parties' interests in the joint operation.

When the Bank transacts with a joint operation in which the Bank is a joint operator (such as a purchase of assets), the Bank does not recognise its share of the gains and losses until it resells those assets to a third party.

Details of the joint operation are set out in note 18.

3 Significant accounting judgements, estimates and assumptions

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

Other disclosures relating to the Bank's exposure to risks and uncertainties include:

- Capital management (Note 4)
- Financial risk management and policies (Note 4)
- Sensitivity analyses disclosures (Note 4)

3.1 Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

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Operating lease commitments - Bank as lessee

The Bank has entered into commercial property leases. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Impairment losses on loans and receivables

The Bank reviews its loan portfolios for impairment on an on-going basis. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. For individually significant financial assets that have been deemed to be impaired, management has deemed that cash flow from collateral obtained would arise within 12 months where the financial asset is collaterised.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. See note 4 for more information.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4 for further disclosures.

Depreciation and carrying value of property and equipment

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

Impairment of non-financial assets

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

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Defined benefit obligation

Uncertainties exist with respect to the assumptions applied in determining the defined benefit obligation. Key assumptions applied include discount rates, long term salary increases, staff attrition rates and the pre-retirement/termination mortality rates. Actual experience is highly likely to differ from these assumptions. Changes in assumptions applied from year to year will result in adjustments to the value of the defined benefit obligation recorded.

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4 Financial risk management

4.1 Introduction

The Board of Directors and Management of the Bank recognize that the banking industry experiences significant and rapid change, including increased competition from other non-bank financial services providers. The industry is also subject to liquidity requirement change, reserve requirement change, interest rate changes, changes in banking laws and regulations and foreign currency rate change. Therefore the Board of Directors and Management recognize that a comprehensive credit, liquidity, operational and market risk policy is essential to effectively manage the Bank's risks and to meet regulatory requirements. The Bank earnestly strives to apply best practices in identifying, evaluating, and cost-effective controlling of risks to ensure that any residual risks are at an acceptable level. Whilst it is not possible to eliminate risk absolutely, the Bank actively promotes and applies best practices at all levels and to all its activities, including its business relationship with external partners. With this framework, the Bank ensures that:

- a) The Bank's risk exposure is within the limits established by the Board of Directors (BoD)
- b) Risk taking decisions are in line with the business strategy and objectives set by BoD
- c) The expected payoffs compensate the risks taken
- d) Risk taking decisions are explicit and clear
- e) Availability of sufficient capital for the prevailing risk exposure

In line with this, Dashen Bank S. C. considers Risk Management as an integral part of its day-to-day core business activities,

4.1.1 Risk management structure

Philosophy

The Bank duly strives for realization of the following:

- Create awareness and embed risk management into the culture of the Bank through regular risk awareness activities, training, open communication lines among units, continuous interaction with senior management, and employing other feasible means
- Manage risks in accordance with best practices
- Be responsive to changing social, political, environmental and legislative requirements, whilst effectively managing the related risks and exploiting opportunities
- · Prevent loss, interruptions, injury, damage and failure with a view to reducing unwarranted costs
- · Make every employee to be a 'risk manager'
- Specific risk owners are responsible to manage the type of risks associated with their respective functions

Make 'Risk Management and Compliance' Department independent from the risk taking function' in order to assure the check, balance system, and enable the department to oversee the level of risks taken, it would be independent from risk taking activities.

Risk Management Committees

The bank has the following management sub-committees with respect to different risk classifications:

- Credit Risk Management Committee
- ALCO (Asset Liability Management Committee)
- Operation Risk Management Committee

Each committee establishes its own TOR which illustrates the activities and responsibilities of the respective committees. The roles in relation to risk management of each committee to be mentioned in the risk management procedures.

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4.1.2 Risk measurement and reporting systems

Internal Control and Risk Management

An effective internal control and risk management is the foundation of safe and sound banking. When risk management is properly designed and consistently enforced it will help management to maximize profit, safeguard the Bank's resources, produce reliable financial reports, increase employee satisfaction, and comply with laws and regulations. It will also reduce the possibility of significant errors and irregularities, as well as assist in their timely detection when they do occur.

Risk Impact Assessment Matrix

The following risk impact level and consequences will be used in determining the four major risks and their sub risk parameters level of impact:

| Risk impact level | Consequences | Remark |
|-------------------|---------------|---|
| Very Low | Insignificant | Very minimal or minor impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be with very short term effect and can be very easily and quickly fixed. |
| Low | Minor | Very minimal or minor impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be with short term effect and may be easily and fixed. |
| Moderate | Moderate | Minor impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be with more than short term effect that can be expensive to recover. |
| High | Major | Significant impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be very difficult and possibly takes medium term to recover. |
| Very High | Extreme | Critical impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be very difficult and possibly takes more than medium term time span to recover. |

Risk Tolerances

The Board and Management desire to manage risks at a level that permits the Bank to grow and achieve its strategic business objectives, while conducting business in a safe and sound manner, complying with all applicable regulations, and provide a return to shareholders that meets or exceeds their expectations. The Board of Directors sets risk tolerance levels annually through several means. The overall risk environment of the Bank is considered annually in conjunction with the strategic planning process of the Board of Directors and Management. In this regard, the Strategic Plan includes a Risk Appetite Statement. Specific levels of risk tolerance within key business units, such as credit/lending, interest rate and liquidity, are set annually through the review, and if necessary, amendment of the Bank's business programs related to those areas. Specific risk tolerance limits and guidelines are included, as appropriate, in the risk procedures.

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4.1.3 Risk assessment

An effective internal control program cannot be structured without an understanding of the Bank's risks and exposures and an effective risk management process. Risk management defined as the ability of the Bank to identify measure, monitor, assess, and control risks. The Bank, through its Board, management, and RMCD, must be able to respond to changing circumstances and to address risks that might arise from changing business or economic conditions, a decline in the effectiveness of internal controls; the initiation of new business activities or the offering of new products and services. The risk assessment begins with an evaluation of inherent risk.

Risks in the below four categories described are evaluated throughout the Bank including sub-risks in each

- i. Credit risk
- ii. Liquidity risk
- iii. Market risk
- iv. Operational risk

These risks will be rated as very high, high, moderate, low and very low. Among factors considered in this assessment of risk will be the inherent level of such risk in the specified risk, the trend of risk in that activity (e.g., increasing, decreasing, or stable), the adequacy of risk measurement and monitoring processes and tools, and the quality of risk management practices and controls in place to control such risks. The risk assessment is conducted by concerned risk work units. The assessment should identify the most significant, or key, controls and include an opinion about the effectiveness of the design of control in mitigating the related risk. As per NBE risk management guideline the Bank conducts the following under listed risk assessment in detail every quarter and briefly every month, submit, and review this assessment with the Board Risk Management Committee of the Bank. The results of the inherent risk assessment will also be provided to other concerned organs.

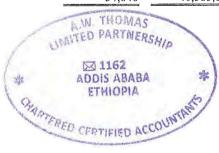
4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into deposits from customers, current tax liabilities, borrowings and other liabilities at amortised cost.

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

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

| | Notes | Available-for- sale | Loans and receivables | Total |
|------------------------------|-------|------------------------|-----------------------|------------|
| 30 June 2018 | | Birr'000 | Birr'000 | Birr'000 |
| Cash and balances with banks | 14 | - | 7,041,058 | 7,041,058 |
| Loans and advances | 15 | | 23,057,535 | 23,057,535 |
| Investment securities: | | · • | - | - |
| - Available for sale | 16 | 54,848 | | 54,848 |
| - Loans and receivables | 16 | - | 10,175,047 | 10,175,047 |
| Other assets | 17 | - | 311,995 | 311,995 |
| Total financial assets | | 54,848 | 40,585,635 | 40,640,483 |



| 30 June 2017 | Notes | Available-for- sale Birr'000 | Loans and receivables Birr'000 | Total Birr'000 |
|------------------------------|-------|------------------------------------|-----------------------------------|-------------------|
| Cash and balances with banks | 14 | | 5,254,860 | 5,254,860 |
| Loans and advances | 15 | - | 17,890,544 | 17,890,544 |
| Investment securities: | | - | | - |
| - Available for sale | 16 | 35,014 | - | 35,014 |
| - Loans and receivables | 16 | • | 8,347,163 | 8,347,163 |
| Other assets | 17 | - | 171,106 | 171,106 |
| Total financial assets | | 35,014 | 31,663,673 | 31,698,687 |
| | Notes | Available-for- sale | Loans and receivables | Total |
| 1 July 2016 | | Birr'000 | Birr'000 | Birr'000 |
| Cash and balances with banks | 14 | - | 6,899,470 | 6,899,470 |
| Loans and advances | 15 | - | 12,586,348 | 12,586,348 |
| Investment securities: | | | | |
| - Available for sale | 16 | 30,318 | - | 30,318 |
| - Loans and receivables | 16 | | 6,532,982 | 6,532,982 |
| Other assets | 17 | - | 134,336 | 134,336 |
| Total financial assets | | 30,318 | 26,153,136 | 26,183,454 |

4.3 Credit risk

Credit risk is the probability that a counterparty of the Bank will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. The Bank is exposed to credit risk due to activities such as loans and advances, loan commitments arising from lending activities, credit enhancement provided such as financial guarantees and letters of credit.

The Bank adopts a conservative approach to credit risk.

4.3.1 Management of credit risk

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



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

(a) Probability of Default

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

(b) Loss Given Default

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

(c) Exposure at Default

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

4.3.2 Impairment assessment

The Bank assesses its impairment for the purpose of IFRS reporting using a two-way approach which includes individual and portfolio assessments.

(a) Individual assessment

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

(b) Collective assessment

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

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



4.3.3 Credit related commitments risks

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

4.3.4 Maximum exposure to credit risk before collateral held or credit enhancements

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

| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
|---|----------------|--------------|-------------|
| • | Birr'000 | Birr'000 | Birr'000 |
| Cash and balances with banks | 7,041,058 | 5,254,860 | 6,899,470 |
| Loans and advances | 23,057,535 | 17,890,544 | 12,586,348 |
| Investment securities: | • | | _ |
| - Available for sale | 54,848 | 35,014 | 30,318 |
| - Loans and receivables | 10,175,047 | 8,347,163 | 6,532,982 |
| Other assets | 1,325,633 | 1,172,299 | 1,054,723 |
| | 41,654,121 | 32,699,880 | 27,103,841 |
| Credit risk exposures relating to off balance sheet items a | re as follows: | | |
| Loan commitments and undrawn overdraft facilities | 6,540,357 | 7,409,674 | 5,106,660 |
| Letters of credit and other credit related obligations | 3,762,068 | 2,821,079 | 2,927,478 |
| | 10,302,425 | 10,230,753 | 8,034,138 |
| Total maximum exposure | 51,956,546 | 42,930,633 | 35,137,979 |
| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
| | Birr'000 | Birr'000 | Birr'000 |
| Pass and special mention | 22,489,934 | 17,600,496 | 12,419,008 |
| Non performing loans | 795,657 | 625,326 | 402,823 |
| | 23,285,591 | 18,225,822 | 12,821,831 |
| | | | |

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Gross loans and advances to customers per sector is analysed as follows:

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|--------------------------|--------------------------|-------------------------|
| Advances on letters of credit | 36,045 | 32,951 | 63.936 |
| Agriculture | 296,200 | 262,391 | 189,241 |
| Construction, machinery and working capital | 2,034,005 | 1,302,889 | 620,908 |
| Domestic trade and services | 5,641.391 | 5.415,577 | 4,290,167 |
| Export | 2,676,817 | 1,858,207 | 1,087,044 |
| Import | 1,441,824 | 1,433,878 | 1,163,366 |
| Loans and advances under litigation | 318,249 | 284,313 | 208,592 |
| Manufacturing | 4.246,346 | 3,651,161 | 3,210.431 |
| Mining | 3,000 | 4 | |
| Personal | 822,263 | 395,575 | 245.149 |
| Real estate | 2,479,341 | 1,290.233 | 786,064 |
| Staff housing loans | 608,177 | 294,120 | 110.893 |
| Emergency staff loan | 157,609 | 111,137 | 67.628 |
| Transport | 2,524,324 | 1,893,390 | 778,412 |
| | 23,285,591 | 18,225,822 | 12,821,831 |

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.

4.3.5 Credit quality analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired at as 30 June 2018, 30 June 2017 and 30 June 2016 have been classified as non-rated as there are no credit rating agencies in Ethiopia.

