ዳሸን ባንክ
Dashen Bank

፳፻፲፪/፫

2020 ANNUAL REPORT

24TH ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2020

December 24,2020

ራዕይ | OUR VISION

ከምርጥ የአፍሪካ ባንኮች
አንዱ ሆኖ መገኘት።

TO BE BEST-IN-CLASS BANK
IN AFRICA.

እሴቶች | OUR VALUES

- ደንበኛን ያማከለ
- ብዝሃነት
- ሙያዊ ብቃት
- በህብረት መስራት
- ሀቀኝነት
- ማህበራዊ ሀላፊነት

CUSTOMER CENTRICITY
DIVERSITY
PROFESSIONALISM
TEAMWORK
INTEGRITY
SOCIAL RESPONSIBILITY

ተልዕኮ | OUR MISSION

የሙያ ብቃትና ተነሳሽነት ባላቸው
ባለሙያዎችና በዘመን አፈራሽ
ቴክኖሎጂ ጥምረት ቀልጣፋና
ደንበኛን ማዕከል ያደረገ የባንክ
አገልግሎት እየሰጡ ለባለድርሻ አካላት
ዘለቄታዊ እሴት መፍጠር።

TO PROVIDE EFFICIENT CUSTOMER-CENTRIC
BANKING SERVICE USING THE EXPERTISE OF INSPIRED
PROFESSIONALS AND CUTTING-EDGE TECHNOLOGY,
WHILE CREATING SUSTAINABLE VALUE FOR OUR STAKEHOLDERS.

ዳሸን ባንክ
Dashen Bank

ሁልጊዜም አንድ እርምጃ ቀዳሚ !
Always One Step Ahead !

25 ዓመታት የከፍታ ጉዞ
25 Years of Progressive Journey

Dashen Bank

፳፻፲፪/፫

2020 ANNUAL REPORT

AMERICAN EXPRESS

DON'T *live life* WITHOUT IT™

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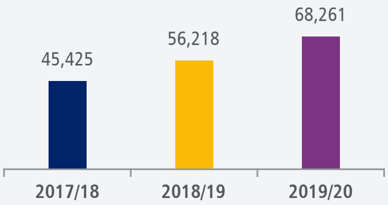
DASHEN BANK S.C.

ANNUAL REPORT

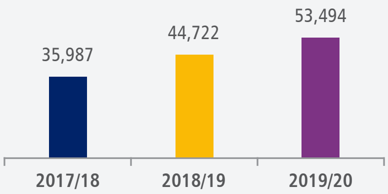
FOR THE YEAR ENDED JUNE 30, 2020

OUR SCORECARD

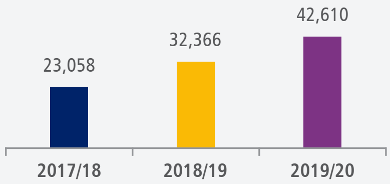
Total Asset
(in Millions Birr)



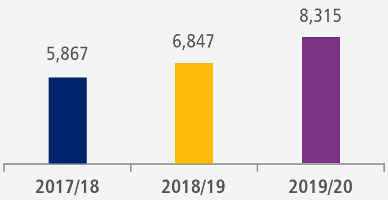
Deposits
(in Millions Birr)



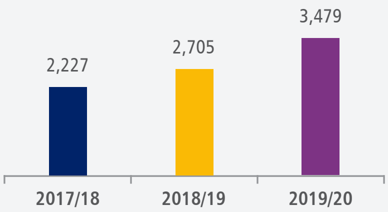
Outstanding Loans Net of
Provision (in Millions Birr)



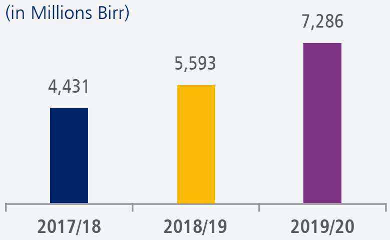
Total Capital
(in Millions Birr)



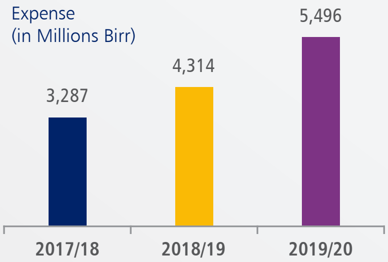
Paid-up Capital
(in Millions Birr)



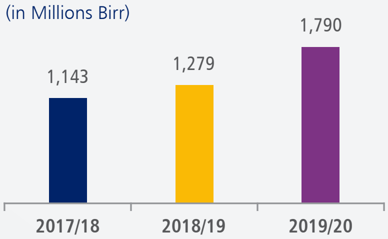
Revenue
(in Millions Birr)



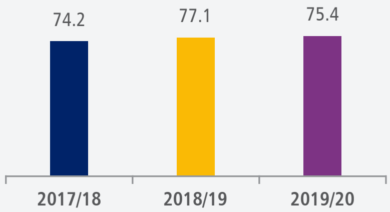
Expense
(in Millions Birr)



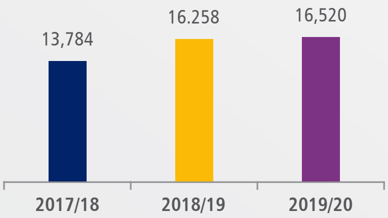
Profit before Tax
(in Millions Birr)



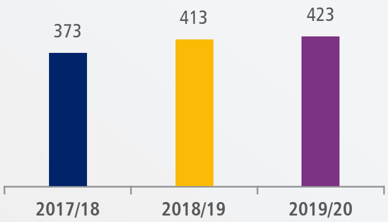
Cost-to-Income
Ratio



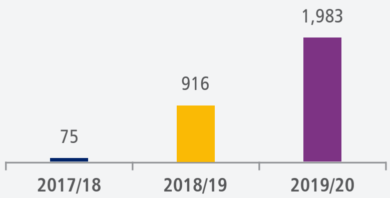
Number of Loanees



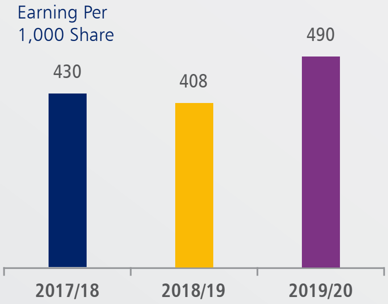
Number of Branches



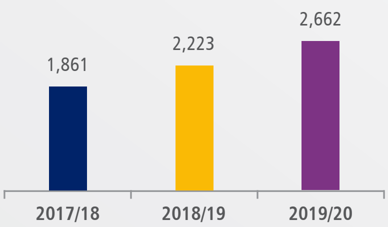
Number of Amole Subscribers
(In Thousands)



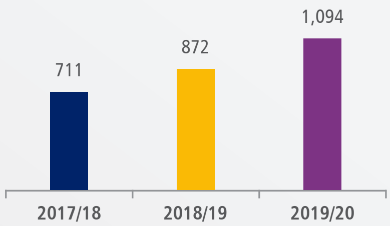
Earning Per
1,000 Share



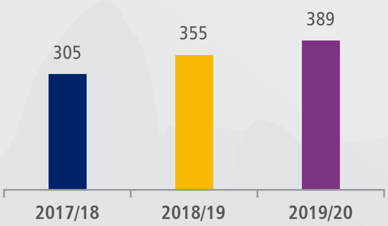
Number of Depositors
(In Thousands)



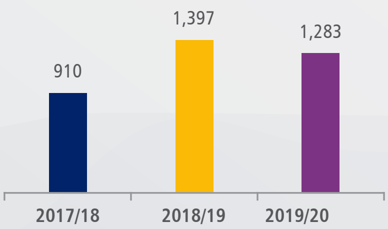
Number of Cardholders
(In Thousands)



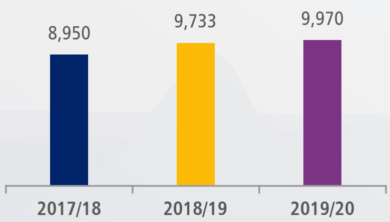
Number of ATMs



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

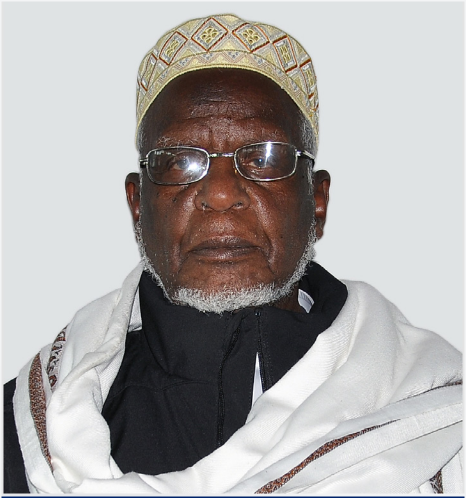
NEGUSSIE DEME
Director

SAEED AHMED
Director

SHIMELISE ESHETE(ENG.)
Director

SHISEMA SHEWANEKA
Director

SHARI'AH ADVISORY **COMMITTEE**



SHEIKH MUHAMMED YASIN IBRAHIM
Chairman

USTAZ MAHMOUD HASSEN HUSSEN
Vice Chairman

USTAZ MUSTAFFA HAMID YUSUF
Member

DR. KEMAL HAJJI-GELETU MAMME
Member

USTAZ REMEDAN AHMED ABDO
Member

EXECUTIVE MANAGEMENT

ASFAW ALEMU
Cheif Executive Officer

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 Banking Operations Officer

SHIMELIS LEGESSE
Chief Information Officer

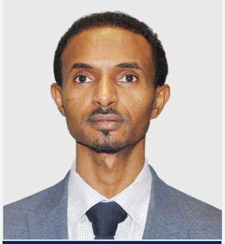
ALEMNEH ABEBE
Chief Finance Officer

EYERUSALEM WAGAW
D/Chief Human Resource Officer

FREEGZI BERHANE
Chief Corporate Service Officer

DEPARTMENT DIRECTORS

ABERRA BEKELE
Director, Legal Services Dept.



ABESELOM MULUGETA
Director, International Banking Dept.

ABIYOT W.YESUS
Director, Finance & Accounts Dept.

AFEWORK GUGSA
Director, Retail & MSME Banking Dept.

ANDULEM BELETE
Director, Treasury Management Dept.

ANTENEH TADESSE
Director, IT Infrastructure Dept.

ANTENEH TESFAYE
Director, CBD-Domestic Trade & Service Sector

ASCHALEW TAMIRU
Director, Marketing & Customer Experience Dept.

ASFAW H.MARIAM
Director, Internal Audit Dept.

AYELE TESHOME
Director, Branch Operations & Central Processing Dept.

CHANYALEW DEMISSIE
Director, CBD-Government Agencies,NGO's & International Trade Service Sector

DEJENE GETAHUN
Director, Enterprise Program Mgt.Dept.

FESEHA BIRHANU
Director, CBD-Manufacturing & Agriculture Sector

FEYESEL ABDU
Director, Corporate IFB Dept.

GETNET DESSIE
Director, Enterprise Risk & Compliance Dept.

HAILU MOGES
Director, Talent Development Dept.

HEWATE KEFELEGN
Director, Talent Management Dept.

KASAYE ESHETU
Director, 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.

TADESSE KASAHUN
Director, Credit Recovery & Portfolio Mgt Dept.

TADIWOS LAEKEMARIAM
Director, Engineering Service Dept.

TAGEL MEKONNEN
Director, System Security Dept.

TAMRAT TILAHUN
Director, Facilites Management Dept.

TESFAYE ANENE
Director, Application Development & Support Dept.

ZELALEM TADDESSE
Director, Supply Chain Mgt. Dept.

STATEMENT OF THE BOARD CHAIRMAN

Dear Shareholders!
On behalf of the Board of Directors and myself, it gives me a great pleasure to present the highlights of Dashen Bank's performance during the financial year 2019/20.

I am indeed delighted to start by announcing that the year has proved to be another truly fruitful year for our Bank despite the prolonged liquidity stress months and the unprecedented global and national challenges we faced due to the outbreak of the COVID-19 pandemic.

Scanning the business environment, at the global level, trade has suffered a deep contraction reflecting considerably weaker demand for goods and services, particularly in the tourism and hospitality sector due to the impact of the pandemic, which has also left its own negative impact on the corresponding sector in our domestic economy as well. Additionally, in the domestic space, political unrests and conflicts that took place in various parts of the country have been affecting the public's day to day life activities as mobility were constrained and safety and security were compromised, consequently businesses were highly affected due to interruption of business activities. Moreover, the COVID-19 pandemic has also been the major challenge whose negative impact cannot be underestimated, though the impact of the outbreak on the overall economy is yet to be quantified. To arrest the excessive and extended damage that the pandemic could have caused, the government has taken appropriate and timely economic stimulus interventions.

The last fiscal year has also witnessed the amendment of the investment law, the revoking of the National Bank of Ethiopia's Bill purchase requirement, the commencement of market-based Treasury Bill auction. A number for new directives were issued by the National Bank of Ethiopia including new rules governing movable property security, allowing foreign firms to engage in leasing business and large commercial farms for major crops among others. Moreover, encouraging government initiatives have also been witnessed to improve the country's "Ease of Doing Business" rating and the Country's digital economy strategy was officially launched. The increasing gap between the demand and supply of foreign currency had remained a major challenge while the industry at the same time is attracting significant number of interests of new entrants.

The newly enacted law that allows the establishment of full-fledged Interest Free Banks (IFB) has enabled the introduction of a few full-fledged Interest Free Banks in the industry during the year.

During the period under consideration, Dashen Bank continued to assess the needs of its customers and responded accordingly by offering uninterrupted, seamless and personalized experience throughout all service delivery channels. In view of becoming closer to its customers, our Bank has opened 10 new branches (including one Interest Free Branch opened at Adama named Berakah Adama) and two outlets, expanding its total branch networks to 423 and its outlets to 3 by the end of the period. In the review period, 1,262 Amole Merchants had been recruited, which is 126.3% of the target making the total number of Amole merchant 7,929.

During the fiscal year, the Bank has managed to mobilize an additional deposit of Birr 8.8 billion increasing our total deposits by 20% compared to same period last year. Overall, the total deposit balance of the Bank as at June 30, 2020 stood at Birr 53.5 billion, out of which conventional deposit comprised Birr 51.1 billion (95.6%), and the remaining balance Birr 2.4 billion (4.4%) was on IFB account. During the reporting period, disbursement of fresh loans to various economic sectors stood at Birr 17.4 billion registering a growth of 13.3%compared to last year's same period. Accordingly, outstanding loans and advances balance of the Bank stood at Birr 42.6 billion.

The profit before tax of the Bank reached Birr 1.8 billion by the end of June 2020 reflecting a growth by 39.9% compared to last year same period. As a result, the earning per share (EPS) stood at Birr 490 showing an increase of 20.2% compared to last year same period.

Regarding the corporate governance function, the Board of Directors and its four sub-Committees have been very committed in executing their oversight responsibilities with due diligence, extreme dedication, and belongingness. The performance of the full board and its sub-committees, the individual board members and the Chairman were regularly assessed using objective parameters to address observed gaps and maintain and enhance strong aspects.

In the upcoming period, the Bank shall engage in reviewing its strategic plans in view of the dynamism in the macro economy and the sector. Moreover, adopting to the "New Normal" shall further be explored.

Finally, I would like to extend my sincere thanks to our esteemed customers for their continued confidence and loyalty in our Bank; our shareholders for their confidence and sustained commitment; the management and staff of the bank for their diligence, dedication and outstanding sense of ownership; the National Bank of Ethiopia for their professional guidance; and all other stakeholders for their direct and indirect contribution to the success of our Bank.

Yours sincerely,

Neway Beyene
Chairman, Board of Directors
December, 2020

THE CEO'S MESSAGE

Honorable Shareholders,
As always, I am honored to present the annual performance of the Bank for the fiscal year ended 30th June 2020. As I write this message, we are amid a global health crisis, which has presented extraordinary challenges to governments, the global economy and markets around the world. The COVID-19 pandemic has created unprecedented challenges on a global scale and changed the smallest details of our everyday lives. At Dashen Bank, we have taken all the possible measures to alleviate the adverse consequences brought about by the crisis. These among others include taking internal environment safety precautions as the safety and wellbeing of our employees and customers continues to remain our paramount concern; encouraging digital transactions by waiving commission fees on transactions through POS terminals and ATMs, support borrowers adversely affected by COVID 19 by reducing different service charges and interest rates and conducting renegotiation and rescheduling based on their unique circumstances.

The ensuing parts 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

Since the onset of 2020, the global community is grappling with unforeseen crisis triggered by the outbreak of Covid-19, which has unleashed a health and economic crisis unprecedented in scope and magnitude. The containment measures taken by governments throughout the world has brought economic activity in many sectors to a standstill and curtailed travel and mobility. These necessary measures have resulted in large short-term economic disruption and job losses, compounded by deteriorating confidence and tighter financial conditions. According to the United Nation's World Economic Situation and Prospects (WESP) mid-2020 report, the global economy is projected to contract by 3.2%, against the backdrop of the devastating coronavirus pandemic.

