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Dashen Bank

23rd Annual Report

for the year ended June 30,

2019

December 19, 2019

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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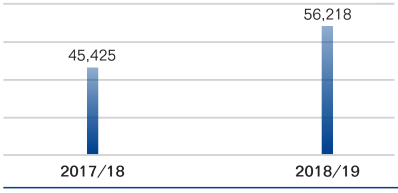
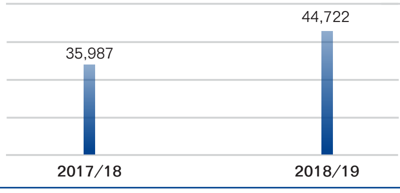
Our Scorecard

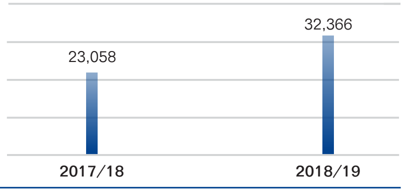
Total Assets (In Millions Birr)



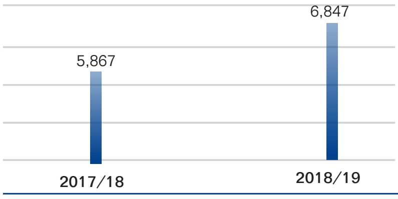
Deposits (In Millions Birr)



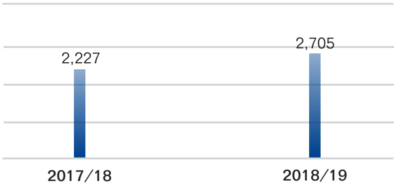
Outstanding Loans Net of Provision (In Millions Birr)



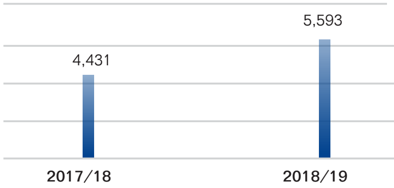
Total Capital (In Millions Birr)



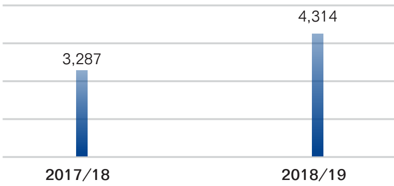
Paid-up Capital (In Millions Birr)



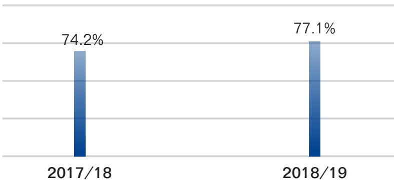
Revenue (In Millions Birr)



Expense (In Millions Birr)

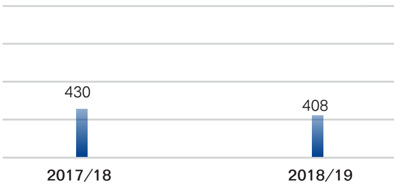


Cost-to-Income Ratio (%age)

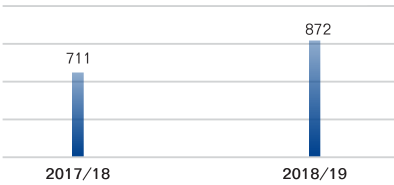


Profit before Tax (In Millions Birr)

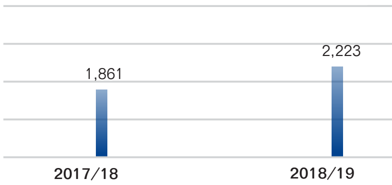
Earning Per 1,000 Share



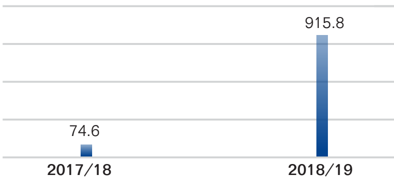
Number of Cardholders(In Thousands)



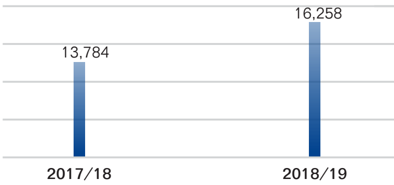
Number of Depositors (In Thousands)



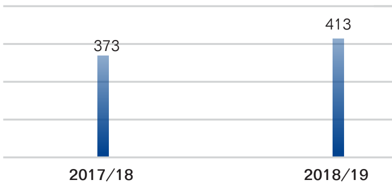
Number of Amole Subscribers (In Thousands)



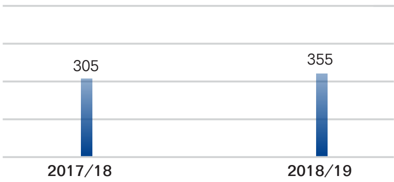
Number of Loanees



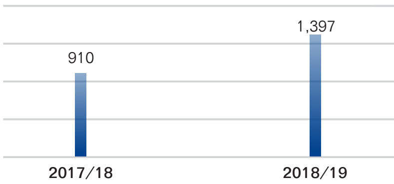
Number of Branches



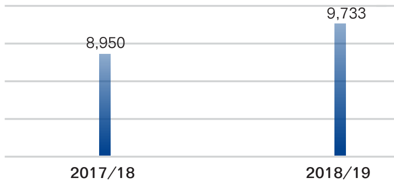
Number of ATMs



Number of POS Terminals



Number of Staff



Board of Directors

Neway Beyene
Chairman

Abebe Teklu
Director

Engidawork Fekadu
Director

Getachew Hagos
Director

Getaw Yalew
Director

Negussie Deme
Director

Saeed Ahmed
Director

Shimeles Eshete
Director

Shisema Shewaneka
Director

Shari'ah Advisory Committee

Sheikh Mohammad Yasin Ibrahim
Chairman

Ustaz Mahmoud Hassen Hussen
Vice Chairman

Ustaz Mustaffa Hamid Yusuf
Member

Dr. Kamal Hajji-Geletu Mamme
Member

Ustaz Remedan Ahmed Abdo
Member

Corporate Management Council

Asfaw Alemu
CEO

Yared Mesfin
Chief Corporate Banking Officer

Tibebu Solomon
Chief Retail & MSME Officer

Mesfin Bezu
D. Chief Interest Free Banking Officer

Yihnalem Aknaw
Chief Transformation & Customer Experience Officer

Henok Kebede
Chief Shared Service & Central Processing Officer

Shimelis Legesse
Chief Information Officer

Alemneh Abebe
Chief Finance Officer

Eyerusalem Wagaw
D.Chief Human Resource Officer

Freegzi Berhane
Chief Corporate Service Officer

Corporate Management Council(continued)

Aberra Bekele
Director,Legal Services Dept.

Abeselom Mulugeta
Director, International Banking Dept.

Abiyot W/Yesus
Director,Treasury Management Dept.

Anteneh Tadesse
Director, IT Infrastructure Dept.

Anteneh Tesfaye
Director,CBD-Domestic Trade & Service Sector

Asfaw H/mariam
Director-Internal Audit Dept.

Ayele Teshome
Director,Central Processing & Customer Accounts Dept.

Chanyalew Demissie
Director,CBD-Government Agencies,NGO's & International Trade Service Sector

Elias Hussien
Director,Enterprise program Mgt.Dept.

Feseha Birhanu
Director,CBD-Manufacturing & Agriculture Sector

Getnet Dessie
Director,Enterprise Risk & Compliance Mgt Dep.

Giragn Garo
Director,Finance & Account Dept.

Director,Marketing & Customer Experience Dept.

Hailu Moges
Director,Talent Development Dept

Hewate Kefelegn
Director,Talent Management Dept

Kasaye Eshetu
A.Dirctor,Alternate Channels Dept.

Lidia Samuel
Executive Assistant to the CEO

Meseret Yazachew
Director,Credit Analysis & Appraisal Dept.

Muhammed Ahamed
Director, HR Operations & Partnership Mgt Dept.

Mulugeta Alebachew
Director,Strategy and Innovation Dept.

Samuel Adane
Advisor to the CEO

Tadesse Kasahun
Director, Credit Recovery & Portfolio Mgt Dept.

Tadiwos Laekemariam
Director, Engineering Service Dept.

Tamrat Tilahun
Director, Facilites Management Dept.

Tesfaye Anene
Director, System Security Dept.

Yeshanew Ayalew
Director,Application Devlopment and Support Dept.

Zelalem Taddesse
Director, Supply Chain Mgt. Dept.

Statement of the Board Chairman

Respected Shareholders!

On behalf of the Board of Directors and myself, it is a great honor and pleasure to present the 2018/19 Annual Report of Dashen Bank.

Our Bank, despite challenges both in the macro and task environments, has managed once more to record successful operational and financial results. This is regarded as being caused by the continued confidence and support of our esteemed customers, our shareholders and the strong commitment and hard work of the bank's staff.

At the global level, various official reports agree on the fact that the global growth trend remained positive. However, global trade has been challenged by the tariff dispute between the USA and China and the protracted Brexit process between the United Kingdom and the European Union. The pressures of increased regulatory standards in the international financial sector still linger. The continued falling of prices of major traded commodities has remained a challenge for developing countries. A positive development in the continent was the ratification of the Africa Continental Free trade Area (AfCFTA) agreement the impact of which is yet to be verified.

In the domestic space, during the review period, though the incidents of social and political unrest had become less intense, situations have not yet totally settled as sporadic flash points remained a challenge. The outlook on the economic growth of the country was still positive. Foreign trade of the country has been severely challenged with the disappointing performance of the export sector. Spiraling inflation and an acute shortage of foreign currency have been big and persistent challenges. The "Home-Grown Economic Reform Agenda", appears to have a huge potential in bringing the necessary transformations assuming the execution capacities of the various actors are aligned to the expected interventions. The period has also witnessed an unprecedented level of readiness and willingness of the government to involve the private sector in this transformation process, which is indeed highly appreciated.

In the domestic banking industry, in line with the reform agenda of the government, the National Bank of Ethiopia (NBE) has reviewed several directives and issued a few new ones. Those quick fixes being enacted have been instrumental in assuaging some of the challenges the sector has been facing for many years. The directives which imposed the mandatory requirement to purchase bonds from the Development Bank of Ethiopia related to loan disbursements also referred to as NBE Bills, and the surrendering of 30% of total foreign currency inflow every month had critically encumbered private banks both financially and operationally. The recent pledge made by the supervisory authority to repeal the directive for NBE Bills purchase is a major positive stride that is eagerly awaited. The new proclamation that allows foreign nationals of Ethiopian origin to own shares in local banks is another significant move in the right direction. The fulfillment of the objectives of this legislation, however, depends on the attractiveness of the implementation guidelines yet to be issued by NBE. Another important legislation enacted is the proclamation of the Movable Property Security Right, which enables individuals and entities to use their movable assets as collateral to get access to credit.

During the period under consideration, though there were no new entrants to the banking industry, there are a handful of both conventional and full-fledged Islamic banks that are expected to join the market in a very short period, which indicates that the competition will even be fiercer.

Despite this strenuous environment, during the reporting period, the Bank has managed to expand its channels both digitally and conventionally. Using these channels our Bank has mobilized a record high incremental deposit of Birr 8.7 Billion, and the cumulative deposit of the Bank has reached Birr 44.7 Billion registering a 24% growth to that of the previous year. The total outstanding loans and advances of the Bank stood at Birr 32.4 Billon, which exhibited a 40% percent year on year growth. In our omnichannel digital space, the "Amole" branded platform has been gaining a sizeable market share in big strides.

The total number of Amole subscribers at the end of the reporting period has reached 915,807 while the number of ecosystem players or service providers that have interfaced with the Amole platform was 18. The total number of Amole merchants recruited has reached 6,667. Such encouraging achievements in less than a year since the launching of operation has been an indication that the future of banking is digital, and the correctness of the strategic direction taken by the Bank. As a result of the overall operational successes, our Bank has managed to earn total revenue of Birr 5.6 Billion registering a 26% growth. After considering the total expense of Birr 4.3 Billion, the Bank has earned a profit before tax of Birr 1.3 Billion, which is 12% growth to that of last year the same period. Hence, the earning per share stood at Birr 408. The total Asset and Equity of the Bank have increased by 24% and 17% and reached Birr 56.2 Billion and Birr 6.8 Billion respectively.

The year under consideration has witnessed significant activities and milestones in terms of creating an enabling environment for the implementation of the 5-year strategic plan. Accordingly, a new organizational structure was approved and implemented across the company, staff placement successfully completed, attractive pay and benefits structure implemented, several policies and procedure manuals have been reviewed and new ones approved. Significant effort has been made in developing Human Resources so as to create alignment with the strategic plan imperatives and aspirations. In this regard, the board has established a Strategy Management sub-committee where four board directors are members. The sub-committee gives oversight to the overall implementation of the strategic plan.

During the year, the utility electric power supply issue that kept the Bank back from using its headquarters building was solved and the new headquarters building has become fully operational and is believed that it truly represents the Dashen brand and has undoubtedly created a conducive working environment to the staff. The requests of the Bank to lease the adjacent plot of land to build an edifice with additional space for parking and offices and to drill a borehole have been positively accepted by the Office of the Deputy Mayor of the City of Addis Ababa Administration. "Dashen Amoudi Branch" is an ultra-modern branch including special facilities for persons with disabilities as well as senior citizens, that was set up in the new headquarters building to serve mainly corporate customers. It was named and dedicated in honor of H.E. Sheik Mohammed Hussein Ali Al Amoudi as a humble token of our sincere appreciation for his love and significant contributions to the development of his and our motherland, Ethiopia.

The Board of Directors and its four sub-Committees have been very committed to executing their oversight responsibilities with due diligence, extreme dedication, and belongingness. The performance of the full board, individual board members and the chairman of the board of directors were regularly assessed using objective parameters so as to eliminate observed gaps and maintain and enhance strong aspects.

The growth trajectory of the Bank is positive. In the upcoming period, the Bank will cement the foundation period of the strategic horizon. Moreover, the changing assumptions due to the dynamics at the macro and micro level will be factored in so as to best fit our strategic ambitions and maintain the momentum. It is our strong hope that the transformation agenda of the Financial Sector, which is undergoing under the stewardship of the National Bank of Ethiopia, will bring meaningful transformation to enable the sector to play its expected role and be the source of wealth creation in aspiring to build a prosperous nation.

Finally, I would like to extend my sincere thanks to our esteemed customers for their confidence and loyalty in our bank; Our shareholders for their confidence and undivided commitment, the management and staff of the bank for their dedication, eagerness and commitment to witness the fruits of our strategic aspirations. I would also like to extend my sincere appreciation to the National Bank of Ethiopia for their professional guidance and support and the Office of the Deputy Mayor of the Addis Ababa City Administration for the swift and positive response granted to the Bank. Last but not least, I would like to thank all other public and private institutions that have contributed directly or indirectly to the growth of our Bank.

Thank You

Neway Beyene
Chairman, Board of Directors
December 02,2019

The CEO's Message

Dear Honorable Shareholders,

I am indeed honored to present the performance of Dashen Bank S.C. for the fiscal year ended June 30, 2019. This brief report shall discuss the operating environment, the Bank's overall performance, the Bank's business and organizational development, the way forward, and finally vote of thanks.

The Operating Environment

The global economy was sluggish mainly due to the intensified trade tensions and the financial market stress in some large emerging-market and developing economies. The OECD Economic Outlook, Volume 2019 Issue 1, has reported that the slowing down of global growth was sharp over the past year, amidst heightened policy uncertainty, persistent trade tensions and declines in business and consumer confidence. During the latter half of 2018, world GDP growth declined to around 3% on a quarterly basis, and appears likely to have improved only slightly in the first quarter this year. Moreover, trade growth is projected to weaken further this year to around 2%, the weakest rate since the global financial crisis and checking the speed at which global output growth can rebound from its current soft pace. Inflationary pressures are set to remain mild, with few strains on capacity in most economies. Despite these phenomenons, the vision of African Countries to create a single market across the continent, African Continental Free Trade Area (AfCFTA), is considered a positive move that is potentially an economic game changer for the continent by positively impacting the intra-African trade.