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(b) Credit quality of loans and receivables

| | Neither past due nor impaired & | Individually impaired | Total |
|---|--|--------------------------|------------|
| 30 June 2018 | Past due but Birr'000 | Birr'000 | Birr'000 |
| Advances on letters of credit | 35,533 | 512 | 36,045 |
| Agriculture | 282,720 | 13,480 | 296,200 |
| Construction, machinery and working capital | 1,935,661 | 98,344 | 2,034,005 |
| Domestic trade and services | 5,500,207 | 141,184 | 5,641,391 |
| Export | 2,651,249 | 25,568 | 2,676,817 |
| Import | 1,434,804 | 7,020 | 1,441,824 |
| Loans and advances under litigation | - | 318,249 | 318,249 |
| Manufacturing | 4,200,305 | 46,041 | 4,246,346 |
| Mining | 3,000 | - | 3,000 |
| Personal | 811,479 | 10,784 | 822,263 |
| Real estate | 2,467,481 | 11,860 | 2,479,341 |
| Staff housing loans | 607,628 | 549 | 608,177 |
| Emergency staff loans | 157,609 | - | 157,609 |
| Transport | 2,402,258 | 122,066 | 2,524,324 |
| Gross | 22,489,934 | 795,657 | 23,285,591 |
| Less: Impairment allowance (note 15b) | (67,458) | (160,598) | (228,056) |
| | | | |
| Net | 22,422,476 | 635,059 | 23,057,535 |
| | Neither past | Individually | Total |
| | due nor | impaired | |
| | impaired & | | |
| | Past due but | | |
| 30 June 2017 | Birr'000 | Birr'000 | Birr'000 |
| Advances on letters of credit | 32,951 | | 32,951 |
| Agriculture | 261,221 | 1,170 | 262,391 |
| Construction, machinery and working capital | 1,261,913 | 40,976 | 1,302,889 |
| Domestic trade and services | 5,224,699 | 190,878 | 5,415,577 |
| Export | 1,837,872 | 20,335 | 1,858,207 |
| Import | 1,421,733 | 12,145 | 1,433,878 |
| Loans and advances under litigation | ₩ | 284,313 | 284,313 |
| Manufacturing | 3,649,171 | 1,990 | 3,651,161 |
| Personal | 389,580 | 5,995 | 395,575 |
| Real estate | 1,287,346 | 2,887 | 1,290,233 |
| Staff housing loans | 294,120 | | 294,120 |
| Emergency staff loan | 111,137 | (4.625 | 111,137 |
| Transport | 1,828,753 | 64,637 | 1,893,390 |
| Gross | 17,600,496 | W 14625,326 | 18,225,822 |
| Less: Impairment allowance (note 15b) | (196,892) | TED P4 (138) 1860 4/4 | (335,278) |
| Net | 17.100.001 | ₩ 1162 com | 17 000 544 |
| 1161 | 17,403,604 | ADD: 386,940 | 17,890,544 |
| | λ | ETHIOPIA | 8/ |
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| | Neither past due nor impaired & | Individually impaired | Total |
|---|---------------------------------------|--------------------------|------------|
| 1 July 2016 | Past due but Birr'000 | Birr'000 | Birr'000 |
| Advances on letters of credit | 63,936 | - | 63,936 |
| Agriculture | 188,972 | 269 | 189,241 |
| Construction, machinery and working capital | 601,800 | 19,108 | 620,908 |
| Domestic trade and services | 4,169,361 | 120,806 | 4,290,167 |
| Export | 1,075,769 | 11,275 | 1,087,044 |
| Import | 1,161,456 | 1,910 | 1,163,366 |
| Loans and advances under litigation | | 208,592 | 208,592 |
| Manufacturing | 3,195,237 | 15,194 | 3,210,431 |
| Personal | 245,149 | - | 245,149 |
| Real estate | 779,446 | 6,618 | 786,064 |
| Staff housing loans | 110,842 | 51 | 110,893 |
| Emergency staff loan | 67,628 | - | 67,628 |
| Transport | 760,338 | 18,074 | 778,412 |
| Gross | 12,419,008 | 402,823 | 12,821,831 |
| Less: Impairment allowance (note 15b) | (110,242) | (125,241) | (235,483) |
| Net | 12,308,766 | 277,582 | 12,586,348 |

Individually impaired loans are loans that have well passed 90 days past due.

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

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and advances in this category are loans with no past due status.

| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
|-------------------------------|--------------|--------------|-------------|
| | Birr'000 | Birr'000 | Birr'000 |
| Neither past due nor impaired | 18,119,464 | 14,354,744 | 9,881,531 |
| Collective impairment | (67,458) | (196,892) | (110,242) |
| | 18,052,006 | 14,157,852 | 9,771,289 |



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

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--|--------------------------|--------------------------|-------------------------|
| Loans and receivables Past due up to 30 days | 2,629,246 | 1,817,080 | 1,282,142 |
| Past due up to 30 days | 1,741,224 | 1,428,672 | 1,255,335 |
| Tast due up to 30 - 70 days | 1,741,024 | 1,420,072 | 1,200,000 |
| | 4,370,470 | 3,245,752 | 2,537,477 |
| (iii) Loans and receivables - individually impaire | ed loans | | |
| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
| | Birr'000 | Birr'000 | Birr'000 |
| | <i>XXXX</i> 000 | | |
| Non performing loans | 795,657 | 625,326 | 402,823 |
| Specific impairment | (160,598) | (138,386) | (125,241) |
| | | | |
| | 635,059 | 486,940 | 277,582 |
| (iv) Allowance for impairment | | | |
| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
| | Birr'000 | Birr'000 | Birr'000 |
| | | | |
| Specific impairment | 160,598 | 138,386 | 125,241 |
| Collective impairment | 67,458 | 196,892 | 110,242 |
| | | 004.050 | 00 % 400 |
| Total allowance for impairment | 228,056 | 335,278 | 235,483 |

4.3.6 Statement of prudential adjustments

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

During the period ended 30 June 2018, the Bank transferred an amount of Birr 148.9 million to the credit risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IAS 39 as at year end.

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 lower for the years.

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| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|---|--------------------------|--------------------------|
| Total impairment based on IFRS Total impairment based on NBE Directives | 228,056 (367,231) | 335,278 (341,849) |
| Write-back | (139,175) | (6,571) |

4.3.7 Nature of security in respect of loans and receivables

The Bank holds collateral against loans and receivables to customers in the form of bank guarantee, cash, residential, commercial and industrial property and other assets such as vehicles, plant and machinery.

4.3.8 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 other than staff housing loans are secured to the extent of the employee's continued employment in the Bank.

4.4 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk management in the Bank is solely determined by Asset Liability Management Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

4.4.1 Management of liquidity risk

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

4.4.2 Maturity analysis of financial liabilities

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

| 30 June 2018 | 0 - 30 days 3 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 | 1,511,577 | 1,777,216 | 3,903,211 | 4,926,128 | 23,868,668 |
| Other liabilities | 1,486,179 | 989,218 | 365,804 | 121,448 | 204,237 |
| Total financial liabilities | 2,997,756 | 2,766,434 | 4,269,015 | 5,047,576 | 24,072,905 |
| | 0 - 30 days | 31 - 90 days | 91 - 180 days | 181 - 365 days | Over 1 year |
| 30 June 2017 | Birr'000 | Birr'000 | Birr'000 | Birr'600 | THOMBIT 1000 |
| Deposits from customers | 1,175,332 | 1,222,215 | 2,477,786 | 3,894,150 | 19,078,840 |
| Other liabilities | 1,043,988 | 1,066,644 | 180,543 | 136,677 | |
| Other natimites | 1,043,766 | 1,000,044 | 100,545 | | S ABABA |
| | | | | | |
| Total financial liabilities | 2,219,320 | 2,288,859 | 2,658,329 | 4,030,827 | HIOP9,215,680 |

| 1 July 2016 | 0 - 30 days 3 | 1 - 90 days | 91 - 180 days | 181 - 365 days | Over 1 year |
|-----------------------------|---------------|-------------|---------------|----------------|-------------|
| | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Deposits from customers | 1,562,030 | - | 2,021,057 | 3,212,818 | 16,007,744 |
| Other liabilities | 1,897,193 | | 151,371 | 78,983 | 121,239 |
| Total financial liabilities | 3,459,223 | - | 2,172,428 | 3,291,801 | 16,128,983 |

4.4.3 Financial assets pledged as collaterals

Financial assets are pledged as collateral as part of securities borrowings under terms that are usual and customary for such activities.

The total financial assets recognised in the statement of financial position that have been pledged as collateral for liabilities at 30 June 2018, 30 June 2017 and 1 July 2016 are disclosed in the table below.

| | Pledged as collateral * | Others | Available as collateral | Others** | • Total |
|----------------------------|-------------------------|----------|----------------------------|----------|----------|
| | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Cash and balances with bar | 5,556 | - | - | - | 5,556 |
| Loans and receivables | - | - | - | ~ | - |
| Investment securities | - | | - | - | - |
| Non-financial assets | • | M | - | | - |
| | 5,556 | . | - | _ | 5,556 |

^{*} Represents assets that are not pledged but the Bank believes it is restricted from using to secure funding, for legal or other reasons.

4.5 Market risk

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

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

4.5.1 Objective of market risk

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

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^{**} Represents assets that are not restricted for use as collateral, but the Bank would not consider them as readily available to secure funding in the normal course of business.

4.5.2 Management of market risk

Market risk is monitored by the Risk Management and Compliance 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.

| 30 June 2018 | Interest bearing Birr'000 | Non-interest bearing Birr'000 | Total Birr'000 |
|---|--|---|--|
| Assets Cash and balances with banks Loans and receivables Investment securities | 32,319 22,911,969 10,175,046 | 7,008,739 145,566 54,849 | 7,041,058 23,057,535 10,229,895 |
| Total | 33,119,334 | 7,209,154 | 40,328,488 |
| Liabilities Deposits from customers Other liabilities | 34,822,050 | 1,164,750 3,166,886 | 35,986,800 3,166,886 |
| Total | 34,822,050 | 4,331,636 | 39,153,686 |
| | | | |
| 30 June 2017 | Interest bearing Birr'000 | Non-interest bearing Birr'000 | Total Birr'000 |
| 30 June 2017 Assets Cash and balances with banks Loans and receivables Investment securities | bearing | bearing | |
| Assets Cash and balances with banks Loans and receivables | bearing Birr'000 64,512 17,779,406 | bearing Birr'000 5,190,348 111,138 | Birr'000 5,254,860 17,890,544 |
| Assets Cash and balances with banks Loans and receivables Investment securities | bearing Birr'000 64,512 17,779,406 8,347,163 | bearing Birr'000 5,190,348 111,138 35,014 | Birr'000 5,254,860 17,890,544 8,382,177 |



| 1 July 2016 | Interest bearing | Non-interest bearing | Total |
|------------------------------|---------------------|-------------------------|------------|
| v | Birr'000 | Birr'000 | Birr'000 |
| Assets | | | |
| Cash and balances with banks | 298,195 | 6,601,275 | 6,899,470 |
| Loans and receivables | 12,518,721 | 67,627 | 12,586,348 |
| Investment securities | 6,532,982 | 30,318 | 6,563,300 |
| Total | 19,349,898 | 6,699,220 | 26,049,118 |
| Liabilities | | | |
| Deposits from customers | 22,211,911 | 591,738 | 22,803,649 |
| Other liabilities | • | 2,248,786 | 2,248,786 |
| Total | 22,211,911 | 2,840,524 | 25,052,435 |

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 3.4 Billion (30 June 2017: Birr 4.8 Billion, 1 July 2016: Birr 4.2 Billion).