World trade is forecasted to shrink by nearly 15% in 2020 amid sharply reduced global demand for goods and services, and disruptions in global supply chains, according to the United Nations World Economic Situation and Prospects (WESP) mid-2020 report.

The pandemic is expected to slash global economic output by $8.5 trillion over next two years, wiping out nearly all gains of the previous four years marking the sharpest contraction since the great depression in 1930's, the forecast came on top of dim economic forecasts of 2.1% at the beginning of this year. However, amidst these challenges, it is evident that these events have accelerated the pace of change and redefined the way businesses, people and governments engage. It has given rise to new technological paradigms by accelerating digitization and automation and creating new jobs in the digital economy.

On the domestic front, it was quite a challenging year due to macro-economic and political factors coupled with the COVID-19 outbreak. Political instability and conflicts have been affecting smooth business operations in various parts of the Country during the current fiscal year. The global disruptions in relation to the pandemic have considerably affected tourism, exports, imports, and remittances to the country during the second half of the fiscal year. Headline inflation remained a challenge.

The banking industry has been going through fast paced changes. The NBE bills requirement has been lifted after being in place for almost eight years since April 2011 and the T-bills market has been launched. Foreign currency shortage has persisted in the industry during the fiscal year under review, which was only worsened by the economic disruption caused by the pandemic. The exchange rate of Birr against major currencies has been continuously declining in the review period.

During the period under consideration, the Banking industry faced unusually severe liquidity stress, which subsided only after the necessary measures were taken by NBE to limit daily and monthly cash withdrawals by individuals and businesses.

A major development in the digital space in the fiscal year, is the issuing of the draft directive that will regulate payment instruments issuers which includes mobile money, wallet and similar digital financial services in Ethiopia. With the implementation of this directive, the market will be open for competition by other digital financial service providers aside from financial institutions. For this reason and the highly anticipated entry of the new banks under formation, competition is expected to be stiffened in the upcoming period.

Operating and Financial Performance

Reflecting on the previous year's performance, the Bank remained resilient despite an otherwise difficult operating environment. A review of our financial position reveals positive performance in terms of key performance metrics.

The Bank's total Assets as at June 2020 grew by 21.4% over last year's position and reached Birr 68.26 billion. The lion's share of the Asset, Loans and Advances also witnessed a growth of 32% over last year same period and stood at Birr 42.61 billion. On the Liability side, the overall customer deposits grew by 20% and reached Birr 53.49 billion by the end of the period under consideration. The total capital of the Bank has also increased by 21.4% and stood at Birr 8.31 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 7.29 billion and expensed Birr 5.5 billion exhibiting a 30.3% and 27.4% growth respectively over last year same period. The Bank has registered a profit before and after tax of Birr 1.79 billion and Birr 1.54 billion registering a growth of 39.9% and 51.2% respectively. Earnings per share has also surged by 20.2% and stood at Birr 490.

Business and Organizational Development

We continued to make progress towards our vision of becoming the best in class bank in Africa. The recently implemented strategy has improved our agility in responding to the needs of our diversified customers by providing niche services. During the year under review, we provided new value propositions to our customers in the retail banking space by launching two different savings products targeted at various segments of our retail customers i.e. Premium saving account and Women's saving account. Moreover, we have also rolled out the Sharia Mudarabah deposit product to cater to our Interest Free Banking Customers.

The efforts made to increase both physical and digital channels were instrumental in bringing us closer to our ever-increasing number of customer base and transactions. Considering the existing huge market potential and to satisfy the needs of our interest free banking customers, we have inaugurated three full-fledged IFB branches at Adama, Dire Dawa and Dessie towns. We have a plan to further expand our presence in this regard at different parts of the Country.

With respect to our most strategic asset, the human capital, the past fiscal year marked the finalization of employee's performance management framework, policy and procedures and appropriate knowledge creation was made. Moreover, in addition to the inhouse and external trainings, the Bank has also finalized the foundation to commence succession management program where 360-degree assessment was conducted for the executive and senior management leadership group.

The importance of digital banking in the aftermath of the COVID-19 crisis, which calls for confinement and social distancing measures, cannot be overemphasized. Our digital banking platform Amole, which has celebrated its second-year anniversary, was able to attract more than 1 million subscribers and 1,262 merchants by the end of the period.

As part of our business enhancement and social responsibility strategy, in 2019, we embarked on an initiative dubbed 'Ethiopian Talent Power Series' which targets encouraging job creations by talented citizens in the Small, Micro and Medium enterprises space. The program shall have a capacity building, financial assistance and market linkage pillars. As part of this project, the Bank has provided entrepreneurship and business skill trainings to thousands of young entrepreneurs, run a business plan competition and is in the process of financing winners.

The Way Forward

The Bank has navigated from the foundational phase of its strategic plan period to the second horizon, which is the accelerating growth phase. As we embark on the second phase of our growth we are confident that our execution of the strategic initiatives and roadmap outlined, by our dedicated and talented workforce guided by an experienced leadership team and a strong and supportive Board will lead to increased value creation for all stakeholders.

As we move into the coming fiscal year, we anticipate several challenges—relatively modest economic growth, political tension, continued health, business and economic threats from the pandemic, and the anticipated new entrants into the financial services sector. Meeting these challenges requires us to upscale our efforts and commitment to continuous improvement, increasing investments in the development of our people, technology, and innovation to deliver customer centric services to our customers and make our operations more efficient. The Bank will also leverage and expand its current, as well as build new, strategic partnerships with various Institutions to develop collaborative and innovative banking solutions.

To achieve our ambitions, we will focus on developing our corporate culture that is driven by a strong sense of purpose, built on customer centricity, collaboration and inclusion, and communication.

Vote of Thanks

On behalf of myself and the entire team of Dashen Bank, I would like to extend my sincere gratitude to our valued customers who have continued to stand by us and have placed great trust in our Bank and our services. I owe the Board of Directors my heartfelt gratitude for their unrelenting engagement, strong leadership, guidance and support. Our esteemed shareholders for their unwavering support. To our employees, for their resilience, dedication and utmost commitment to the vision of the Bank. Finally, my appreciation also goes to the National Bank of Ethiopia, for their support and guidance, and all other stakeholders for their continued support and cooperation.

Thank you,

Asfaw Alemu
CEO
December, 2020

DASHEN BANK S.C.
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, 2020. Highlights of the major performances of the Bank during 2019/20 fiscal year (F.Y.) are summarized hereunder.

REVIEW OF THE OPERATING ENVIRONMENT

The significant happenings during 2019/20 fiscal year were mostly attributed to Coronavirus pandemic. The impact is multi facet including social, political and economic. Following the outbreak, the two global giants, US and China, have been blame shifting each other for the spread of the virus. Pending political issues have also been brought into front to global citizen towards financial and other emergency requests of nations like Iran. In terms of the social impact, the pandemic infected more than 30 million people across the globe of which more than one million people lost their life. Besides, all over the world there was a delay in social events, changes in way of life, overburdened health service access, overwhelmed social security provision, closure of schooling, closing of major service provision and so on. The world economic activity frozen unbearably, especially the hospitality, tourism and aviation industries have been extremely affected. As a result of the shock, the global economy is estimated to register 3.0% recession in 2020, the worst estimate in a decade, and the world trade volume is assumed to record 11.9% contraction.

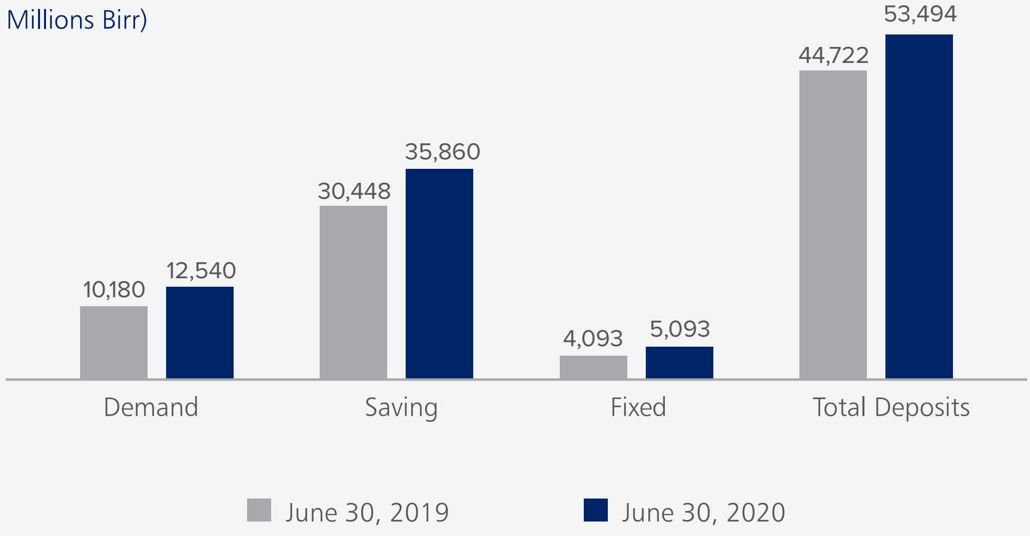
The Ethiopian economy is not immune to the situation though the intensity differs. Five months state of emergency has been decreed in April 2020 as a means of curbing the possible negative impacts of the pandemic. To mention, the declaration included mandatory employment contract maintenance, restriction on upward price changes, obligatory opening of businesses, compulsory testing of suspects, and mandatory quarantine. Besides, the government has taken social mobilization measures to support less fortunate citizens. Moreover, economic initiatives like tax levying and loan renegotiations have also been introduced. As a result of the direction of National Bank of Ethiopia, banks have made loan renegotiation to their creditors of selected economic sectors by reducing interest rate, rescheduling and reinstating the credit services. Overall, the Ethiopian economy is estimated to grow at 3.2% in 2019/20 far below the preceding five years average of 9.0%. The inflation rate has also hiked to 21.6% in June 2020. The foreign currency generation capacity of the service sector and investment were also highly affected by the pandemic.

OPERATIONAL HIGHLIGHTS

Deposits

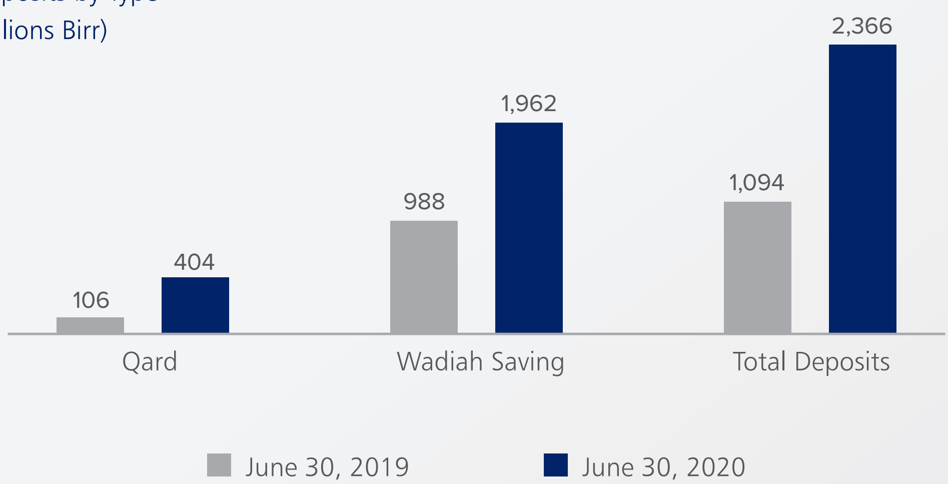
At the close of the reporting period, Dashen Bank's aggregate deposits amounted Birr 53.4 billion. Compared to last year's same period, the Bank achieved year-on-year growth of Birr 8.8 billion, or 20%. The record high performance had been supported by expanding market outreach, improvement in customer orientation and relationship management, and enhanced marketing activities. As regards to market expansion, the Bank opened ten full-fledged branches (including one dedicated IFB branch) and two outlets in the capital and regional towns. These new and already existing branches had been able to recruit 439 thousand deposit customers, 222 thousand debit cardholders and 1.1 million Amole users, beside to retaining the existing customers.

Deposits by Type
(in Millions Birr)

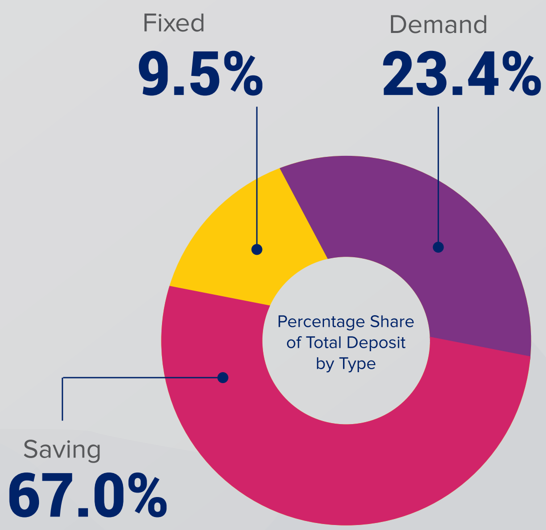


The Bank's interest-free banking (IFB) services, launched in the fourth quarter of 2017/18 fiscal year in a window-based model, attracted 148,480 customers and mobilized total deposit of Birr 2.4 billion. A lion's share of the deposit came from Wadia'h Savings.

IFB Deposits by Type
(in Millions Birr)



In terms of category, the highest increment of aggregate deposit came from Savings Deposit, which registered Birr 5.4 billion or 17.8% year-on-year growth. Demand Deposit also showed an increment of Birr 2.4 billion or 23.2% compared to last year. Fixed Time Deposit attained an increment of Birr 1.0 billion or 24.4% annual growth.



Percentage Share of Total Deposit by Type

Loans & Advances

The Bank concluded the reporting fiscal year with total loans and advances and IFB financing of Birr 42.6 billion. Robust resource mobilization as well as repealing of NBE Bill purchase prompted a record Birr 10.2 billion or 31.6% year-on-year growth in outstanding loans and advances and financing.

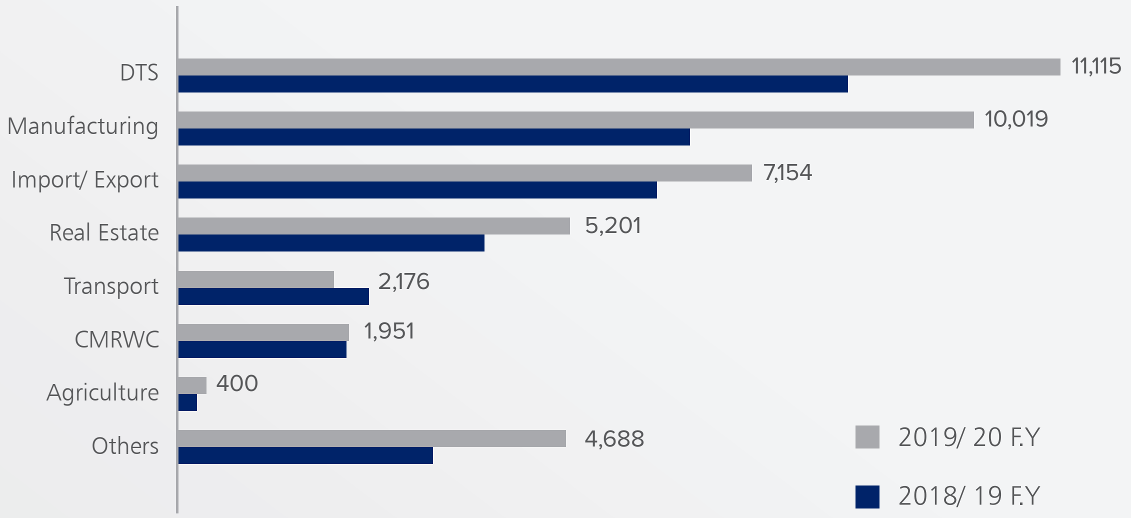
Outstanding Loans& IFB Financing (in Millions Birr)

42,610	32,366
June 30, 2020	June 30, 2019

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

Loans and Advance

(in Millions Birr)



Note
1. 'DTS' refers to Domestic Trade & Services
2. 'CMRWC' represents Construction Machineries Rental and Working Capital
3. 'Others' include Mining, Advance on LC, Personal and Staff Housing Loans, Emergency staff loans and Loans and Advances under Litigations.