On the domestic front, Ethiopia's medium-term outlook is expected to remain steady, with projection of 7.7 percent expansion in GDP for 2018/19 (World Economic Outlook: IMF April, 2019). Headline inflation remained in double digit during the reporting period with an overall inflation rate (annual change based on 12 months moving average) of 12.6% as at July 2019. The Country has been grappling with several challenges in the past fiscal year. Falling exports, chronic foreign currency shortages, rising inflation, debt overhang, social unrest and rampant youth unemployment continue to threaten the economic stability. The government's visionary direction towards addressing the critical issues through Home Grown Economic Reform Agenda and other social and sectoral transformations along with other quick fixes are the positive Initiatives witnessed worth mentioning.

In the banking industry, it has also been witnessed that, efforts are being done in line with the National Transformation Agenda including issuance of new directives and amendments of existing ones, allowing full-fledged Islamic banks to operate in the country and Ethiopians in diaspora to own shares in local banks among others. New conventional banks are also under formation. Hence, the forthcoming period will witness entry of new entrants, which will further intensify the competition in general and in the resource mobilization space in particular. The understanding among the actors that the future of banking is digital and the expected upcoming proclamation in the space of E-commerce and the role of Fintechs has shifted the focus towards digital innovations and strategic partnerships with Fintechs. The partnership our Bank has with Moneta Technologies to promote the mobile banking brand "Amole" is an indication. Furthermore, our Bank has made "Adopting a digital mindset in everything we do" to be one of our strategic pillars so as to give the required focus to enhance customer experience and operational efficiency.

Operating and Financial Performance

The Bank's relentless effort in generating strong financial performance despite the many challenges in the macro-economic and operating environment is a testament to the tenacity of the entire team of our Bank. A review of our financial position shows positive performance in terms of key performance metrics.

The Bank's total Assets as at June 2019 grew by 23% over last year's position and reached Birr 56.2 billion. The lion's share of the Asset, Loans and Advances, also witnessed a growth of 40% over last year same period and stood at Birr 32.3 billion. On the Liability side the overall customer deposits grew by 24% and reached Birr 44.7 billion by the end of the period under consideration. The primary capital of the Bank has also increased by 38% and stood at Birr 5.46 billion, which in turn has enabled the Bank to increase its capacity to lend to a single borrower and maintain a buffer to absorb shocks.

During the period under consideration, the Bank has generated a total revenue of Birr 5.6 billion and expensed Birr 4.31 billion exhibiting a 26% and 31% growth respectively over last year same period. The Bank has registered a profit before tax of Birr 1.28 billion registering a growth of 12%.

Business and Organizational Development

Our Bank has continued to push ahead with the implementation of its organizational transformation initiatives captured in its five years strategic plan, which is driven by a vision of becoming "Best-in-Class Bank in Africa". Accordingly, a new organizational structure, business and operational models have been implemented, which are instrumental foundations towards enhancing customer centric culture, the core of the corporate philosophy.

The efforts made to increase both physical and digital channels were effective to be more closer to our increasing number of customer base and transactions.

The digital banking platform that offers customers digital payment capabilities and access to aggregated digital products and services dubbed 'Amole' has celebrated its one year. During the period under consideration, this platform has attracted 915,807 subscribers. The interface created with DSTV, Ethiopian, Hiddase, Unity University, Shoa Supermarket and Schools have enabled subscribers to experience the promised value propositions of the platform, i.e. Cashless Transactions.

The investment on the talent management and development of our strategic asset, the human capital, is intensified in the selected areas of capabilities and the effort to implement bank wide performance management system is progressing, the implementation of which will be instrumental to build a strong performance culture and thereby boost productivity.

The way forward

The coming fiscal year will witness the completion of the number of project initiatives to herald the culmination of the foundation phase, which is the first horizon of our strategic plan where we build a solid ground to enhancing capabilities for the intended growth. In the coming fiscal year, we will colorfully celebrate our 25th year of existence and success in the Ethiopian Banking industry.

Dashen Bank is currently focusing on investing in various long-term and strategic investments in infrastructure, capacity, and human capital to build foundational capabilities, which will serve as a stepping board for our future growth.

Our key priorities going forward include the continual development and optimization of our customer offerings, improvement of our customer experience across channels and seizing digital opportunities to provide innovative solutions. We will also continue our strong focus on becoming more efficient and reducing costs, while maintaining a prudent risk profile.

Vote of Thanks

On behalf of myself and the entire team of Dashen, I would like to use the opportunity to extend my appreciation to our valued customers who have continued their loyalty and have provided us the opportunity to continue delivering value to them. I owe the Board of Directors my heartfelt gratitude for their unrelenting engagement, guidance and support. Our shareholders, for their unwavering support and above all, our employees for their commitment, resilience and dedication to our Bank. My appreciation also goes to the National Bank of Ethiopia, for their support and guidance, Ethio Telecom and all other stakeholders for their continued support and cooperation.

Thank you,

Asfaw Alemu,
CEO
December 02,2019

423+ Branches & Forex Bureaus

distributed all over the country

1 million+

Users

Dashen Bank is everywhere!

that's where a bank is supposed to be.

355+ ATMs

in convenient locations

1,397+ POS

Machines in Hotels, Supermarkets, Shops, Branches & Forex Bureaus

Board of Directors' Report

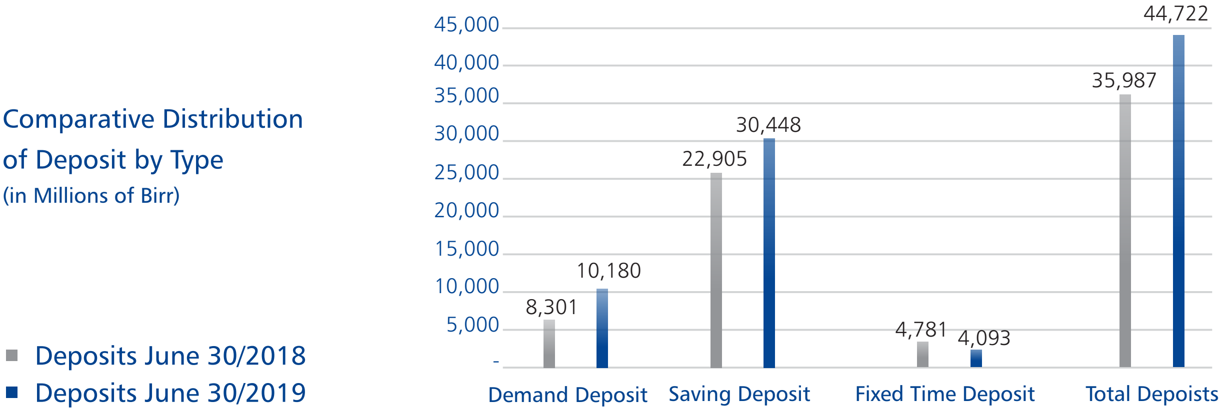
On behalf of the Board of Directors of Dashen Bank S.C., we are pleased to present the annual report of the Bank for the year ended June 30, 2019. Highlights of the major performances of the Bank during 2018/19 fiscal year (F.Y.) are summarized hereunder.

OPERATIONAL HIGHLIGHTS

Deposit

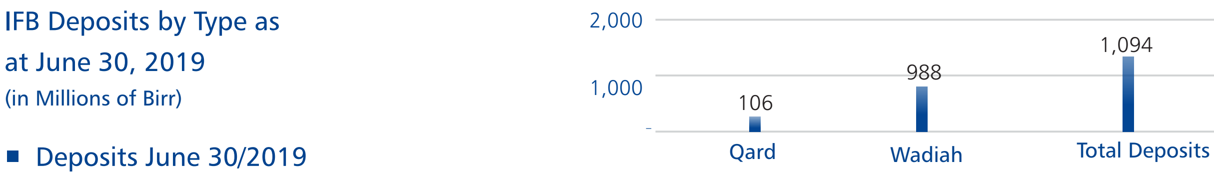
At the close of the reporting period, Dashen Bank's aggregate deposits amounted Birr 44.7 billion. Compared to last year same period, the Bank achieved year-on-year growth of Birr 8.7 billion, or 24.3% in deposits. This record high performance had been supported by expanding market outreach, improvement in customer orientation and relationship management, and enhanced marketing activities. As regards to market expansion, the Bank established its footprint in 40 neighborhoods of the Capital and regional towns. These new and already existing branches had been able to recruit 362 thousand deposit customers, 161 thousand debit cardholders and 847 thousand Amole users, beside to retaining the existing customers.

Comparative Distribution of Deposit by Type
(in Millions of Birr)



The Bank's full-fledged, interest-free alternate banking services, launched in the fourth quarter of the previous fiscal year in a window-based model, attracted 65,713 customers and mobilized total deposit of Birr 1.1 billion. A lion's share of the deposit came from Wadia'h Savings.

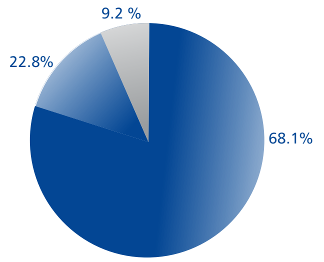
IFB Deposits by Type as at June 30, 2019
(in Millions of Birr)



In terms of category, the highest increment of deposit came from Savings Deposit, which registered Birr 7.5 billion or 32.9% year-on-year growth. Demand Deposit also showed an increment of Birr 1.9 billion or 22.6% compared to last year. Fixed Time Deposit, however, plunged by Birr 688.1 million as the Bank put emphasis on low cost, sustainable sources of fund.

Percentage Share of Deposit by Type

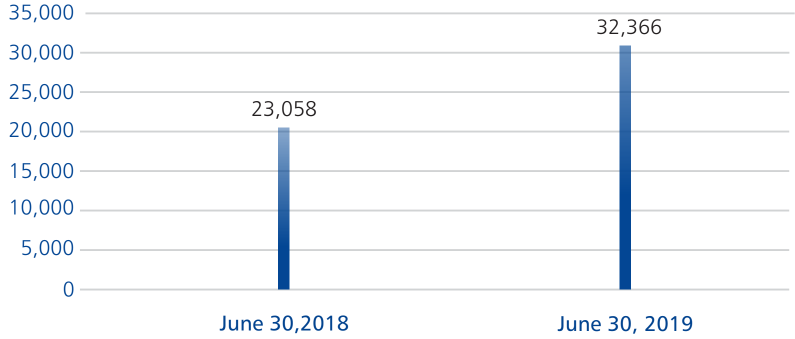
- Saving Deposits
- Demand Deposits
- Fixed/Time Deposits



Loans and Advances

The Bank concluded the reporting fiscal year with total loans and advances of Birr 32.4 billion. Increased resource mobilization and loan collection, as well as leverages of the recent reorganization centered around customers and business processes prompted a record Birr 9.3 billion or 40.4% year-on-year growth in outstanding loans and advances.

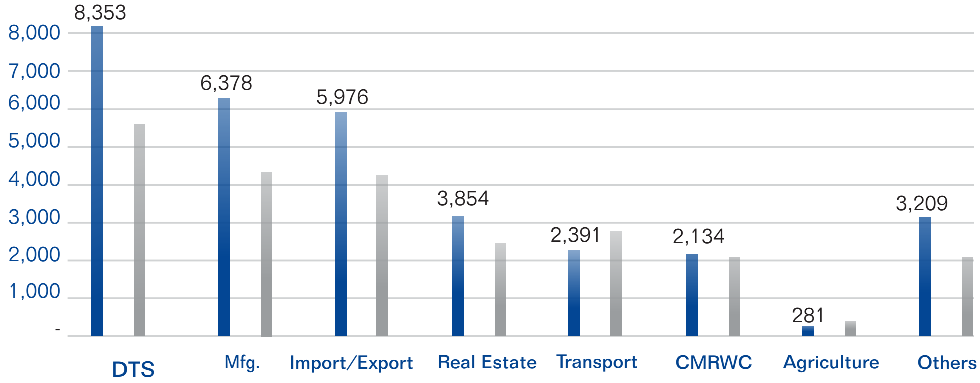
Outstanding Loans
(in Millions of Birr)



The credit portfolio shows diversified resource channeling, while Domestic Trade and Services, Manufacturing and International Trade sectors taking higher shares.

Credit by Sector
(in Millions of Birr)

- June 30, 2019
- June 30, 2018



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

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

E-Banking Services

The Bank had been aggressive in customer onboarding on its Amole platform, which saw additional 846,798 subscribers during the reporting period alone. Extensive efforts had been made to enhance brand visibility and functionalities of the platform.

Regarding card banking, additional 50 ATMs and 487 POS terminals were deployed, raising the card acceptance network to 355 ATMs and 1,397 POSs. Apart from the Bank's ATMs, Amex and Visa cardholders' can now use their cards on ATMs of all banks interconnected via Ethswitch. In the review period, partnerships have been established with business organizations to cooperate on card and mobile payments.

International Banking

Efforts made to cross-sale resources and nurture strong relationships with customers have paid as the Bank had been able to mobilize foreign currency to the tune of USD 536.2 million, which witnessed a marginal 1.5% growth compared to last year. This is in spite of the dismal performance in exports and the continued wide gap in exchange rates of the official and parallel markets.

FINANCIAL HIGHLIGHTS

Statement of Financial Position

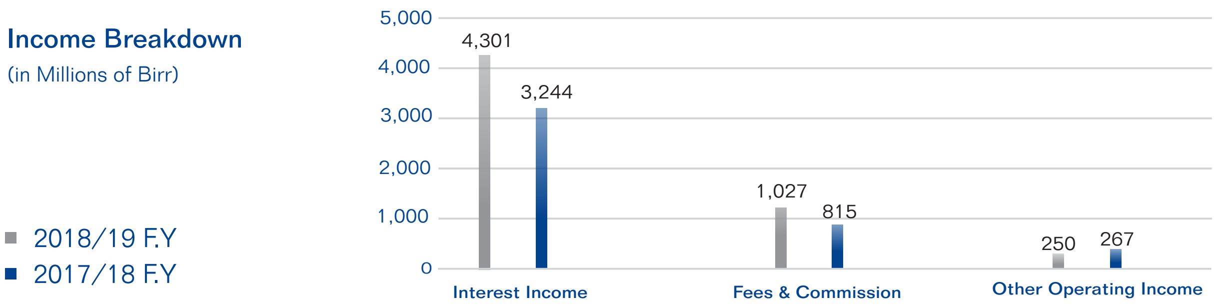
The financial position of the Bank showed that its total assets reached Birr 56.2 billion recording a growth of 23.8% compared to the year before. Loans and advances remain the major driver of the surge in assets. Liabilities of the Bank went up to Birr 49.4 billion, rising by 24.8% mainly as a result of deposits. The Bank's total capital soared to Birr 6.8 billion. Paid-up capital of the Bank, which reached Birr 2.7 billion after a 21.5% year-on-year growth, comprised 39.5% of the total capital by the close of the reporting period.

Statement of Profit or Loss and Other Comprehensive Income

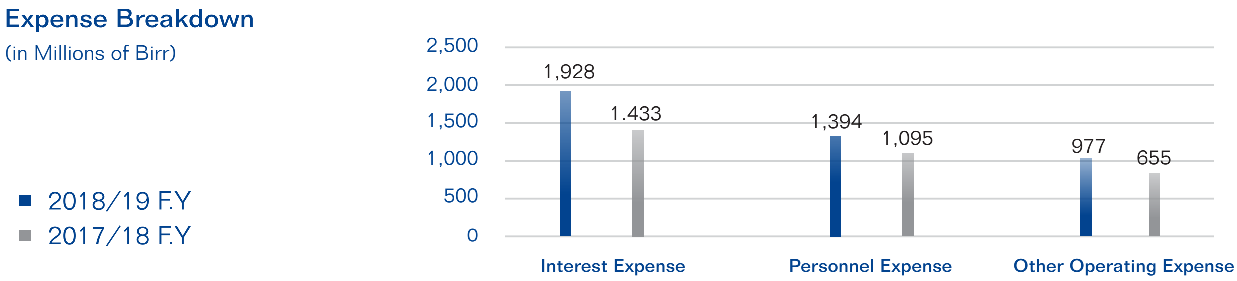
The Bank has earned gross income of Birr 5.6 billion from core operation and other investments. Earnings grew by 26.2% compared to last year's same period performance.

In terms of composition, the higher portion (77.1%) of income came from interest on loans and advances, while balance mainly came from commissions and service charges on domestic and international banking services, investment income from NBE Bills, and interest earned on deposits with other banks.