Foreign currency denominated balances

| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
|------------------------|--------------|--------------|-------------|
| | Birr'000 | Birr'000 | Birr'000 |
| Cash and bank balances | 1,405,286 | 2,229,724 | 1,906,360 |
| Liability | (1,961,332) | (2,613,459) | (2,290,325) |
| | (556,046) | (383,735) | (383,965) |



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.

| | Currency Carry Amount | Birr'000 | |
|-----------------------------|-----------------------------|--|--|
| Assets | | | |
| USD | 1,319,894 | (131,989) | 131,989 |
| GBP | 17,268 | (| 1.727 |
| Euro | 45,053 | | 4,505 |
| Other | 23,071 | | 2,307 |
| Liabilities | | (140.529) | 140,529 |
| USD | 1.042.701 | 122020 | |
| GBP | 1,842,781 | | (184,278) |
| Euro | 4,388 | | (439) |
| Other | 101,062 | | (10.106) |
| | 13,101 | | (1,310) |
| | | 196,133 | (196,133) |
| Total Increase/Decrease | | 55,605 | (55,605) |
| Tax Charge at 30% | | 16,681 | (16,681) |
| Effect on Net Profit | | 38,923 | (38,923) |
| | Currency Carry Amount | 30 June 20 Birr'000 10 % Depreciation 10 % |) |
| Total and | | 7 7 7 1 | |
| Assets | | | |
| USD | 2,131,052 | (213,105) | 213.105 |
| GBP | 24,207 | (2,421) | 2,421 |
| Euro | 52,656 | (5,266) | 5,266 |
| Other | 21,809 | (2,181) | 2,181 |
| | | | |
| Liabilities | | (222,972) | 222,972 |
| Liabilities USD | 2.251.205 | | |
| USD | 2,351,295 | 235,130 | (235,130) |
| USD GBP | 5,632 | 235,130 563 | (235,130) (563) |
| USD GBP Euro | 5,632 254,640 | 235,130 563 25,464 | (235,130) (563) (25,464) |
| USD GBP | 5,632 | 235,130 563 25,464 189 | (235,130) (563) (25,464) (189) |
| USD GBP Euro Other | 5,632 254,640 | 235,130 563 25,464 189 261,346 | (235,130) (563) (25,464) (189) (261,346) |
| USD GBP Euro | 5,632 254,640 | 235,130 563 25,464 189 | (235,130) (563) (25,464) |
| USD GBP Euro Other | 5,632 254,640 | 235,130 563 25,464 189 261,346 | (235,130) (563) (25,464) (189) (261,346) |

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| | Currency Carry Amount | 30 June 2016 Birr'000 10 % Depreciation 10 % Appreciation | | |
|-------------------------|-----------------------------|---|-----------|--|
| Assets | | | | |
| USD | 1,840,585 | (184,059) | 184,059 | |
| GBP | 2,421 | (242) | 242 | |
| Euro | 51,753 | (5,175) | 5,175 | |
| Other | 11,709 | (1,171) | 1,171 | |
| | | (190,647) | 190,647 | |
| Liabilities | | , , , | , | |
| USD | 2,115,903 | 211,590 | (211,590) | |
| GBP | 13,910 | 1,391 | (1,391) | |
| Euro | 134,893 | 13,489 | (13,489) | |
| Other | 25,619 | 2,562 | (2,562) | |
| | | 229,033 | (229,033) | |
| Total Increase/Decrease | | 38,386 | (38,386) | |
| Tax Charge at 30% | | 11,516 | (11,516) | |
| Effect on Net Profit | | 26,870 | (26,870) | |

4.6 Capital management

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

4.6.1 Capital adequacy ratio

According to the Licensing & Supervision of Banking Business Directive No SBB/50/2011 of the National Bank of Ethiopia, the Bank has to maintain capital to risk weighted assets ratio of 8% at all times, the risk weighted assets being calculated as per the provisions of Directive No SBB/9/95 issued on August 18, 1995.

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base.

Capital includes capital contribution, retained earnings, legal reserve and other reserves to be approved by the National Bank of Ethiopia.



| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--|--------------------------|--------------------------|-------------------------|
| Capital | | | |
| Capital contribution | 2,226,734 | 1,927,141 | 1,492,331 |
| Retained earnings | 1,656,888 | 1,676,950 | 1,658,617 |
| Legal reserve | 1,731,004 | 1,498,765 | 1,309,739 |
| Special reserve | 100 | 100 | 10,469 |
| Regulatory risk reserve | 274,329 | 125,429 | 63,359 |
| Other reserves | (22,444) | 2,035 | 103 |
| _ | 5,866,611 | 5,230,420 | 4,534,618 |
| Risk weighted assets | | | |
| Risk weighted balance for on-balance sheet items | 26,565,920 | 19,069,635 | - |
| Credit equivalents for off-balance Sheet Items | 4,893,680 | 813,751 | * |
| Total risk weighted assets | 31,459,600 | 19,883,386 | - |
| Risk-weighted Capital Adequacy Ratio (CAR) | 19% | 26% | |
| Excess | 11% | 18% | |

4.7 Fair value of financial assets and liabilities

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

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

4.7.1 Valuation models

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

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

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

| | Carrying | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|------------|----------|-----------|------------|------------|
| 30 June 2018 | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Financial assets | | | | | |
| Cash and balances with bar | 7,041,058 | - | 7,041,058 | - | 7,041,058 |
| Loans and receivables | 23,057,535 | - | - | - | • |
| Investment securities | 10,229,895 | 823 | - | 10,229,072 | 10,229,895 |
| | | | | | |
| Total | 40,328,488 | 823 | 7,041,058 | 10,229,072 | 17,270,953 |



| Financial liabilities | | | | | |
|----------------------------|----------------|---------------------------------------|------------|-----------|------------|
| Deposits from customers | 35,986,800 | - | 35,986,800 | - | 35,986,800 |
| Other liabilities | 3,166,886 | _ | 3,166,886 | _ | 3,166,886 |
| <u>-</u> | | · · · · · · · · · · · · · · · · · · · | | | |
| Total | 39,153,686 | | 39,153,686 | ** | 39,153,686 |
| | <i>a</i> . | | | | 542 |
| | Carrying | Level 1 | Level 2 | Level 3 | Total |
| 30 June 2017 | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Financial assets | | | | | |
| Cash and balances with bar | 5,254,860 | - | 5,254,860 | - | 5,254,860 |
| Loans and receivables | 17,890,544 | - | 17,890,544 | - | 17,890,544 |
| Investment securities | 8,382,177 | 512 | - | 8,381,665 | 8,382,177 |
| Total | 31,527,581 | 512 | 23,145,404 | 8,381,665 | 31,527,581 |
| | | | | | |
| Financial liabilities | | | | | |
| Deposits from customers | 27,848,323 | - | 27,848,323 | - | 27,848,323 |
| Other liabilities | 2,564,692 | | 2,564,692 | - | 2,564,692 |
| Total | 30,413,015 | | 30,413,015 | - | 30,413,015 |
| | Carrying | Level 1 | Level 2 | Level 3 | Total |
| 1 July 2016 | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Financial assets | 2111 000 | 2 | 2 | 211. 000 | |
| Cash and balances with bar | 6,899,470 | _ | 6,899,470 | - | 6,899,470 |
| Loans and receivables | 12,586,348 | - | 12,586,348 | _ | 12,586,348 |
| Investment securities | 6,563,300 | 512 | - | 6,562,788 | 6,563,300 |
| • | 3,5 5 5 ,5 5 5 | | | | |
| Total | 26,049,118 | 512 | 19,485,818 | 6,562,788 | 26,049,118 |
| Financial liabilities | | | | | |
| Deposits from customers | 22,803,649 | _ | 22,803,649 | _ | 22,803,649 |
| Other liabilities | 2,248,786 | - | 2,248,786 | - | 2,248,786 |
| | | | | | |
| Total | 25,052,435 | w : | 25,052,435 | | 25,052,435 |

4.7.3 Valuation technique using significant unobservable inputs - Level 3

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

4.7.4 Transfers between the fair value hierarchy categories

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

4.8 Offsetting financial assets and financial liabilities

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



| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|---|---|--------------------------|--------------------------|
| 5 | Interest income | | |
| | Interest on loans and advances | 2,968,828 | 2,096,615 |
| | Interest income from NBE bills and government bonds | 273,676 | 219,862 |
| | Interest on Foreign deposits | 1,399 | 532 |
| | Interest on Local deposits | - | 12,076 |
| | • | 3,243,903 | 2,329,085 |
| | Included within various line items under interest income for the year ended 30 3 million (30 June 2017: Birr 30.2 million) relating to impaired financial assets. | une 2018 is a to | tal of Birr 16.2 |
| 6 | Interest expense | | |
| | Interest on demand deposits | 9,480 | 8,042 |
| | Interest on deposits by local banks | - | 19,616 |
| | Interest on saving deposits | 1,083,966 | 707,312 |
| | Interest on time deposits | 339,351 | 186,287 |
| | | 1,432,797 | 921,257 |
| 7 | Net fees and commission income | | |
| | Fee and commission income | | |
| | Commission on CPOs and FTs | 223,374 | 106,860 |
| | Commission on guarantees issued | 26,322 | 19,408 |
| | Commission on letters of credit | 211,192 | 232,750 |
| | Credit related commissions | 495 | 546 |
| | Service charges | 293,606 | 327,209 |
| | Transaction fees | 60,071 | 56,361 |
| | | 815,060 | 743,134 |
| | Fee and commission expense | (159,075) | (102,655) |
| | Net fees and commission income | 655,985 | 640,479 |



| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|----|---|--------------------------|--------------------------|
| 8 | Other operating income | | |
| | Gain on foreign exchange Investment income | 146,418 5,302 | 266,558 7,229 |
| | Rental income | 55,166 | 62,690 |
| | Sundry income | 59,856 | 47,872 |
| | • | 266,742 | 384,349 |
| 9 | Loan impairment charge | | |
| | Loans and receivables - charge for the year (note 15a) | - | (99,795) |
| | Loans and receivables - reversal of provision (note 15a) | 107,222 | - |
| | Loan written off | (2,335) | |
| | | 104,887 | (99,795) |
| 10 | Impairment losses on other assets Other assets - charge for the year (note 17) | 13,199 | 3,257 |
| 11 | Personnel expenses | | |
| | Other staff expenses | 54,531 | 50,901 |
| | Pension costs – Defined contribution plan | 87,860 | 63,454 |
| | Severance pay expense - defined benefit plan | 17,539 | 15,195 |
| | Salaries and wages | 780,910 | 580,568 |
| | Employee share scheme Staff allowances | 2,990 150,980 | 550 95,934 |
| | A.M. THOMAS | 1,094,810 | 806,602 |
| | ADDIS ABABA ETHIOPIA CHAPTERED CERTIFIED ACCOUNTINGS | | |

| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|----|--|--------------------------|--------------------------|
| 12 | Other operating expenses | BILL.000 | BH1, 000 |
| | and the same of th | | |
| | Advertisement and promotions | 49,913 0 | 35.812 |
| | Amortisation expense of intangible assets | 17,689 | 12,585 |
| | Audit fees | 675 | 633 |
| | Communication expenses | 15,162 | 12,198 |
| | Depreciation | 109,658 | 91,606 |
| | Depreciation expense of investment property | 17.000 | 16.705 |
| | Directors' related expenses | 886 | 886 |
| | Donations and contributions | 26 | 27 |
| | Entertainment | 9,099 | 5,418 |
| | Insurance | 9,262 | 8.619 |
| | Legal and professional fees | 266 | 348 |
| | Office expenses | 2,165 | 4.249 |
| | Operating lease | 1,330 | 1.315 |
| | Per diems | 9,482 | 5.617 |
| | Postage and stamps | 131 | 12 |
| | Printing and stationary | 23,202 | 19.326 |
| | Rental expense | 240,987 | 193.322 |
| | Repairs and maintenance | 29,772 | 20.092 |
| | Representation allowance | 10,679 | 6,040 |
| | Sundry expenses | 24,619 | 18,355 |
| | Transportation | 7,404 | 7,525 |
| | Utilities | 6,668 | 5.298 |
| | Wages | 1,226 | 1,039 |
| | | 587,301 | 467,027 |
| | | | |
| 13 | Income tax expense | | |
| | 13a Current income tax | | |
| | Current income tax | (229,791) | (248,595) |
| | Deferred income tax on items in profit or loss | 15,335 | 7,436 |
| | Total income tax expense charged to profit or loss | (214,456) | (241,159) |
| | Deferred income tax charged to other comprehensive income and equity | 10,491 | (828) |
| | Total income tax expense | (203,965) | (241.987) |
| | | | |

13b Reconciliation of effective tax to statutory tax

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:

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| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|---|--------------|--------------------------|--------------------------|
| Profit before tax | | 1,143,410 | 1,055,975 |
| Tax calculated at statutory tax rate of 30 % Effect of: | | 343.023 | 316.793 |
| Non-deductible expenses | | 24,026 | 75.187 |
| Non-taxable income | | (136.977) | (143.277) |
| Taxes charged at 10% | | (281) | (108) |
| | | 229,791 | 248,595 |
| 13c Current income tax liability | | | |
| | 30 June 2010 | 30 June 2017 | 1 July 2016 |
| Balance at the beginning of the year | 275,191 | 250,156 | 234,676 |
| Current tax expense | 229,791 | 248,595 | 250,156 |
| WHT Notes utilised | (641) | (185) | (720) |
| Payment during the year | (223,014) | (223,375) | (233,956) |
| Balance at the end of the year | 281,327 | 275,191 | 250.156 |

13d 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. The Bank has no unrecoverable deferred income tax assets as at 30 June 2018, 30 June 2017 and 1 July 2016 respectively.