E-Banking Services

Amole is an Omni channel service modality that provides mobile and internet banking services in one. The Platform enables customers to conduct various transactions including air ticket purchase, DST payment, airtime purchase, purchase of various services at selected providers, supporting content sales, and different type of transfer services. The Bank has been working with different partners including Moneta Technologies, Ethiopian Airlines, Multi Choice Ethiopia and Ministry of Revenues towards expanding digital banking services. During the reporting period, Dashen Bank signed additional 1.1 million subscribers attaining year-on-year growth of 116.6%. As a result, the total Amole subscribers reached 1.98 million at the end of June 30, 2020. During the fiscal year a total of Birr 3.97 billion has been entertained through 905 thousand transactions.

Regarding card banking, the card acquiring network reached 389 ATMs and 1,283 point of sale (POS) terminals. Dashen Bank has been participating in the testing of POS interoperability spearheaded by EthSwitch, which is already realized. Dashen Bank acquires four international cards, including VISA, MasterCard, Amex and UnionPay while issuing American Express brand Gold and Green Cards and interest free banking cards by the name Sharik and An-Nissa. At the end of June 30, 2020, the total cardholders of the Bank reached 1.1 million after attaining a year-on-year growth of 25.5%.

International Banking

The Covid-19 pandemic has impacted foreign currency generation from remittances, foreign cards acquiring and direct transfers. Despite this, the Bank had been able to mobilize foreign currency to the tune of USD 562.8 million from export, remittance, card acquiring, foreign currency notes purchase and direct transfers. The performance showed an increment of 5.0% compared to last year.

FINANCIAL HIGHLIGHTS

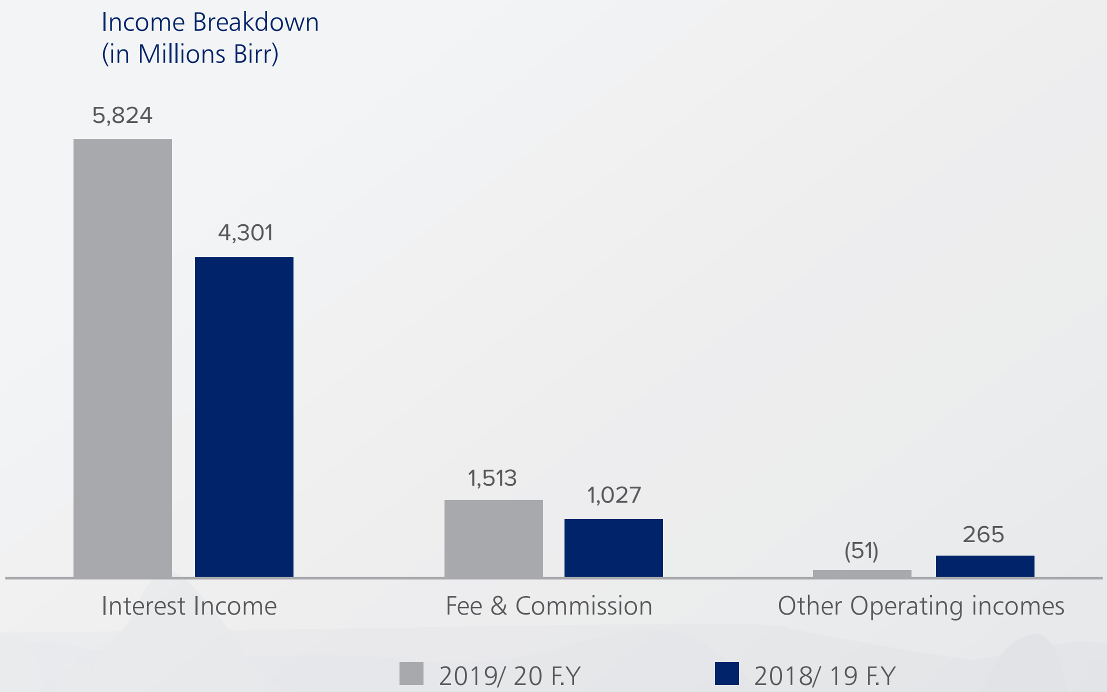
Statement of Financial Position

The financial position of the Bank showed that its total assets reached Birr 68.3 billion recording a growth of 21.4% compared to the year before. Loans and advances remain the major driver of the increase in assets. Liabilities of the Bank went up to Birr 59.9 billion, rising by 21.4% mainly as a result of deposits. The Bank's total equity soared to Birr 8.3 billion. Paid-up capital of the Bank, which reached Birr 3.5 billion after a 28.6% year-on-year growth, comprised 41.8% of the total equity by the close of the reporting period.

Statement of Profit or Loss and Other Comprehensive Income

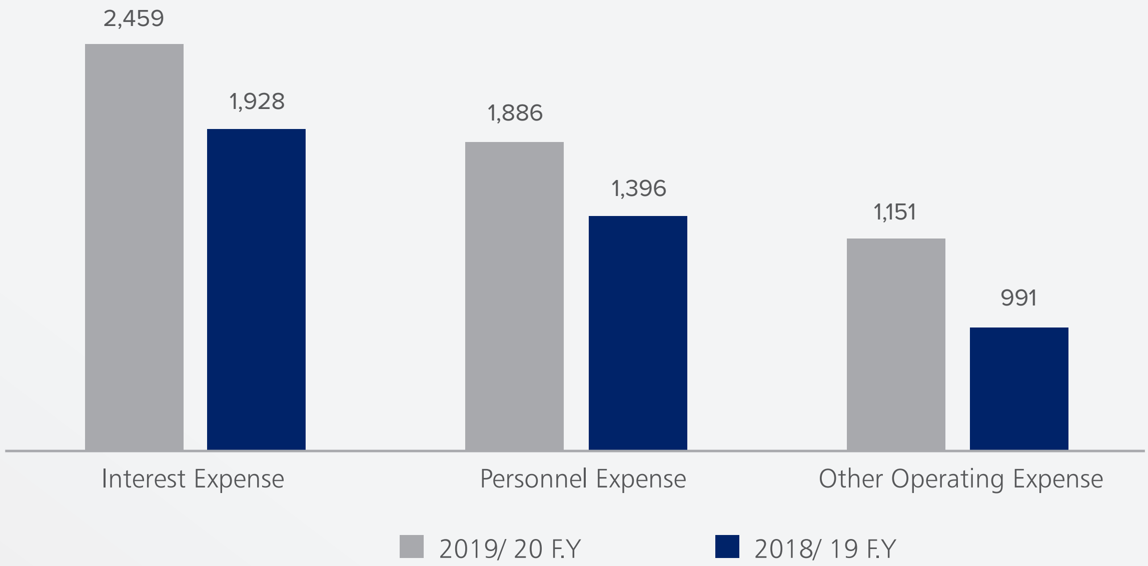
The Bank has earned gross operating income of Birr 7.3 billion from core operation and other investments. Earnings grew by 30.3% compared to last year's same period performance.

In terms of composition, the higher portion (80.9%) of income came from interest income, while the remaining balance came from commissions and service charges on domestic and international banking services.



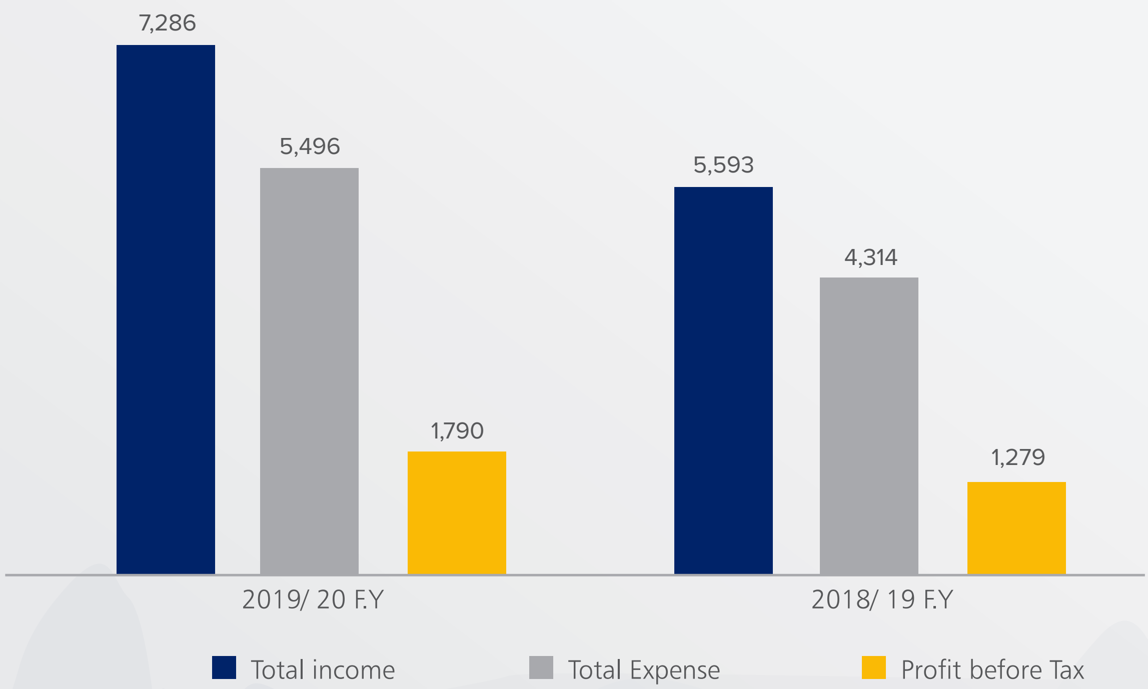
On the other hand, the total expenses of the Bank increased to Birr 5.4 billion by 27.9% compared to last year on account of growing deposits and cost of doing business. Component wise, the lion's share (45.5%) was interest paid on deposits followed by personnel expenses (34.9%).

Expense Breakdown
(in Millions Birr)



The Bank concluded the year with profit before tax of Birr 1.8 billion, higher by 39.9% compared to the preceding fiscal year.

Income, Expense & Pre-tax Profit
(in Millions Birr)



OTHER ACTIVITIES

1 Branch Expansion

During the fiscal year, the Bank has opened 10 new full-fledged branches, including one dedicated IFB branch, and two outlets 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, 2020, the total number of branches, with IFB windows, reached 423, showing a rise of 2.4% relative to the position of June 30, 2019.

2 People Management and Development

Strategic Agenda: In this dynamic and competitive world, human capital issues must be viewed as business issues to be addressed across the management team while being supported by human resources function as a strategic partner. In consideration of this, the major strategic human resources interventions conducted by the Bank include enhancing the implementation of Employee Performance Management System (PMS) to help operating managers' address "people problems" in getting works done and increase productivity. Developing strategic workforce planning to predict possible challenges and opportunities in line to available human resource or talent was another grand strategic endeavor during the fiscal year. Introducing competency based assessments for enhanced screening of recruitment for increased productivity and efficiency also introduced during the review period. Besides, selected HR activities for enhanced service delivery and efficient turnaround time has been automated. Moreover, the overall organizational structure has been refined with the aim of creating role clarity and accountability.

Human Resources Development: The objective is to proactively support the business demands by enhancing a major shift (transformation) in mind-set, role, capabilities, and digital enablers. Keeping this in mind, 88 technical and developmental trainings were given to 9,995 trainees during the year. Abroad exposure was created for the best performing branch managers. During the reporting period, the Bank spent a total of Birr 31.6 million for people development. In light of ensuring business continuity, succession planning and development of successors is also commenced for positions that are considered as critical to the Bank.

Talent Acquistion: Internal staff promotion plays a vital role in retaining qualified and talented employees and keeping their expertise and experience within the Bank. As the Bank gives priority to its internal employees, during the reporting period, 516 employees have been promoted from internal source while a total of 191 employees have joined the Bank from the labor market. Out of which 171 were recruited on permanent basis while 20 were contract employees.

Staff Strength: At the end of June 30, 2020, the total number of employees stood at 9,970 out of which 6,116 are permanent while the remaining 3,854 were contract and outsourced employees. During the reporting period, the total number of permanent employees in the Bank grew by 2.4% compared to 2018/19 fiscal year. In light of creating a diverse human resource, 30% of the Bank's total staff size are women.

Employees Welfare: In response to the outbreak of COVID-19 pandemic, the Bank designed and implemented an Emergency Management Plan to ensure business continuity while keeping its employees safe. In doing so, various protective measures were taken including distribution of masks and sanitizers, and flexible working arrangement in order to maintain physical distancing.

3 Information Technology

The Bank continued enhancing IT as an enabler and business. In ensuring system security, multi factor authentication has been further strengthened. POS interoperability with EthSwitch has been successfully done. Strides have been continued in in-house developing of solution for pressing internal business challenges. These include engineering system, school fee collection solution, and fleet management solution.

In addition, technology remained the key in overcoming the potential challenges imposed by Covid-19 by enhancing work from home, facilitating online banking and ensuring online conference by interconnecting more than 450 management members.

4 Risk Management and Compliance

The Bank considers risk management as one of its strategic pillars. During the fiscal year, risk management took center stage of the operation through identifying potential risk areas, properly measuring the likelihood and potential impacts, putting best-fit alternatives in place and continuously monitoring materialized and potential risks. In this regard, the Bank is persistently working on internalizing risk management practice across the organization through enhancing risk management process into the mainstream of the Bank's culture. This has been done through continuous awareness creation trainings, risk register, leading risk indicators as well as periodic risk assessment reports on credit, financing, liquidity, market and operation.

5 Governance

The Board of Directors and its sub-committees, i.e., Strategy, Audit, Risk and Human Resource executed their oversight duty as per their Charters. The Board closely oversaw and gave directions on issues based on its mandate. These included approval of annual budget, quarterly evaluation of performance progress reports, approval of various policies and strategic investments. The Board also critically reviewed and endorsed quarterly its all sub-committees' reports. Moreover, the Board conducted semiannually its full Board and sub committees' evaluation.

6 Corporate Social Responsibility (CSR)

Dashen Bank is corporate citizen that stands on side of its society by returning what it has got from the community. During the review period, the Bank spent Birr 92.4 million in support of various causes. Dashen Bank sponsored mega project on entrepreneurship development dubbed Ethiopian Talent Power Series is the key contribution of the Bank to the society as its impact is versatile and significant on social and economic transformation. The Bank showed its alliance towards Covid-19 prevention, enhancing good governance, rehabilitating displaced people, school feeding and urban developments.

7 Going Forward

The period ahead will be tough given the upcoming competition from bank and non-bank players. To overcome the challenges, the focus will be on expansion of accessibility through digital and physical channels and correspondences; and consolidation of markets that show saturation. Besides, attending customers' needs will be the prime focus of the Bank in the upcoming period. The Bank will also harness its goodwill and accumulated experience to create value to its stakeholders.

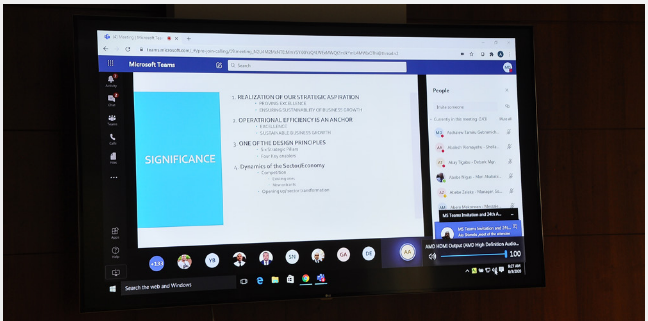
Sincerely,

Neway Beyene
Chairman, Board of Directors

PHOTO GALLERY

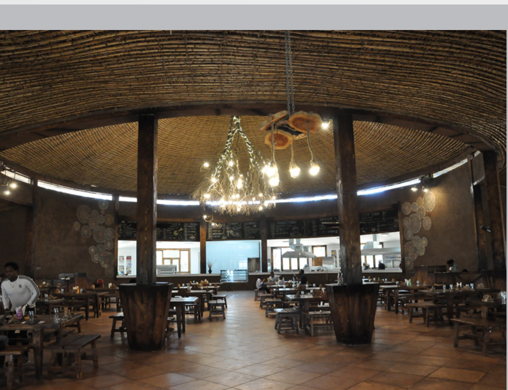
MEETING

25th Ordinary Annual General Meeting of Shareholders



COFERENCE

24rd Annual Managers' Coference (Virtual)



Boston Partners PLC (Kuriftu Entoto Park)

Christmas International Brain and Spine Surgery Specialzed Hospital

Elilta Construction Material and Development PLC

Donation for COVID-19

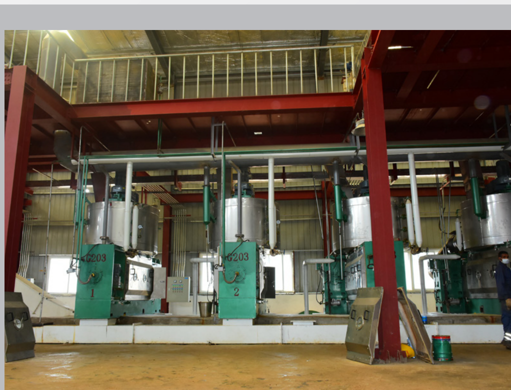
Donation of Mask for
Culture and Tourism Minister

Ethiopian Talent Power Series Award

FINANCED PROJECTS

JH Simex
Real-Estate PLC

Sacuur
Real-Estate PLC



RICH LAND BIOCHEMICAL
PRODUCTION PLC

QINGMIN
CHEN

Dashen Bank S.C.
Report of the Shari'ah Advisory Committee
For the Financial Year Ended June 30, 2020

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

As part of the roles and responsibilities of the Shari'ah Advisory Committee ("the Committee") of Dashen Bank S.C. ("the Bank") provided under the Bank's Shari'ah Governance Framework and Charter of the Committee, we hereby submit its report for the financial year ended June 30, 2020:

The Committee dedicated its fullest attention and time to oversee the Bank's Interest Free Banking ("IFB") window service at IFB Windows and dedicated IFB Branch. In the period under review, the Committee has held successive regular and extraordinary meetings to effectively discharge its responsibilities. It has reviewed the Bank's IFB products, financing 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 Shari'ah related matters referred to it by the Bank.The Committee has duly given feedbacks and directions to the Board of Directors, Management and Staff of the Bank on matters requiring their attention.