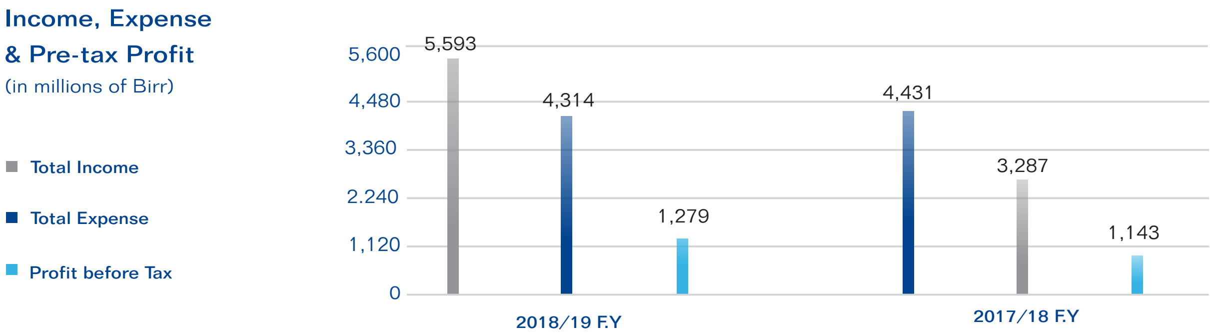
Income Breakdown
(in Millions of Birr)



On the other hand, the total expenses of the Bank surged to Birr 4.3 billion by 35.1% compared to last year on account of growing deposits and cost of doing business. Component wise, the lion's share (44.8%) was interest paid on deposits followed by personnel expenses (32.4%).



The Bank concluded the year with profit before tax of Birr 1.3 billion, higher by 11.9% compared with the preceding fiscal year.



OTHER ACTIVITIES

Branch Expansion

During the fiscal year, the Bank has opened forty new full-fledged branches in different parts of the Country with the aim of increasing its outreach, enhancing customer base, deepening resource mobilization and creating convenience and accessibility to its esteemed customers. At the end of June 30, 2019, the total number of branches of the Bank reached 413 showing a rise of 10.7% relative to the position of June 30, 2018.

Human Resource Development

At the end of June 30, 2019, the total number of permanent employees reached 6,129 and the number of short term and long-term outsourced employees stood at 3,604. Hence, the total manpower strength of the Bank stood at 9,733. As compared to June 30, 2018; staff strength grew by 6.8%

Human resource is one of the pillars of the Bank's strategy. In line with the imperatives for strengthening culture and people practices, various activities had been undertaken to improve organizational structure, HR service delivery, and talent management. Aimed at improving staff productivity, performance management practice was also launched during the reporting period.

The change in business strategy, business and operating models, structure and processes necessitated reorientation of the staff and management. To this effect, substantial investment had been made on human capital development programs. Board Directors, the Executive Management as well as Senior Management members were trained abroad and exposed to international experience. About 12,757 attendances were scored on various technical and developmental trainings provided to the staff. During the reporting period, the Bank spent Birr 53.6 million on human capital development.

Organization & Management

The adoption of the five years' strategy plan and ten years roadmap of the Bank had been the hallmark of the reporting period. The new strategy plan came with fresh perspectives on business and operating model. It was during the second half of the reporting period that the Bank put in place its revised organizational structure. Subsequently, placement of staff was conducted.

The Bank moved its Headquarters from Beklobet, where it had been domiciled since its formation, to its new building on Sudan Street, a location which is fast emerging as the financial hub of Addis Ababa.

Information Technology

As part of implementation of the new strategy plan, the IT function has embarked on adopting IT governance framework. To improve IT service delivery, project management framework and change management guiding documents were developed. Upgrades were made on the core banking system. In line with the newly adopted business model of the Bank, the system identifies customers by the segment they fall in. The Bank also migrated to the latest SWIFT system. The new Headquarters is also fitted with enterprise-wide unified communication network, enabling Internet Protocol (IP) phones and video conferencing.

During the reporting period, the Bank endeavored to design and build Tier 3 Data Center and disaster recovery site; improve service delivery and availability of critical systems; and enhance security and compliance.

Risk Management and Compliance

Endeavors had been made to improve risk management assessment and monitoring capabilities of the Bank. Credit, financing, liquidity, market and operational risks were monitored by applying state of the art techniques. Risk owners' awareness of Enterprise Risk Management practices had been boosted through continuous trainings. Furthermore, leading risk indicators were prepared, and Enterprise Risk Register had been developed with participation of risk owners to enhance the risk management culture and practice of the Bank.

Governance

The Board of Directors and its four sub-committees, for strategy management, human resources, audit and risk, executed their oversight duty as per their Charter. The Board oversaw and gave directions on issues that fell in its mandate including, approval of the strategy plan, structure and salary scale; strategic investments; and policies. The Board discussed and resolved on quarterly reports of its sub-committees and conducted intensive semi-annual self-evaluations.

Corporate Social Responsibility (CSR)

As a corporate citizen, Dashen Bank participates in various activities that are believed to have positive impact on the wellbeing of the community. During the review period, the Bank spent Birr 35.5 million in support of various causes. Among the major causes that the Bank supported include the Sheger Beautification Project, championed by the Prime Minister of the FDRE; Ambo Town development; and rehabilitation of internally displaced people by FDRE National Disaster Risk Management Commission and Amhara Regional State.

Other Issue

Subsequent to letter issued by the Accounting and Auditing Board of Ethiopia on October 30,2019, re-measurement adjustments of ETB 1,113,330,000 recognized in First-time adoption of IFRS, which includes ETB 774,666,000 dividend distributed to shareholders in the form of share capital in the Extraordinary General meeting of Shareholders, have been transferred from retained earnings to "Reserve for IFRS 1 re-measurement on Transition Date" account until a directive is issued by the Accounting and Auditing Board of Ethiopia (AABE) on its subsequent treatment.

Going Forward

During the review period, the Bank launched implementation of its strategy plan. It also established strong visibility for its recently introduced products, Amole and Sharik. The period ahead is for building strong foundational capabilities that support rapid growth driven by provision of customer centric value propositions.

Sincerely,

Neway Beyene
Chairman, Board of Directors
December 02, 2019

Picture Gallery

Meeting
24th Ordinary Annual General Meeting of Shareholders

Conference
23rd Annual Managers' Conference

Dashen Bank's Amoudi Branch Inauguration Ceremony

Exercise book donation to
Addis Ababa City Administration

Financial donation to Ye Enat Weg
Charitable Association

Financial donation to the National
Disaster Risk Management Commission

Financed Projects
From left to right

- Belay Ab Motors
- Dada Mall
- Denver Hotel
- National Cement
- United Beverage

Dashen Bank S.C.
Report of the Shari'ah Advisory Committee
For the Financial Year Ended June 30, 2019

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, 2019:

The Committee has held successive regular and extraordinary meetings during the financial year under consideration to effectively discharge its responsibilities. The Committee has also planned and executed visits to selected Branches of the Bank at various District Offices to observe the Interest Free Banking ("IFB") window service delivery at first hand. It has attended various customers' day sessions organized by the Bank at different major cities across the Country to listen to customer's experiences and suggestions and finally respond to queries raised by the Bank's Customers and other stakeholders. The Committee has duly given feedback and direction to the Management and Staff of the Bank on matters requiring their attention.

During the reporting period, the Committee has reviewed the Bank's IFB products, various formats, contracts, terms and conditions, etc used at the Bank's IFB window service in order to determine that the relevant Shari'ah rules and principles are strictly applied. It has also given *fatwas* (rulings) on all financing products the Bank has intended to use at the IFB window as well as on other Shari'ah related matters referred to it.

The management of the Bank is responsible for ensuring that the Bank undertakes its IFB business in a manner consistent with Islamic law or Shari'ah principles as per the relevant directives of the National Bank of Ethiopia and best industry practices worldwide. 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, the explanations made by officials and experts of the Bank and our review of the operations of the Bank.

In our opinion:

1) The contracts, transactions and dealings entered into by the Bank during the financial year ended June 30, 2019 that we have reviewed were in compliance with the Shari'ah rules and principles to an overall satisfactory level; and
2) In certain instances during our observation, we note that some of the staffs involved in the IFB service delivery lack proper knowledge of Islamic Banking and Finance. We advise the Management of the Bank to strengthen the ongoing efforts of its capacity development programs to its employees.

Finally, the members of the Committee would like to extend its 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 IFB window service.

Addis Abeba, November 6, 2019
On Behalf of the Shari'ah Advisory Committee

Sheikh Muhammed Yasin Ibrahim
(Chairman - SAC)

Ustaz Mahmoud Hassen Hussen
(D/Chairman - SAC)

Dr. Kemal Hajji-Geletu Mamme
(Member - SAC)

Ustaz Mustaffa Hamid Yussuf
(Member - SAC)

Ustaz Remedan Ahmed Abdo
(Member - SAC)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

" HST General Partnership
Chartered Certified Accountants & Authorized Auditors "

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Principal registration number: KK/AA/3/0001272/2004

NBE registration number: LBB/002/95

Board of Directors (As of 30 June 2019)	Official Designation	Appointment Date to current positions
Neway Beyene Mulatu	Chairman	Nov-14
Abebe Teklu G/Selassie	Member	Nov-17
Engidawork Fekadu Emeshaw	Member	Nov-14
Getachew Hagos Equbemichael	Member	Nov-14
Getaw Yalew Endeshaw	Member	Nov-17
Nigussie Demie Buta	Member	Nov-17
Saeed Ahmed Hassen	Member	Nov-17
Eng. Shimelis Eshete Tsegaye	Member	Nov-17
Shisema Shewaneka Fenkir	Member	Nov-14

Corporate Management Council Members:

Asfaw Alemu Tessema	Chief Executive Officer	May-15
Yared Mesfin Belayneh	Chief Corporate Banking Officer	Jan-19
Henok Kebede Tadesse	Chief Shared Service and Central Processing Officer	Jan-19
Shimelis Legesse Wossenie	Chief Information Officer	Sep-17
Tibebu Solomon Tadesse	Acting Chief Retail and MSME Officer	Jan-19
Yihnalem Aknaw Meshesha	Chief Transformation and Customer Experience Officer	Jan-19
Alemneh Abebe Kabtyemer	Chief Finance Officer	Jan-19
Freegzi Berhane GebreMariam	Chief Corporate Service Officer	Jan-19
Asfaw H/Mariam Tadesse	Director-Internal Audit Department	Feb-19
Eyerusalem Wagaw Dubale	Deputy Chief Human Resources Officer	Jan-19
Mesfin Bezu Yimam	Deputy Chief Interest Free Banking	Jan-19
Zelalem Taddesse Feyisa	Director-Supply Chain Management Department	Feb-19
Ayele Teshome Mulatu	Director-Central Processing and Customer Accounts Department	Feb-19
Abiyot WoldeYesus Teka	Director-Treasury Management Department	Feb-19
Elias Hussien Abegaz	Director-Enterprise Program Management Department	Feb-19
Getinet Dessie Berhie	Director-Enterprise Risk Management Compliance Department	Jul-16
Chanyalew Demissie Bekele	Director-Corporate Banking Department-Government Agencies, NGO's and International Trade Services Sector	Feb-19
Abeselom Mulugeta Ayele	Director-International Banking Department	Feb-19
Giragn Garo Dadi	Director-Finance and Accounts Department	Aug-16
Tamirat Tilahun Haile	Director-Facilities Management Department	Feb-19
Anteneh Tesfaye Abebe	Director-Corporate Banking Department-Domestic Trade and Service Sector	Feb-19
Kasaye Eshetu Degife	Acting Director-Alternate Channel Department	May-19

Corporate Management Council Members (As of 30 June 2019) (Continued)	Official Designation	Appointment Date to current positions
Hailu Moges Teklu	Director-Talent Development Department	Feb-19
Tadesse Kasahun Desta	Director-Credit Recovery and Portfolio Management Department	Feb-19
Tesfaye Anene Kotiye	Director-Systems Security Department	Feb-19
Mulugeta Alebachew Chifraw	Director-Strategy and Innovation Department	Feb-19
Hewate Kefelegn Sahle	Director-Talent Management Department	Feb-19
Muhammed Ahamed Shehu	Director-HR Operations and Partnership Management Department	Feb-19
Tadiwos Lakemariam Mengesha	Director-Engineering Service Department	Feb-19
Fesha Berhanu Degaffe	Director-Corporate Banking Department-Manufacturing and Agriculture Sector	Feb-19
Meseret Yazachew Tawu	Director-Credit Analysis and Appraisal Department	Feb-19
Aberra Bekele Gebreyohannes	Director-Legal Services Department	Oct-16
Yeshanew Ayalew Shibeshi	Director-Application Development and Support Department	Dec-16
Anteneh Tadesse Abebe	Director -IT Infrastructure Department	Dec-17

Independent auditor

HST General Partnership, Chartered Certified Accountants and Authorized Auditors
P.O. Box 1608, Tel.+251-115-527666/67
5th Floor, Mina Building, Wolo Sefer
Addis Ababa
Ethiopia

Corporate Registered Office

Dashen Bank S.C.
Headquarter Building
Sudan Street
Tel. +251-115-183091
dashen.bank@ethionet.et
www.dashenbanksc.com
P.O Box 12752
SWIFT Code: DASHETAA
Addis Ababa, Ethiopia

Company Secretary

The Board Secretary
Dashen Bank S.C.
P.O Box 12752, Tel.+251-114-661380
Addis Ababa, Ethiopia

Correspondent banks

Citibank NA New York	111 Wall Street, New York, USA
Commerzbank Ag Frankfurt	Kaiserstrasse 16, Frankfurt AM, Germany
Standard Chartered Bank	1095 Avenue of the Americas, New York, USA
Banque Pour Le Commerce Et L'industrie -Mer Rouge	Rue Clochette, Djibouti
Bank of Africa group	10 place Lagarde - BP 88 - Djibouti
Intesa Sanpaolo spa, (Head Office)	Via Monte di Pietà, 8,20121 Milano
Natixis (Formerly Natexis Banque Populaire Paris)	21, Boulevard Haussmann,BP 265,Paris, 75427
The Bank of Tokyo-Mitsubishi, UFJ	2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan
EBI SA (LA DEFENSE)-ECOBANK	Les Collines de l'Arche,76 Route De La Demi-Lune,Paris-La Defense, 92057
The Standard Bank of South Africa Limited	9th Floor Standard Bank Centre 5 Simmonds Street Johannesburg Gauteng 2001 South Africa
SWED Bank	Landsvägen 40, 172 63 Sundbyberg. Postal address: 105 34 Stockholm
Commercial Bank of Dubai	Al Ittihad Street ,Port Saeed, P.O.Box 2668 Dubai,Swift Code-CBDUAEAD
CAC International Bank	Immeuble Dar Al-Karam,Ruede Marseille,Djibouti city,Swift code CACDDJJD

Principal bankers in Ethiopia

National Bank of Ethiopia	Sudan Avenue. P.O.Box: 5550, Addis Ababa, Ethiopia

Actuaries

QED Actuaries and Consultants (Pty) Ltd
P.O.Box 413313, Craighall 2024
1st Floor, The Bridle, Hunts End Office Park, 38 Wierda Road West, Wierda Valley
Telephone: +27 11 038 3754, +27 60 673 2994
Website: www.qedact.com
Email: craigfalconer@qedacturial.com
Sandton, Johannesburg
South Africa

Sharia Advisory Committee:

(Appointed from 1 December 2017)
Kemal Geletu Mamme (PhD)
Muhammed Yasin Ibrahim (Sheikh)
Mahmoud Hassen Hussen (Ustaz)
Mustaffa Hamid Yussuf (Ustaz)
Remedan Ahmed Abdo (Ustaz)

DASHEN BANK SHARE COMPANY
DIRECTORS REPORT
FOR THE YEAR ENDED 30 JUNE 2019

The Directors submit their report together with the financial statements for the year ended 30 June 2019 to the shareholders of Dashen Bank Share Company ("Dashen" or the "Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation and address

Dashen Bank Share Company 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 based in Ethiopian Market.

Share capital

The Bank has registered and paid up capital of ETB 2,704,558,000 divided in to 2,704,558 ordinary shares of par value of ETB 1,000 (2018: ETB 2,226,734,000 and 2,226,734 shares).