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

| At I July 2017 Birr'000 | Credit/ (charge) to P/L Birr'000 | Credit/ (charge) to OCI and SCE Birr'000 | 30 June 2018 Birr'000 |
|-------------------------------------|---|--|---|
| (29,026) 22,217 (73) (799) | (373) 15,708 | (61) 10,552 | (29,399) 37,925 (134) 9,753 |
| (7,681) | 15,335 | 10,491 | 18,145 |
| At 1 July 2016 Birr'000 | Credit/ (charge) to P/L Birr'000 | Credit/ (charge) to OCI and SCE Birr'000 | 30 June 2017 |
| (33,415) 19,170 (44) | 4,389 3,047 | (29) (799) | |
| (14,289) ETMI | 0PtA | (828) | (7.681) |
| | 2017 Birr'000 (29,026) 22,217 (73) (799) (7,681) At 1 July 2016 Birr'000 (33,415) 19,170 (44) | At I July (charge) to 2017 P/L Birr'000 Birr'000 (29,026) (373) 22,217 15,708 (73) - (799) - (7,681) 15,335 Credit/ At I July (charge) to 2016 P/L Birr'000 Birr'000 (33,415) 4,389 19,170 3,047 (44) (7,436) (14,289) 19,170 3,047 (44) (7,436) 19,170 3,047 (14,289) 1 | At I July (charge) to (charge) to 2017 P/L OCI and SCE Birr'000 Birr'000 C29,026) (373) - 22,217 15,708 - (61) (799) - 10,552 (7,681) 15,335 10,491 Credit/ At I July (charge) to 2016 P/L OCI and SCE Birr'000 Birr'000 Birr'000 C33,415) 4,389 - 19,170 3,047 - (9,44) (44) (29) (799) (14,289) (799) (828) |

| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|---|--------------------------|--------------------------|-------------------------|
| 1 | Cash and balances with banks | | | |
| | Cash in hand | 2,231,522 | 1,562,754 | 1,882,495 |
| | Balance held with National Bank of Ethiopia | 3,442,633 | 1,511,313 | 2,959,493 |
| | Deposits with local banks | 21,072 | 2,852 | 244,453 |
| | Deposits with foreign banks | 1,345.831 | 2,177,941 | 1,813,029 |
| | | 7,041,058 | 5,254,860 | 6,899,470 |
| | | | | |
| | Maturity analysis | | | |
| | Current | 5,270,058 | 3,879,860 | 5,748.170 |
| | Non-Current | 1,771,000 | 1,375,000 | 1,151.300 |
| | | 7,041,058 | 5,254,860 | 6,899,470 |
| | | | | |

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position as the Bank had no bank overdrafts at the end of each reporting period.

15 Loans and advances

15a Loans and advances to customers

| Advances on letters of credit | 36,045 | 32,951 | 63.936 |
|--|------------|------------|------------|
| Agriculture | 296,200 | 262,391 | 189.241 |
| Construction, machinery and working capital | 2,034,005 | 1,302,889 | 620,908 |
| Domestic trade and services | 5,641,391 | 5,415,577 | 4,290,167 |
| Export | 2,676,817 | 1,858,207 | 1,087,044 |
| Import | 1,441,824 | 1,433,878 | 1,163,366 |
| Loans and advances under litigation | 318,249 | 284,313 | 208.592 |
| Manufacturing | 4,246,346 | 3,651,161 | 3,210,431 |
| Mining | 3,000 | 0.30 | |
| Personal | 822,263 | 395,575 | 245,149 |
| Real estate | 2,479,341 | 1,290,233 | 786,064 |
| Staff housing loans | 608,177 | 294,120 | 110.893 |
| Emergency staff loan | 157,609 | 111,137 | 67,628 |
| Transport | 2,524,324 | 1,893,390 | 778.412 |
| | | | |
| Gross amount | 23,285,591 | 18,225,822 | 12,821,831 |
| Provision for doubtful loans and advances | (228,056) | (335,278) | (235,483) |
| | | | |
| | 23,057,535 | 17,890,544 | 12,586,348 |
| Maturity analysis | | | |
| Current | 9,046,416 | 5,188,258 | 4.795,854 |
| Non-Current 22 3162 | 14,011,119 | 12.702.286 | 7,790,494 |
| ADDIS ABABA | 零 | | |
| AIRCHATS | 23,057.535 | 17,890,544 | 12,586.348 |
| THAT PERED TERTIFIED AFCO | MARIA | | |
| THE PARTY OF THE P | divi | | |
| CENTIFIED W | | | |

15b Impairment allowance for loans and advances

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

| Specific allowance | As at 1 July 2016 Birr'000 | Charge for the year Birr'000 | As at 30 June 2017 Birr'000 | Charge for the year Birr'000 | As at 30 June 2018 Birr'000 |
|-------------------------------------|----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| 4.1 | | | | | |
| Advances on letters of credit | - | 404 | - | 161 | 161 |
| Construction, machinery and working | 2 224 | 401 | 401 | 362 | 763 |
| Domestic trade and services | 3,222 | 12,455 | 15,677 | (2,714) | 12,963 |
| Export | 4,977 | (2,367) | 2,610 | 7,837 | 10,447 |
| Loans and advances under litigation | 116,814 | 1,635 | 118,449 | 15,672 | 134,121 |
| Personal | 147 | 20 | 167 | (144) | 23 |
| Real estate | - . | 772 | 772 | (199) | 573 |
| Staff housing loans | - | - | - | 97 | 97 |
| Transport | 82 | 228 | 310 | 1,140 | 1,450 |
| | 125,242 | 13,144 | 138,386 | 22,212 | 160,598 |
| | As at 1 July | Charge for | As at 30 | _ | As at 30 June |
| | 2016 | the year | June 2017 | the year | 2018 |
| | Birr'000 | Birr'000 | Birr'000 | Birr'000 | Birr'000 |
| Collective allowance for impairment | | | | | |
| Advances on letters of credit | 858 | (40) | 818 | (478) | 340 |
| Agriculture | 6,486 | 2,941 | 9,427 | (6,981) | 2,446 |
| Construction, machinery and working | 9,277 | 18,005 | 27,282 | (14,258) | 13,024 |
| Domestic trade and services | 47,089 | 34,931 | 82,020 | (56,151) | 25,869 |
| Export | 8,440 | 8,196 | 16,636 | (10,703) | 5,933 |
| Import | 4,746 | 1,689 | 6,435 | (4,965) | 1,470 |
| Manufacturing | 27,080 | 9,246 | 36,326 | (27,797) | 8,529 |
| Personal | - | · <u>-</u> | | 1,067 | 1,067 |
| Real estate | 1,814 | 2,069 | 3,883 | (2,363) | 1,520 |
| Staff housing loans | - | _ | - | 76 | 76 |
| Transport | 4,451 | 9,614 | 14,065 | (6,881) | 7,184 |
| | 110,241 | 86,651 | 196,892 | (129,434) | 67,458 |
| Total impairment | | | | | |



16

| | | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|---|--------------------------|--------------------------|-------------------------|
| Ó | Investment securities | | | |
| | Equity investments | 54,848 | 35,014 | 30,318 |
| ٠ | NBE Bills | 10,168,781 | 8,341,163 | 6,526,982 |
| | Ethiopian government bonds | 6,266 | 6,000 | 6,000 |
| | | 10.000.005 | 0.000 155 | |
| | Gross amount | 10,229,895 | 8,382,177 | 6,563,300 |
| | Less: individual allowance for impairment | | | |
| | • | 10,229,895 | 8,382,177 | 6,563,300 |
| | Maturity analysis | | | |
| | Current | 10,168,781 | 8,341,163 | 6,526,982 |
| | Non-Current | 61,114 | 41,014 | 36,318 |
| | | 10,229,895 | 8,382,177 | 6,563,300 |

The Bank holds equity investments in Ethioswitch S.C. of 5.26% (30 June 2017: 5.26%, 1 July 2016: 5.26%), Nyala Insurance S.C. of 3.82% (30 June 2017: 3.82%, 1 July 2016: 3.82%), Ethiopian Reinsurance S.C. of 2% (30 June 2017: 2%, 1 July 2016: 2%) and Society of Worldwide Interbank Financial Telecommunication (SWIFT) S.C. of 0% (30 June 2017: 0%, 1 July 2016: 0%). These investments are unquoted equity securities measured at cost except for SWIFT which has been measured at fair value.

The fair value of the unquoted equity securities carried at cost cannot be reliably estimated as there are no active market for these financial instruments; they have therefore been disclosed at cost less impairment.



17

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--|--------------------------|--------------------------|-------------------------|
| Other assets | | | |
| 17a Financial assets | | | |
| Clearing account balances | 209,046 | 116,298 | 115,859 |
| Staff advances Sundry receivables | 1,349 132,656 | 1,505 71,160 | 489 32,588 |
| Gross amount Less: | 343,051 | 188,963 | 148,936 |
| Impairment allowance for other assets (note 17b) | (31,056) | (17,857) | (14,600) |
| | 311,995 | 171,106 | 134,336 |
| Non-financial assets | | | |
| Prepayments | 776,691 | 777,738 | 739,554 |
| Prepaid operating lease rentals | 51,763 | 52,776 | 53,212 |
| Prepaid staff benefit | 74,924 | 80,749 | 34,543 |
| Acquired properties | 60,398 | 64,125 | 70,596 |
| Inventory | 49,862 | 25,805 | 22,482 |
| | 1,013,638 | 1,001,193 | 920,387 |
| Gross amount | 1,325,633 | 1,172,299 | 1,054,723 |
| Maturity analysis | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
| Current | 428,889 | 368,800 | 329,851 |
| Non-Current | 896,744 | 803,499 | 724,873 |
| | 1,325,633 | 1,172,299 | 1,054,723 |

17b Impairment allowance for other assets

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

| | 30 June 2018 | 30 June 2017 | 1 July 2016 |
|--|--------------|--------------|-------------|
| | Birr'000 | Birr'000 | Birr'000 |
| Balance at the beginning of the year | (17,857) | (14,600) | (14,600) |
| Reversal/(charge) for the year (note 10) | (13,199) | (3,257) | |
| Balance at the end of the year | (31,056) | (17,857) | (14,600) |



18 Joint operations

The Bank has a 40% interest in a joint arrangement in the Tana Department Store Building in Addis Ababa which was set up as a partnership together with MIDROC Ethiopia PLC to earn rental income. Dashen Bank manages and administers the affairs of the building.

The joint venture agreements in relation to the Tana Building Partnership require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 2.19.

The amounts below have been recognised in the financial statements in relation to the Bank's investment in the joint operation.

| Name of operation | % of ownership interest | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--------------------------------|-------------------------|--------------------------|--------------------------|-------------------------|
| Tana Department Store Building | 40% | | | |
| Total assets | | 189,013 | 190,428 | 186,774 |
| Total liabilities | | 2,758 | 3,202 | 1,828 |
| Total income | | 14,398 | 15,066 | 10,248 |
| Total expense | | 2,552 | 2,154 | 1,790 |



1

| | | 30 June 2018 | 30 June | 1 July 2016 | |
|----|------------------------------|--------------|----------|-------------|--|
| | | Birr'000 | Birr'000 | Birr'000 | |
| 19 | Investment properties | | | | |
| | Cost | | | | |
| | At the beginning of the year | 844,629 | 842,116 | 842.116 | |
| | Acquisitions | 2,972 | 2,513 | | |
| | At the end of the year | 847,601 | 844,629 | 842,116 | |
| | Accumulated depreciation | | | | |
| | At the beginning of the year | (16,705) | 346 | - 4 | |
| | Charge for the year | (17,000) | (16,705) | | |
| | At the end of the year | (33,705) | (16,705) | | |
| | Net book value | 813,896 | 827,924 | 842,116 | |
| | | | | | |

19a Fair value measurement of the Bank's Investment properties

The Bank's investment property is measured at cost (at the conversion date, the fair value of the properties were considered as deemed cost). These properties include those held for rental purposes and those in which the Bank occupies an insignificant portion. These properties are held to earn rentals and for capital appreciation. There are Investment property is initially measured at cost including transaction costs and subsequently measured at depreciated cost (less any accumulated impairment losses). Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 50 years. The fair value of investment properties has been disclosed as required.

The fair value of the Bank's Investment property has been arrived at by in-house engineers qualified estate surveyors and valuers. These valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the replacement cost concept which approximates the estimated amount for which a property should exchange on the date of valuation between knowledgeable willing parties in an arm's length transaction after proper marketing, prudently and without compulsion. This implies a market comparable approach that reflects the recent transaction prices for similar properties). In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.