The committee has regularly reviewed and deliberated on various reports and financial statements submitted to it by Executive Offices, Departments and Work Units of the Bank to determine whether the overall performance of the Bank's IFB window service is Shari'ah compliant and consistent with internationally accepted Islamic finance principles. The committee has accordingly given feedbacks and directions based on the reports and explanations given by the officials and experts of the Bank.

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, principles and with the specific *fatwas* or Shari'ah decisions made by us. Our opinion is primarily based on the information provided to us, the explanations given by officials and experts of the Bank and our review of the operations of the Bank.

In our opinion:

1) The Bank is exerting genuine efforts to comply with all regulatory requirements as well as adopt best industry governance practices;
2) The Bank is investing to strengthen the capacity of its human resources and expand the service delivery channels; and
3) The contracts, transactions and dealings entered by the Bank during the financial year ended June 30, 2020 that we have reviewed followed the Shari'ah rules and principles to an overall satisfactory level.

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, October 15, 2020
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)

Sharik

DASHEN BANK'S INTEREST FREE BANKING SERVICE

We are your partner in your Sharia compliant banking.

Wadiah | Qard | Mudarabah | Salam | Istisna | Murabahah | Musharakah

الوديعة | القرض | المضاربة | السَّلَم | الإستصناع | المرابحة | المشاركة

DASHEN BANK S.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020
OCTOBER 2020

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Dashen Bank

A.A Bromhead
Certified Audit Firm & UK Registered Auditor

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Company information

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

NBE registration number: LBB/002/95

Board of Directors (As of 30 June 2020)	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 Banking Operations Officer	Jan-19
Shimelis Legesse Wossenie	Chief Information Officer	Sep-17
Tibebu Solomon Tadesse	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
Eyerusalem Wagaw Dubale	Deputy Chief Human Resources Officer	Jan-19
Mesfin Bezu Yimam	Deputy Chief Interest Free Banking	Jan-19
Asfaw H/Mariam Tadesse	Director-Internal Audit Department	Feb-19
Zelalem Taddesse Feyisa	Director-Supply Chain Management Department	Feb-19
Ayele Teshome Mulatu	Director-Branch Operations & Central Processing Department	Feb-19
Andualem Belete Fenta	Director-Treasury Management Department	Jun-20
Dejene Getahun Tessema	Director-Enterprise Program Management Department	Jul-20
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
Abiyot W/eyesus Teka	Director-Finance and Accounts Department	Aug-19
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	Director-Alternate Channel Department	May-19
Tagel Mekonenn Degefu	Director-System Security Department	Jul-20
Afework Gugsa Mideksa	Director-Retail & MSME Banking Department	Aug-20
Hailu Moges Teklu	Director-Talent Development Department	Feb-19
Tadesse Kasahun Desta	Director-Credit Recovery and Portfolio Management Department	Feb-19

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Company information (Continued)

Corporate Management Council Members (Continued)	Official Designation	Appointment Date to current positions
Tesfaye Anene Kotiye	Director-Application Dvelopment & Support Department	Jul-20
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
Anteneh Tadesse Abebe	Director -IT Infrastructure Department	Dec-17
Aschalew Tamiru Gebremichael	Director-Marketing & Customer Experience Department	Sep-19
Merihun Mekonnen Adame	Manager, Wolaita Sodo District	Jan-19
Fekadu Alemu Kenea	Manager, Adama District	Jan-19
Eshete Yemata Ayicheh	Manager, Bahir Dar District	Jan-19
Biruck Hailemeskel Kassaye	Manager, Dessie District	Jan-19
Nurit Mohammed Yesuf	Manager, Dire Dawa District	Jan-19
Elias Hussien Abegaz	Manager, East Addis District	Jul-20
Wegenie Bekele Demissie	Manager, Jimma District	Jan-19
Ashenafi Berhanu Debeb	Manager, Mekelle District	Jan-19
Tamiru Girma Demssie	Manager, North Addis District	Jan-19
Abebe Zeleke Tewado	Manager, South Addis District	Jan-19
Halefom Seyoum Desta	Manager, West Addis Ababa District	Jan-19

Independent auditor

A.A. Bromhead Certified Audit Firm
Jomo Kenyata Street, EECMY Building, 4th Floor
P.O. Box 709, 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

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Company information (Continued)

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
	Via Monte di Pietà, 8,20121 Milano
Intesa Sanpaolo spa, (Head Office)	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)

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Directors' report

The Directors submit their report together with the financial statements for the year ended 30 June 2020 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 a diverse range of financial products and services to a wholesale, retail and SME clients based in the Ethiopian Market.

Share capital

The Bank has a paid up capital of ETB 3,479,224,000, (2019: ETB 2,704,558,000) divided into 3,479,224 (2019: 2,704,558) ordinary shares of par value of ETB 1,000.

Operating Results

The Bank's results for the year ended 30 June 2020 are set out on page 37. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	2020 ETB'000	2019 ETB'000
Net interest income	3,365,136	2,373,625
Profit before tax	1,789,930	1,279,027
Income tax expense	(252,997)	(262,254)
Profit for the year	1,536,933	1,016,773
Other comprehensive income net of taxes	(9,657)	(4,756)
Total comprehensive income for the year	1,527,276	1,012,017
Basic EPS	490	408

Directors

The Board Directors who held office during the year and to the date of this report are set out on page 28.

Neway Beyene Mulatu
Chairman, Board of Directors
1 December 2020

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Statement of Directors' responsibilities

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, the Banking Business Proclamation No. 592/2008 and Proclamation No. 1159/2019 (Banking Amendment), NBE Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019, and 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 these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with IFRS, the requirements of the Commercial Code of Ethiopia 1960, the Banking Business Proclamation No. 592/2008 and Proclamation No. 1159/2019 (Banking Amendment), NBE Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019. 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.

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 1 December 2020	Asfaw Alemu Tessema Chief Executive Officer

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Independent Auditors' Report to the Shareholders of Dashen Bank Share Company

Report on the financial statements

Opinion

We have audited the accompanying financial statements of Dashen Bank Share Company ("the Bank") set out on pages 37 to 106, which comprise the statement of financial position as at 30 June 2020, 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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 of the current period. 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.

Nature of key audit matter

1. Significant Management's judgments, estimates and assumptions in the determination of expected credit loss

The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgements or estimates made by the Management are not accurate.

- Significant Increase in Credit Risk (SICR) - the Bank's identification of a significant increase in credit risk (SICR) based on the National Bank of Ethiopia (NBE)'s Directive No. SBB/69/2018 as qualitative indicators for identifying a significant increase in credit risk are highly judgemental and can materially impact the ECL recognised for loans and advances. The SICR determines whether to apply the 12 months ECL or the lifetime ECL.
- On the basis of the NBE's Circular No. BSD/20/2020, past due loans and advances related to Covid-19 are restructured and categorised under Stage 1, performing loans and advances. These loans and advances might not perform; thus, resulting in a decrease in ECL and regulatory credit risk reserve.
- The Bank has applied the NBE's definition for "Non-performing" loans and advances to determine defaults of loans and advances and has applied probability of default (PD) of 100% for loans and advances that are classified under "Sub-Standard", "Doubtful" and "Loss".
- To estimate the loss given default (LGD), assumptions and estimates are made in the determination of the value of collateral and the corresponding sales proceeds as well as the time of the sales.
- Economic base case – IFRS 9 requires the Bank to measure ECL on a forward-looking basis, incorporating future macro-economic variables (MEVs) reflecting a range of future conditions, that might differ from expectations.
- Complex model used – Complex statistical matrices are used in the determination of probability of default (PD).

  The effect of these matters is that, as part of our risk assessment, we determined that the value of ECL 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.

A.A Bromhead
Certified Audit Firm
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Addis Ababa

Independent Auditors' Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

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:

- Understanding the methodology used to determine the ECL;
- Ascertaining the completeness of data used in the determination of ECL;
- Ascertaining the correctness of the classification of financial assets to stages, stage 1 or 2 or 3;
- For a sample of loans and advances, the values of collateral used in the determination of LGD were checked with the collateral values assessed by Management;
- For a sample of loans and advances, the accuracy of LGD and ECL were tested for accuracy.
- Reviewing the adequacy of disclosures of Management judgments, estimates and assumptions.

Our results

We considered the credit impairment charge, the provision recognised and the related disclosures to be acceptable.

Nature of key audit matter

2. Information Technology (IT) Access Management

Our audit approach relied extensively on automated controls and, therefore, on the effectiveness of controls over IT systems. Access management controls are critical to ensure that changes to applications and underlying data are made in an appropriate manner. Appropriate access and change controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.

Our response

Access rights were tested over applications, operating systems and databases relied upon for financial reporting. Specifically, the audit tested that:

- New access requests for joiners were properly reviewed and authorised;
- User access rights were removed on a timely basis when an individual left or moved role;
- Access rights to applications, operating systems and databases were periodically monitored for appropriateness;
- Highly privileged access was restricted to appropriate personnel; and
- Existence of strict procedures on password policies, security configurations, controls over changes to code, data and configuration.

Our results

We considered the user access management control to be acceptable.

Other Information

The Directors are responsible for the other information, which comprises the Directors' report in accordance with Article 362(c) of the Commercial Code of Ethiopia of 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 identified above 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 audit work we have performed on the other information 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. We have nothing to report in this regard.

A.A Bromhead
Certified Audit Firm
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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Independent Auditors' Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

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

The Management of the Bank is 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, the Banking Business Proclamation No. 592/2008 and Proclamation No. 1159/2019 (Banking Amendment), NBE's Directives and the Accounting and Auditing Board of Ethiopia's instructions of 30 October 2019, and for such internal controls as Management determines 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 Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 scepticism throughout the audit. We also:

i) Identified and assessed 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) Obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

iv) Concluded on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty existed related to events or conditions that may have cast significant doubt on the Bank'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 were based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

v) Evaluated 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 communicated 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 identified during our audit.

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Independent Auditors' Report to the Shareholders of Dashen Bank Share Company (Continued)

Report on the financial statements (Continued)

Report on Other Legal and Regulatory Requirements

We have no comment to make on the report of your Directors so far as it relates to these financial statements and, pursuant to Article 375 of the Commercial Code of Ethiopia 1960, recommended approval of them.

A.A. Bromhead Certified Audit Firm and
UK Registered Auditor
Auditors' of Dashen Bank Share Company

2 December 2020
Addis Ababa

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Statement of profit or loss and other comprehensive income

	Notes	2020 ETB'000	2019 ETB'000
Interest income	5	5,824,000	4,301,332
Interest expense	6	(2,458,864)	(1,927,707)
Net interest income		3,365,136	2,373,625
Fee and commission income	7	1,512,912	1,026,565
Fee and commission expense	7	(80,609)	(85,231)
Net fee and commission income		1,432,303	941,334
Other operating (expense) / income	8	(120,701)	250,247
Total operating income		4,676,738	3,565,206
Loan impairment reversal	9	69,976	15,269
Impairment losses on IFB financing		(179)	
Impairment losses on other financial assets	10	(7,012)	(934)
Net operating income		4,739,523	3,579,541
Employee benefits expense	11	(1,886,337)	(1,395,975)
Other operating expenses	12	(1,063,256)	(904,539)
Profit before income tax		**1,789,930**	**1,279,027**
Income tax expense	13(a)	(252,997)	(262,254)
Profit for the year		**1,536,933**	**1,016,773**
Other comprehensive income (OCI)			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement (loss) on retirement benefits obligations	24(c)	(11,682)	(19,857)
Remeasurement (loss) / gain on financial assets at FVTOCI	16(a)	(2,114)	13,062
Deferred tax income	13(a)	4,139	2,039
		(9,657)	(4,756)
Total comprehensive income for the year		**1,527,276**	**1,012,017**
Earnings per share (EPS)			
Basic EPS	26	**490**	**408**
Diluted EPS	26	**490**	**408**

The notes on pages 42 to 106 are an integral part of these financial statements.

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
As at 30 June 2020

Statement of financial position

	Notes	2020 ETB'000	2019 ETB'000
ASSETS			
Cash and balances with banks	14(a)	6,061,146	3,868,941
Reserve with National Bank of Ethiopia	14(b)	2,680,000	2,221,000
Loans and advances to customers	15(a)	42,067,537	32,366,183
IFB financing	15(b)	542,162	-
Investment security			
Financial assets at fair value through OCI	16(a)	95,778	89,897
Debt securities at amortised cost	16(c)	11,125,720	12,301,054
Other assets	17	806,548	1,442,729
Investment properties	19	780,996	797,365
Intangible assets	20	91,618	109,397
Property and equipment	21	3,881,642	3,020,684
Deferred tax assets	13(e)	128,163	-
Total Assets		**68,261,310**	**56,217,250**
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	22	53,493,855	44,721,510
Current income tax	13(d)	380,839	240,950
Other liabilities	23	5,866,178	4,235,121
Defined Benefit Obligation	24(a)	205,866	167,936
Deferred tax liabilities	13(e)	-	4,953
Total liabilities		**59,946,738**	**49,370,470**
EQUITY			
Share capital	25	3,479,224	2,704,558
Retained earnings	27	796,315	635,731
Reserve for IFRS	28	951,405	1,071,400
Legal reserve	29	2,369,430	1,985,197
Special reserve	30	100	100
Regulatory credit risk reserve	31	743,267	465,306
Other reserves	32	(25,169)	(15,512)
Total equity		**8,314,572**	**6,846,780**
Total liabilities and equity		**68,261,310**	**56,217,250**

The financial statements on pages 37 to 106 were approved and authorised for issue by the Board of Directors on 1 December 2020 and were signed on its behalf by:

Neway Beyene Mulatu
Chairman, Board of Directors

Asfaw Alemu Tessema
Chief Executive Officer

The notes on pages 42 to 106 are an integral part of these financial statements.

A.A Bromhead
Certified Audit Firm
P.O. Box 709
Addis Ababa

Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Statements of changes in equity

	Notes	Share capital ETB'000	Retained earnings ETB'000	Legal reserve ETB'000	Reserve for IFRS ETB'000	Regulatory credit risk reserve ETB'000	Other reserve ETB'000	Special reserve ETB'000	Total ETB'000
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		-	(768)	-	-	29,808	11,688	-	40,728
		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	32	-	-	-	-	-	9,144	-	9,144
Total comprehensive income		-	1,016,773	-	-	-	(4,756)	-	1,012,017
Transaction and transfers within equity owners in their capacity as owners:									
Issue of new shares (for cash)		476,141	-	-	-	-	-	-	476,141
Transfer to legal reserve	29	-	(254,193)	(254,193)	-	-	-	-	-
Transfer to Reserve on remeasurements at 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	28	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**

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Statements of changes in equity

	Notes	Share capital ETB'000	Retained earnings ETB'000	Legal reserve ETB'000	Reserve for IFRS ETB'000	Regulatory credit risk reserve ETB'000	Other reserve ETB'000	Special reserve ETB'000	Total ETB'000
As at 1 July 2019		2,704,558	635,731	1,985,197	1,071,400	465,306	(15,512)	100	6,846,780
Prior years Adjustment	27	-	(113,681)	-	-	-	-	-	(113,681)
Adjustment on IFRS 16 adoption	28	-	-	-	(86,421)	-	-	-	(86,421)
As restated		2,704,558	522,050	1,985,197	984,979	465,306	(15,512)	100	6,646,678
Profit for the year	27		1,536,933						1,536,933
Other comprehensive income:									
Remeasurement gain/(loss) on retirement benefits obligations	32	-	-	-	-	-	(8,177)	-	(8,177)
Change in fair value of financial assets at fair value through OCI	32	-	-	-	-	-	(1,480)	-	(1,480)
Total comprehensive income		**-**	**1,536,933**	**-**	**-**	**-**	**(9,657)**	**-**	**1,527,276**
Transaction with owners in their capacity as owners and transfers within equity:									
Transfer to legal reserve	29	-	(384,233)	384,233	-	-	-	-	-
Transfer to capital		-	(556,239)	-	-	-	-	-	(556,239)
Shares issued		774,666	-						774,666
Transfer to Regulatory Reserve	31	-	(277,961)	-	-	277,961	-	-	-
Dividends paid	27	-	(77,992)	-	-	-	-	-	(77,992)
Reversal of amount transferred to paid-up capital upon collection of the cash from shareholders	28	-	-	-	1,683	-	-	-	1,683
Transfer to retained earnings	28	-	35,257	-	(35,257)	-	-	-	-
Directors' remuneration		-	(1,500)	-	-	-	-	-	(1,500)
		774,666	(1,262,668)	384,233	(33,574)	277,961	-	-	140,618
As at 30 June 2020		**3,479,224**	**796,315**	**2,369,430**	**951,405**	**743,267**	**(25,169)**	**100**	**8,314,572**

The notes on pages 42 to 106 are an integral part of these financial statements.