Operating Results

The Bank's results for the year ended 30 June 2019 are set out on page 12. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	2019 ETB'000	2018 ETB'000
Net interest income	2,373,625	1,811,106
Profit before tax	1,279,026	1,143,410
Income tax expense	(262,254)	(214,456)
Profit for the year	1,016,773	928,954
Other comprehensive income net of taxes	(4,756)	(24,620)
Total comprehensive income for the year	1,012,017	904,334
Basic EPS/Diluted EPS per share (ETB)	408	430

Directors

The Directors who held office during the year and to the date of this report are set out on page 3.

Neway Beyene Mulatu
Chairman, Board of Directors
2 December 2019

DASHEN BANK SHARE COMPANY
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2019

The Commercial Code of Ethiopia 1960 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. The Code also requires the Directors to ensure that the Bank keeps proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), the requirement of the Commercial Code of the Ethiopia 1960 and the Banking Business Proclamation No. 592/2008. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors also accept responsibility for:

i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

ii) Selecting suitable accounting policies and applying them consistently; and

iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

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

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

Signed on behalf of the Directors by:

Neway Beyene Mulatu
Chairman, Board of Directors
2 December 2019

Asfaw Alemu Tessema
Chief Executive Officer

HST
Chartered Certified Accountants and Authorized Auditors
የተመሰከረላቸው የሂሳብ አዋቂዎችና የተፈቀደላቸው ኦዲተሮች

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Addis Ababa
Ethiopia

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Fax: +251 115 528384
www.hst-et.com

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF DASHEN BANK SHARE COMPANY

Opinion

We have audited the accompanying financial statements of Dashen Bank Share Company set out on pages 12 to 73, which comprise the statement of financial position as at 30 June 2019, 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 financial statements give a true and fair view of the financial position of the Company as at 30 June 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia 1960.

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 Auditors' 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 30 June 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, accompanying financial statements. including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

As described in the notes to the financial statements, the impairment losses for financial instruments have been determined in accordance with IFRS 9 Financial Instruments. This was considered a key audit matter as IFRS 9 is a complex accounting standard which requires significant judgment to determine the impairment reserve.

Loan loss provisioning

Subjective estimate

IFRS 9 was implemented by Dashen Bank S.C. on 1 July 2018. This new standard requires the Bank to recognize expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Bank.

The most significant areas where we identified greater levels of management judgement are:

- Significant Increase in Credit Risk (SICR) and the Bank's definition of default: the criteria selected to identify a SICR and the Banks's definition of default are judgmental and can materially impact the ECL by determining whether a 12 month (stage 1) or lifetime (stage 2 or 3) provision is recorded.
- Economic scenarios: IFRS 9 requires the Bank to measure ECL on a forward-looking basis, incorporating future macro-economic variables reflecting a range of future conditions.

Key audit matters (continued)

Loan loss provisioning (Continued)

- Complex ECL model: inherently judgmental modelling techniques are used to estimate stage 1 ECLs which involves determining Probabilities of Default (PD) and Loss Given Default (LGD).

- Data capture: the ECL model uses a combination of static (e.g. original collateral valuation) and dynamic data (e.g. current balance/interest rates) about the Bank's loans. Owing to the risk of associated with transferring system data to the impairment model (e.g. due to manual process) there is a risk that the data used in the ECL model is inaccurate.

- For loans classified as stage 2 or 3, these are individually assessed, an impairment assessment is required at an individual loan level, based on the probability of default and the estimated future cash flows discounted to present value at the loans effective interest rate ('EIR'). There are a number of data inputs and assumptions including the cost of obtaining and selling collateral and, probable sale proceeds.

The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

The disclosures regarding the Bank's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgments and material inputs to the IFRS 9 ECL results.

Our response

Our audit procedures focused on the significant areas of judgement and estimations that could result in material misstatements in the financial statements. These procedures included;

- Obtaining an understanding of the methodology used by management to estimate ECL including the understanding of the key assumptions and judgements used to determine the underlying risk parameters used to develop the ECL;

- For a sample of exposures, checking the appropriateness of the Bank's staging;
- Testing the completeness and accuracy of the historical data used in derivation of key model parameters;
- Checking the completeness of loans and advances, off balance sheet items, investment securities and other financial assets included in the ECL calculations as of 30 June 2019;
- Checking the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the result of the arithmetical calculations;
- Examining the reasonableness of assumptions relating to expected future recoverable amounts as assessed by management;
- Assessing management basis in order to assess the reasonableness of the adjustments by challenging assumptions and comparing estimates to both internal and external evidence, where available;
- Where relevant, using Information System specialists to gain assurance on data integrity;
- Reviewing the disclosures and assessing whether the disclosures in the financial statements on the key judgements and assumptions were adequate; and
- Assessing the financial statement disclosure arising on the adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

Other Information

The Directors are responsible for the other information, which comprises the report of the Board of Directors' as required by the Commercial Code of Ethiopia 1960. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information in the Directors' report that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact to the Board of Directors/shareholders where appropriate.

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Commercial Code of Ethiopia 1960 and the Banking Business Proclamation No. 592/2008 of the National Bank of Ethiopia, and for such internal controls as Directors determine are 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, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 ISA 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.

As part of 'an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

i) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

ii) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

iv) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

v) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal Requirements

As required by the Commercial Code of Ethiopia 1960, 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, 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 1960, we recommend the approval of the financial statements.

The engagement partner on the audit resulting in this independent auditors' is Tekeste Gebru.

Tekeste Gebru
Register Auditor
HST General Partnership, Chartered Certified Accountants and Authorized Auditors
(Auditors of Dashen Bank Share Company)
Addis Ababa
2 December 2019

DASHEN BANK SHARE COMPANY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 ETB'000	2018 ETB'000
Interest income	5	4,301,332	3,243,903
Interest expense	6	(1,927,707)	(1,432,797)
Net interest income		2,373,625	1,811,106
Fees and commission income	7	1,026,571	815,060
Fees and commission expense	7	(238,520)	(159,075)
Net fees and commission income		788,051	655,985
Other operating income	8	250,241	266,742
Total operating income		3,411,917	2,733,833
Loan impairment credit	9	15,269	104,887
Impairment losses on other assets	10	(934)	(13,199)
Net operating income		3,426,251	2,825,521
Employee benefits expenses	11	(1,394,401)	(1,094,810)
Other operating expenses	12	(752,824)	(587,301)
Profit before tax		1,279,026	1,143,410
Income tax expense	13a	(262,254)	(214,456)
Profit after tax		**1,016,773**	**928,954**
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement loss on retirement benefits obligations	24a	(19,857)	(35,172)
Remeasurement gain on financial assets at FVTOCI	16a	13,062	-
Deferred tax income	13e	2,039	10,552
		(4,756)	(24,620)
Total comprehensive income for the year		**1,012,017**	**904,334**
Basic EPS/Diluted EPS per share (ETB)	26	**408**	**430**

The notes on pages 16 to 73 are an integral part of these financial statements.

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DASHEN BANK SHARE COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 ETB'000	2018 ETB'000
ASSETS			
Cash and balances with banks	14	6,089,941	7,041,058
Loans and advances to customers	15	32,366,183	23,057,535
Investment security			
- Financial assets at fair value through OCI	16a	89,897	54,848
- Financial assets at amortized cost	16c	12,301,054	10,175,047
Other assets	17	1,443,905	1,325,633
Investment properties	19	797,365	813,896
Intangible assets	20	109,397	125,617
Property and equipment	21	3,020,684	2,813,599
Deferred tax asset	13e	-	18,145
Total Assets		**56,218,426**	**45,425,378**
LIABILITIES			
Deposits from customers	22	44,721,510	35,986,800
Current income tax	13d	242,126	281,328
Other liabilities	23	4,235,121	3,166,885
Retirement benefit obligation	24	167,936	123,754
Deferred tax liability	13e	4,953	-
Total liabilities		**49,371,646**	**39,558,767**
EQUITY			
Share capital	25	2,704,558	2,226,734
Retained earnings	27	635,731	1,656,888
Reserve for IFRS 1 remeasurements on transition date	28	1,071,400	-
Legal reserve	29	1,985,197	1,731,004
Special reserves	30	100	100
Regulatory credit risk reserve	31	465,306	274,329
Other reserves	32	(15,512)	(22,444)
Total equity		**6,846,780**	**5,866,611**
Total equity and liabilities		**56,218,426**	**45,425,378**

The notes on pages 16 to 73 are an integral part of these financial statements.

The financial statements on pages 12 to 73 were approved and authorised for issue by the Board of Directors on 2 December 2019 and were signed on its behalf by:

Neway Beyene Mulatu
Chairman, Board of Directors

Asfaw Alemu Tessema
Chief Executive Officer

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DASHEN BANK SHARE COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Share capital ETB'000	Retained earnings ETB'000	Legal reserve ETB'000	Reserve for IFRS 1 remeasurements on transition date ETB'000	Regulatory credit risk reserve ETB'000	Other reserve ETB'000	Special reserve ETB'000	Total ETB'000
As at 1 July 2017		**1,927,141**	**1,676,950**	**1,498,765**	**-**	**125,429**	**2,035**	**100**	**5,230,420**
Profit for the year	27	-	928,954	-	-	-	-	-	928,954
Other comprehensive income:									
Remeasurement gain/(loss) on retirement benefits obligations	32	-	-	-	-	-	(24,620)	-	(24,620)
Total comprehensive income		-	928,954	-	-	-	(24,620)	-	904,334
Fair value gain on equity instruments	32	-	-	-	-	-	141	-	141
Transaction with owners in their capacity as owners:									
Issue of new shares		82,663		-	-	-	-	-	82,663
Transfer to legal reserve	29	-	(232,239)	232,239	-	-	-	-	-
Transfer to Regulatory Reserve	31	-	(148,900)	-	-	148,900	-	-	-
Dividends paid	27	-	(353,037)	-	-	-	-	-	(353,037)
Shares issued to employees		2,990	-	-	-	-	-	-	2,990
Transfer to capital	27	213,940	(213,940)	-	-	-	-	-	-
Directors' Remuneration		-	(900)	-	-	-	-	-	(900)
		299,593	(949,016)	232,239	-	148,900	-	-	(268,284)
As at 30 June 2018		**2,226,734**	**1,656,888**	**1,731,004**	**-**	**274,329**	**(22,444)**	**100**	**5,856,611**
As at 1 July 2018		2,226,734	1,656,888	1,731,004	-	274,329	(22,444)	100	5,866,611
Adjustment on initial application of IFRS 9	2.5	-	(769)	-	-	29,808	11,688	-	40,727
		2,226,734	1,656,120	1,731,004	-	304,137	(10,756)	100	5,907,339
Profit for the year	27	-	1,016,773	-	-	-	-	-	1,016,773
Other comprehensive income:									
Remeasurement gain/(loss) on retirement benefits obligations	32	-	-		-	-	(13,900)	-	(13,900)
Change in fair value of financial assets at fair value through OCI		-	-	-	-	-	9,144	-	9,144
Total comprehensive income		-	1,016,773	-	-	-	(4,756)	-	1,012,017
Transaction with owners in their capacity as owners:									
Issue of new shares (in cash)		476,141	-	-	-	-	-	-	476,141
Transfer to legal reserve	29	-	(254,193)	254,193	-	-	-	-	
Transfer to Reserve for remeasurements on transition date	27	-	(1,113,330)		1,113,330				
Transfer to Regulatory Reserve	31	-	(161,169)	-	-	161,169	-	-	
Dividends paid	27	-	(547,817)	-	-	-	-	-	(547,817)
Transfer to capital	27	1,683	-	-	(1,683)	-	-	-	
Transfer to retained earnings	28	-	40,247	-	(40,247)	-	-	-	
Directors' remuneration		-	(900)	-	-	-	-	-	(900)
		477,824	(2,037,162)	254,193	1,071,400	161,169	-	-	(72,576)
As at 30 June 2019		**2,704,558**	**635,731**	**1,985,197**	**1,071,400**	**465,306**	**(15,512)**	**100**	**6,846,780**

The notes on pages 16 to 73 are an integral part of these financial statements.

DASHEN BANK SHARE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 ETB'000	2018 ETB'000
Cash flows from operating activities			
Cash generated from operations	33	1,463,157	4,328,432
Income tax paid	13d	(281,328)	(223,655)
Defined benefit paid	24a	(2,833)	(3,016)
Directors' remuneration paid		(900)	(900)
Net cash generated from operating activities		**1,178,096**	**4,100,861**
Cash flows from investing activities			
Purchase of bills and bonds	16c	(2,126,622)	(1,827,884)
Purchase of shares	16a	(5,290)	(19,693)
Purchase of intangible assets	20	(13,408)	(93,324)
Purchase of property and equipment	21	(363,065)	(501,022)
Purchase of investment property	19	(816)	(2,972)
Proceeds from sale of property and equipment	33	1,663	4,606
Net cash used in investing activities		**(2,507,538)**	**(2,440,289)**
Cash flows from financing activities			
Dividends paid	27	(547,817)	(353,037)
Proceeds from issued shares	25	476,142	82,663
Net cash used in financing activities		**(71,675)**	**(270,374)**
Net (decrease)/increase in cash and cash equivalents		**(1,401,117)**	**1,390,198**
Cash and cash equivalents at 1 July	14	5,270,058	3,879,860
Cash and cash equivalents at 30 June	14	**3,868,941**	**5,270,058**

The notes on pages 16 to 73 are an integral part of these financial statements.

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1 General information

Dashen Bank Share Company ("Dashen" or the "Bank") is a private Commercial Bank domicile 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 Banking Business Proclamation No. 84/1994. The Bank registered office is at:

Dashen Bank Share Company
Headquarter Building
Sudan Street
Addis Ababa
Ethiopia

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

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the period ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

The financial 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, are disclosed in Note 3.

2.2.1 Going concern

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

2.2.2 Changes in accounting policies and disclosures

a. New Standards, amendments, interpretations issued effective and adopted during the year

The Bank has initially adopted IFRS 9 and IFRS 15 effective from 1 July 2018

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying IFRS 9 is mainly attributed to the following:

- an increase in the scope impairment of on and off balance sheet credit risk exposures
- additional disclosures related to IFRS 9.

2 Summary of significant accounting policies (Continued)

2.2.2 Changes in accounting policies and disclosures (Continued)

a. New Standards, amendments, interpretations issued effective and adopted during the year (continued)

IFRS 9 - Financial Instruments

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

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2019, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 2.5.

Transition from IAS 39 to IFRS 9

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

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

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

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

IFRS 15 - Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The standard specifies how and when the Company will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The Bank applied IFRS 15 on 1 January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognized at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018 without restating comparative periods.

The application of IFRS 15 has no material impact and no adjustment to retained earnings was required.

2 Summary of significant accounting policies (Continued)

2.2.2 Changes in accounting policies and disclosures (Continued)

b. New standards, amendments and interpretations issued but not adopted

The Bank does not plan to adopt these standards early. These are summarized below:

New Standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Prepayment Features with Negative Compensation	1-Jan-19
IAS 28 Long-term Interests in Associates and Joint Ventures	1-Jan-19
IFRS 16 Leases	1-Jan-19
IFRIC 23 Uncertainty over income tax treatments	1-Jan-19
IFRS 17 Insurance contracts	1-Jan-22
Annual improvements cycle (2015-2017)	1-Jan-19
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1-Jan-19
IFRS 3 Definition of a Business	1-Jan-20
Amendments to references to the Conceptual Framework in IFRS Standards	1-Jan-20
Amendments to IAS 1 and IAS 8 Definition of Material	1-Jan-20

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). Of those standards that are not yet effective, IFRS 16, IAS 19, amendments to IAS 1 and IAS 8 and IFRIC 23 are expected to have a significant effect on the Bank's financial statements in the period of initial application.

IFRS 16 - Leases

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

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

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2 Summary of significant accounting policies (Continued)

2.2.2 Changes in accounting policies and disclosures (Continued)

b. New standards, amendments and interpretations issued but not adopted (continued)

IFRIC 23 Uncertainty over income tax treatments (Continued)

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- On amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period;
- The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI);
- Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year- end,
- Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement and
- The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 19.