19b Fair value hierarchy

Details of the Bank's Investment properties and information about the fair value hierarchy at 30 June 2018, 30 June 2017 and 1 July 2016 respectively are as follows:

| | 2017 and 1 bary 2010 respectively are as follows: | Fair | value hierarchy | ý |
|----|--|-----------------------------------|----------------------------------|----------------------|
| • | 30 June 2018 | Level 1 Birr'000 | Level 2 Birr'000 | Level 3 Birr'000 |
| | Investment properties | | - | 813,896 |
| | 30 June 2017 | | | |
| | Investment properties | - | | 827,924 |
| | 1 July 2016 | | | |
| | Investment properties | ** | - | 842,116 |
| 20 | Intangible Assets Cost: | Purchased software Birr'000 | Purchased license Birr'000 | Total Birr'000 |
| | As at 1 July 2016 Acquisitions | 73,274 | 44,653 | 117,927 |
| | As at 30 June 2017 | 73,274 | 44,653 | 117,927 |
| | As at 1 July 2017 Acquisitions | 73,274 93,324 | 44,653 | 117,927 93,324 |
| | As at 30 June 2018 | 166,598 | 44,653 | 211,251 |
| | Accumulated amortisation and impairment losses | | | |
| | As at 1 July 2016 Amortisation for the year | (42,602) (6,206) | (12,757) (6,379) | (55,359) (12,585) |
| | As at 30 June 2017 | (48,808) | (19,136) | (67,944) |
| | As at 1 July 2017 Amortisation for the year | (48,808) (11,310) | (19,136) (6,380) | (67,944) (17,690) |
| | As at 30 June 2018 | (60,118) | (25,516) | (85,634) |
| | Net book value As at 1 July 2016 Net book value Orange Partnership | 30,672 | 31,896 | 62,568 |
| | As at 30 June 2017 Man 2017 ABABA ETHIOPIA | 24,466 | 25,517 | 49,983 |
| | As at 30 June 2018 | 106,480 | 19,137 | 125,617 |

DASHEN BANK S. C. NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

| | | Buildings N Birr'000 | Buildings Motor vehicles Birr'000 Birr'000 | Office and other Birr'000 | Furniture and fittings Birr'000 | Computer equipment Birr'000 | Construction in progress | Total Birr'000 |
|----|---|-------------------------|---|---------------------------------|---------------------------------------|-----------------------------------|--------------------------|---------------------------------|
| 21 | Property and equipment | | | | | | | |
| | As at 1 July 2016 Additions Disposals | 554,581 | 150,993 44,336 (1,712) | 162,622 | 124,978 58,990 | 332,584 60,944 | 922,387 426,950 | 2,248,145 607,603 (1,712) |
| | As at 30 June 2017 | 554,581 | 193,617 | 179,005 | 183,968 | 393,528 | 1,349,337 | 2,854,036 |
| | As at 1 July 2017 Additions Disposals | 554,581 | 193,617 81,563 (6,128) | 179,005 28,382 (41) | 183,968 26,378 | 393,528 | 1,349,337 | 2,854,036 501,022 (6,169) |
| | As at 30 June 2018 | 555,298 | 269,052 | 207,346 | 210,346 | 494,729 | 1,612,118 | 3,348,889 |
| | Accumulated depreciation | | | | | | | |
| | As at 1 July 2016 Charge for the year Disposals | (10,210) | (63,892) (13,282) 1,420 | (74,524) | (40,853) | (162,002) | 1 1 | (341,271) (91,606) 1,420 |
| | As at 30 June 2017 | (10,210) | (75,754) | (89,775) | (53,987) | (201,731) | 1 | (431,457) |
| | As at 1 July 2017 Charge for the year Disposals | (10,210) (10,238) | (75,754) (16,305) 5,866 | (89,775) (20,306) | (53,987) (14,241) | (201,731) (48,617) | 1 1 | (431,457) (109,707) 5,874 |
| | une 2018 LIANTED PARTINE. | (20,448) | (86,193) | (110,073) | (68,228) | (250,348) | , | (535,290) |
| | 4 | 554,581 | 87,101 | 88,098 | 84,125 | 170,582 | 922,387 | 1,906,874 |
| | As at 30 June 2017 Chain FERED CERTIFIED ACCOUNT | 544,371 | 117,863 | 89,230 | 129,981 | 191,797 | 1,349,337 | 2,422,579 |
| | As at 30 June 2018 | 534,850 | 182,859 | 97,273 | 142,118 | 244,381 | 1,612,118 | 2,813,599 |

| 22 | Deposits from customers | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|-----|---|--------------------------|--------------------------|-------------------------|
| | 2.5 | | | |
| 22a | Deposits from conventional customers | | | |
| | Demand deposits | 8,291,393 | 6,719,495 | 5,921,015 |
| | Savings deposits | 22,777,779 | 18,497,578 | 15,227,247 |
| | Time deposits | 4,781,226 | 2,631,250 | 1,655,387 |
| | | | | |
| 221 | | 35,850,398 | 27,848,323 | 22,803,649 |
| 226 | Deposits from interest free banking customers | | | |
| | Qard deposits | 9.245 | | |
| | Wadia saving deposits | 127,157 | | |
| | | 130,027 | | |
| | | 136,402 | | |
| | Total deposits | 35,986,800 | 27,848,323 | 22.803.649 |
| | Maturity analysis | | | |
| | Current | 12.118,131 | 8,769,483 | 6,795.905 |
| | Non-current | 23,868,669 | 19,078,840 | 16,007,744 |
| | | 35,986,800 | 27,848,323 | 22,803,649 |
| 23 | Other liabilities | | | |
| | Financial liabilities | | | |
| | Accruals | 54,068 | 43,302 | 69.612 |
| | Banking instrument payables | 983,360 | 538,389 | 639,033 |
| | Customer payables | 488,687 | 206,653 | 42,432 |
| | Deferred income | 8,135 | 2,968 | 14,696 |
| | Equity and other blocked accounts | 28,323 | 23.571 | 58,451 |
| | Margins held on letters of credit Staff payables | 1,115,584 151,515 | 1,464,184 144,669 | 1.186.875 |
| | Starr paymones | 131,313 | 144,009 | 97.266 |
| | | 2,829,672 | 2,423,736 | 2,108,365 |
| | Non-financial liabilities | | | |
| | Defined contribution liabilities | 2,705 | 3,584 | 1.334 |
| | Sundry payables | 301.058 | 118,406 | 117,913 |
| | Stamp duty payable | 13,565 | 4,240 | 3.904 |
| | Withholding tax and valued added tax payables | 5,556 | 5,038 | 8,543 |
| | Other taxes payable | 14,330 | 9,688 | 8.727 |
| | Now the take | 337,214 | 140,956 | 140,421 |
| | Gross amount (3116) | 2.102.002 | 2,564,692 | 2.248.786 |
| | ADDIS A | BABA SE | | |
| | TRED CENTRE | TO TO THE PARTY OF | | |
| | WED CENTIFIE | D ACCOUNT | | |
| | | | | |

Maturity analysis

| Current | 2,962,648 | 2,427,852 | 2,127,548 |
|-------------|-----------|-----------|-----------|
| Non-current | 204,238 | 136,840 | 121,238 |
| | 3,166,886 | 2,564,692 | 2,248,786 |

24 Defined benefit obligation

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 (i.e. have not met the requirement to access the fund). The final pay-out is determined by reference to current benefits' 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 on their 60th birthday having 5 or more years of service a reward or gratitude of two (2) months' salary calculated on the basis of the employee's salary at the time of retirement.

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

| 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--------------------------|--|---|
| 123,754 | 74,059 | 63,901 |
| | | |
| 6,296 | 5,357 | |
| 11,243 | 9,741 | |
| 17,539 | 15,098 | - |
| | | |
| | | |
| 25,430 | (17,069) | - |
| 9,742 | 14,405 | - |
| (10,552) | 799 | M |
| 24,620 | (1,865) | - |
| | 6,296 11,243 17,539 25,430 9,742 (10,552) | Birr'000 Birr'000 123,754 74,059 6,296 5,357 11,243 9,741 17,539 15,098 25,430 (17,069) 9,742 14,405 (10,552) 799 |

ADDIS ABABA

SHADTERED CERTIFIED ACCOUNTS

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

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--|---------------------------|--------------------------|-------------------------|
| . At the beginning of the year Current service cost | 74,059 | 63,901 | - |
| Interest cost Remeasurement (gains)/ losses | 6,296 11,243 35,172 | 5,357 9,741 | 63,901 |
| Benefits paid | (3,016) | (2,664) | - |
| At the end of the year | 123,754 | 74,059 | 63,901 |
| The significant actuarial assumptions were as follows: | | | |
| i) Financial Assumption Long term Average | | | |
| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |

Discount rate

Discount Rate (p.a.)

Long term salary increases

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.

12,22%

12.00%

14.25%

9.70%

14.30%

11.60%

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.

ii) Mortality in Service

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

| Age | Male Mortality rate | Female Mortality rate |
|--|--|--|
| 20 25 30 35 40 45 50 55 60 | 0.306% 0.303% 0.3055% 0.405% 0.515% 0.450% 0.450% 0.450% 0.628% 0.979% 1.536% 1162 ADDIS ABABA ETHIOPIA | 0.233% 0.228% 0.314% 0.279% 0.319% 0.428% 0.628% 0.979% 1.536% |
| | GRADTERED CERTIFIED ACCOUNTABLES | |

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience. The valuation assumed a rate of withdrawal of 10% at the youngest ages falling with increasing age to 2.5% at age 44.

. The sensitivity of the overall defined benefit liability to changes in the weighted principal assumption is:

Impact on defined benefit obligation

| | | 30 Jur | ie 2018 | 30 June | 2017 |
|---------------|-------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Change in % | Impact of an increase Birr'000 | Impact of a decrease Birr'000 | Impact of an increase Birr'000 | Impact of a decrease Birr'000 |
| Discount rate | 0.5% | (3,471,240) | 3.587,593 | (1,535.218) | 1,575,729 |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the severance pay plan at the end of the reporting period is 6 years (30 June 2017; 5 years).

1 July 2016; 5 years).

| 25 | Ordinary share capital | 30 June 2018 Birt'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|----|--|--------------------------|--------------------------|-------------------------|
| | Authorised: 2,500,000 ordinary shares of Birr 1,000 each | 2,500,000 | 2,500,000 | 2,500,000 |
| | Issued and fully paid; 2,226,734 ordinary shares of Birr 1,000 each | 2,226,734 | 1,927,141 | 1,492,331 |

As at 30 June 2018, the authorised share capital of the Bank comprised of 2,500,000 (2017: 2,500,000) ordinary shares with a par value of Birr 1000. The issued shares as at 30 June 2018 are 2,226,734 (2017: 1,927,141) and are fully paid. Issued and fully paid ordinary shares, which have a par value of Birr 1000, carry one vote per share and carry a right to dividend. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank.

26 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|---|--------------------------|--------------------------|
| Profit attributable to shareholders AND THOMAS | 928,954 | 814,816 |
| Weighted average number of ordinary shares in issue | 2,160,396 | 1,915,867 |
| Basic & diluted earnings per share (Birr) ADDIS ABABA ETHIOPIA | 430 | 425 |
| AND CERTIFIED ACCO | UNITARES | |

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.

| 27 | Retained earnings | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|----|--|--|--|
| | At the beginning of the year Profit for the year Transfer from special reserve Directors remuneration Transfer to legal reserve Dividends paid Transfer to regulatory risk reserve Transfer to capital | 1,676,950 928,954 - (900) (232,239) (353,037) (148,900) (213,940) | 1,658,617 814,816 10,369 (900) (189,026) (120,596) (62,070) (434,260) |
| | At the end of the year | 1,656,888 | 1,676,950 |
| 28 | Legal reserve | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
| | At the beginning of the year Transfer from profit or loss | 1,498,765 232,239 | 1,309,739 189,026 |
| | At the end of the year | 1,731,004 | 1,498,765 |

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

| | | 30 June 2018 | 30 June 2017 |
|----|---|--------------|--------------------|
| 29 | Special reserve | Birr'000 | Birr'000 |
| | At the beginning of the year Transfer (to) / from retained earnings | 100 | 10,469 (10,369) |
| | At the end of the year | 100 | 100 |

The Bank has opted to maintain a special reserve in compliance with Proclamation No. 592/2008, Art. 21(7).



| 30 | Regulatory risk reserve | Birr'000 | Birr'000 |
|----|---|--------------------|------------------|
| | At the beginning of the year Transfer (from) / to retained earnings | 125,429 148,900 | 63,359 62,070 |
| | At the end of the year | 274,329 | 125,429 |

The regulatory risk reserve is a non-distributable reserve established to meet the requirements of the directive of the National Bank of Ethiopia (NBE) SBB/43/2008. The reserve includes the differences arising from differing measurement and classification basis of assets, loan impairment provisions, interest on non-perfoming loans and other items under IFRS as compared to the regulatory requirements.

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

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

| 21 04 | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|--|--------------------------|--------------------------|
| 31 Other reserves | | |
| At the beginning of the year | 2,035 | 103 |
| Remeasurement gain/(loss) on retirement benefits obligations | (24,620) | 1,865 |
| Changes in the fair value of available-for-sale financial assets | 141 | 67 |
| At the end of the year | (22,444) | 2,035 |
| Other reserves are made up as follows:- | | |
| Fair value reserve | 2,176 | 170 |
| Defined benefit obligations reserve | (24,620) | 1,865 |
| | (22,444) | 2,035 |

Fair value reserve represents the surplus or losses arising on fair valuation of available-for-sale financial instruments and is non-distributable.