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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Statement of cash flows

	Notes	2020 ETB'000	2019 ETB'000
Cash flows from operating activities			
Cash generated from operations	33	1,545,848	1,463,472
Income tax paid	13(d)	(242,085)	(281,643)
Defined benefit paid	24(a)	(7,212)	(2,833)
Directors' remuneration paid	27	(1,500)	(900)
Net cash generated from operating activities		**1,295,051**	**1,178,096**
Cash flows from investing activities			
Collection / (Purchase) of bills and bonds	16(c)	1,175,334	(2,126,622)
Purchase of shares	16(a)	(7,995)	(5,290)
Purchase of intangible assets	20	(11,602)	(13,408)
Purchase of property and equipment	21(a)	(335,303)	(363,065)
Purchase of investment property	19	-	(816)
Payment for right of use asset		(72,903)	-
Proceeds from sale of property and equipment	33	7,505	1,663
Net cash generated from /(used in) investing activities		**755,036**	**(2,507,538)**
Cash flows from financing activities			
Dividends paid	27	(77,992)	(547,817)
Proceeds from issued shares		220,110	476,142
Net cash generated from / (used in) financing activities		**142,118**	**(71,675)**
Net increase / (decrease) in cash and cash equivalents		**2,192,205**	**(1,401,118)**
Cash and cash equivalents at 1 July		3,868,941	5,270,058
Cash and cash equivalents at 30 June	14(a)	**6,061,146**	**3,868,941**

The notes on pages 42 to 106 are an integral part of these financial statements.

A.A Bromhead
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P.O. Box 709
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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Notes to the financial statements

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 a diverse range of financial products and services to corporate, retail and SME clients based in the Ethiopian market.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The financial statements for the period ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by the 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.

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

i. IFRS 16 Leases

IFRS 16 Leases was issued by the IASB on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. IFRS 16 replaces the following standards and interpretations: IAS 17 - *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC 15 - *Operating Leases –Incentives* and SIC 27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

A.A Bromhead
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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Notes to the financial statements (Continued)

2.2.2 Changes in accounting policies and disclosures (continued)

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

i. IFRS 16 Leases (continued)

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in reserve for IFRS at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been applied to comparative information.

A. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases.

Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 July 2019.

B. As a lessee

As a lessee, the Bank leases many assets including offices, service centers and leasehold land. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

C. Leases classified as operating leases under IAS 17

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 July 2019.

Right-of-use assets are measured at their carrying value as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

i) did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application.

ii) excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

iii) used hindsight when determining the lease term.

D. As a lessor

The Bank leases out its investment properties . The Bank has classified these leases as operating leases. The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Bank has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

A.A Bromhead
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Dashen Bank Share Company
Report and Financial Statements
For the year ended 30 June 2020

Notes to the financial statements (Continued)

2.2.2 Changes in accounting policies and disclosures (continued)

a. New Standards, amendments, interpretations issued, effective and adopted during the year IFRS 16 Leases (continued)

E. Impact on financial statements

On transition to IFRS 16, the Bank recognised right-of-use assets, and lease liabilities, de-recognised prepayments and recognised the difference in reserve for IFRS. The impact on transition is summarised below.

01-Jul-19	**ETB ('000)**
Right-of-use assets - (under property and equipment)	936,509
Lease liabilities	(419,108)
Prepayments	(603,823)
Reserve for IFRS	86,421

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7% (interest on deposit).

The Bank adopted the New IFRS 16 leases standard effective from 1 July 2019 and the financial reports for the 2019/2020 financial period have been prepared in compliance with the requirements of the new standard.

On the Bank's transition date to the new standard, (i.e.1 July 2019), the Bank has elected to use the modified retrospective approach to determine and account for the amount of right-of-use assets, lease liabilities, the depreciation and finance charges arising from the adoption of the new standard.

The Bank has recognised through reserve for IFRS the difference between total rent expenses recognised to 1 July 2019 under the previous standard and total the expenses (interest expense and depreciation expense) that is recognised to the same period by retrospectively applying the new standard.

The significant accounting policies adopted and critical accounting estimates and judgements applied by the Bank with respect to the new standard have been disclosed below in notes 2.18 and 3, respectively.

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

New Standard or amendments	**Effective for annual periods beginning on or after**
Definition of a Business – Amendments to IFRS 3	1-Jan-20
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1-Jan-20
Definition of Material – Amendments to IAS 1 and IAS 8	1-Jan-20
The Conceptual Framework for Financial Reporting	1-Jan-20
IFRS 3 Definition of a Business	1-Jan-20
Covid-19-Related Rent Concessions - Amendment to IFRS	1-Jan-20

The Bank has not adopted these standards, amendments and interpretations as they do not have a significant effect in its financial statements.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.3 Foreign currency translation

a) *Functional and presentation currency*

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

b) *Transactions and balances*

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

Changes in the fair value of monetary securities denominated in foreign currency classified as amortised 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 measured 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, commission and service charges.

The Bank earns income from interest free banking.

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.

The carrying amount of the government bills and bonds is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

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

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.4 Recognition of income and expenses

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 are 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.

2.4.3 Dividend income

Dividend 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.

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 initially recognises 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) are recognised 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 is 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 is 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 measures 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).

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.5 Financial instruments - initial recognition and subsequent measurement

b) Classification and subsequent measurement (continued)

(i) Financial assets (continued)

A debt instrument is 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.

On initial recognition, an equity investment that is held for trading is classified at FVTPL. However, for an 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, are 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 are 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' is defined as the fair value of the financial asset on initial recognition. 'Interest' is 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;

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Notes to the financial statements (Continued)

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)

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

(ii) *Financial Liabilities*

The Bank 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 amortisation recognised in accordance with the revenue recognition policies.

(iii) *Classification of financial assets and financial liabilities*

The following table shows the measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 30 June 2020.

Financial assets	Classification under IFRS 9	Original carrying amount ETB'000	Re-measurement ETB'000	Carrying Amount under IFRS 9 ETB'000
Cash, balances with banks and reserve with NBE	Amortised cost	8,741,421	(275)	8,741,146
Loans and advances to customers	Amortised cost	42,160,875	(93,338)	42,067,537
IFB financing	Amortised cost	542,341	(179)	542,162
Investment securities: Equity instruments	FVOCI	78,786	16,992	95,778
Investment securities: Debt instruments	Amortised cost	11,126,336	(616)	11,125,720
Other financial assets at amortised cost	Amortised cost	251,991	(8,441)	243,550
Total financial assets		**62,901,750**	**(85,857)**	**62,815,893**
Financial liabilities				
Deposits from customers	Amortised cost	53,493,855	-	53,493,855
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	5,378,862	70	5,378,932
Total financial liabilities		**58,872,717**	**70**	**58,872,787**

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 recognises 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 recognised 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 (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 measured at an amount equal to lifetime ECL.

12-month ECL is the portion of ECL that results from default events on a financial instrument that is 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'.

Lifetime ECL is the ECL that results 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 is 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 is 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.

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Notes to the financial statements (Continued)

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 are 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, any loss allowance is disclosed and is recognised in the fair value reserve. (other 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 are 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 would be treated as a transaction cost of acquiring it. The Bank considers 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 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 derecognised 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 derecognised) 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 derecognised 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 Bank 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 are 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 are 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 would 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 would first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognise 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 to adjust the gross carrying amount of the modified financial asset is 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 would be presented together with impairment losses. In other cases, it is 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.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

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

(ii) Financial liabilities (continued)

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.

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 Bank 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 designates 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.

2.6 Net interest income

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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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.6 Net interest income (Continued)

a) Effective interest rate and amortised cost (Continued)

The calculation of the effective interest rate includes transaction costs and fees 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.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

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.

For the purposes of the cash flow statement, cash and cash equivalents include cash and restricted balances with National Bank of Ethiopia.

2.8 Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, 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 profit or loss as incurred.

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

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

Asset class	Depreciation rate (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. Freehold land is not depreciated.

Capital work-in-progress is not depreciated as these assets are not yet available for use.

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 profit or loss when the asset is derecognised.

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

2.9 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 profit or loss.

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Notes to the financial statements (Continued)

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:

	Useful life
Intangibles	6 years
Intangibles-Contract based	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 properties 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 disposal of investment property are determined as the difference of the net disposal proceeds and the carrying amount of the asset and recognised in profit or loss statement.

2.11 Non-current assets held for sale and discontinued operations

Non-current assets held for sale 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 properties 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 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, 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 is recognised at the date of derecognition.

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. The 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. 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 profit or loss.

2.13 Other assets

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

(a) Prepayments

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalised 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 events or transactions 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:

- Significant estimates and assumptions, disclosures for valuation methods (Note 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.

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Notes to the financial statements (Continued)

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 no. 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' salaries. 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 Bank 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 more and are below the retirement age (i.e. have not met the requirement to access the pension fund). The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent year in employment to a maximum of 12 months final monthly salary.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.15 Employee benefits (Continued)

(c) Defined benefit obligations (continued)

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 statement of financial position in respect of the defined benefit pension plan 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 profit or loss.

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 profit or loss 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

Lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. This definition is more focused on who controls the right-of-use asset.

(a) Bank as a lessee

The Bank implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the standard. The Bank elected to apply exemptions for short term leases in relation to leases of residential buildings.

Based on the accounting policy applied, the Bank recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.
The right-of-use assets are initially measured at cost, which comprises:
– the amount of the initial measurement of the lease liability,
– any lease payments made at or before the commencement date, less any lease incentives,
– any initial direct costs incurred by the lessee,
– an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

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2 Summary of significant accounting policies (Continued)

2.18 Leases (continued)

(a) Bank as a lessee (continued)

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful lives (lease term). The Bank depreciates the right-of-use asset from the commencement date to the end of the useful life of the right-of-use asset.

A lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:
– fixed payments, less any lease incentives receivable;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
– payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss.

Lease payments are discounted using the Bank's incremental borrowing rate of 7%. The lease term determined by the Bank comprises:

– non-cancellable period of lease contracts,
– periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option,
– periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Bank measures the lease liability by:

– increasing the carrying amount to reflect interest on the lease liability,
– reducing the carrying amount to reflect lease payments made, and
– re-measuring the carrying amount to reflect any reassessment or lease modifications

(b) Bank as a lessor

The Bank makes assessment of leases on the commencement date of leases and classifies them as either operating or finance leases. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Examples of situations where the risks and rewards of ownership are considered as having been transferred to the lessee are as follows:
− the lease transfers ownership of the asset to the lessee by the end of the lease term,
− the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
− the lease term is for at least 3/4 of the economic life of the asset even if title is not transferred,
− at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset; or
− the leased assets are of such a specialised nature that only the lessee can use them without major

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.

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Notes to the financial statements (Continued)

2 Summary of significant accounting policies (Continued)

2.19 Income taxation (Continued)

(a) Current income tax (Continued)

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 Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

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

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

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

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

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.

2.21 Comparatives

Where necessary, comparative information has been adjusted to conform with changes with current year's presentation.

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Notes to the financial statements (Continued)

3 Significant accounting judgements, estimates and assumptions

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

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

- Capital management Note 4.5
- Financial risk management and policies Note 4
- 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 are not limited to future business prospects for the customer, realisable values 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 recognised 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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Notes to the financial statements (Continued)

3 Significant accounting judgements, estimates and assumptions (Continued)

3.1 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 Management 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.

IFRS 16 leases

The application of IFRS 16 requires the Bank to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Bank generally comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Bank is reasonably certain not to exercise that option.

The Bank will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms.

The present value of the lease payment is determined using the discount rate representing the rate of nominal interest rate the Bank pays to depositors of savings accounts. The expenses relating to leases for which the Bank applied the practical expedient described in IFRS 16 (leases with the contract term of less than 12 months) are recognised in profit or loss.

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.

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4 Financial risk management

4.1 Introduction

The Management of the Bank recognises 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 Management recognises that a comprehensive credit, liquidity, operational and market risk policy is essential to effectively manage the Bank's risks and to meet regulatory requirements. The Bank earnestly strives to apply best practices in identifying, evaluating, and cost-effective controlling of risks to ensure that any residual risks are at an acceptable level. Whilst it is not possible to eliminate risk absolutely, the Bank actively promotes and applies best practices at all levels and to all of 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 the 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, the Bank considers risk management as an integral part of its day-to-day core business activities.

4.1.1 Risk management structure

Philosophy

The Bank duly strives for the realisation 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 the Risk Management and Compliance Department independent from the risk taking function in order to ensure the check and balance system and enable the department to oversee the level of risk taken independent from the risk taking activities.

Risk management committees

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

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

Each committee has established its own terms of reference which specifies the activities and responsibilities of the respective committees. The roles in relation to risk management of each committee are indicated 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 helps management to maximise profit, safeguard the Bank's resources, produce reliable financial reports, increase employee satisfaction, and comply with laws and regulations. It also reduces the possibility of significant errors and irregularities, as well as assist in their timely detection when they do occur.

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4 Financial risk management (Continued)

4.1 Introduction (Continued)

4.1.2 Risk measurement and reporting systems (Continued)

Risk impact assessment matrix

The following risk impact level and consequences have been 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 quickly fixed.
Moderate	Moderate	Minor impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be with more than short term effect that can be expensive to recover.
High	Major	Significant impact on strong financial position, customer satisfaction, efficient business process, and employee satisfaction. May be very difficult and possibly takes medium term to recover.
Very High	Extreme	Critical impact on strong financial position, customer satisfaction, efficient business process and employee satisfaction. May be very difficult and possibly takes more than medium term time span to recover.

Risk tolerances

The Management desires 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.

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 is defined as the ability of the Bank to identify, measure, monitor, assess, and control risks. The Bank, through its Board, Management, and RMCD, is 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.

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4 Financial risk management (Continued)

4.1 Introduction (Continued)

4.1.3 Risk assessment (Continued)

Risks in the below four categories described are 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 are rated as very high, high, moderate, low and very low. Among factors considered in this assessment of risk are 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 identifies the most significant, or key controls and includes an opinion about the effectiveness of the design of control in mitigating the related risk. As per the NBE risk management guideline, the Bank conducts the following under listed risk assessment in detail every quarter and briefly every month, submits, and reviews this assessment with the Board Risk Management Committee of the Bank. The results of the inherent risk assessment are also provided to other concerned organs.

4.2 Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, or counterparty to meet their financial obligations to the Bank. The Bank manages this risk by applying a strict set of criteria in credit granting. It ensures the lending activities are based on strong underwriting standard, KYC (know your customer) principles, confining its dealings to institutions and individuals of high creditworthiness and ensuring exposures to counterparties are appropriately secured. The Bank has high risk appetite for credit risk by taking into account expected returns, the external environment, and developments in the composition of the Bank's balance sheet.

The main credit risk identification methods used by the Bank are financial statements analysis, risk identification method, stress testing risk identification method and audit approach risk identification method. In rare cases, the Bank applies incident investigation risk identification method to identify credit risk.

Five levels of qualitative measurement of credit risk are applied by the Bank in order to measure credit risk impact. These measurement levels are scales that range from very low for risk that have insignificant consequences, low for risk that have minor consequences, medium for risk that have moderate consequences, high for risk that have major consequences and very high for risk that have extreme consequence. The level of the risk is measured taking into account the credit risk appetite of the Bank, NBE limits, internal credit risk limits and based on the Bank's risk management program.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit quality analysis

The table below sets out information about the credit quality of financial assets and debt instruments measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

The loss allowance for loans and advances to customers also includes the loss allowances for loan commitments and financial guarantee contracts.