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendment also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

Other Standards

The following amended standards are not expected to have a significant impact on the financial statements of the Bank:

- Annual improvement cycle (2015 - 2017) - various standards
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- IFRS 3 Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts

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).

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2 Summary of significant accounting policies (Continued)

2.3 Foreign currency translation (Continued)

b) *Transactions and balances*

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

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as FVTOCI, are included in other comprehensive income.

2.4 Recognition of income and expenses

Revenue is measured as the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of taxes or duty.

Revenue is recognised at an amount that reflects the consideration to which the Bank expects to be entitled for performing its services for a customer. Income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises income when it has fulfilled its obligation and the right to receive the related sum as assured.

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Bank's activities. Income is recognised when it is probable that the economic benefits associated with a transaction will flow to the Bank and the amount of income, and associated costs incurred or to be incurred can be measured reliably.

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

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.

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2 Summary of significant accounting policies (Continued)

2.4 Recognition of income and expenses (Continued)

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

2.5 Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.5.1 Financial assets and Financial liabilities

a) Initial recognition and measurement

The Bank shall initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Other operating income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised.

If fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss). in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

b) Classification and subsequent measurement

(i) Financial assets

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

The Bank shall measure a financial asset at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

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

A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

b) Classification and subsequent measurement (continued)

(i) Financial assets (Continued)

On initial recognition, an equity investment that is held for trading shall be classified at FVTPL. However, for equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All other financial assets that do not meet the classification criteria at amortised cost or FVOCI, above, shall be classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis shall be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

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

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

b) Classification and subsequent measurement (continued)

(ii) *Financial Liabilities*

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

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

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

(iii) *Classification of financial assets and financial liabilities on the date of initial application of IFRS 9*

The following table shows the original measurement categories and amounts in accordance with IAS 39 as at 30 June 2018 and the new measurement categories and amounts under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 July 2018.

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**New carrying amount under IFRS 9 ETB'000**
Cash and balances with banks	Loans and receivables	Amortised cost	7,040,819
Loans and advances to customers	Loans and receivables	Amortised cost	23,060,129
Investment securities: Available for sale	Available for sale	FVOCI	71,544
Investment securities: Loans and receivables	Loans and receivables	Amortised cost	10,174,538
Other financial assets at amortised cost	Loans and receivables	Amortised cost	339,217
Total financial assets			**40,686,247**
Financial liabilities			
Deposits from customers	Amortised cost	Amortised cost	35,986,800
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	Amortised cost	2,829,693
Total financial liabilities			**38,816,493**

The new carrying amount of financial instruments under IFRS 9 is arrived as follows:

	Original carrying amount under IAS 39 ETB'000	**Re-measurement ETB'000**	**New carrying amount under IFRS 9 ETB'000**
Cash and balances with banks	7,041,058	(239)	7,040,819
Loans and advances to customers	23,057,535	2,594	23,060,129
Investment securities: Available for sale	54,848	16,696	71,544
Investment securities: Loans and receivables	10,175,047	(509)	10,174,538
Other financial assets at amortized cost	311,995	27,222	339,217
Total financial assets	**40,640,483**	**45,764**	**40,686,247**
Financial liabilities			
Deposits from customers	35,986,800	-	35,986,800
Other financial liabilities (including ECL on loan commitments and guarantees)	2,829,672	21	2,829,693
Total financial liabilities	**38,816,472**	**21**	**38,816,493**

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

b) Classification and subsequent measurement (continued)

(iii) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2.5. The application of these policies resulted in the reclassifications set out in the table above and explained below.

On the adoption of IFRS 9, certain financial assets such as cash and cash equivalents, loans and advances to customers: both interest bearing and interest free and treasury bills and bonds (NBE bills and government bonds) were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

Further, equity investment securities were reclassified out of available-for-sale categories to FVOCI at their then fair values.

On the adoption of IFRS 9, other financial assets such accounts receivables, uncleared effects: both local and foreign and guarantee for overseas employment agencies were reclassified out of the loans and receivable to amortized cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.

The following table summarises the impact of transition to IFRS 9 on the opening balance of the fair value reserve, regulatory risk reserve and retained earnings.

Fair value reserve	**Impact of adopting IFRS 9 at 1 July 2018**
	ETB'000
Closing balance under IAS 39 (30 June 2018)	-
Reclassification of investment securities (equity) measured at cost from available-for- sale to FVOCI	16,697
Related tax	(5,009)
Adjusted opening balance under IFRS 9 (1 July 2018)	**11,688**
Regulatory risk reserve (difference between IFRS and NBE provisions)	
Closing balance under IAS 39 (30 June 2018)	274,329
Recognition of expected credit losses under IFRS 9 on loans and advances to customers (on balance sheet)	29,808
Recognition of expected credit losses under IFRS 9 on loan commitments and financial guarantee contracts (off balance sheet)	-
Adjusted opening balance under IFRS 9 (1 July 2018)	**304,137**
Retained earnings	
Closing balance under IAS 39 (30 June 2018)	1,656,888
Recognition of expected credit losses under IFRS 9 on other financial assets such as bank balances, receivables and investment securities	(769)
Adjusted opening balance under IFRS 9 (1 July 2018)	**1,656,120**

c) Impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets (except equity investments), other than those carried at FVTPL, are impaired.

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

(iii) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

c) Impairment (Continued)

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

• debt investment securities that are determined to have low credit risk at the reporting date; and

• other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

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

(i) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It shall be measured as follows:

• for financial assets that are not credit-impaired at the reporting date (stage 1 and 2):as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);

• for financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;

• for undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

• for financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(ii) Restructured financial assets

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

• If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

• If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

(iii) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets').

A financial asset shall be considered 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

• significant financial difficulty of the borrower or issuer;

• a breach of contract such as a default or past due event;

• the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;

• it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

• the disappearance of an active market for a security because of financial difficulties.

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

c) *Impairment (Continued)*

(iii) Credit-impaired financial assets (Continued)

A loan that has been renegotiated due to deterioration in the borrower's condition is considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered as credit-impaired even when the regulatory definition of default is different.

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

Loss allowances for ECL is presented in the statement of financial position as follows:

• for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

• for loan commitments and financial guarantee contracts: generally, as a provision;

• where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

• for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognised in the fair value reserve.

(v) Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering the amount in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off is included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(vi) Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately.

Where the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset shall be treated as a transaction cost of acquiring it. The Bank shall consider the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

Where the Bank determines that the guarantee is not an integral element of the debt instrument, then it shall recognise an asset representing any prepayment of guarantee premium and a right to compensation for credit losses.

d) Derecognition

(i) Financial assets

Financial asset are derecognized when:

• The contractual right to the cash flows from the financial asset expires, or

• It transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or

• The Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

d) Derecognition (continued)

(i) Financial assets (Continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI are recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI are not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

(ii) Financial liabilities

Financial liabilities are derecognized when the contractual obligations are discharged or cancelled, or expire.

e) Modifications of financial assets and financial liabilities

(i) Financial assets

If the terms of a financial asset are modified, then the evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset is deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification is accounted for as follows:

• fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs shall be included in the initial measurement of the asset; and

• other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place.

Where the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank shall first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and shall be amortised over the remaining term of the modified financial asset.

Where such a modification is carried out because of financial difficulties of the borrower, then the gain or loss shall be presented together with impairment losses. In other cases, it shall be presented as interest income calculated using the effective interest rate method.

(ii) Financial liabilities

The Bank derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Where the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

f) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

g) Designation at fair value through profit or loss

(i) Financial assets

At initial recognition, the Bank may designate certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(ii) Financial liabilities

The Bank designate certain financial liabilities as at FVTPL in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise

2.5.2 Policy applicable before 1 July 2018

a) Recognition

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

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

b) Classification

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

(i) Financial assets at fair value through profit or loss

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

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

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

(ii) Loans and receivables

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

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2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

2.5.2 Policy applicable before 1 July 2018 (Continued)

b) Classification (continued)

(iii) Held to maturity

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

(iv) Available for sale

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

c) Identification and measurement of impairment of financial assets

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

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

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

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

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

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

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

d) De-recognition

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

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement (Continued)

2.5.2 Policy applicable before 1 July 2018 (Continued)

d) De-recognition (Continued)

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

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

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

e) Offsetting of financial assets and financial liabilities

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

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

f) Fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

g) Amortized cost measurement

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

2.6 Net interest income

2.6.1 Policy applicable after 1 July 2018

a) Effective interest rate and amortised cost

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

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2 Summary of significant accounting policies (Continued)

2.6 Net interest income (Continued)

2.6.1 Policy applicable after 1 July 2018 (Continued)

a) Effective interest rate and amortised cost (Continued)

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

b) Amortised cost gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018).

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

c) Calculation of interest income and expense

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

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

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

d) Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

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

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

2.6.2 Policy applicable before 1 July 2018

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost was recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the Bank estimated the cash flows considering all contractual terms of the financial instrument but did not consider future credit losses. The calculation included all fees and points paid or received, between the parties to the contract that were an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs were incremental costs that were directly attributable to the acquisition, issue or disposal of a financial asset or liability.

2 Summary of significant accounting policies (Continued)

2.6 Net interest income (Continued)

2.6.2 Policy applicable before 1 July 2018 (Continued)

Once a financial asset or a group of similar financial assets had been written down as a result of an impairment loss, interest income was recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Bank's trading operations are presented in net interest income.

2.7 Cash and cash equivalents

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

2.8 Property, plant and Equipment

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

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

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

Asset class	Depreciation rate (% or years)
Buildings	50 years
Elevator	15 years
Motor vehicles	10 years
Computer and Related Items	7 years
Medium-Lived Furniture and fittings	10 years
Long-Lived Furniture and fittings	20 years
Short-Lived Equipment	5 years
Long-Lived Equipment	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, plant 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 income statement when the asset is derecognised.

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

2.9 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 income statement 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.

2 Summary of significant accounting policies (Continued)

2.9 Intangible assets (Continued)

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:

Intangibles	6 Years
Intangibles-Contract Based	the contract period

2.10 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.

Investment properties are derecognised when they have been disposed. Gains or Losses arising from isposal 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 profit or loss statement.

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

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

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

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

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

2.12 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.

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2 Summary of significant accounting policies (Continued)

2.12 Impairment of non-financial assets (Continued)

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.

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

2.13 Other assets

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

(a) Prepayment

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

(b) Other receivables

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

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

2.14 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.6.1.
- Quantitative disclosures of fair value measurement hierarchy Note 4.6.2.
- Financial instruments (including those carried at amortised cost) Note 4.6.2.

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

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

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

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

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

2 Summary of significant accounting policies (Continued)

2.14 Fair value measurement (Continued)

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets.

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

2.15 Employee benefits

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

(a) *Defined contribution plan*

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively. Besides,4% of salary is held as provident fund in the name of these employees

ii) provident fund contribution, funding under this scheme is 7% and 15% by employees and the Bank respectively;

Both schemes are based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

(b) *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 Bank'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.

(c) *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. has 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.

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2 Summary of significant accounting policies (Continued)

2.15 Employee benefits (Continued)

(c) Defined benefit obligations

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

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. 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.

2.16 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.

2.17 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.

2.18 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.

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2 Summary of significant accounting policies (Continued)

2.19 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. The Directors periodically evaluate 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

2.20 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 Directors to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

- Capital management Note 4.5
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Notes 4.4.2

3.1 Judgements, Estimates and assumptions

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:

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 advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Bank's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

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 4.6 for further disclosures.

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3 Significant accounting judgements, estimates and assumptions (Continued)

Depreciation and carrying value of property, plant and equipment

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

Impairment of non-financial assets

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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

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 requirement. 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.

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4 Financial risk management (Continued)

4.1 Introduction (continued)

4.1.1 Risk management structure

Philosophy

Dashen Bank S.C. 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.

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.

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4 Financial risk management (Continued)

4.1 Introduction (Continued)

4.1.2 Risk measurement and reporting systems (Continued)

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.

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 be evaluated throughout the Bank including sub risk in each categories.

i. Credit Risk assessment
ii. Liquidity Risk assessment
iii. Market Risk assessment and
iv. Operational Risk assessment

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 conduct 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 Credit risk

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

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

The National Bank of Ethiopia (NBE) sets credit risk limit for a single borrower, one related party and all related parties to not exceed 25%, 15% and 35% of Bank's total capital amount as of the reporting quarterly period respectively.

Credit management is conducted as per the risk management policy and guideline approved by the Board of Directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where the Bank operates, regulations, and other factors.

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit quality analysis

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

	Stage 1 ETB'000	Stage 2 ETB'000	Stage 3 ETB'000	2019 Total ETB'000	2018 ETB'000
Loans and advances to customers at amortised cost					
Stage 1 – Pass	29,522,778	-	-	29,522,778	20,748,637
Stage 2 – Special mention	-	2,077,815	-	2,077,815	1,741,298
Stage 3 – Non performing	-	-	975,791	975,791	795,657
Total gross exposure	29,522,778	2,077,815	975,791	32,576,384	23,285,592
Loss allowance	(42,874)	(3,306)	(164,022)	(210,201)	(228,057)
Net carrying amount	29,479,904	2,074,509	811,770	32,366,183	23,057,535

Other financial assets (debt instruments)		2019 ETB'000 Gross exposure	Loss allowance	Net carrying amount
Cash and bank balances	12 Month ECL	6,090,133	(192)	6,089,941
- Financial assets at amortized cost	12 Month ECL	12,301,669	(615)	12,301,054
Other receivables and financial assets	Lifetime ECL	302,779	(4,717)	298,062
Totals		18,694,581	(5,524)	18,689,057

Other financial assets (debt instruments)		2018 ETB'000 Gross exposure	Loss allowance	Net carrying amount
Cash and bank balances	12 Month ECL	7,041,058	-	7,041,058
Investment securities (debt instruments)	12 Month ECL	10,175,047	-	10,175,047
Other receivables and financial assets	Lifetime ECL	343,051	(31,056)	311,995
Totals		**17,559,156**	**(31,056)**	**17,528,100**

Credit quality analysis disclosures for on balance sheet facilities are as follows:

Title	**12 month ECL ETB'000**	**Lifetime ECL not credit impaired ETB'000**	**Lifetime ECL credit impaired ETB'000**	**2019 Total ETB'000**
Pass	29,522,778	-	-	29,522,778
Special Mention	-	2,077,815	-	2,077,815
Non-Performing	-	-	975,791	975,791
Total Exposure	**29,522,778**	**2,077,815**	**975,791**	**32,576,384**
Loss Allowance	(42,874)	(3,306)	(164,022)	(210,201)
Carrying Amount	**29,479,904**	**2,074,509**	**811,770**	**32,366,183**

Credit quality analysis disclosures for off balance sheet facilities are as follows:

Title	**12 month ECL ETB'000**	**Lifetime ECL not credit impaired ETB'000**	**Lifetime ECL credit impaired ETB'000**	**2019 ETB'000 Total ETB'000**
Pass	2,553,662	-	-	2,553,662
Special Mention	-	-	-	-
Non-Performing	-	-	-	-
Total Exposure	**2,553,662**	**-**	**-**	**2,553,662**
Loss Allowance	(13)	-	-	(13)
Carrying Amount	**2,553,649**	**-**	**-**	**2,553,649**

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.2 Collateral held (Continued)

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of financial asset	Note	2019 ETB'000	2018 ETB'000	Principal type of collateral held
Loans and advances to customers	15	32,366,183	23,057,535	Cash and cash substitutes, share certificates, bank guarantees, Buildings, vehicles and machineries, negotiable bill of payments and deposits.

I Loans and advance to corporate customers

The general creditworthiness of a corporate 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. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 30 June 2019, the gross carrying amount of credit-impaired loans and advances to corporate customers amounted to ETB 552.9 million (2018: ETB 293.3 million) and the value of identifiable collateral held against those loans and advances amounted to ETB 1,444.4 million (2018: ETB 777.8 million).

II Investment securities designated as at FVTPL

At 30 June 2019, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL.

4.2.3 Amounts arising from ECL

I Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

II Credit risk grades

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

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

4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

a. Term loan exposures

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

b. Overdraft exposures

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

III Generating the term structure of PD

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

IV Determining whether credit risk has increased significantly

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

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

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

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

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

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

V Definition of Default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held),

4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

V Definition of Default (Continued)

• the borrower is more than 90 days past due on any material credit obligation to the Bank.

• Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

• it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

• qualitative: e.g. breaches of covenant;

• quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

• based on data developed internally and obtained from external sources.

• Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

To sum up, the definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

VI Incorporation of forward-looking information

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

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

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

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

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

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

Sector (Product)	Macro economic factors				
Agriculture, Personal loans and Staff loans	Inflation: Consumer price index, 2010 = 100, average	Exchange Rate: ETB/USD, average	GDP Expenditure: Exports of goods and services, USD per capita	Debt: Government domestic debt, ETBbn	Stratification: Household Spending, ETBbn
Domestic Trade & Services	GDP: GDP per capita, USD	GDP Expenditure: Imports of goods and services, USDbn	Inflation: Consumer price index, 2010 = 100, eop	Exchange Rate: ETB/USD, average	Fiscal: Total revenue, USDbn
Construction Machineries & Working Capital, Manufacturing and Real Estate	GDP EXPENDITURE: Exports of goods and services, USD per capita	Fiscal: Current expenditure, USDbn	Debt: Government domestic debt, ETBbn	-	-
Export and Import	GDP Expenditure: Exports of goods and services, ETBbn	GDP Expenditure: Imports of goods and services, ETBbn	Exchange Rate: Real effective exchange rate, index	GDP Expenditure: Private final consumption, USDbn	Debt: Total government debt, USDbn

The economic scenarios used as at 30 June 2019 included the following key indicators for Ethiopia for the years 2019 to 2023:

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4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

VI Incorporation of forward-looking information (Continued)

Macro-economic factor	2019	2020	2021
INFLATION: Consumer price index, 2010 = 100	317.4	349.1	384.0
GDP: GDP per capita, USD	836.0	928.0	1,019.0
GDP EXPENDITURE: Exports of goods and services, USD per capita	54.9	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	179.8	213.8	260.3
EXCHANGE RATE: ETB/USD	29.2	31.1	33.2
GDP EXPENDITURE: Imports of goods and services, USD bn	16.6	16.9	17.1
FISCAL: Current expenditure, USD bn	7.8	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETB bn	485.3	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	296.3	326.0	358.6
DEBT: Government domestic debt, ETB bn	642.7	752.0	872.3
EXCHANGE RATE: Real effective exchange rate, index	123.1	121.0	117.7
GDP EXPENDITURE: Private final consumption, USD bn	58.9	66.2	73.5
STRATIFICATION: Household Spending, ETB bn	1,707.6	1,926.3	2,149.3
FISCAL: Total revenue, USD bn	10.5	10.9	11.4
DEBT: Total government debt, USD bn	57.0	65.2	75.4

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

VII Modified financial assets

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

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

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

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

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

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

4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

VIII Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

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

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

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

IX Loss allowance

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

4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance (Continued)

	2019 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost (on balance sheet exposures)				
Balance as at 1 July 2018	61,063	6,395	160,598	228,056
Day one IFRS 9 transition adjustment	(43,837)	(4,337)	45,588	(2,586)
Adjusted balance at 1 July 2018	**17,226**	**2,058**	**206,186**	**225,470**
Transfer to stage 1 (12 months ECL)	5,809	(851)	(4,958)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(979)	2,182	(1,203)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(889)	(104)	994	-
Net re-measurement of loss allowance	20,163	(789)	(2,899)	16,475
New financial assets originated or purchased	6,317	1,146	78,091	85,555
Financial assets derecognised	(4,772)	(336)	(112,189)	(117,298)
Balance as at 30 June 2019	**42,874**	**3,306**	**164,022**	**210,201**

	2019 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost (off balance sheet exposures)				
Balance as at 1 July 2018	-	-	-	-
Day one IFRS 9 transition adjustment	21	-	-	21
Adjusted balance at 1 July 2018	**21**	**-**	**-**	**21**
Transfer to stage 1 (12 months ECL)	-	-	-	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	-	-	-	-
Transfer to stage 3 (Lifetime ECL credit impaired)	-	-	-	-
Net re-measurement of loss allowance	(98)	-	-	(98)
New financial assets originated or purchased	178	-	-	178
Financial assets derecognised	(87)	-	-	(87)
Balance as at 30 June 2019	**13**	**-**	**-**	**13**

	Cash and bank balances	**Investment securities (debt instruments)**	**Other receivables and financial assets**	**Total**
			2019 ETB'000	
Balance as at 1 July 2018	-	-	31,056	31,056
Day one IFRS 9 transition adjustment	239	509	(27,222)	(26,474)
Adjusted balance at 1 July 2018	**239**	**509**	**3,834**	**4,582**
Net remeasurement of loss allowance	(47)	106	883	942
Balance as at 30 June 2019	**192**	**615**	**4,717**	**5,524**

The following table provides a reconciliation for 2019 between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and the 'impairment losses on financial instruments' line item in the consolidated statement of profit or loss and other comprehensive income.

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4 Financial risk management (Continued)

4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance (Continued)

	Loans and advances to customers at amortised cost	Loan commitments and financial guarantee contracts	Other financial assets	Total charge/ (credit)
			2019	
	ETB'000	ETB'000	ETB'000	ETB'000
Net remeasurement of loss allowance	16,475	(98)	942	17,318
New financial assets originated or purchased	85,555	178	-	85,732
Financial assets derecognised	(117,298)	(87)	-	(117,385)
Total	**(15,269)**	**(8)**	**942**	**(14,334)**

4.2.4 Concentrations of credit risk

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

	2019 ETB'000	2018 ETB'000
Domestic trade and services	8,353,063	5,641,392
Manufacturing	6,378,044	4,246,346
Export	4,260,213	2,676,817
Real estate	3,854,383	2,479,341
Transport	2,390,683	2,524,324
Construction, machinery and working capital	2,134,085	2,034,005
Import	1,716,102	1,441,824
Mining	1,703,646	3,000
Staff housing loans	920,415	608,177
Loans and advances under litigation	328,167	318,249
Agriculture	280,802	296,200
Emergency staff loan	216,845	157,609
Advances on letters of credit	38,758	36,045
Personal	1,178	822,263
	32,576,384	**23,285,592**

4.2.5 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.

The Bank holds collateral against loans and receivables to customers in the form of bank guarantee, cash, residential, commercial and industrial property, fixed asset such as vehicles, plant and machinery. The Bank does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

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

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

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

4 Financial risk management (Continued)

4.2.6 Credit related commitments risks

The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

4.2.7 Statement of Prudential adjustments

During the year ended 30 June 2019, the Bank transferred an amount of ETB 191 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 IFRS 9 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.

	2019 ETB'000	2018 ETB'000
Suspended interest	154,377	135,155
Total impairment based on IFRS	(215,740)	(228,057)
Total impairment based on NBE Directives	526,668	367,231
	465,306	**274,329**

4.2.8 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; fixed asset such as vehicles, plant and machinery.

4.3 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.

4.3.1 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.

4.3.2 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.

2019	0 - 30 days ETB'000	31 - 90 days ETB'000	91 - 180 days ETB'000	181 - 365 days ETB'000	Over 1 year ETB'000
Deposits from customers	992,983	342,154	1,594,114	1,377,041	40,415,219
Other liabilities	1,312,938	1,763,929	475,115	406,532	33,765
Total financial	2,305,920	2,106,083	2,069,229	1,783,573	40,448,984

2018	0 - 30 days ETB'000	31 - 90 days ETB'000	91 - 180 days ETB'000	181 - 365 days ETB'000	Over 1 year ETB'000
Deposits from customers	1,511,577	1,777,216	3,903,209	4,926,128	23,868,668
Other liabilities	1,486,179	989,218	354,275	-	-
Total financial	2,997,757	2,766,434	4,257,484	4,926,128	23,868,668

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4 Financial risk management (Continued)

4.3.3 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 2019 are disclosed in the table below.

	Pledged as collateral	Others*	Available as collateral	Others**	Total
	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000
Cash and balances with banks	6,106	-	-	-	6,106
Loans and receivables	-	-	-	-	-
Investment securities	-	-	-	-	-
Non-financial assets	-	-	-	-	-
	6,106	-	-	-	6,106

* Represents assets that are pledged and it is restricted from using it for Operational purposes.

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

*** 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.

4.4 Market risk

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

4.4.1 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.

4.4.2 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.

2019	Interest Bearing ETB'000	Non-interest bearing ETB'000	Total ETB'000
Assets			
Cash and bank balances	1,636,387	4,453,554	6,089,941
Loans and advances to customers	32,361,312	4,871	32,366,183
Fianacial assets at amortised cost	12,301,054	-	12,301,054
Total	**46,298,753**	**4,458,425**	**50,757,178**
Liabilities			
Deposits from customers	42,385,089	2,336,421	44,721,510
Other liabilities	-	3,992,279	3,992,279
Total	**42,385,089**	**6,328,700**	**48,713,789**

30 June 2018	Interest Bearing ETB'000	Non-interest bearing ETB'000	Total ETB'000
Assets			
Cash and bank balances	32,319	7,008,739	7,041,058
Loans and advances to customers	22,911,969	145,566	23,057,535
Investment securities	10,175,047	54,848	10,229,895
Total	**33,119,335**	**7,209,153**	**40,328,488**

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4 Financial risk management (Continued)

4.4.2 Management of market risk (continued)

(i) Interest rate risk (Continued)

	Interest Bearing ETB'000	Non-interest bearing ETB'000	Total ETB'000
Liabilities			
Deposits from customers	34,822,050	1,164,749	35,986,799
Other liabilities	-	3,166,886	3,166,886
Total	**34,822,050**	**4,331,635**	**39,153,685**

(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.

Foreign currency denominated balances	2019 ETB'000	2018 ETB'000
Cash and bank balances	1,274,834	1,405,286
Liability	(2,774,407)	(1,961,332)
	(1,499,573)	**(556,046)**

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.

	2019 ETB'000		
	Currency Carrying Amount	10 % Depreciation	10 % Appreciation
Assets			
USD	1,132,584	(113,258)	113,258
GBP	10,428	(1,043)	1,043
Euro	79,293	(7,929)	7,929
Other	52,525	(5,253)	5,253
	1,274,830	(127,483)	127,483
Liabilities			
USD	2,524,268	252,427	(252,427)
GBP	9,914	991	(991)
Euro	153,754	15,375	(15,375)
Other	86,470	8,647	(8,647)
	2,774,406	277,441	(277,441)
Total increase/decrease	1,499,576	149,958	(149,958)
Tax charge at 30%	449,873	44,987	(44,987)
Effect on net Profit	**1,049,703**	**104,970**	**(104,970)**

	2018 ETB'000		
	Currency Carrying Amount	10 % Depreciation	10 % Appreciation
Assets			
USD	1,319,894	(131,989)	131,989
GBP	17,268	(1,727)	1,727
Euro	45,053	(4,505)	4,505
Other	23,071	(2,307)	2,307
	1,405,286	(140,529)	140,529
Liabilities			
USD	1,842,781	184,278	(184,278)
GBP	4,388	439	(439)
Euro	101,062	10,106	(10,106)
Other	13,101	1,310	(1,310)
	1,961,332	196,133	(196,133)
Total increase/decrease	556,046	55,605	(55,605)
Tax charge at 30%	166,814	16,681	(16,681)
Effect on net Profit	**389,232**	**38,923**	**(38,923)**

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4 Financial risk management (Continued)

4.5 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.

4.5.1 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 18 August 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.

	2019 ETB'000	2018 ETB'000
Capital		
Capital contribution	2,704,558	2,226,734
Retained earnings	635,731	1,656,888
Reserve for IFRS 1 remeasurements on transition date	1,071,400	-
Legal reserve	1,985,197	1,731,004
Special reserve	100	100
Regulatory Risk Reserve	465,306	274,329
Other reserves	(15,512)	(22,444)
	6,846,780	5,866,611
Risk weighted assets		
Risk weighted balance for on-balance sheet items	31,043,469	26,565,920
Credit equivalents for off-balance Sheet Items	7,376,663	4,893,680
Total risk weighted assets	38,420,132	31,459,600
Risk-weighted Capital Adequacy Ratio (CAR)	18%	19%
Minimum required capital	8%	8%
Excess	**10%**	**11%**

4.6 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.

4.6.1 Valuation models

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

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

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

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

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

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

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4 Financial risk management (Continued)

4.6.2 Financial instruments 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.

2019	Carrying ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Financial assets					
Cash and bank balances	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Financial assets at fair value through OCI	89,897		89,897		89,897
Financial assets at amortised cost	-	-		-	-
Total	**89,897**	**-**	**89,897**	**-**	**89,897**

Financial liabilities	Carrying amount ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Deposits from customers	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

2018	Carrying ETB'000	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000	Total ETB'000
Financial assets					
Cash and bank balances	-	-	-	-	-
Loans and receivables		-	-	-	-
Financial assets at fair value through OCI	54,848	-	54,848	-	54,848
Financial assets at amortised cost	-	-	-	-	-
Total	**54,848**	**-**	**54,848**	**-**	**54,848**
Financial liabilities					
Deposits from customers	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total	**-**	**-**	**-**		**-**

4.6.3 Valuation technique using significant unobservable inputs – Level 3

The Bank has no financial asset measured using significant unobservable inputs.

4.6.4 Transfers between the fair value hierarchy categories

During the 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.

4.7 Offsetting financial assets and financial liabilities

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

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		2019 ETB'000	2018 ETB'000
5	**Interest income**		
	Interest on loans and advances	3,944,164	2,968,828
	Interest income from NBE bills and government bonds	355,314	273,676
	Interest on foreign deposits	1,854	1,399
		4,301,332	3,243,903

Included within various line items under interest income for the year ended 30 June 2019 is a total of ETB 19.2 million (30 June 2018: ETB 16.2 million) relating to impaired financial assets.

		2019 ETB'000	2018 ETB'000
6	**Interest expense**		
	Interest on saving deposits	1,515,628	1,083,966
	Interest on demand deposits	1,041	9,480
	Interest on time deposits	411,038	339,351
		1,927,707	1,432,797
7	**Net fees and commission income**		
	Fees and commission income		
	Service charges	350,570	293,608
	Commission on CPOs and FTs	323,221	223,374
	Commission on letters of credit	239,988	211,192
	Transaction fees	73,426	60,069
	Commission on guarantees issued	38,627	26,322
	Credit related commissions	739	495
		1,026,571	815,060
	Fee and commission expense	(238,520)	(159,075)
	Net fees and commission income	788,051	655,985
8	**Other operating income**		
	Gain on foreign exchange	101,417	146,418
	Sundry income	73,483	59,856
	Rental income	70,051	55,166
	Investment income	5,290	5,302
		250,241	266,742
9	**Loan impairment credit**		
	Loans and receivables - reversal of provision (note 17c)	15,269	107,222
	Loans and receivables - charge for the year	-	(2,335)
		15,269	104,887
10	**Impairment losses on other assets**		
	Receivables - charge for the year (note 17c)	(883)	(13,199)
	Cash and bank balances - charge for the year (note 17c)	47	-
	Investment securities (debt instruments) - charge for the year (note 17c)	(106)	-
	Loan commitments and financial guarantee contracts charge for the year (note 17c)	8	-
		(934)	(13,199)
11	**Employee Benefits expenses**		
	Salaries and wages	939,748	780,910
	Staff allowances	184,026	150,980
	Other staff expenses	132,659	54,531
	Pension costs – Defined contribution plan	110,810	87,860
	Retirement benefits expense - defined benefit plan (note 25b)	27,158	17,539
	Employee Share scheme	-	2,990
		1,394,401	1,094,810

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12 Other operating expenses

	2019 ETB'000	2018 ETB'000
Rental expense	265,005	240,987
Depreciation	155,275	109,658
Advertisement and promotions	53,195	49,913
Donations and contributions	35,502	26
Repairs and maintenance	35,499	29,772
Communication expenses	31,429	15,162
Printing and stationary	30,392	23,202
Amortisation expense of intangible assets	29,628	17,689
Sundry expenses	25,114	24,622
Depreciation expense of investment property	16,885	17,000
Representation allowance	13,293	10,679
Transportation	11,997	7,404
Utilities	11,727	6,668
Insurance	11,081	9,262
Per diems	9,806	9,482
Entertainment	8,301	9,099
Office expenses	2,448	2,165
Operating lease	1,640	1,330
Wages	1,574	1,226
Directors' related expenses	1,374	886
Audit fees	1,184	675
Legal and professional fees	365	266
Postage and stamps	103	131
Loss on disposal of fixed assets	7	-
	752,824	587,301