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



| | | Notes | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|----|--|-------|--------------------------|--------------------------|
| 32 | Cash generated from operating activities | | | |
| | Profit before tax | | 1,143,410 | 1,055,975 |
| | Adjustments for non-cash items: | | | |
| | Depreciation of investment properties | 19 | 17,000 | 16,705 |
| | Depreciation of property and equipment | 21 | 109,707 | 91,606 |
| | Amortisation of intangible assets | 20 | 17,690 | 12,585 |
| | Gain on disposal of property and equipment | 21 | (4,311) | (1,186) |
| | Decrease / (increase) in impairment on loans and receivables | 15 | (107,222) | 99,795 |
| | Increase in impairment on other assets | 17 | 13,199 | 3,257 |
| | Shares issued to staff | | 2,990 | 550 |
| | Income tax on unrealised gains on equity instruments | 13d | 61 | 29 |
| | Defined benefit obligation expense | | 17,539 | 15,098 |
| | Changes in operating assets and liabilities: | | | |
| | -Increase in loans and advances | 15 | (5,059,769) | (5,403,991) |
| | -Increase in other assets | 17 | (167,174) | (121,018) |
| | -Increase in reserve with NBE | | (396,000) | (223,700) |
| | -Increase in other liabilities | 23 | 602,194 | 315,906 |
| | -Increase in customer deposits | | 8,138,477 | 5,044,674 |
| | | | 4,327,791 | 906,285 |
| | | | | |

In the statement of cash flows, profit on sale of property, plant and equipment (PPE) comprise:

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|--|--------------------------|--------------------------|
| Proceeds on disposal Net book value of property and equipment disposed (Note 21) | 4,606 (295) | 1,478 (292) |
| Gain on sale of property and equipment | 4,311 | 1,186 |



33 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

There are other companies which are related to Dashen Bank S.C through common directorships.

In the normal course of business, a number of banking transactions are entered into with related parties i.e. staff, Board directors, their associates and companies associated with directors. These include loans, deposits and foreign currency transactions. Loans and advances to customers include loans and advances to Board Directors and to companies associated with directors. Contingent liabilities include guarantees and letters of credit for companies associated with directors.

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

33a Loans and advances to related parties

There were no loans and advances between the Bank and Directors as at 30 June 2018.

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|--------------------------|--------------------------|-------------------------|
| Companies associated with directors | 211. 000 | 211 000 | |
| At the beginning of the year Net movement during the year | 656,763 (330,796) | 502,465 154,298 | 477,815 24,650 |
| At the end of the year | 325,967 | 656,763 | 502,465 |
| Guarantees and letters of credit to companies associated with directors | 34,483 | 94,709 | 69,435 |

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. These loans and advances are performing and are adequately secured.

33b Deposits from related parties

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|-------------------------------------|--------------------------|--------------------------|-------------------------|
| Companies associated with directors | | | |
| At the beginning of the year | 473,544 | 345,305 | 143,986 |
| Net movement during the year | (54,580) | 128,240 | 201,319 |
| At the end of the year | 418,964 | 473,545 | 345,305 |

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.



| Directors and key management personne | Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|--|------------------|--------------------------|-------------------------|
| At the beginning of the year Net movement during the year | 6,995 (2,242) | 2,563 4,432 | 5,559 (2,997) |
| At the end of the year | 4,753 | 6,995 | 2,562 |

33c Key management compensation

Key management has been determined to be the members of the Board of Directors and the Executive Management of the Bank. The compensation paid or payable to key management is shown below.

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 |
|---|--------------------------|--------------------------|
| Salaries and other short-term employee benefits Shariáh Advisory committee members fee | 14,486 869 | 12,475 |
| Post-employment benefits Board Sitting allowance | 534 918 | 874 703 |
| | 16,807 | 14,052 |

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

34 Directors and employees

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

| | 30 June 2018 Number | 30 June 2017 Number | 1 July 2016 Number |
|--------------------------|------------------------|------------------------|-----------------------|
| Top management | 5 | 4 | 3 |
| Senior Management | 33 | 33 | 15 |
| Senior Middle Management | 807 | 466 | 360 |
| Line Management | 1,036 | 834 | 630 |
| Professional | 1,864 | 1,431 | 1,457 |
| Other Clerical | 1,216 | 1,128 | 605 |
| Non Clerical | 924 | 1,108 | 1,148 |
| | IN THOMAS 5,885 | 5,004 | 4,218 |



ii) The table below shows the number of employees (excluding Board directors) emoluments in the year and were within the bands stated.

| Salary range (Birr) | 30 June 2018 Number | 30 June 2017 Number | 1 July 2016 Number |
|---------------------|------------------------|------------------------|-----------------------|
| 0-9,999 | 4,102 | 3,921 | 3,519 |
| 10,000 - 30,000 | 1,750 | 1,073 | 692 |
| 30,001 - 50,000 | 28 | 7 | 6 |
| 50,001 - 100,000 | 4 | 3 | 1 |
| Above 100,000 | 1 | - | * |
| | 5,885 | 5,004 | 4,218 |

35 Contingent liabilities

35a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2018 is Birr 14.7 million (30 June 2017: Birr 17.7 million, 1 July 2016: Birr 24.1 million). No provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

35b Guarantees and letters of credit

The Bank conducts business involving performance bonds and guarantees. These instruments are given as a security to support the performance of a customer to third parties.

As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

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

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---------------------------------|--------------------------|--------------------------|-------------------------|
| Loan commitments | 4,173,350 | 5,007,400 | 2,387,676 |
| Unutilised overdraft facilities | 2,367,007 | 2,402,275 | 2,718,984 |
| Performance guarantees | 2,156,961 | 826,939 | 580,661 |
| Letters of credit | 1,605,108 | 1,994,140 | 2,346,817 |
| | 10,302,426 | 10,230,753 | 8,034,138 |

36 Commitments

The Bank has commitments, not provided for in these financial statements, of Birr 231,627,466 for purchase of various capital items.

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37 Operating lease commitments - Bank as lessee

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

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

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|--------------------------|--------------------------|-------------------------|
| No later than 1 year | 185,833 | 207,385 | 199,099 |
| Later than 1 year and no later than 5 years | 223,009 | 107,145 | 100,560 |
| Later than 5 years | 3,552 | 105,660 | 108,843 |
| Total | 412,394 | 420,190 | 408,503 |

Operating lease commitments - Bank as lessor

Rental income earned during the year was Birr 55.1 million. At the end of the reporting period, the Bank had contracted with tenants for the following future lease receivables:

| | 30 June 2018 Birr'000 | 30 June 2017 Birr'000 | 1 July 2016 Birr'000 |
|---|--------------------------|--------------------------|-------------------------|
| No later than 1 year | 15,045 | 20,758 | 13,833 |
| Later than 1 year and no later than 5 years | 11,315 | 8,475 | 8,293 |
| Later than 5 years | 3 | 14,677 | 14,690 |
| Total | 26,363 | 43,910 | 36,817 |

38 Notes on Interest Free Banking Service

Dashen Bank's interest free banking became operational on 5 March 2018 after securing the NBE License for the business on 25 October 2017 under reference FIS/BSD/1060/17. For the past four months to the end of the reporting period, the bank collected Birr 136 million from the IFB deposits services from its 120 outlets through out the country. The Bank has established separate books of accounts for IFB as per the directives of the National Bank of Ethiopia Directive SBB/51/2011. As at the end of the reporting period, the financial performance and postition of the Interest Free Banking operations of the Bank do not fulfill the quantitative threshhold of 10% in line with IFRS 8-Operating Segments. However, management believes that voluntary diclosure is necessary to provide useful information to users of the financial statements, particularly the regulatory authority. The finncial perfomnce and financial position of the Bank's IFB operations is as follows:



Segmental Reporting as at 30 June 2018

Statement of financial position

| | Interest free banking | Conventional banking | Total Birr'000 |
|---|--------------------------|------------------------|------------------------|
| Cash and balances with banks | 58,902 | 6,982,156 | 7,041,058 |
| Financing to customers | | 23,057,535 | 23,057,535 |
| Investment securities | | | |
| - Available for sale | - | 54,848 | 54,848 |
| - Loans and receivables | - | 10,175,047 | 10,175,047 |
| Other assets | 63,108 | 1,262,525 | 1,325,633 |
| Investment properties Intangible assets | - | 813,896 125,617 | 813,896 |
| Property and equipment | 7,497 | 2,806,102 | 125,617 2,813,599 |
| Deferred tax asset | 7,497 | 18,145 | 18,145 |
| Deferred tax asset | | 10,145 | 10,110 |
| Total assets | 129,507 | 45,295,871 | 45,425,378 |
| Total assets | | | |
| Customer deposits | 136,373 | 35,850,427 | 35,986,800 |
| Current income tax | - | 281,327 | 281,327 |
| Other liabilities | 1,161 | 3,165,725 | 3,166,886 |
| Deferred tax liability | - | • | • |
| Defined Benefit Obligation | - | 123,754 | 123,754 |
| Total liabilities | 137,534 | 39,421,233 | 39,558,767 |
| 01 | | 0.007.724 | 0.006.724 |
| Share capital Retained earnings | (8,027) | 2,226,734 1,664,915 | 2,226,734 1,656,888 |
| Legal reserve | (0,027) | 1,731,004 | 1,731,004 |
| Special reserves | - | 1,751,004 | 1,751,004 |
| Regulatory risk reserve | _ | 274,329 | 274,329 |
| Other reserves | | (22,444) | (22,444) |
| Total equity | (8,027) | 5,874,638 | 5,866,611 |
| | 129,507 | 45,295,871 | 45,425,378 |

IFB Deposits were mobilized from the following Interest free banking products:

Qard deposits
Wadia saving deposits



9,244 127,129

136,373

Wadi'ah savings and Qard current accounts are the two IFB deposit products the Bank rolled out during the year. Wadi'ah savings account is a trust agreement where the Bank keeps funds of depositors who want to place their funds under safe custody of the Bank without any benefit.

Qard is a current account product offered based on the contract of Qard, that allow the account holders access to their money on demand basis. The Bank uses the deposit for shar'ah compliant banking business activities and at the same time a liablity to repay the amount is established against the funds received.

Statement of profit or loss for the year ended 30 June 2018

| | Interest Free banking | Conventional Banking | Total Birr'000 |
|-----------------------------------|--------------------------|-------------------------|-------------------|
| Interest income | - | 3,243,903 | 3,243,903 |
| Interest expense | - | (1,432,797) | (1,432,797) |
| Fee and commission income | _ | 815,060 | 815,060 |
| Fee and commission expense | - | (159,075) | (159,075) |
| Other operating income | 3 | 266,739 | 266,742 |
| Loan impairment charge | - | 104,887 | 104,887 |
| Impairment losses on other assets | - | (13,199) | (13,199) |
| Employee benefits expense | (5,321) | (1,089,489) | (1,094,810) |
| Other operating expenses | (2,709) | (584,592) | (587,301) |
| Profit before tax | (8,027) | 1,151,437 | 1,143,410 |

39 Events after reporting period

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



40 First-time adoption of IFRS for the Bank

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

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

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

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

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

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

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

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

Property, plant and equipment and intangible assets were carried in the statement of financial position prepared in accordance with previous framework using historical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value with the exception of buildings which will use fair value as the deemed cost upon transition to IFRS.

(b) Leases

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

(c) Designation of Previously Recognised Financial Instruments

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

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

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

(e) Joint arrangements

Applying this exemption means that the Bank can apply the transition provisions in IFRS 11, with the following

- The Bank applies the transition provisions at the date of transition to IFRS.
- When changing from proportionate consolidation to the equity method, a first-time adopter tests the investment for impairment in accordance with IAS 36 as at the date of transition to IFRS, regardless of whether there is any indication that the investment might be impaired. Any resulting impairment is recognised as an adjustment to retained earnings at the date of transition to IFRS.

(f) Share-based payment transactions

Applying this exemption means that the requirements of IFRS 2 are applied to all grants of share-based payment transactions outstanding at the date of transition to IFRS. Any grants of equity instruments still outstanding and made prior to 7 November 2002 are outside the scope of IFRS 2, although first-time adopters are encouraged to apply IFRS 2's requirements to certain relevant transactions.