	Stage 1 ETB'000	Stage 2 ETB'000	Stage 3 ETB'000	2020 Total ETB'000	2019 Total ETB'000
Loans and advances to customers at amortised cost					
Stage 1 – Pass	38,651,044	-	-	38,651,044	29,522,778
Stage 2 – Special mention	-	2,799,882	-	2,799,882	2,077,815
Stage 3 - Non performing	-	-	709,949	709,949	975,791
Total gross exposure	**38,651,044**	**2,799,882**	**709,949**	**42,160,875**	**32,576,384**
Loss allowance	(18,461)	(1,336)	(73,541)	(93,338)	(210,201)
Net carrying amount	**38,632,583**	**2,798,546**	**636,408**	**42,067,537**	**32,366,183**

	Stage 1 ETB'000	Stage 2 ETB'000	Stage 3 ETB'000	2020 Total ETB'000	2019 Total ETB'000
IFB financing					
Stage 1 – Pass	542,341	-	-	542,341	-
Stage 2 – Special mention	-	-	-	-	-
Stage 3 - Non performing	-	-	-	-	-
Total gross exposure	**542,341**	-	**-**	**542,341**	**-**
Loss allowance	(179)	-	-	(179)	-
Net carrying amount	**542,162**	-	**-**	**542,162**	**-**

2020 ETB'000			
Other financial assets (debt instruments)	**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and bank balances	5,498,987	(275)	5,498,712
Investment securities (debt instruments)	12,317,473	(616)	12,316,857
Other receivables and financial assets	251,711	(7,687)	244,024
	18,068,171	**(8,578)**	**18,059,593**

2019 ETB'000			
Other financial assets (debt instruments)	**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and bank balances	6,090,133	(192)	6,089,941
Investment securities (debt instruments)	12,301,669	(615)	12,301,054
Other receivables and financial assets	300,581	(4,717)	295,864
	18,692,383	**(5,524)**	**18,686,859**

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit quality analysis (Continued)

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

Classification	12 months ECL ETB'000	Lifetime ECL credit not impaired ETB'000	Lifetime ECL credit impaired ETB'000	2020 Total ETB'000
Pass	3,049,836	-	-	3,049,836
Special Mention	-	-	-	-
Non-Performing	-	-	-	-
Total Exposure	**3,049,836**	-	-	**3,049,836**
Loss Allowance	(70)	-	-	(70)
Carrying Amount	**3,049,766**	-	-	**3,049,766**

Classification	12 months ECL ETB'000	Lifetime ECL credit not impaired ETB'000	Lifetime ECL credit impaired ETB'000	2019 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**

4.2.2 Collateral held

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	2020 ETB'000	2019 ETB'000	Principal type of collateral held
Loans and advances to customers and IFB financing	15	120,384,870	32,366,183	Cash and cash substitutes, share certificates, bank guarantees, Buildings, vehicles and machineries, negotiable bills of payment and deposits.

I Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended. 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 and advances 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.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.2 Collateral held (Continued)

I Loans and advances to corporate customers (Continued)

At 30 June 2020, the gross carrying amount of credit-impaired loans and advances to corporate customers amounted to ETB 369 million (2019: ETB 552.9 million) and the value of identifiable collateral held against those loans and advances amounted to ETB 841 million (2019: ETB 1,444.4 million).

II Investment securities designated at FVTPL

At 30 June 2020, the Bank had no exposure to credit risk on the investment securities designated 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;

a. Term loan exposures

- Information obtained during periodic reviews 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
- 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

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

II Credit risk grades (Continued)

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).

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

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);
• 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.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

VI Incorporation of forward-looking information (Continued)

The key drivers for credit risk for each of the Bank's economic sectors is summarised 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, ETB bn	STRATIFICATION : Household Spending, ETB bn
Domestic Trade & Services	GDP: GDP per capita, USD	GDP EXPENDITURE : Imports of goods and services, USD bn	GDP EXPENDITURE: Imports of goods and services, USD bn	EXCHANGE RATE: ETB/USD, average	FISCAL: Total revenue, USD bn
Building & Construction and Manufacturing & Production	GDP EXPENDITURE: Exports of goods and services, USD per capita	FISCAL: Current expenditure, USD bn	DEBT: Government domestic debt, ETB bn		
Export and Import	GDP EXPENDITURE: Exports of goods and services, ETB bn	GDP EXPENDITURE : Imports of goods and services, ETB bn	EXCHANGE RATE: Real effective exchange rate, index	GDP EXPENDITURE: Private final consumption, USD bn	DEBT: Total government debt, USD bn

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

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

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

VI Incorporation of forward-looking information (Continued)

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

As at 30 June	2020		2019	
	Upside	Downside	Upside	Downside
Cluster 1	0%	50%	16%	16%
Cluster 2	0%	50%	10%	10%
Cluster 3	0%	50%	13%	13%
Cluster 4	0%	50%	14.50%	14.50%

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.

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.

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

VIII Measurement of ECL (Continued)

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.

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance

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

Loans and advances to customers and IFB financing at amortised cost (on balance sheet exposures)

	2020 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 July 2019	42,874	3,306	164,022	210,201
Transfer to stage 1 (12 months ECL)	8,930	(2,000)	(6,930)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(2,611)	4,892	(2,281)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(129)	(95)	224	-
Net re-measurement of loss allowance	(30,609)	(4,730)	(29,177)	(64,515)
New financial assets originated or purchased	10,914	306	49,990	61,211
Financial assets derecognised	(10,730)	(342)	(102,308)	(113,380)
Balance as at 30 June 2020	**18,640**	**1,336**	**73,541**	**93,517**
Loan and advances to customers				93,338
IFB financing				179
				93,517

	2019 ETB'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
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**

	2020 ETB'000			
	Cash and bank balances	**Investment securities (debt instruments)**	**Other receivables and financial assets**	**Total**
Balance as at 1 July 2019	192	615	4,717	5,524
Net remeasurement of loss allowance	83	1	6,871	6,955
New financial assets originated or purchased	-	-	-	-
Financial assets derecognised			(3,147)	(3,147)
Balance as at 30 June 2020	**275**	**616**	**8,441**	**9,332**

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.3 Amounts arising from ECL (Continued)

IX Loss allowance (Continued)

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

The following table provides a reconciliation 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 statement of profit or loss and other comprehensive income.

	2020 ETB'000			
	Loans and advances to customers at amortised cost	Investment securities (debt instruments)	Other financial assets	Total charge/ (credit)
Net remeasurement of loss allowance	(64,515)	(2,662)	3,082	(64,095)
New financial assets originated or purchased	61,211	1,029	7,076	69,315
Financial assets derecognised	(84,563)	1,635	-	(82,929)
Amounts directly written off during the year	17,892	-	(3,147)	14,745
	(69,976)	**1**	**7,011**	**(62,964)**

	2019 ETB'000			
	Loans and advances to customers at amortised	Investment securities (debt instruments)	Other financial assets	Total charge/ (credit)
Net remeasurement of loss allowance	16,475	(98)	942	17,319
New financial assets originated or purchased	85,555	178	-	85,733
Financial assets derecognised	(117,299)	(87)	-	(117,386)
	(15,269)	**(7)**	**942**	**(14,334)**

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Notes to the financial statements (Continued)

4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.4 Concentrations of credit risk

Gross loans and advances to customers and IFB financing per sector are analysed as follows:

a) Loans and advances	2020 ETB'000	2019 ETB'000
Domestic trade and services	11,002,479	8,353,063
Manufacturing	9,927,601	6,378,044
Export	5,083,395	4,260,213
Real estate	4,908,346	3,854,383
Transport	1,939,012	2,390,683
Construction, machinery and working capital	2,173,629	2,134,085
Import	2,045,968	1,716,102
Personal	2,102,484	1,703,646
Staff housing loans	1,793,186	920,415
Loans and advances under litigation	320,617	328,167
Agriculture	392,388	280,802
Emergency staff loan	349,175	216,845
Advances on letters of credit	122,595	38,758
Mining	-	1,178
	42,160,875	**32,576,384**

b) IFB financing	2020 ETB'000	2019 ETB'000
Domestic trade and services	113,003	-
Manufacturing	91,531	-
Real estate	292,424	-
Transport	11,853	-
Construction, machinery and working capital	1,898	-
Import	24,353	-
Agriculture	7,279	-
	542,341	**-**

4.2.5 Collateral held and its financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended. 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 employees' continued employment in the Bank.

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees, cash, residential, commercial and industrial property, 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 collateral is 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 collateral other than 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.

4.2.6 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.

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4 Financial risk management (Continued)

4.2 Credit risk (Continued)

4.2.7 Statement of prudential adjustments

During the year ended 30 June 2020, the Bank transferred an amount of ETB 278 million (2019: 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.

The Bank compared the total provision based on the NBE Directive No. SBB/69/2018 with the impairment under IFRS for the comparative period and a transfers was made from retained earnings to regulatory credit risk reserve account as the impairment balance under IFRS was lower for the year.

	2020 ETB'000	2019 ETB'000
Suspended interest	123,815	154,378
Total impairment based on IFRS	(101,958)	(215,740)
Total impairment based on NBE Directives	721,410	526,668
	743,267	465,306

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 guarantees, cash, residential, commercial and industrial property; 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 the 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 maturing obligations are met.

Cash flow forecasting is performed in order to monitor liquidity status. The Treasury Management Department monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs. Maturity mismatch techniques are used for the Bank’s financial liabilities analysis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

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

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank’s reputation.

The Bank has incurred indebtedness in the form of borrowings. The Bank evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Bank devises strategies to manage its liquidity risk.

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4 Financial risk management (Continued)

4.3 Liquidity risk (continued)

4.3.1 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.

	Days				
2020	**0 - 30 ETB'000**	**31 - 90 ETB'000**	**91 - 180 ETB'000**	**181 - 365 ETB'000**	**Over 1 year ETB'000**
Deposits from customers	1,055,000	773,000	1,729,000	1,438,611	48,498,244
Other financial liabilities	1,238,345	2,259,453	521,466	904,822	454,846
	2,293,345	3,032,453	2,250,466	2,343,433	48,953,090
2019	**0 - 30 ETB'000**	**31 - 90 ETB'000**	**91 - 180 ETB'000**	**181 - 365 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
	2,305,920	2,106,083	2,069,229	1,783,573	40,448,984

4.3.2 Financial assets pledged as collateral

Financial assets are pledged as collateral as part of securities for 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 2020 are disclosed in the table below.

	Pledged as collateral ETB'000
Cash and balances with banks	7,597
Investment securities	5,714,279
	5,721,876

Assets pledged as collateral are not available for the Bank's operation.

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4 Financial risk management (Continued)

4.4 Market risk

Market risk is defined as the risk of loss 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 institution. The Bank does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

4.4.1 Objective of market risk management

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is monitored by the Enterprise Risk and Compliance Management Department regularly to identify any adverse movement in the underlying variables.

4.4.2 Management of market risk

Market risk is monitored by the Risk Management and Compliance Department regularly, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk.

The Bank is also exposed to fixed rate financial assets and financial liabilities. The Bank's investment portfolio is comprised of treasury bills, Ethiopian government bonds and cash deposits.

The table below sets out information on the exposures to fixed and variable interest instruments.

30-Jun-20	**Interest Bearing ETB'000**	**Non-interest bearing ETB'000**	**Total ETB'000**
Assets			
Cash and bank balances	1,429,063	4,632,083	6,061,146
Reserve with National Bank of Ethiopia	-	2,680,000	2,680,000
Loans and advances to customers	42,067,537	-	42,067,537
IFB financing	-	542,162	542,162
Fianacial assets at amortised cost	11,125,720	-	11,125,720
	54,622,320	**7,854,245**	**62,476,565**
Liabilities			
Deposits from customers	51,127,823	2,366,032	53,493,855
Other liabilities	-	5,378,932	5,378,932
	51,127,823	**7,744,964**	**58,872,787**

30-Jun-19	**Interest Bearing ETB'000**	**Non-interest bearing ETB'000**	**Total ETB'000**
Assets			
Cash and bank balances	1,636,387	2,232,554	3,868,941
Reserve with National Bank of Ethiopia	-	2,221,000	2,221,000
Loans and advances to customers	32,361,312	4,871	32,366,183
Investment securities	12,301,054	-	12,301,054
	46,298,753	**4,458,425**	**50,757,178**
Liabilities			
Deposits from customers	42,385,089	2,336,421	44,721,510
Other liabilities	-	3,967,292	3,967,292
	42,385,089	**6,303,713**	**48,688,802**

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4 Financial risk management (Continued)
4.4 Market risk (continued)
4.4.2 Management of market risk (continued)
(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Bank's foreign currency bank accounts act as a natural hedge for these transactions. Management has set up a policy to manage the Bank's foreign exchange risk against its functional currency.

Foreign currency denominated balances	2020 ETB'000	2019 ETB'000
Cash and bank balances	268,950	1,274,834
Liability	(3,944,854)	(2,774,407)
	(3,675,904)	(1,499,573)

Sensitivity analysis for foreign exchange risk

The sensitivity analysis for currency rate risk shows how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates at the reporting date.

The sensitivity of the Bank's earnings to fluctuations in exchange rates is reflected by varying the exchange rates at 10% as shown below:

		2020 ETB'000	
	Currency Carrying	10 % Depreciation	10 % Appreciation
Assets			
USD	171,692	(17,169)	17,169
GBP	6,334	(633)	633
Euro	55,855	(5,585)	5,585
Others	35,069	(3,506)	3,506
	268,950	(26,893)	26,893
Liabilities			
USD	3,599,598	359,959	(359,959)
GBP	11,893	1,189	(1,189)
Euro	256,896	25,689	(25,689)
Others	76,467	7,646	(7,646)
	3,944,854	394,483	(394,483)
Total increase/(decrease)	3,675,904	367,590	(367,590)
Tax charge at 30%	-	110,277	(110,277)
Effect on net profit	**3,675,904**	**257,313**	**(257,313)**

		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
Others	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)
Others	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%	-	44,987	(44,987)
Effect on net profit	**1,049,703**	**104,970**	**(104,970)**

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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 NBE, 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 its 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 paid-up capital, retained earnings, legal reserve and other reserves approved by the NBE.

	2020 ETB'000	2019 ETB'000
Capital		
Paid-up capital	3,479,224	2,704,558
Retained earnings	796,315	635,731
Reserve for IFRS	951,405	1,071,400
Legal reserve	2,369,430	1,985,197
Special reserve	100	100
Regulatory Risk Reserve	743,267	465,306
Other reserves	(25,169)	(15,512)
	8,314,572	6,846,780
Risk weighted assets		
Risk weighted balance for on-balance sheet items	38,095,020	31,043,469
Credit equivalents for off-balance sheet items	12,794,750	7,376,663
Total risk weighted assets	50,889,770	38,420,132
Risk-weighted Capital Adequacy Ratio (CAR)	16%	18%
Minimum required capital	8%	8%

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.

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

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 inputs 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.

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4 Financial risk management (Continued)

4.6.1 Valuation models (continued)

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 data and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.6.2 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.

30-Jun-20	Carrying amount 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	95,778		95,778		95,778
Financial assets at amortised cost	-	-		-	-
Total	**95,778**	-	**95,778**	-	**95,778**

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	-	-	-	-	-

30-Jun-19	Carrying amount 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					
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.

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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		2020 ETB'000	2019 ETB'000
5	**Interest income**		
	Interest on loans and advances	5,363,431	3,944,164
	Interest income from NBE bills and government bonds	457,390	355,314
	Interest income from foreign deposits	1,318	1,854
	Interest income from local deposits	1,861	-
		5,824,000	4,301,332

Included within various line items under interest income for the year ended 30 June 2020 is a total of ETB 49.9 million (30 June 2019: ETB 19.2 million) relating to impaired financial assets.