13 Company income and deferred tax

13a Current income tax

Current income tax (note 13b)	242,126	229,791
Deferred income tax/(credit) to profit or loss (note 13e)	20,128	(15,335)
Total charge to profit or loss	262,254	214,456
Tax (credit) on other comprehensive income	2,970	(10,491)
Total tax in statement of comprehensive income	265,224	203,965

13b Taxation charge

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

	2019 ETB'000	2018 ETB'000
Profit before tax	1,279,026	1,143,410
Non-deductible expenses		
Depreciation and amortization per IFRS	201,788	144,347
Amortisation of prepaid asset	-	(4,877)
Impairment reversal as per IFRS	(15,269)	(91,748)
Impairment of other assets	934	-
Severance expense	27,158	17,539
Entertainment	8,301	9,109
Legal provision reversal	(2,798)	(1,282)
Penalty	210	-
Donation	102	26
Par value of shares issued to management staff	-	2,990
Loss on disposal of property and equipment	7	2,700
Less:		
Interest income on NBE bills - exempted income	(355,314)	(273,678)
Depreciation as per Tax	(224,585)	(143,936)
Provision for loss on loan and advances as per Tax Law	(102,157)	(32,684)
Interest on staff loans	-	7,610
Dividend income taxed at source	(5,290)	(5,302)
Severance and farewell benefits paid	(2,833)	(3,016)
Interest on foreign deposits (taxed at 10%)	(1,854)	(1,399)
Gain on disposal of asset	(957)	(4,304)
Taxable income	806,469	765,505
Current tax expense (30%)	241,941	229,652
Current tax expense - income on foreign deposit (10%)	185	140
Total current tax expense	242,126	229,791

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13 Company income and deferred tax (Continued)

13c 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:

	2019 ETB'000	2018 ETB'000
Profit before tax	1,279,026	1,143,410
Profit tax at the applicable rate of 30%	383,708	343,023
Tax effect of income taxed at source	(207,897)	(137,012)
Tax effect of disallowed expenses	66,130	23,641
Tax effect of income on foreign deposit (10%)	185	140
Tax expense	242,126	229,791

13d Current income tax liability	2019 ETB'000	2018 ETB'000
Balance at the beginning of the year	281,328	275,192
Charge for the year (note 13c)	242,126	229,791
Withholding tax	(861)	(641)
Payment during the year	(280,467)	(223,014)
Balance at the end of the year	242,126	281,328

13e Deferred income tax

The analysis of deferred tax liabilities/ assets is as follows:

To be recovered after more than 12 months	(4,953)	18,145
To be recovered within 12 months	-	-
	(4,953)	18,145

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

Deferred income tax assets/(liabilities):	At 1 July 2018 ETB'000	Credit/ (charge) to P/L ETB'000	Credit/ (charge) to equity ETB'000	At 30 June 2019 ETB'000
Property, plant and equipment	(29,399)	(16,873)	-	(46,272)
Post employment benefit obligation	37,925	(3,254)	-	34,671
Adjustment on initial application of IFRS 9	-	-	(5,009)	(5,009)
Unrealized fair value gain/(loss)	(134)	-	(3,918)	(4,052)
Actuarial gain /loss	9,752	-	5,957	15,709
Total deferred tax assets/(liabilities)	18,145	(20,128)	(2,970)	(4,953)

Deferred income tax assets/(liabilities):	At 1 July 2017 ETB'000	Credit/ (charge) to P/L ETB'000	Credit/ (charge) to equity ETB'000	At 30 June 2018 ETB'000
Property, plant and equipment	(29,026)	(373)	-	(29,399)
Post employment benefit obligation	22,218	15,708	-	37,925
Unrealized fair value gain/(loss)	(73)	-	(61)	(134)
Actuarial gain/loss	(799)	-	10,552	9,752
Total deferred tax assets/(liabilities)	(7,681)	15,335	10,491	18,145

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		2019	2018
14	**Cash and balances with banks**	**ETB'000**	**ETB'000**
	Cash in hand	2,252,845	2,231,522
	Balance held with National Bank of Ethiopia	2,583,720	3,442,633
	Deposits with local banks	1,537	21,072
	Deposits with foreign banks	1,152,123	1,345,831
	Treasury Bills	99,908	-
		6,090,133	7,041,058
	Impairment allowance-Bank balances	(192)	-
		6,089,941	7,041,058
	Maturity analysis		
	Current	3,868,941	5,270,058
	Non-Current	2,221,000	1,771,000
		6,089,941	7,041,058

Cash and cash equivalents in the statement of cash flows differs from the balance on the statement of financial position as the reserve account balance maintained with the National Bank of Ethiopia is restricted for current use.

		2019	2018
15	**Loans and advances**	**ETB'000**	**ETB'000**
15a	**Loans and advances to customers**		
	Domestic trade and services	8,353,063	5,641,392
	Manufacturing	6,378,044	4,246,346
	Export	4,260,213	2,676,817
	Real estate	3,854,383	2,479,341
	Transport	2,390,683	2,524,324
	Construction, machinery and working capital	2,134,085	2,034,005
	Import	1,716,102	1,441,824
	Personal	1,703,646	822,263
	Staff housing loans	920,415	608,177
	Loans and advances under litigation	328,167	318,249
	Agriculture	280,802	296,200
	Emergency staff loan	216,845	157,609
	Advances on letters of credit	38,758	36,045
	Mining	1,178	3,000
	Gross amount	32,576,384	23,285,592
	Less:		
	Impairment loss allowance (note 4.2.3)	(210,201)	(228,057)
		32,366,183	23,057,535
	Maturity analysis		
	Current	13,108,304	9,046,416
	Non-Current	19,257,879	14,011,119
		32,366,183	23,057,535

		2019	2018
16	**Investment security**		
16a	**Financial Assets at fair value through OCI**	**ETB'000**	**ETB'000**
	Balance at the beginning of the year	54,848	34,954
	Adjustment on initial application of IFRS 9 (note 32)	16,697	-
	Changes in the fair value of financial assets at FVTOCI	13,062	-
	Fair value gain on equity instruments	-	201
	Additional investments made during the year	5,290	19,693
	Balance at the end of the year	89,897	54,848

16b The Bank holds equity investments in Ethswitch S.C of 5.55% (2018: 5.55%), Nyala Insurance S.C of 5% (2018: 5%), Ethiopian Reinsurance S.C of 0.22% (2018: 2%) and Society of Worldwide Interbank Financial Telecommunication (SWIFT) S.C of 0.005% (2018: 0.005%) and Addis Africa International Conventional Center of 1.9% (2018: 1.9%). These investments are unquoted equity securities measured at cost except for SWIFT which has been measured at fair value.

		2019	2018
16c	**Financial Assets at amortised cost**		
	NBE Bills	12,295,430	10,168,781
	Ethiopian Government bonds	6,239	6,266
	Gross amount	12,301,669	10,175,047
	Less:		
	Impairment allowance for financial assets (note 17c)	(615)	-
		12,301,054	10,175,047
	Maturity analysis		
	Current	1,926,498	1,318,487
	Non-Current	10,374,556	8,856,559
		12,301,054	10,175,047

17 Other assets

17a Financial assets at amortised cost

	2019 ETB'000	2018 ETB'000
Clearing account balances	203,611	209,046
Staff advances	1,022	1,349
Sundry receivables	98,146	132,656
Gross amount	302,779	343,051
Impairment allowance for other assets (note 17b)	(4,717)	(31,056)
	298,062	311,995
Non-financial assets		
Prepayments	864,536	776,691
Prepaid operating lease rentals	50,789	51,763
Prepaid staff benefit	92,340	74,924
Acquired properties	67,344	60,398
Inventory	70,834	49,862
	1,145,843	1,013,638
Gross amount	1,443,905	1,325,633
Maturity analysis		
Current	298,062	428,889
Non-Current	1,145,843	896,744
	1,443,905	1,325,633

17b Impairment allowance for other assets

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

	2019	2018
Balance at the beginning of the year	(31,056)	(17,857)
Initial application of IFRS 9 (note 4.2.3)	27,222	-
Charge for the year (note 4.2.3)	(883)	(13,199)
Balance at the end of the year	(4,717)	(31,056)

17c Movement of Impairment Loss Allowance

	As at 30 June 2018 (IAS 39) ETB'000	Day 1 Adjustment ETB'000	Charge (reversal) for year ETB'000	As at 30 June 2019 ETB'000
Loans and advances	228,056	(2,586)	(15,269)	210,201
Guarantees	-	14	(14)	-
Financial assets at amortized cost	-	509	106	615
Other assets	31,056	(27,222)	883	4,717
Letter of credit (LC)	-	6	7	13
Bank balances	-	239	(47)	192
Total	**259,112**	**(29,039)**	**(14,334)**	**215,738**

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 2.20.

Name of operation	% of ownership interest		2019 ETB'000	2018 ETB'000
Tana Building Administration	40%			
		Total Assets	174,505	189,013
		Total liabilities	3,086	2,758
		Total Income	14,561	14,398
		Total Expenses	2,962	2,552

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19 Investment properties

	2019 ETB'000	2018 ETB'000
Cost:		
At the beginning of the year	847,601	844,628
Acquisitions	816	2,972
At the end of the year	848,416	847,601
Accumulated depreciation:		
At the beginning of the year	33,705	16,705
Charge for the year	17,346	17,000
At the end of the year	51,051	33,705
Net book value	797,365	813,896

19a Amounts recognised in profit or loss for investment properties

	2019 ETB'000	2018 ETB'000
Rental income	64,149	24,744
Depreciation of investment property	17,346	17,000

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

Investment 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 currently no restrictions on the realizability of these properties.

Investment property is initially measured at fair value as deemed cost 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 as at 30 June 2019 is ETB 1.49 billion (2018: ETB 0.813 billion). 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.

19c Fair value hierarchy

Details of the Bank's Investment properties and information about the fair value hierarchy at 30 June 2019 and 30 June 2018 are as follows:

	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000
2019			
Investment properties	-	-	1,499,558
2018			
Investment properties	-	-	813,896

19d Investment properties include ETB 27m freehold land with indefinite economic life and not being depreciated.

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20 Intangible Assets

	License	Software	Total
	ETB'000	ETB'000	ETB'000
Cost:			
As at 1 July 2017	44,653	73,274	117,927
Acquisitions	-	93,324	93,324
As at 30 June 2018	44,653	166,598	211,251
As at 1 July 2018	44,653	166,598	211,251
Additions	-	13,408	13,408
Write off	-	(5)	(5)
As at 30 June 2019	44,653	180,001	224,654
Accumulated amortization and impairment losses			
As at 1 July 2017	(19,136)	(48,808)	(67,944)
Amortization for the year	(6,380)	(11,310)	(17,690)
As at 30 June 2018	(25,516)	(60,118)	(85,634)
As at 1 July 2018	(25,516)	(60,118)	(85,634)
Amortization for the year	(6,388)	(23,240)	(29,628)
Write off	-	5	5
As at 30 June 2019	(31,904)	(83,353)	(115,257)
Net book value			
As at 30 June 2018	19,137	106,480	125,617
As at 30 June 2019	12,748	96,648	109,397

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21 Property and equipment

	Buildings	Motor vehicles	Offic and other equipment	Furniture and fittings	Computer equipment	Construction in progress	Total
	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000	ETB'000
Cost:							
As at 1 July 2017	554,581	193,617	179,005	183,968	393,528	1,349,337	2,854,036
Additions	717	81,563	28,382	26,378	101,201	262,781	501,022
Disposals	-	(6,128)	(41)	-	-	-	(6,169)
As at 30 June 2018	555,298	269,052	207,346	210,346	494,729	1,612,118	3,348,889
As at 1 July 2018	555,298	269,052	207,346	210,346	494,729	1,612,118	3,348,889
Additions	14,258	12,795	72,000	29,093	127,173	108,221	363,540
Reclassifications	1,360,882	-	-	(476)	-	(1,360,882)	(476)
Disposals	-	(1,226)	(439)	(261)	(335)	-	(2,262)
As at 30 June 2019	1,930,437	280,621	278,907	238,703	621,566	359,458	3,709,692
Accumulated depreciation							
As at 1 July 2017	(10,210)	(75,754)	(89,775)	(53,987)	(201,731)	-	(431,457)
Charge for the year	(10,238)	(16,305)	(20,306)	(14,241)	(48,617)	-	(109,707)
Disposals	-	5,866	8	-	-	-	5,874
As at 30 June 2018	(20,448)	(86,193)	(110,073)	(68,228)	(250,348)	-	(535,290)
As at 1 July 2018	(20,448)	(86,193)	(110,073)	(68,228)	(250,348)	-	(535,290)
Charge for the year	(24,139)	(23,973)	(25,016)	(18,144)	(64,003)	-	(155,274)
Disposals	-	1,165	175	61	154	-	1,555
As at 30 June 2019	(44,587)	(109,001)	(134,914)	(86,311)	(314,197)	-	(689,009)
Net book value							
As at 30 June 2018	534,850	182,859	97,273	142,118	244,381	1,612,118	2,813,599
As at 30 June 2019	1,885,851	171,620	143,993	152,392	307,370	359,458	3,020,684

21.1 Construction in progress represents directly attributable costs related to construction of buildings at Arat Killo, Ras Mekonnen, Shewaber and Dessie.

21.2 Upon impairment review, the net book value of property, plant and equipment does not exceed its recoverable value as at the end of the reporting period. Thus, the management are of the opinion that allowance for impairment is not required

21.3 Property and equipment include ETB 33m freehold land with indefinite economic life and not being depreciated.

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22 Deposits from customers

22a Deposits from Conventional customers

	2019 ETB'000	2018 ETB'000
Demand deposits	10,074,111	8,291,393
Savings deposits	29,460,203	22,777,779
Time deposits	4,093,083	4,781,226
	43,627,397	35,850,398

22b Deposits from Interest free banking Customers

	2019 ETB'000	2018 ETB'000
Qard deposits	106,238	9,245
Wadia saving deposits	987,875	127,157
	1,094,113	136,402
Total Deposits	44,721,510	35,986,800
Maturity analysis		
Current	4,306,291	12,118,132
Non-Current	40,415,219	23,868,668
	44,721,510	35,986,800

23 Other liabilities

	2019 ETB'000	2018 ETB'000
Financial liabilities		
Accruals	110,522	54,068
Banking instruments payables	932,309	983,360
Customers payables	631,814	488,687
Deferred income	25,000	8,135
Equity and other blocked account	37,087	28,323
Margins held on letters of credit	2,115,724	1,115,584
Staff payables	139,823	151,515
	3,992,279	2,829,672
Non-financial liabilities		
Defined contribution liabilities	3,034	2,705
Sundry payables	205,562	301,057
Stamp duty payable	11,154	13,565
Withholding tax and Valued added tax payables	3,818	5,556
Other tax payable	18,911	14,330
Impairment allowance for LCs & Guarantees	13	-
Provision	350	-
	242,842	337,213
Gross amount	4,235,121	3,166,885
Maturity analysis		
Current	4,234,758	2,962,647
Non-Current	363	204,238
	4,235,121	3,166,885

24 Defined benefits obligation

Severance, retirement benefit and gratuity 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. has 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.

The Bank also pays employees who retire with 15 years or more of service a reward gratitude of two (2) month's salary calculate on the basis of the last salary of the employee.

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

24a Liability recognised in the financial position

	2019 ETB'000	2018 ETB'000
	167,936	123,754
The movement in the defined benefit obligation over the years is as follows:		
At the beginning of the year	123,754	74,059
Current service cost (note 24b)	10,879	6,296
Interest cost (note 24b)	16,279	11,243
Remeasurement losses (note 24c)	19,857	35,172
Benefits paid	(2,833)	(3,016)
At the end of the year	167,936	123,754

24b Amount recognised in the profit or loss

	2019	2018
Current service cost (note 11)	10,879	6,296
Interest cost (note 11)	16,279	11,243
	27,158	17,539

24c Amount recognised in other comprehensive income:

	2019	2018
Remeasurement (gains)/losses arising from changes in demographic assumptions	9,258	25,430
Remeasurement (gains)/losses arising from changes in the economic assumptions	10,599	9,742
	19,857	35,172

24d The significant actuarial assumptions were as follows:

i) *Financial Assumption Long term Average*

	2019	2018
Discount Rate (p.a)	11.25%	12.22%
Long term salary increases	12%	12.00%

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24d The significant actuarial assumptions were as follows: (Continued)

i) *Financial Assumption Long term Average (Continued)*

Discount rate

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

In Ethiopia, there is neither a deep market in corporate nor Government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market-determined. IAS19 does not provide guidance for setting the discount rate in a country with limited Government bonds or instruments.