Exceptions applied

(a) Estimates

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

(b) De-recognition of financial assets and financial liabilities

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



40a Reconciliation of Statement of total comprehensive income for the year ended 30 June 2017

| | Notes | GAAP Birr'000 | Reclassification Birr'000 | Remeasurement Birr'000 | IFRS as at 30 June 2017 Birr'000 |
|---|----------------|------------------------|------------------------------|---------------------------|--|
| Interest income Interest expense | A | 2,290,239 (921,257) | - | 38,846 | 2,329,085 (921,257) |
| Net interest income | | 1,368,982 | - | 38,846 | 1,407,828 |
| Fee and commission income Fee and commission expense | С _ | 802,968 | (59,834) (102,655) | - | 743,134 (102,655) |
| Net fees and commission income | | 802,968 | (162,489) | - | 640,479 |
| Other operating income | В | 321,887 | | 62,462 | 384,349 |
| Total operating income | _ | 2,493,837 | (162,489) | 101,308 | 2,432,656 |
| Loan impairment charge Impairment losses on other assets | E | (131,663) | (3,257) | 31,868 | (99,795) (3,257) |
| Net operating income | | 2,362,174 | (165,746) | 133,176 | 2,329,604 |
| Employee benefits expense Other operating expenses | D C _ | (788,485) (593,930) | | (18,117) 20,991 | (806,602) (467,027) |
| Profit before tax | | 979,759 | (59,834) | 136,050 | 1,055,975 |
| Income tax expense | _ | (223,655) | | (17,504) | (241,159) |
| Profit after tax | _ | 756,104 | (59,834) | 118,546 | 814,816 |
| Other comprehensive income (O | CI) net on inc | come tax | | | |
| Items that will not be subsequently | reclassified | into profit or lo | ss: | | |
| Remeasurement gain/(loss) on benefits obligations | | - | - | 2,664 | 2,664 |
| Deferred tax (liability)/as remeasurement gain or loss | set on | | | (799) | (799) |
| Total comprehensive income for | the year | 756,104 | (59,834) | 120,41 | 816,681 |
| | A | N. THOMAS | | | |

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40b Reconciliation of equity as at 30 June 2017

| · ASSETS | Notes | GAAP 1 Birr'000 | Reclassification Birr'000 | Remeasurement Birr'000 | IFRS as at 30 June 2017 Birr'000 |
|------------------------------------|--------------|--------------------|------------------------------|---------------------------|--|
| Cash and balances with banks | F | 5,254,712 | 148 | _ | 5,254,860 |
| Loans and receivables | Н | 17,717,487 | 116,825 | 56,232 | 17,890,544 |
| Investments | \mathbf{G} | 8,280,706 | (8,280,706) | · - | - |
| Investment securities: | | | , , , , | | |
| - Available for sale | G | - | 34,771 | 243 | 35,014 |
| - Loans and receivables | \mathbf{G} | - | 8,347,163 | - | 8,347,163 |
| Other assets | 1 | 2,481,602 | (1,379,097) | 69,794 | 1,172,299 |
| Items in course of collection from | other banks | 57,700 | (57,700) | - | - |
| Investment properties | J | - | 356,541 | 471,383 | 827,924 |
| Intangible assets | K | - | 50,090 | (107) | 49,983 |
| Property and equipment | L _ | 832,395 | 815,712 | 774,472 | 2,422,579 |
| Total assets | = | 34,624,602 | 3,747 | 1,372,017 | 36,000,366 |
| LIABILITIES | | | | | |
| Deposits from customers | M | 27,782,522 | 76,551 | (10,750) | 27,848,323 |
| Margin held on letters of credit | | 1,464,184 | (1,464,184) | , , | , , , <u>-</u> |
| Current tax liabilities | | 223,655 | - | 51,536 | 275,191 |
| Other liabilities | N | 1,161,257 | 1,446,920 | (43,485) | 2,564,692 |
| Deferred tax liabilities | | - | - | 7,681 | 7,681 |
| Retirement benefit obligation | 0 | - | | 74,059 | 74,059 |
| Total liabilities | - | 30,631,618 | 59,287 | 79,041 | 30,769,946 |
| | | | | | |
| EQUITY | | | | | |
| Share capital | | 1,927,141 | _ | _ | 1,927,141 |
| Retained earnings | R | 566,978 | - | 1,109,972 | 1,676,950 |
| Legal reserve | | 1,498,765 | - | , , , <u>.</u> | 1,498,765 |
| Special reserve | | 100 | - | - | 100 |
| Regulatory risk reserve | P | - | - | 125,429 | 125,429 |
| Other reserves | Q | - | | 2,035 | 2,035 |
| | | 3,992,984 | | 1,237,436 | 5,230,420 |
| Total equity and liabilities | | 34,624,602 | 59,287 | 1,316,477 | 36,000,366 |



40c Reconciliation of equity as at 1 July 2016

| ·ASSETS | Notes | GAAP Birr'000 | Reclassification Birr'000 | Remeasurement Birr'000 | IFRS as at 1 July 2016 Birr'000 |
|--|--------------|------------------|------------------------------|---------------------------|---------------------------------------|
| Cash and balances with banks | F | 6,870,637 | 28,833 | _ | 6,899,470 |
| Loans and receivables | Н | 12,478,656 | 71,224 | 36,468 | 12,586,348 |
| Investments | G | 6,488,887 | (6,488,887) | ´- | - |
| Investment securities: | | , , | , | | |
| - Available for sale | G | - | 30,171 | 147 | 30,318 |
| - Loans and receivables | \mathbf{G} | - | 6,532,982 | | 6,532,982 |
| Other assets | I | 1,827,361 | (806,016) | 33,378 | 1,054,723 |
| Items in course of collection from oth | er banks | 111,416 | (111,416) | - | - |
| Investment properties | J | - | 322,774 | 519,342 | 842,116 |
| Intangible assets | K | - | 50,772 | 11,796 | 62,568 |
| Property and equipment | L | 799,477 | 371,409 | 735,988 | 1,906,874 |
| Total assets | | 28,576,434 | 1,846 | 1,337,119 | 29,915,399 |
| LIABILITIES | | | | | |
| Deposits from customers | M | 22,758,501 | 45,148 | - | 22,803,649 |
| Margin held on letters of credit | | 1,186,875 | (1,186,875) | - | - |
| Current tax liabilities | | 223,560 | - | 26,596 | 250,156 |
| Other liabilities | N | 1,049,672 | 1,199,114 | - | 2,248,786 |
| Deferred tax liabilities | | - | - | 14,289 | 14,289 |
| Retirement benefit obligation | 0 | - | | 63,901 | 63,901 |
| Total liabilities | | 25,218,608 | 57,387 | 104,786 | 25,380,781 |
| EQUITY | | | | | |
| Share capital | | 1,492,331 | | * | 1,492,331 |
| Retained earnings | R | 545,287 | - | 1,113,330 | 1,658,617 |
| Legal reserve | | 1,309,739 | - | - | 1,309,739 |
| Special reserve | | 10,469 | - | - | 10,469 |
| Regulatory risk reserve | P | - | - | 63,359 | 63,359 |
| Other reserves | Q | | | 103 | 103 |
| | | 3,357,826 | | 1,176,792 | 4,534,618 |
| Total equity and liabilities | | 28,576,434 | 57,387 | 1,281,578 | 29,915,399 |



40d Notes to the reconciliation of equity as at 1 July 2016 and 30 June 2017 and total comprehensive income for the year ended 30 June 2017.

| A | Interest income | 30 June 2017 Birr'000 |
|---|---|--------------------------|
| | Interest income under previous framework | 2,290,239 |
| | Remeasurement Recognition of the difference between the interest recognised using the market rate and the below | |
| | market interest rate. | 8,644 |
| | Adjustment to recognise suspended interest on non-performing loans | 30,202 |

Interest income under IFRS 2,329,085

Note on remeasurement

- Interest income is recognised using the Effective Interest Rate (EIR) method as mandated by IAS 39. An adjustment was passed to reflect investment income as calculated using EIR. The IFRS adjustment relates to the interest income on investment securities measured at amortised cost.
- ii The interest on staff loans and advances was calculated using the nominal rates under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.
- iii Under the previous framework, interest income relating to non-performing loans were suspended i.e. these balances were kept off balance sheet. Under IFRS, suspended interest has been recognised to correctly state the outstanding amount due from customers on loans and advances.

| В | Other operating income | 30 June 2017 Birr'000 |
|---|---|--------------------------|
| | Other operating income under previous framework | 321,887 |
| | Reversal of joint arrangement share of profit booked by Dashen under GAAP | 2,628 |
| | Other operating income under IFRS | 324,515 |



| C | Other operating expenses | 30 June 2017 Birr'000 |
|-----|---|--|
| | Other operating expenses under previous framework | 593,930 |
| | • Reclassification Reclassification to fees and commissions expense To reclassify impairment losses on other assets from expenses to impairment | (102,655) (3,257) |
| | Remeasurement Remeasurement adjustment - Accumulated depreciation Remeasurement adjustment - Accumulated amortisation Adjustment of accumulated depreciation- Investment property To derecognise property and equipment that is below the capitalisation threshold To recognise provisions for legal expenses Recognition of expenses under joint arrangement | (39,822) 381 16,705 1,298 (395) 842 |
| | Other operating expenses under IFRS | 467,027 |
| D | Employee benefits expense | 30 June 2017 Birr'000 |
| | Employee benefits expense under previous framework | 788,485 |
| | Remeasurement Amortisation of prepaid staff expense Increase in retirement benefit obligation Shares issued to employees | 4,745 12,822 550 |
| | Employee benefits expense under IFRS | 806,602 |
| | Note on remeasurement | |
| i) | Remeasurement on prepaid staff expense as a result of recognising below market loans at fair value the prepaid staff expense for the period. | e. This represents |
| ii) | Relates to remeasurement of the retirement benefit obligation | |
| E | Loan impairment charge | 30 June 2017 Birr'000 |
| | Loan impairment charge under previous framework | 131,663 |
| | Remeasurement Reversal of impairment charge | (31,868) |
| | Loan impairment under IFRS State Countries | 99,795 |

| F | Cash and balances with banks | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|--|-------------------------|------------------------|
| | Balance as per GAAP | 5,254,712 | 6,870,637 |
| | · Reclassification Reclassification of interest receivable on local deposits Reclassification of cash in transit to cash balances from other liabilities | 148 | 4,185 24,648 |
| | Balance as per IFRS | 5,254,860 | 6,899,470 |

Notes on reclassification

- (i) Under the previous framework, interest receivable due on deposits with local banks was recognised as a separate line item. Under IFRS, loans and receivable financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.
- (ii) Under local GAAP, cash in transit was classified as part of other liabilities. Under IFRS this will be classified as part of cash and balances with banks.

| G | Investment securities | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|---|-------------------------|------------------------|
| | Balance as per GAAP | - | - |
| | Reclassification | | |
| | Reclassification of accrued interest on NBE bills and Government bonds from other assets | 124,029 | 97,067 |
| | Equity investments reclassified to investment securities - Available for sale | 34,771 | 30,171 |
| | National Bank of Ethiopia bills reclassified to investment securities - Loans and receivables | 8,217,134 | 6,429,915 |
| | Government bonds reclassified to investment securities - Loans and receivables | 6,000 | 6,000 |
| | Remeasurement | | |
| | Fair value changes in available for sale securities | 96 | 147 |
| | Rollover adjustment from previous year | 147 | - |
| | Balance as per IFRS | 8,382,177 | 6,563,300 |
| | | · · | |

Notes on reclassification

- (i) Accrued interest was presented under other assets under local GAAP, on transition to IFRS the carrying amount of a financial asset measured at amortised cost includes the accrued interest.
- (ii) Under the previous framework, equity investments were presented as investment on the balance sheet. Under IFRS, these unquoted equity securities were reclassified to investment securities as available for sale financial assets.
- (iii) Under the previous framework, NBE bills and government bonds were presented as a separate line item on the balance sheet.
- (iv) On transition to IFRS, NBE bills were reclassified to investment securities as loans and receivable financial assets.



Notes on remeasurement

- (v) Interest income is recognised using the Effective Interest Rate method as mandated (EIR) by IAS 39. An adjustment was passed to reflect investment income as calculated using EIR. The IFRS adjustment relates to the interest income on investment securities measured at amortised cost.
- (vi) Relates to fair value gains of available for sale securities

| П | Loans and receivables | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|---|-------------------------|------------------------|
| | Balance as per GAAP | 17,717.487 | 12.478,656 |
| | Reclassification | | |
| | Reclassification of emergency staff loans from other assets to loans and advances | 116,825 | 71.224 |
| | Remeasurement | | |
| | Measurement of staff loan based on fair value | (50,951) | (44.031) |
| | Recognition of the difference between the interest recognised using the market | 8.644 | 17.141 |
| | Recognition of additional impairment on loans and advances to customers based or | 31,867 | (25, 297) |
| | Recognition of memo interest on loans under litigation | 12.930 | 82.375 |
| | Recognition of suspended interest | 17.274 | 6,280 |
| | Rollover adjustment from previous year | 36,468 | |
| | Balance as per IFRS | 17,890,544 | 12,586,348 |

Notes on reclassification

Under previous framework, emergency staff loans and advances were classified as other assets, under IFRS these
have been reclassified to loans and advances.

Notes on remeasurement

- (ii) Under previous framework, staff loans and advances were issued at below market interest rates ranging from 0% to 8%. Under IFRS, such loans must be recognised at fair value by discounting all future eash flows at the market rate of interest for similar loan facilities. The difference between the disoursed amounts and the fair value of the loan was capitalised as prepaid employee expenses and recognised as part of other assets.
- (iii) The interest on staff loans and advances was calculated using the nominal rates under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.
- (iv) Under the previous framework, loans and advances to customers were subjected to impairment provision based on the aging of such balances. The impairment loss was determined by applying a percentage provision to the different age buckets in which the outstanding amounts have been segmented. The rates and age buckets were determined based on the National Bank of Ethiopia Supervision of Banking Business directive Number SBB/52/2012. Under IFRS, the Bank is required to assess whether an objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. For financial assets where no evidence of impairment existed, these assets were collectively assessed for impairment. Specific impairment was calculated on individually significant loans for which an objective evidence of impairment existed.
- (v) Under previous GAAP, interest on non-performing loans was placed on non-accrual basis and maintained in either a memorandum account (off-balance sheet) or in a contra interest receivable account, in the form of suspended interest until cash or its equivalent is received. Under IFRS, interest income on significant non-performing loans should continue to be recognised as part of the loan amount and not deferred in a memorandum account. Therefore, all suspended interest was reclassified from the contra interest receivable account to be included in the carrying amount of the financial assets giving rise to it.
 - (vi) Under previous GAAP, interest income on individually impaired loans was calculated on the gross carrying amount of the loan i.e. the outstanding principal amount using the contractual interest rate. On transition to IFRS, interest income was calculated based on the net carrying value after adjusting for impairment using the original effective interest rate(EIR). The difference between the interest income recognised under IFRS and interest in suspense on individually impaired loans was recognised as an adjustment to retained carryings.