		2020 ETB'000	2019 ETB'000
6	**Interest expense**		
	Interest on savings deposits	1,880,704	1,515,628
	Interest on demand deposits	59	1,041
	Interest on time deposits	491,282	411,038
	Finance charge on lease liability	23,481	-
	Interest on borrowings	63,338	-
		2,458,864	1,927,707
7	**Net fees and commission income**		
	Fee and commission income		
	Service charges	427,495	350,570
	Commission on CPOs and FTs	648,795	323,221
	Commission on letters of credit	284,434	239,988
	Transaction fees	53,565	73,420
	Commission on guarantees issued	98,116	38,627
	Credit related commissions	507	739
		1,512,912	1,026,565
	Fee and commission expense	(80,609)	(85,231)
	Net fee and commission income	1,432,303	941,334
8	**Other operating (expense) / income**		
	(Loss) / gain on foreign exchange	(341,911)	101,417
	Sundry income	129,344	73,489
	Rental income	70,747	70,051
	Investment income	9,827	5,290
	Income from IFB financing	11,292	-
		(120,701)	250,247
9	**Loan impairment reversal**		
	Loans and receivables - reversal of provision (note 17c)	69,976	15,269
10	**Impairment losses on other financial assets**		
	Receivables - charge for the year (note 17c)	(6,871)	(883)
	Cash and bank balances - charge for the year (note 17c)	(83)	47
	Investment securities (debt instruments) - charge for the year (note 17c)	(1)	(106)
	LCs and financial guarantee contracts - charge for the year (note 17c)	(57)	8
		(7,012)	(934)

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11 Employee benefits expenses

	2020 ETB'000	2019 ETB'000
Salaries and wages	1,296,381	941,322
Staff allowances	224,652	184,026
Other staff expenses	155,532	123,701
Pension costs – Defined contribution plan	164,236	110,810
Retirement benefits expense - defined benefit plan (note 25b)	33,748	27,158
Life and GPA insurance	11,788	8,958
	1,886,337	1,395,975

12 Other operating expenses

	2020 ETB'000	2019 ETB'000
Rental expense	3,996	265,005
Depreciation	204,197	155,275
Advertisement and promotions	75,744	53,195
Donations and contributions	40,927	35,502
Repairs and maintenance	38,644	35,499
Communications expense	14,309	31,429
Printing and stationery	31,779	30,392
Amortisation of intangible assets	29,381	29,628
Sundry expenses	80,264	26,673
Depreciation of investment property	16,370	16,885
Representation allowances	25,187	13,293
Transportation	9,226	11,997
Utilities	16,093	11,727
Insurance	13,315	11,081
Per diems	7,203	9,806
Entertainment	8,002	8,301
Office expenses	6,256	2,448
Operating lease	-	1,640
Hardware and software service fees	152,953	109,196
Directors' related expenses	1,935	1,374
Audit fees	1,655	1,184
License and registration fees	359	559
Legal and professional fees	16,702	42,340
Postage and stamps	18	103
Loss on disposal of fixed assets	-	7
Penalty charges	85	-
Depreciation Right-of-use-asset	268,656	-
	1,063,256	904,539

13 Company income and deferred tax

13(a) Current income tax

	2020 ETB'000	2019 ETB'000
Current income tax (note 13b)	381,974	242,126
Deferred income tax - profit or loss	(128,977)	20,128
Total charge to profit or loss	252,997	262,254
Deferred income tax - OCI	(4,139)	(2,039)
Total tax in statement of comprehensive income	248,858	260,215

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13(b) Taxation charge

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:

	2020 ETB'000	2019 ETB'000
Profit before tax	1,789,930	1,279,027
Non-deductible expenses		
Depreciation and amortisation per IFRS	249,948	201,788
Impairment reversal as per IFRS	(69,976)	(15,269)
Impairment of IFB financing	179	-
Impairment of other assets	7,012	934
Severance expense	33,460	27,158
Entertainment	8,002	8,301
Legal provision reversal	2,658	(2,798)
Penalty	85	210
Donations	20,927	102
Foreign exchange loss	148,230	-
Provision for accrued leave expense	41,148	7
Amortisation of prepaid staff benefits expense	41,308	
Interest charge on lease liability	23,481	-
Depreciation expense of right-of-use-asset	268,656	-
Less:		
Interest income on NBE bills - tax exempt income	(457,390)	(355,314)
Depreciation as per tax law	(241,398)	(224,585)
Provision for loss on loans and advances and receivables as per tax law	(171,128)	(102,157)
Rent expense and land operating lease amortisation expense	(276,253)	-
Dividend income taxed at source	(9,827)	(5,290)
Interest income on local deposits (taxed at source)	(1,861)	-
Severance and farewell benefits paid	(7,212)	(2,833)
Interest on foreign deposits (taxed at 10%)	(1,318)	(1,854)
Leave payments made during the year	(12,988)	-
Gain on disposal of assets	(5,753)	(958)
Additional interest income recognised on discounted staff loans	(1,964)	-
Prior period adjustment	(105,151)	-
Taxable income	1,272,805	806,469
Current tax expense (30%)	381,842	241,941
Current tax expense - income on foreign deposits (10%)	132	185
Total current tax expense	381,974	242,126

13(c) 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:

	2020 ETB'000	2019 ETB'000
Profit before tax	1,789,930	1,279,026
Profit tax at the applicable rate of 30%	536,979	383,708
Tax effect of income taxed at source	(140,723)	(207,897)
Tax effect of disallowed expenses	(14,414)	66,130
Tax effect of income on foreign deposits (10%)	132	185
Tax expense	381,974	242,126

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13 Company income and deferred tax (Continued)

13(d) Current income tax liability

	2020 ETB'000	2019 ETB'000
Balance at the beginning of the year	240,950	280,467
Charge for the year (note 13b)	381,974	242,126
Withholding tax paid	(1,135)	(1,176)
Payment during the year	(240,950)	(280,467)
Balance at the end of the year	380,839	240,950

13(e) Deferred tax assets / (liabilities)

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

	2020	2019
To be recovered after more than 12 months	128,163	(4,953)
To be recovered within 12 months	-	-
	128,163	(4,953)

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

Deferred income tax assets/(liabilities):	At 1 July 2019 ETB'000	Reclassification ETB'000	Credit/(charge) to P/L ETB'000	Credit/(charge) to equity or OCI ETB'000	At 30 June 2020 ETB'000
Property, plant and equipment	(46,272)	-	37,493	-	(8,779)
Post employment benefits obligation	34,671	-	7,875	-	42,546
Adjustment on initial application of IFRS 9	(5,009)	5,009	-	-	-
Unrealised fair value (gain) / loss	(4,052)	(5,009)	-	634	(8,427)
Actuarial loss	15,709	-		3,505	19,214
Unrealised foreign exchange loss	-	-	44,469	-	44,469
Right-of-use-asset and lease liability	-	-	30,692	-	30,692
Provision for accrued leave	-	-	8,448	-	8,448
Total deferred tax assets/(liabilities)	**(4,953)**	**-**	**128,977**	**4,139**	**128,163**

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

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14(a) Cash and balances with banks	**2020 ETB'000**	**2019 ETB'000**
Cash in hand	2,043,856	2,252,845
Balance held with National Bank of Ethiopia	2,588,431	362,720
Deposits with local banks	101,911	1,537
Deposits with foreign banks	136,086	1,152,123
Treasury Bills maturing in three months	1,191,137	99,908
	6,061,421	3,869,133
Impairment allowance-bank balances	(275)	(192)
	6,061,146	**3,868,941**
14(b) Reserve with National Bank of Ethiopia	**2,680,000**	**2,221,000**

The reserve account balance maintained with the National Bank of Ethiopia is restricted for current use.

15 Loans and advances and IFB financing	**2020 ETB'000**	**2019 ETB'000**
15(a) Loans and advances to customers		
Domestic trade and services	11,002,479	8,353,063
Manufacturing	9,927,601	6,378,044
Export	5,083,395	4,260,213
Real estate	4,908,346	3,854,383
Transport	1,939,012	2,390,683
Construction, machinery and working capital	2,173,629	2,134,085
Import	2,045,968	1,716,102
Personal	2,102,484	1,703,646
Staff housing loans	1,793,186	920,415
Loans and advances under litigation	320,617	328,167
Agriculture	392,388	280,802
Emergency staff loans	349,175	216,845
Advances on letters of credit	122,595	38,758
Mining	-	1,178
Gross amount	42,160,875	32,576,384
Less:		
Impairment loss allowance (note 4.2.3)	(93,338)	(210,201)
	42,067,537	**32,366,183**
Maturity analysis		
Current	9,946,838	13,108,304
Non-Current	32,120,699	19,257,879
	42,067,537	**32,366,183**
15(b) IFB financing		
Domestic trade and services	113,003	-
Manufacturing	91,531	-
Real estate	292,424	-
Transport	11,853	-
Construction, machinery and working capital	1,898	-
Import	24,353	-
Agriculture	7,279	-
Gross amount	542,341	-
Less:		
Impairment loss allowance (note 4.2.3)	(179)	-
	542,162	**-**
Maturity analysis		
Current	271,081	-
Non-Current	271,081	-
	542,162	**-**

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16 Investment security

16(a) Financial assets at fair value through OCI

	2020 ETB'000	2019 ETB'000
Balance at the beginning of the year	89,897	54,848
Adjustment on initial application of IFRS 9	-	16,697
Changes in the fair value of financial assets at FVTOCI	(2,114)	13,062
Additional investments made during the year	7,995	5,290
Balance at the end of the year	95,778	89,897

16(b) The Bank holds equity investments in Ethswitch S.C of 5.13% (2019: 5.55%), Nyala Insurance S.C of 5% (2019: 5%), Ethiopian Reinsurance S.C of 2.27% (2019: 0.22%) and Society of Worldwide Interbank Financial Telecommunication (SWIFT) S.C of 0.005% (2019: 0.005%) and Addis Africa International Conventional Center of 1.56% (2019: 1.9%). These investments are unquoted equity securities measured at cost except for SWIFT, which has been measured at fair value.

16(c) Financial assets at amortised cost

	2020 ETB'000	2019 ETB'000
NBE Bills	10,928,248	12,295,430
Treasury Bills	191,849	-
Ethiopian Government bonds	6,239	6,239
Gross amount	11,126,336	12,301,669
Less:		
Impairment allowance-Bills & Bonds	(616)	(615)
	11,125,720	12,301,054
Maturity analysis		
Current	424,694	1,926,498
Non-Current	10,701,026	10,374,556
	11,125,720	12,301,054

17 Other assets

17(a) Financial assets at amortised cost

	2020	2019
Clearing account balances	128,608	203,611
Sundry receivables	123,383	96,970
	251,991	300,581
Impairment allowance for receivables	(8,441)	(4,717)
	243,550	295,864
Non-financial assets		
Staff advances	5,014	1,022
Prepayments	257,247	864,536
Prepaid operating lease rentals	21	50,789
Prepaid staff benefits	184,357	92,340
Acquired properties	37,536	67,344
Inventory	78,823	70,834
	562,998	1,146,865
Gross amount	**806,548**	**1,442,729**
Maturity analysis		
Current	165,972	296,886
Non-Current	640,576	1,145,843
	806,548	1,442,729

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17(b) Impairment allowance for receivables

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

	2020 ETB'000	2019 ETB'000
Balance at the beginning of the year	(4,717)	(31,056)
Initial application of IFRS 9 (note 4.2.3)	-	27,222
Written off	3,147	-
Charge for the year (note 4.2.3)	(6,871)	(883)
Balance at the end of the year	(8,441)	(4,717)

17(c) Movement of impairment loss allowance

	As at 30 June 2019 ETB'000	Write off ETB'000	Charge / (reversal) for year ETB'000	As at 30 June 2020 ETB'000
Loans and advances	210,201	17,892	(69,976)	158,117
IFB financing	-	-	179	179
LC and Guarantees	13	-	57	70
Debt securities at amortised cost	615	-	1	616
Receivables	4,717	(3,147)	6,871	8,441
Bank balances	192	-	83	275
Total	**215,738**	**14,745**	**(62,785)**	**167,698**

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		2020 ETB'000	2019 ETB'000
Tana Building Administration	40%			
		Total Assets	183,268	174,505
		Total Liabilities	3,186	3,086
		Total Income	14,466	14,561
		Total Expenses	3,775	2,962

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19 Investment properties

	2020 ETB'000	2019 ETB'000
Cost:		
At the beginning of the year	848,416	847,600
Acquisitions	-	816
At the end of the year	848,416	848,416
Accumulated depreciation:		
At the beginning of the year	51,051	33,705
Charge for the year	16,370	17,346
At the end of the year	67,421	51,051
Net book values	780,996	797,365

19(a) Amounts recognised in profit or loss for investment properties

	2020 ETB'000	2019 ETB'000
Rental income	70,747	70,051
Depreciation of investment properties	16,370	17,346

19(b) 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 realisability of these properties.

Investment properties are 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 2020 is ETB 1.29 billion (2019: ETB 1.49 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.

19(c) Fair value hierarchy

Details of the Bank's Investment properties and information about the fair value hierarchy at 30 June 2020 and 30 June 2019 are as follows:

	Level 1 ETB'000	Level 2 ETB'000	Level 3 ETB'000
2020			
Investment properties	-	-	1,631,302
2019			
Investment properties	-	-	1,499,558

19(d) Investment properties include ETB 27m freehold land with indefinite economic life that is not depreciated.

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20 Intangible Assets

	License ETB'000	Software ETB'000	Total ETB'000
Cost:			
As at 1 July 2018	44,653	166,598	211,251
Acquisitions	-	13,408	13,408
Write off	-	(5)	(5)
As at 30 June 2019	44,653	180,001	224,654
As at 1 July 2019	44,653	180,001	224,654
Additions	-	11,602	11,602
As at 30 June 2020	44,653	191,603	236,256
Accumulated amortization and impairment losses			
As at 1 July 2018	(25,516)	(60,118)	(85,634)
Amortisation for the year	(6,388)	(23,240)	(29,628)
Write off	-	5	5
As at 30 June 2019	(31,904)	(83,353)	(115,257)
As at 1 July 2019	(31,904)	(83,353)	(115,257)
Amortisation for the year	(6,381)	(23,000)	(29,381)
As at 30 June 2020	(38,285)	(106,353)	(144,638)
Net book values			
As at 30 June 2019	**12,748**	**96,648**	**109,397**
As at 30 June 2020	**6,368**	**85,250**	**91,618**

21 Property and equipment

	2020 ETB'000	2019 ETB'000
Property and equipment (21a)	3,140,885	3,020,684
Right-of-use-assets (21b)	740,757	-
	3,881,642	**3,020,684**

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21 Property and equipment (continued)

21(a) Property and equipment

	Buildings ETB'000	Motor vehicles ETB'000	Office and other equipment ETB'000	Furniture and fittings ETB'000	Computer equipment ETB'000	Construction in progress ETB'000	Total ETB'000
Cost:							
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)	(334)	-	(2,260)
As at 30 June 2019	1,930,438	280,621	278,907	238,702	621,568	359,457	3,709,693
As at 1 July 2019	1,930,438	280,621	278,907	238,702	621,568	359,457	3,709,693
Additions	-	81,999	38,602	27,752	185,799	1,151.00	335,303
Reclassifications	337,980	-	3,957	-	-	(342,517)	(580)
Disposals	-	(5,755)	(14,149)	(970)	(27,194)	-	(48,068)
As at 30 June 2020	**2,268,418**	**356,865**	**307,317**	**265,484**	**780,173**	**18,091**	**3,996,348**
Accumulated depreciation							
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)	(64,002)	-	(155,274)
Disposals	-	1,165	175	61	154	-	1,555
As at 30 June 2019	(44,587)	(109,001)	(134,914)	(86,311)	(314,196)	-	(689,009)
As at 1 July 2019	(44,587)	(109,001)	(134,914)	(86,311)	(314,196)	-	(689,009)
Prior period adjustment	(8,529)	-	-	-	-	-	(8,529)
Charge for the year	(46,621)	(29,895)	(31,968)	(20,492)	(75,265)	-	(204,241)
Disposals	-	5,424	13,734	612	26,546	-	46,316
As at 30 June 2020	(99,737)	(133,472)	(153,148)	(106,191)	(362,915)	-	(855,463)
Net book values							
As at 30 June 2019	**1,885,851**	**171,620**	**143,993**	**152,391**	**307,372**	**359,457**	**3,020,684**
As at 30 June 2020	**2,168,681**	**223,393**	**154,169**	**159,293**	**417,258**	**18,091**	**3,140,885**

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21 Property and equipment (continued)

21(a) Property and equipment

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

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

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

21(b) Right of use assets

	Office rent ETB'000	Rent for ATM spaces ETB'000	Leasehold land ETB'000	Total ETB'000
Balance at 1 July 2019	**876,766**	**8,724**	**51,020**	**936,510**
Additions	71,604	1,299	-	72,903
Depreciation(charge for the year)	(264,262)	(3,222)	(1,172)	(268,656)
Balance at 30 June 2020	**684,108**	**6,801**	**49,848**	**740,757**

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22 Deposits from customers

	2020 ETB'000	2019 ETB'000
22(a) Deposits from Conventional customers		
Demand deposits	12,135,649	10,074,111
Savings deposits	33,898,887	29,460,203
Time deposits	5,093,287	4,093,083
	51,127,823	43,627,397
22(b) Deposits from Interest free banking Customers		
Qard deposits	404,447	106,238
Wadia savings deposits	1,961,585	987,875
	2,366,032	1,094,113
Total Deposits	53,493,855	44,721,510
Maturity analysis		
Current	4,995,611	4,306,291
Non-Current	48,498,244	40,415,219
	53,493,855	44,721,510

23 Other liabilities

	2020 ETB'000	2019 ETB'000
Financial liabilities		
Accruals	80,936	110,522
Banking instruments payables	387,742	932,309
Customers payables	1,701,267	631,814
Equity and other blocked accounts	15,460	37,087
Margins held on letters of credit	2,857,838	2,115,724
Staff payables	105,008	139,823
Impairment allowance for LCs & guarantees	70	13
Lease liabilities	230,611	-
	5,378,932	3,967,292
Non-financial liabilities		
Deferred income	57,342	25,000
Defined contribution liabilities	4,425	3,034
Sundry payables	374,017	205,562
Stamp duty payable	10,952	11,154
Withholding tax and valued added tax payables	9,153	3,818
Other tax payable	28,349	18,911
Provision	3,008	350
	487,246	267,829
Gross amount	5,866,178	4,235,121
Maturity analysis		
Current	5,575,464	4,234,758
Non-Current	290,714	363
	5,866,178	4,235,121

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24 Defined benefits obligation

Severance, retirement and gratuity benefits

The Bank operates an unfunded severance pay plan for its employees who have served the Bank for 5 years and more 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 year 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) months salary calculated on the basis of the last salary of the employee.