The Ethiopian Banking Association (EBA) has therefore advised on the use a discount rate of 11.25% as at 30 June 2019 and 12.22% as at 30 June 2018 respectively.

Long term salary increases

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

ii) *Mortality in Service*

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

	2019		2018	
Age	**Male Mortality rate**	**Female Mortality rate**	**Male Mortality rate**	**Female Mortality rate**
20				
25	0.003%	0.223%	0.306%	0.233%
30	0.003%	0.228%	0.303%	0.228%
35	0.004%	0.314%	0.355%	0.314%
40	0.004%	0.279%	0.405%	0.279%
45	0.515%	0.319%	0.515%	0.319%
50	0.450%	0.428%	0.450%	0.428%
55	0.628%	0.628%	0.628%	0.628%
60	0.979%	0.979%	0.979%	0.979%
	1.536%	1.536%	1.536%	1.536%

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 1% at the youngest ages and 2% at age 50 and above.

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

		Impact on defined benefit obligation 2019		2018	
	Change in assumption	Impact of an increase ETB'000	Impact of an Decrease ETB'000	Impact of an increase ETB'000	Impact of a decrease ETB'000
Discount rate	0.5%	(5,893)	15,647	-	-
Discount rate	1%	-	-	(1,535)	1,576

24d The significant actuarial assumptions were as follows: (Continued)

(ii) *Withdrawal from Service (Continued)*

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 7 years (30 June 2018: 6 years)

25 Ordinary share capital	**2019 ETB'000**	**2018 ETB'000**
Issued and fully paid:		
2,704,558 ordinary shares of ETB 1,000 each	2,704,558	2,226,734

As at 30 June 2019, the authorised share capital of the Bank comprised of ETB 2,704,558 (2018: ETB 2,226,734) ordinary shares with a par value of ETB 1,000. The issued shares as at 30 June 2019 are 2,704,558 (2018: 2,226,734) fully paid. Issued and fully paid ordinary shares, which have a par value of ETB 1,000, 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.

	2019 ETB'000	**2018 ETB'000**
Profit attributable to shareholders	1,016,773	928,954
Weighted average number of ordinary shares in issue	2,494	2,162
Basic and diluted earnings per share (ETB)	408	430

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potentially dilutive shares at the reporting date (30 June 2018:nil), hence the basic and diluted loss per share have the same value.

27 Retained earnings	**2019 ETB'000**	**2018 ETB'000**
At the beginning of the year	1,656,888	1,676,950
Adjustment on initial application of IFRS 9	(769)	-
Profit for the year	1,016,773	928,954
Directors Remuneration	(900)	(900)
Transfer to legal reserve (note 29)	(254,193)	(232,239)
Dividends paid	(547,817)	(353,037)
Transfer to regulatory risk reserve (note 31)	(161,169)	(148,900)
Transfer to reserve for IFRS 1 remeasurements on transition date (note 27a)	(1,113,330)	-
Transfer from reserve for IFRS 1 remeasurements on transition date (note 27a)	40,247	-
Transfer to capital	-	(213,940)
At the end of the year	635,731	1,656,888

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27 Retained earnings (continued)

27a The Accounting and Auditing Board of Ethiopia (AABE) in its letter dated 30 October 2019, announced that any remeasurement adjustments arising from the adoption of IFRS should not be distributed to shareholders in the form of dividend rather kept in retained earnings until a directive is issued about its accounting treatment. Accordingly, ETB 1,113,330,000 IFRS 1 remeasurement adjustments recognized in 2018, which includes ETB 774,666,000 dividend distributed to shareholders in the form of share capital, have now been transferred from retained earnings account to a separate reserve account "Reserve for IFRS 1 Remeasurements on Transition Date". This reserve is transferred annually to retained earnings to the extent of the annual depreciation of the fair value exceeding the carrying value of the assets.

From a total of ETB 776,349,000 dividend distributed to shareholders as per the Extraordinary annual General Meeting of the shareholders held on 17 January 2019 in the form of share capital, shares with a total value of ETB 1,683,000 have subsequently been transferred from the shareholders receiving the share dividend to third parties either by sale or to their legal heirs.

28 Reserve for IFRS 1 remeasurements on transition date

	2019 ETB'000	2018 ETB'000
At the beginning of the year	-	-
Transfer to Reserve for remeasurements on transition date (note 27a)	1,113,330	
Transfer to retained earnings (note 27a)	(40,247)	-
Transfer to capital (note 27a)	(1,683)	-
At the end of the year	1,071,400	-

29 Legal reserve

	2019	2018
At the beginning of the year	1,731,004	1,498,765
Transfer from profit or loss	254,193	232,239
At the end of the year	1,985,197	1,731,004

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 Special reserve

	2019 ETB'000	2018 ETB'000
At the beginning of the year	100	100
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). The bank maintain the reserve until it reaches 0.1% of the total asset.

31 Regulatory credit risk reserve

	2019 ETB'000	2018 ETB'000
At the beginning of the year	274,329	125,429
IFRS 9 Day 1 adjustment for impairment allowance for loans	2,586	-
IFRS 9 Day 1 adjustment for impairment allowance for receivables	27,222	-
Transfer from retained earnings	161,169	148,900
At the end of the year	465,306	274,329

The Regulatory risk reserve is a non-distributable reserve 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 expected credit loss model.

Where the loan loss impairment determined using the National Bank of Ethiopia (NBE) guidelines is higher than the loan loss impairment determined using the expected credit loss 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 expected credit 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 recognized.

32 Other reserves	2019 ETB'000	2018 ETB'000
At the beginning of the year	(22,444)	2,035
Remeasurement gain/(loss) on retirement benefits obligations, net of tax	(13,900)	(24,620)
Adjustment on initial application of IFRS 9, net of tax	11,688	-
Changes in the fair value of financial assets at FVTOCI	9,144	141
At the end of the year	(15,512)	(22,444)
Other reserves are made up as follows:-		
Fair value reserve	(1,612)	2,176
Defined benefit obligations reserve	(13,900)	(24,620)
	(15,512)	(22,444)

Fair value reserve represents the surplus or losses arising on fair valuation of financial assets at FVTOCI 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.

33 Cash generated from operating activities	2019 ETB'000	2018 ETB'000
Profit before tax	1,279,026	1,143,410
Adjustments for non-cash items:		
IFRS 9 Day 1 adjustment for impairment allowance for loans	2,586	-
IFRS 9 Day 1 adjustment for impairment allowance for receivables	27,222	-
IFRS 9 Day 1 adjustment for impairment on financial assets and guarantees	(769)	-
Increase in impairment of financial assets at amortised cost	615	-
Depreciation of investment properties	17,346	17,000
Depreciation of property and equipment	155,274	109,707
Amortisation of intangible assets	29,628	17,690
Gain on disposal of property and equipment	(957)	(4,311)
Impairment charge on loans	(15,269)	(107,222)
Impairment charge on receivables	883	13,199
Share issued to staff	-	2,990
Defined benefit obligation expense	27,158	17,539
Income tax on unrealised gains on equity instruments	-	61
Changes in operating assets and liabilities:		
Changes in loans and advances	(9,293,379)	(5,059,769)
Changes in other assets	(119,155)	(166,533)
Changes in reserve with NBE	(450,000)	(396,000)
Changes in customer deposits	8,734,710	8,138,477
Changes in other liabilities	1,068,237	602,194
Cash generated from operating activities	1,463,157	4,328,432

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

	2019 ETB'000	2018 ETB'000
Proceeds on disposal	1,663	4,606
Net book value of property and equipment disposed (Note 21)	(706)	(295)
Gain on sale of property and equipment	957	4,311

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34 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.

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:

34a Directors and employees

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

	2019 Number	2018 Number
Professionals and High Level Supervisors	35	33
Semi-professional, Administrative and Clerical	4,249	3,581
Technician and Skilled	986	1,289
Manual and Custodian	859	982
	6,129	5,885

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

Salary band	2019 ETB'000	2018 ETB'000
0 - 9,999	3,721	4,102
10,000 - 30,000	2,336	1,750
30,001 - 50,000	67	28
50,001 - 100,000	4	4
Above 100,000	1	1
	6,129	5,885

34b Loans and advances

i) There were no Loans and advances between the Bank and Directors as at 30 June 2019.

ii) Loans to executive management

	2019 ETB'000	2018 ETB'000
At the beginning of the year	15,051	4,027
Net movement during the year	7,266	11,024
At the end of the year	22,317	15,051

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34 Related party transactions (continued)

34c Customer deposits

Directors and key management personnel	**2019 ETB'000**	**2018 ETB'000**
At the beginning of the year	4,753	6,995
Net movement during the year	(970)	(2,242)
At the end of the year	3,783	4,753

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

34d Key management compensation

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

	2019 ETB'000	**2018 ETB'000**
Salaries and other short-term employee benefits	5,316	12,055
Post-employment benefits	793	2,145
Sitting allowance	1,789	1,738
Total	7,898	15,938

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

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 2019 is ETB 11.2 million (2018: ETB 14.7 million). Provision has been made in the financial statements for those legal cases where the Directors believe that it is probable that 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:

	2019 ETB'000	**2018 ETB'000**
Loan commitments	155,145	4,173,350
Unutilised overdraft facilities	536,550	2,367,007
Performance guarantees	,774,982	2,156,961
Letters of credit	,843,106	1,605,108
Total	6,409,784	10,302,426

36 Operating lease commitments - Bank as lessee

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

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.

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

36 Operating lease commitments - Bank as lessee (Continued)

	2019 ETB'000	2018 ETB'000
No later than 1 year	56,280	185,833
Later than 1 year and no later than 5 years	53,989	223,009
Later than 5 years	1,716	3,552
Total	111,985	412,394

37 Operating lease commitments - Bank as lessor

Rental income earned during the year was ETB 55.3 Million (2018: ETB 55.1 Million). At the end of the reporting period, the Bank had contracted with tenants for the following future lease receivables:

	2019 ETB'000	2018 ETB'000
No later than 1 year	52,157	15,045
Later than 1 year and no later than 5 years	1,525	11,315
Later than 5 years	-	3
Total	53,681	26,363

38 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2019 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed. (2018: none)

39 Notes on Interest Free Banking(IFB) Service

Dashen Bank's interest free banking became operational on 5 March 2018. The Bank has established a separate book of accounts for IFB as per the requirements of the National Bank of Ethiopia Directive No. SBB/51/2011. As at the end of the reporting period, the financial performance and position of the Interest Free Banking operations of the Bank do not fulfil the quantitative threshold of 10% in line with IFRS 8 - Operating Segments. However, the management believes that voluntary disclosure is necessary to provide useful information to users of the financial statem‑nts particularly the regulatory authority in a way presented as follows:

Segment Reporting
Statement of Profit or Loss
For the year ended 30 June 2019

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
Interest income	-	4,301,332	4,301,332
Interest expense	-	(1,927,707)	(1,927,707)
Net interest income	-	**2,373,625**	**2,373,625**
Fee and commission income	157	1,026,414	1,026,571
Fee and commission expense	(56)	(238,464)	(238,520)
Net fees and commission income	**102**	**787,949**	**788,051**
Other operating income	(2)	250,243	250,241
Total operating income	**100**	**3,411,817**	**3,411,917**
Loan impairment charge	-	15,269	15,269
Impairment losses on other assets	-	(934)	(934)
Net operating income	**100**	**3,426,152**	**3,426,251**
Employee benefits expense	(29,977)	(1,364,424)	(1,394,401)
Other operating expenses	(2,197)	(750,627)	(752,824)
Profit (loss) before tax	**(32,074)**	**1,311,100**	**1,279,026**

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39 Notes on Interest Free Banking(IFB) Service (Continued)

Segment Reporting
Statement of Financial Position
As at 30 June 2019

	Interest Free Banking ETB'000	Conventional Banking ETB'000	Total ETB'000
ASSETS			
Cash and bank balances	356,047	5,733,894	6,089,941
Loans and advances to customers	-	32,366,183	32,366,183
Financial assets at fair value through OCI	-	89,897	89,897
Financial assets at amortized cost	-	12,301,054	12,301,054
Other assets	707,674	736,231	1,443,905
Investment properties	-	797,365	797,365
Intangible assets	-	109,397	109,397
Property and equipment	7,923	3,012,761	3,020,684
Total Assets	**1,071,644**	**55,146,782**	**56,218,426**
LIABILITIES			
Customer deposits	1,094,113	43,627,397	44,721,510
Current income tax	-	242,126	242,126
Other liabilities	9,605	4,225,516	4,235,121
Defined Benefit Obligation	-	167,936	167,936
Deferred tax liability	-	4,953	4,953
Total Liabilities	**1,103,718**	**48,267,928**	**49,371,646**
EQUITY			
Share capital	-	2,704,558	2,704,558
Retained earnings	(32,074)	667,805	635,731
Reserve for IFRS 1 remeasurements on transition date	-	1,071,400	1,071,400
Legal reserve	-	1,985,197	1,985,197
Special reserves	-	100	100
Regulatory risk reserve	-	465,306	465,306
Other reserves	-	(15,512)	(15,512)
Total equity	**(32,074)**	**6,878,854**	**6,846,780**
Total Equity and Liabilities	**1,071,644**	**55,146,782**	**56,218,426**

Segment Reporting
Statement of Profit or Loss
For the year ended 30 June 2018

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
Interest income	-	3,243,903	3,243,903
Interest expense	-	(1,432,797)	(1,432,797)
Net interest income	**-**	**1,811,106**	**1,811,106**
Fee and commission income	-	815,060	815,060
Fee and commission expense	-	(159,075)	(159,075)
Net fees and commission income	**-**	**655,985**	**655,985**
Other operating income	3	266,739	266,742
Total operating income	**3**	**2,733,830**	**2,733,833**
Loan impairment charge	-	104,887	104,887
Impairment losses on other assets	-	(13,199)	(13,199)
Net operating income	**3**	**2,825,518**	**2,825,521**
Employee benefits expense	(5,321)	(1,089,489)	(1,094,810)
Other operating expenses	(2,709)	(584,592)	(587,301)
Profit (loss) before tax	**(8,027)**	**1,151,437**	**1,143,410**

HST General Partnership Chartered Certified Accountants

39 Notes on Interest Free Banking(IFB) Service (Continued)

Segment Reporting
Statement of Financial Position
As at 30 June 2018

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
ASSETS			
Cash and bank balances	58,902	6,982,156	7,041,058
Loans and advances to customers	-	23,057,535	23,057,535
Financial assets at fair value through OCI	-	54,848	54,848
Financial assets at amortized cost	-	10,175,047	10,175,047
Other assets	63,108	1,262,525	1,325,633
Investment properties	-	813,896	813,896
Intangible assets	-	125,617	125,617
Property and equipment	7,497	2,806,102	2,813,599
Deferred tax asset	-	18,145	18,145
Total Assets	**129,507**	**45,295,870**	**45,425,378**
LIABILITIES			
Customer deposits	136,373	35,850,427	35,986,800
Current income tax	-	281,328	281,328
Other liabilities	1,161	3,165,724	3,166,885
Defined Benefit Obligation	-	123,754	123,754
Total Liabilities	**137,534**	**39,421,233**	**39,558,767**
EQUITY			
Share capital	-	2,226,734	2,226,734
Retained earnings	(8,027)	1,664,916	1,656,888
Legal reserve	-	1,731,004	1,731,004
Special reserves	-	100	100
Regulatory risk reserve	-	274,329	274,329
Other reserves	-	(22,444)	(22,444)
Total equity	**(8,027)**	**5,874,638**	**5,866,611**
Total Equity and Liabilities	**129,507**	**45,295,871**	**45,425,378**

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