I

| Other assets | 30 June 2017 Birr'000 | 30 June 2016 Birr'000 |
|--|--------------------------|--------------------------|
| Balance as per GAAP | 2,481,602 | 1,827,361 |
| Reclassification | | |
| Reclassification of accrued interest on NBE bills to Government securities | (124,029) | (97,067) |
| Reclassification of accrued interest on fixed time deposits to cash and bank balance | | (4,185) |
| Non-current assets in store from other assets to property, plant and equipment | (42,013) | (13,502) |
| Reclassification of emergency staff loans to loans and advances | (116,825) | (71,224) |
| Reclassification of items in the course of collection to other assets | 57,702 | 111,415 |
| To reclassify Construction in progress from Other assets to Fixed assets | (921,688) | (494,738) |
| To reclassify premises from other assets to property and equipment | (1,475) | (18,692) |
| Reclassification of licences from other assets to intangible assets | (32,470) | (27,093) |
| Reclassification of credit balances from other assets to other liabilities | 26,398 | - |
| To reclassify premises from other assets to investment properties | (224,697) | (190,930) |
| Remeasurement | | |
| Amortisation of cumulative prepaid employee benefit | (4,745) | (9,488) |
| Recognition of staff loans at fair value - Prepaid staff assets | 50,951 | 44,031 |
| Impairment loss on construction in progress | - | (205) |
| Recognition of share in joint arrangement | 1,013 | 1,070 |
| Tana building -reversal of share of profit booked under GAAP | (10,803) | (2,030) |
| Rollover adjustment from previous year | 33,378 | - |
| Balance as per IFRS | 1,172,299 | 1,054,723 |

Notes on reclassification

- i Under previous framework, the bank did not capitalise computers and accessories on purchase and ready for use until it is issued from stock. On transition to IFRS, all non-current assets in stock that were ready for use were reclassified from other assets to property plant and equipment.
- ii Under previous framework, the bank presented separately items in the course of collection, Under IFRS this will now be presented as part of other assets.

Notes on remeasurement

- iii On transition to IFRS, the Bank assessed its construction in progress before reclassification to property and equipment and booked the impairment loss through retained earnings.
- iv Relates to the share of other receivables under the joint arrangement relating to Tana Building.

 The joint venture agreements in relation to the Tana Building Partnership require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the Bank recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 2.19.

LIMITED PARTNERSHIP

ADDIS ABABA ETHIOPIA

CHARTERED CERTIFIED ACCOUNTANT

J

| Investment properties | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|-------------------------|------------------------|
| Balance as per GAAP | - | - |
| Reclassification | | |
| Reclassification from other assets | 224,697 | 190,930 |
| Reclassification from property and equipment to investment pro | perty 131,844 | 131,844 |
| Remeasurement | | |
| Adjustment of accumulated depreciation | (16,705) | |
| Fair value as deemed cost- Investment property | - | 479,187 |
| Recognition of share in joint arrangement | 1,689 | 7,212 |
| Capitalisation of assets available for use not booked under GAA | .P | 32,943 |
| Rollover adjustment from previous year | 486,399 | No. |
| Balance as per IFRS | 827,924 | 842,116 |

Notes on reclassification

- Under the previous GAAP, investment properties were recognized as part of other assets under construction in progress. Under IFRS, property that is held for long-term rental yields or for capital appreciation or both, is classified as investment properties and disclosed as a non-current asset.
- ii Under Ethiopian GAAP, the Bank classified buildings held to earn rentals or for capital appreciation or both as property, plant and equipment. IAS 40 states that an investment property that generates cash flows largely independently of the other assets held by an entity should be classified as investment property. On the date of transition to IFRS, the cost and the related depreciation of the building was reclassified to investment property.

Notes on remeasurement

- iii Under previous GAAP, the Bank depreciated its building using 5%. However, this rate did not reflect the pattern in which the building's future economic benefits are expected to be consumed by Bank. Therefore, on transition to IFRS, the useful life of building was revised to 50 years.
- iv Property, plant and equipment and intangible assets were carried in the statement of financial position prepared in accordance with previous framework using historical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value with the exception of buildings which will use fair value as the deemed cost upon transition to IFRS. The difference between the fair value of investment property and carrying amount on transition date has been credited to retained earnings.

JUNITED PARTMERSHIP

ADDIS ABABA ETHIOPIA

PARTERED CERTIFIED ACCOUNTANT

| K Intangible asse | ts | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|--------------------|--|-------------------------|------------------------|
| Balance as per | GAAP | - | - |
| · Reclassification | n | | |
| Reclassification | from property and equipment to intangible assets | 17,620 | 23,679 |
| Reclassification | of licences from other assets to intangible assets | 32,470 | 27,093 |
| Remeasureme | nt | | |
| Adjustment of a | accumulated amortisation of intangible assets | (381) | 274 |
| Capitalisation o | f assets available for use not booked under GAAP | - | 11,522 |
| Rollover adjusti | ment from previous year | 274 | |
| Balance as per | IFRS | 49,983 | 62,568 |

Notes on reclassification

- i Under the previous GAAP, intagibles assets were recognized as part of property and equipment. Under IFRS, assets that meet the definition of an intangible asset should be classified as stated in IAS 38.As a minimum requirement under IAS 1, intangible assets should be presented as a separate line item in the statement of financial position. Therefore, computer software was reclassified out of property, plant and equipment to intangible assets.
- ii Licences that meet the definition of intangible assets as per IAS 18 have been reclassified from prepayments under other assets.

Notes on remeasurement

L

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

| Property and equipment | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|--|--|
| Balance as per GAAP | 832,395 | 799,477 |
| Reclassification of fixed assets from assets in store to property and equipment | 42,013 | 13,502 |
| Reclassification from property and equipment to intangible assets Reclassification from property and equipment to investment property To reclassify Construction in progress from Other assets to Fixed assets To reclassify premises from other assets to property and equipment | (17,620) (131,844) 921,688 1,475 | (23,679) (131,844) 494,738 18,692 |
| Remeasurment | , | , |
| Remeasurment adjustment - Accumulated depreciation Fair value as deemed cost- remeasurement of property and equipment Fair value as deemed cost- remeasurement of CIP To derecognise property and equipment that is below the capitalisation threshold Other remeasurement adjustments Rollover adjustment from previous year Balance as per IFRS 1162 ADDIS ABABA ETHIOPIA | 39,822 - (1,298) (40) 735,988 2,422,579 | 197,453 117,150 427,645 (6,260) |

Notes on remeasurement

Under previous framework, the Bank recognised accumulated depreciation of buildings, motor vehicles, furniture and fittings and computer installations using 5%,20%, 10% and 10% respectively. Residual values was also not considered for the depreciation charge on these assets. Under IFRS, the useful lives and residual values of items of buildings, motor vehicles, furniture and fittings and computer installations were revised to 2%,15%, 10% and 10% respectively to better reflect the consumption pattern of those assets. This led to a decrease in the accumulated depreciation of these assets with a corresponding decrease in retained earnings.

| M | Deposits from customers | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|---|-------------------------|------------------------|
| | Balance as per GAAP | 27,782,522 | 22,758,501 |
| | Reclassification of accrued interest on fixed deposits from other liabilities Recognition of share in joint arrangement | 94,928 (29,127) | 63,526 (18,378) |
| | Balance as per IFRS | 27,848,323 | 22,803,649 |

Notes on reclassification

i Under the previous GAAP, interest accrued on interest bearing customer deposits were recognises separately as part of other liabilities. Under IFRS, interest payable is included in the carrying amount of the financial liabilities giving rise to it. All interest payable was reclassified to be included in the carrying amount of the financial liabilities giving rise to it.

N Other liabilities

| Balance as per GAAP | 1,161,257 | 1,049,672 |
|---|-----------|-----------|
| Reclassification of accrued interest on fixed deposits to customer deposits | (94,928) | (63,526) |
| Reclassification of margins held on letters of credit to other liabilities | 1,464,184 | 1,186,875 |
| Reclassification of cash in transit to cash balances from other liabilities | 148 | 24,648 |
| Recognition of share in joint arrangement | 3,204 | 1,828 |
| Reclassification of credit balances from other assets to other liabilities | 26,398 | - |
| Recognition of additional payments for purchase of assets | 4,825 | 44,465 |
| Provision for legal costs | (395) | 4,824 |
| | | |
| Balance as per IFRS | 2,564,693 | 2,248,786 |

Notes on reclassification

- i Accrued interest on fixed deposits has been reclassified to customer deposits, under IFRS the accrued interest has to be classified with the financial instrument it relates to.
- ii This is an adjustment to classify margin held on letters of credit to other liabilities in the IFRS statement of financial position.



| O Defined benefit obligation | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|-------------------------|------------------------|
| Balance as per GAAP | - | ~ |
| · Remeasurement | | |
| Remeasurement of retirement benefits obligations- P & L | 12,822 | 63,901 |
| Remeasurement of retirement benefits obligations- OCI | (2,664) | - |
| Rollover adjustment from previous year | 63,901 | |
| Balance as per IFRS | 74,059 | 63,901 |

Note on remeasurement

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

| P | Regulatory risk reserve | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|--|-------------------------|------------------------|
| | Balance as per GAAP | - | - |
| | Remeasurement | | |
| | Recognition of regulatory risk reserve | 62,070 | 63,359 |
| | Rollover adjustment from previous year | 63,359 | |
| | Balance as per IFRS | 125,429 | 63,359 |

Note on remeasurement

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



| Q | Other reserves | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|---|-------------------------|------------------------|
| | Balance as per GAAP | - | - |
| | Remeasurement | | |
| | Fair value measurement of available for sale shares | 67 | 103 |
| | Remeasurement of retirement benefits obligations- OCI | 1,865 | - |
| | Rollover adjustment from previous year | 103 | - |
| | Balance as per IFRS . | 2,035 | 103 |
| | Note on remeasurement | | |

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

| R | Retained earnings | 30-Jun-2017 Birr'000 | 1-Jul-2016 Birr'000 |
|---|--|-------------------------|------------------------|
| | Retained earnings under previous | 566,978 | 545,287 |
| a | Remeasurement Remeasurement adjustment - Impairment allowance on loans and advances to | | (7.7.005) |
| | customers (see Note A) | 31,867 | (25,297) |
| Ь | Reclassification adjustment - Recognition of memo interest on loans under litigatic | 12,930 | 82,375 |
| С | Reclassification adjustment - Recognition of suspended interest | 17,274 | 6,280 |
| d | Remeasurement adjustment - Recognition of interest on staff loans | 8,644 | 17,141 |
| e | Remeasurement adjustment - Recognition of fair value gain on premises | - | 117,150 |
| f | Remeasurement adjustment - Recognition of fair value gain on premises - CIP | - | 427,645 |
| g | Remeasurement adjustment - Recognition of fair value gain on investment property | - | 479,187 |
| h | Remeasurement adjustment - Recognition of CIP impairment | - | (205) |
| i | Remeasurement adjustment - Accumulated depreciation | 39,822 | 197,453 |
| j | Remeasurement adjustment - Accumulated amortisation | (381) | 274 |
| k | To derecognise property and equipment that is below the capitalisation threshold | (1,298) | (6,260) |
| 1 | Remeasurement of retirement benefits obligations- P & L | (12,822) | (63,901) |
| m | Remeasurement adjustment- amortisation of cumulative prepaid asset | (4,745) | (9,488) |
| n | Adjustment of accumulated depreciation- Investment property | (16,705) | - |
| 0 | Being adjustment to recognise the legal provisions | 395 | (4,824) |
| р | Recognition of regulatory risk reserve | (62,070) | (63,359) |
| q | Adjustment in relation to joint operation | 1,275 | - |
| r | Other expenses | (40) | - |
| s | Income tax adjustments | (17,504) | (40,841) |
| t | Rollover adjustment from previous year | 1,113,330 | |
| | Balance as per IFRS | 1,676,950 | 1,658,617 |







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በማናቸውም <mark>ኒዜና ቦ</mark>ታ *ገ*ንዘብ ለመላክ ወይም ለሙቀበል



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የአየር *ሞንገ*ድ ትኬት ለምቁረጥ







Dial ***996**#



በግብይት ቦታዎች ላይ ክፍያዎትን በዳሽን ባንከ አሜሪካን ኤክስፕረስ ካርዶች በመፈፀም ተመላሽ ገንዘብ ያግኙ፡፡





*ሁ*ልጊዜም አንድ እርምጃ *ቀ*ዳሚ!

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