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

24(a) Liability recognised in the financial position

	2020 ETB'000	2019 ETB'000
Defined benefit obligation	205,866	167,936

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

	2020	2019
At the beginning of the year	167,936	123,754
Current service cost (note 24b)	13,459	10,879
Interest cost (note 24b)	20,001	16,279
Remeasurement losses (note 24c)	11,682	19,857
Benefits paid	(7,212)	(2,833)
At the end of the year	205,866	167,936

24(b) Amount recognised in the profit or loss

	2020	2019
Current service cost	13,459	10,879
Interest cost	20,001	16,279
	33,460	27,158

24(c) Amount recognised in other comprehensive income:

	2020	2019
Actuarial (gains)/losses on economic assumptions	(35,345)	9,258
Actuarial losses on experience	47,027	10,599
	11,682	19,857

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

i) *Financial Assumption Long term Average*

	2020	2019
Discount Rate (p.a)	14.10%	11.25%
Inflation rate	10.00%	10.00%
Long term salary increases	12%	12%

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24(d) 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 14.10% as at June 30 2020 (30 June 2019: 11.25%).

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).

	2020		**2019**	
Age	**Male Mortality rate**	**Female Mortality rate**	**Male Mortality rate**	**Female Mortality rate**
20	0.306%	0.223%	0.003%	0.223%
25	0.303%	0.228%	0.003%	0.228%
30	0.355%	0.314%	0.004%	0.314%
35	0.405%	0.279%	0.004%	0.279%
40	0.515%	0.319%	0.515%	0.319%
45	0.450%	0.428%	0.450%	0.428%
50	0.628%	0.628%	0.628%	0.628%
55	0.979%	0.979%	0.979%	0.979%
60	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			
		2020		**2019**	
	Change in assumption	Impact of an increase ETB'000	Impact of a Decrease ETB'000	Impact of an increase ETB'000	Impact of a decrease ETB'000
Discount rate	1.0%	(10,212)	10,843	-	-
Discount rate	0.5%	-	-	(5,893)	15,647

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

iii) *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.

The duration of the liabilities, on which the assumptions have been set, was calculated to be 6 years in the current valuation assumptions and data (2019: 7 years).

25 Share capital	**2020 ETB'000**	**2019 ETB'000**
Issued and fully paid:		
3,479,224 ordinary shares of ETB 1,000 each	3,479,224	2,704,558

As at 30 June 2020, the authorised share capital of the Bank comprised of 3,479,224 (2019: 2,704,558) ordinary shares with a par value of ETB 1,000. The issued shares as at 30 June 2020 are 3,479,224 (2019: 2,704,558) are 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 when declared 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.

	2020 ETB'000	**2019 ETB'000**
Profit attributable to shareholders	1,536,933	1,016,773
Weighted average number of ordinary shares in issue	3,137	2,494
Basic and diluted earnings per share	490	408

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 2019:nil), hence the basic and diluted loss per share have the same value.

27 Retained earnings	**2020 ETB'000**	**2019 ETB'000**
At the beginning of the year	635,731	1,656,888
Prior period adjustment (27a)	(113,681)	-
Adjustment on initial application of IFRS 9	-	(768)
Profit for the year	1,536,933	1,016,773
Directors Remuneration	(1,500)	(900)
Transfer to legal reserve (note 29)	(384,233)	(254,193)
Dividends paid	(77,992)	(547,817)
Transfer to regulatory risk reserve (note 31)	(277,961)	(161,169)
Transfer to reserve for IFRS (IFRS 1 remeasurements on transition date)	-	(1,113,330)
Transfer from reserve for IFRS	35,257	40,247
Transfer to capital	(556,239)	-
At the end of the year	796,315	635,731

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Notes to the financial statements (Continued)

27 Retained earnings (Continued)

27(a) Prior period adjustments

The Bank has made prior period adjustments in respect of the following material errors in line with the requirements of IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors.

i) Interest rebate of ETB 92,692,422 due to export customers that should have been accounted for in the year ended 30 June 2019.

ii) Depreciation of Arat Kilo Building amounting to ETB 8,530,241 that should have been accounted for in the years ended 30 June 2018 and 2019.

iii) Commissions paid to Union Pay and Eth-Switch of ETB 12,458,790 in the year ended 30 June 2018 that were wrongly recorded as assets now reversed.

28 Reserve for IFRS

	2020 ETB'000	2019 ETB'000
At the beginning of the year	1,071,400	-
Transfer to reserve for remeasurements on transition date	-	1,113,330
Transfer to retained earnings	(35,257)	(40,247)
Transfer to capital	-	(1,683)
Reserve for remeasurements on initial application of IFRS 16	(86,421)	-
Reversal of amount transferred to paid up capital upon collection of the cash from shareholders	1,683	-
At the end of the year	951,405	1,071,400

28(a) The Accounting and Auditing Board of Ethiopia (AABE) by its letter of 30 October 2019 (19 Tikemt 2012) prohibited the distribution to shareholders by way of cash dividends and/or capital increase of the amounts that arise from remeasurement adjustments from first time adoption of IFRSs and adoption of new standards maintained in retained earnings and under any other account(s) until a directive is issued in this regard.

29 Legal reserve

	2020 ETB'000	2019 ETB'000
At the beginning of the year	1,985,197	1,731,004
Transfer from profit or loss	384,233	254,193
At the end of the year	2,369,430	1,985,197

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.

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		2020	2019
30	**Special reserve**	**ETB'000**	**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.

		2020	2019
31	**Regulatory credit risk reserve**	**ETB'000**	**ETB'000**
	At the beginning of the year	465,306	274,329
	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	277,961	161,169
	At the end of the year	743,267	465,306

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 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 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 retained earning to the extent of the non-distributable reserve previously recognised.

		2020	2019
32	**Other reserves**	**ETB'000**	**ETB'000**
	At the beginning of the year	(15,512)	(22,444)
	Remeasurement gain/(loss) on retirement benefits	(8,177)	(13,900)
	Adjustment on initial application of IFRS 9, net of tax	-	11,688
	Changes in the fair value of financial assets at FVTOCI	(1,480)	9,144
	At the end of the year	(25,169)	(15,512)
	Other reserves are made up as follows:-		
	Fair value reserve	(16,992)	(1,612)
	Defined benefit obligations reserve	(8,177)	(13,900)
		(25,169)	(15,512)

Fair value reserve represents the surplus or losses arising on 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.

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Notes to the financial statements (Continued)

33	**Cash generated from operating activities**	**2020 ETB'000**	**2019 ETB'000**
	Profit before tax	1,789,930	1,279,027
	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)
	Adjustments on IFRS 16 adoption	(1,022,931)	-
	Prior period adjustments	(113,681)	-
	Increase in impairment of financial assets at amortised cost	-	615
	Depreciation of investment properties	16,370	17,346
	Depreciation of property and equipment	204,241	155,274
	Amortisation of intangible assets	29,381	29,628
	Depreciation expense on right of use asset	268,656	-
	Adjustments and reclassification of property and equipment	9,109	-
	Gain on disposal of property and equipment	(5,753)	(957)
	Impairment charge reversal on loans and advances	(69,976)	(15,269)
	Impairment charge on IFB financing	179	-
	Impairment charge on receivables & other exposures	7,012	883
	Defined benefit obligation expense	33,460	27,158
	Changes in operating assets and liabilities:		
	Changes in loans and advances	(9,631,378)	(9,293,379)
	Changes in IFB financing	(542,341)	-
	Changes in other assets	629,168	(118,840)
	Changes in reserve with NBE	(459,000)	(450,000)
	Changes in customer deposits	8,772,345	8,734,710
	Changes in other liabilities	1,631,057	1,068,236
	Cash generated from operating activities	1,545,848	1,463,472

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

	2020	2019
Proceeds on disposal	7,505	1,663
Net book values of property and equipment disposed (Note 21a)	(1,752)	(706)
Gain on sale of property and equipment	5,753	957

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Notes to the financial statements (Continued)

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 including 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 at arm's length in the normal course of business. These are disclosed below:

34(a) Directors and employees

i) The average number of staff employed by the Bank during the year was as follows:

	2020 Number	2019 Number
Senior & middle management	645	1,244
Line management	782	844
Professional	3,699	2,220
Clerical	304	996
Non clerical	686	825
	6,116	6,129

ii) The table below shows the number of employees' emoluments in the year and were within the bands stated.

Salary band	2020 ETB'000	2019 ETB'000
0 - 9,999	2,408	2,415
10,000 - 30,000	3,454	3,477
30,001 - 50,000	243	224
50,001 - 100,000	9	11
Above 100,000	2	2
	6,116	6,129

34(b) Loans and advances

i) There were no loans and advances between the Bank and Directors as at 30 June 2020.

ii) Loans to Executive Management

	2020 ETB'000	2019 ETB'000
At the beginning of the year	22,317	15,051
Net movement during the year	(347)	7,266
At the end of the year	21,970	22,317

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Notes to the financial statements (Continued)

34 Related party transactions (continued)

34(c) Customer deposits

	2020 ETB'000	2019 ETB'000
Directors and key management personnel		
At the beginning of the year	3,783	4,753
Net movement during the year	4,961	(970)
At the end of the year	8,744	3,783

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.

34(d) Key management compensation

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

	2020 ETB'000	2019 ETB'000
Salaries and other short-term benefits	10,819	5,316
Post-employment benefits	1,058	793
Sitting allowance	1,791	1,789
Total	13,668	7,898

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

35 Contingent liabilities

35(a) Claims and litigation

The Bank is a party to numerous legal actions brought by different organisations and individuals arising from its normal business operations. The maximum exposure of the Bank arising from these legal cases as at 30 June 2020 is ETB 15.6 million (2019: ETB 12.2 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.

35(b) Guarantees and letters of credit

The Bank conducts business involving performance bonds and guarantees. These instruments are given as security to support the performance of customers to third parties. As the Bank will only be required to meet these obligations in the event of the customers' 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:

	2020 ETB'000	2019 ETB'000
Loan commitments	4,957,083	5,155,145
Unutilised overdraft facilities	2,578,408	1,636,550
Performance guarantees	16,712,697	6,774,982
Letters of credit	3,361,802	2,843,106
Total	27,609,990	16,409,783

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Notes to the financial statements (Continued)

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 the majority of these lease agreements are renewable at 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 Lease liability and commitments

a) Lease liabilities in (ETB '000)

	As at 1 July 2019	Additions	Paid during the year	Interest charge for the year	As at 30 June 2020
Office rent	(401,645)	(51,556)	259,664	(22,432)	(215,969)
ATM	(6,676)	(575)	3,081	(348)	(4,518)
Leasehold land	(10,787)	-	1,365	(701)	(10,123)
Total	**(419,108)**	**(52,131)**	**264,110**	**(23,481)**	**(230,610)**

b) Lease commitments in (ETB'000)

	1 July 2020 up to 30 June 2021	1 July 2021 up to 30 June 2022	1 July 2022 up to 30 June	1 July 2023 up to 30 June 2024	1 July 2024 up to 30 June 2025	Above
ATM	1,506	1,004	1,004	1,004	-	-
Leasehold land	1,061	1,061	1,061	1,061	1,061	4,817
Office Rent	51,131	51,131	51,131	51,131	11,446	-
Total	**53,698**	**53,196**	**53,196**	**53,196**	**12,507**	**4,817**

37 Operating lease commitments - Bank as lessor

Rental income earned during the year was ETB 70.8 Million (2019: ETB 55.3 Million). At the end of the reporting period, the Bank had contracted with tenants for the following future lease receivables:

	2020 ETB'000	2019 ETB'000
No later than 1 year	269,352	52,157
Later than 1 year and no later than 5 years	967,382	1,525
Later than 5 years	210,703	-
Total	1,447,437	53,682

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 2020 and on the profit for the year ended on that date, which have not been adequately provided for or disclosed. (2019: none)

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Notes to the financial statements (Continued)

39 Notes on Interest Free Banking(IFB) Service

Dashen Bank's interest free banking (IFB) 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 statements particularly the regulatory authority in a way presented as follows:

Segment Reporting
Statement of Profit or Loss
For the year ended 30 June 2020

	Interest Free banking ETB'000	Conventional Banking ETB'000	Total ETB'000
Interest income	-	5,824,000	5,824,000
Interest expense	-	(2,458,864)	(2,458,864)
Financing and advances	11,292	-	-
Net interest and IFB Financing income	**11,292**	**3,365,136**	**3,365,136**
Fee and commission income	3,503	1,509,409	1,512,912
Fee and commission expense	(7,424)	(73,185)	(80,609)
Net fee and commission income	**(3,921)**	**1,436,224**	**1,432,303**
Other operating income / (expense)	440	(121,141)	(120,701)
Total operating income	**7,811**	**4,680,219**	**4,676,738**
Loan impairment (charge) / reversal	(179)	69,976	69,797
Impairment losses on other assets	-	(7,012)	(7,012)
Net operating income	**7,632**	**4,743,183**	**4,739,523**
Employee benefits expense	(46,092)	(1,840,245)	(1,886,337)
Other operating expenses	-	(1,063,256)	(1,063,256)
Profit (loss) before tax	**(38,460)**	**1,839,682**	**1,789,930**

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Notes to the financial statements (Continued)

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

Segment Reporting
Statement of Financial Position
As at 30 June 2020

	Interest Free Banking ETB'000	Conventional Banking ETB'000	Total ETB'000
ASSETS			
Cash and bank balances	368,285	5,692,861	6,061,146
Reserve with National Bank of Ethiopia	-	2,680,000	2,680,000
Loans and advances to customers	-	42,067,537	42,067,537
IFB Financing	542,162	-	542,162
Financial assets at fair value through OCI	-	95,778	95,778
Financial assets at amortised cost	-	11,125,720	11,125,720
Other assets	1,665,643	(859,095)	806,548
Investment properties	-	780,996	780,996
Intangible assets	-	91,618	91,618
Property and equipment	-	3,881,642	3,881,642
Deferred tax assets	-	128,163	128,163
Total Assets	**2,576,090**	**65,685,220**	**68,261,310**
LIABILITIES			
Customer deposits	2,366,033	51,127,822	53,493,855
Current income tax	-	380,839	380,839
Other liabilities	245,041	5,621,137	5,866,178
Defined benefit obligation	-	205,866	205,866
Deferred tax liabilities	-	-	-
Total Liabilities	**2,611,074**	**57,335,664**	**59,946,738**
EQUITY			
Share capital	-	3,479,224	3,479,224
Retained earnings	(34,984)	831,299	796,315
Reserve for IFRS	-	951,405	951,405
Legal reserve	-	2,369,430	2,369,430
Special reserves	-	100	100
Regulatory risk reserve	-	743,267	743,267
Other reserves	-	(25,169)	(25,169)
Total equity	**(34,984)**	**8,349,556**	**8,314,572**
Total Equity and Liabilities	**2,576,090**	**65,685,220**	**68,261,310**

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	1,026,408	1,026,565
Fee and commission expense	(56)	(85,175)	(85,231)
Net fee and commission income	**102**	**941,233**	**941,334**
Other operating income	(2)	250,249	250,247
Total operating income	**100**	**1,191,481**	**1,191,581**
Loan impairment charge	-	15,269	15,269
Impairment losses on other assets	-	(934)	(934)
Net operating income	**100**	**1,205,816**	**1,205,916**
Employee benefits expense	(29,977)	(1,365,998)	(1,395,975)
Other operating expenses	(2,197)	(902,342)	(904,539)
Profit / (loss) before tax	**(32,074)**	**1,311,101**	**1,279,027**

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Notes to the financial statements (Continued)

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	3,512,894	3,868,941
Reserve with National Bank of Ethiopia	-	2,221,000	2,221,000
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	735,055	1,442,729
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**	**55,145,606**	**56,217,250**
LIABILITIES			
Customer deposits	1,094,113	43,627,397	44,721,510
Current income tax	-	240,950	240,950
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**	**48,266,752**	**49,370,470**
EQUITY			
Share capital	-	2,704,558	2,704,558
Retained earnings	(32,074)	667,805	635,731
Reserve for IFRS	-	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 reserve	-	(15,512)	(15,512)
Total equity	**(32,074)**	**6,878,854**	**6,846,780**
Total Equity and Liabilities	**1,071,644**	**55,145,606**	**56,217,250**

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25 Years of Progressive Journey

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