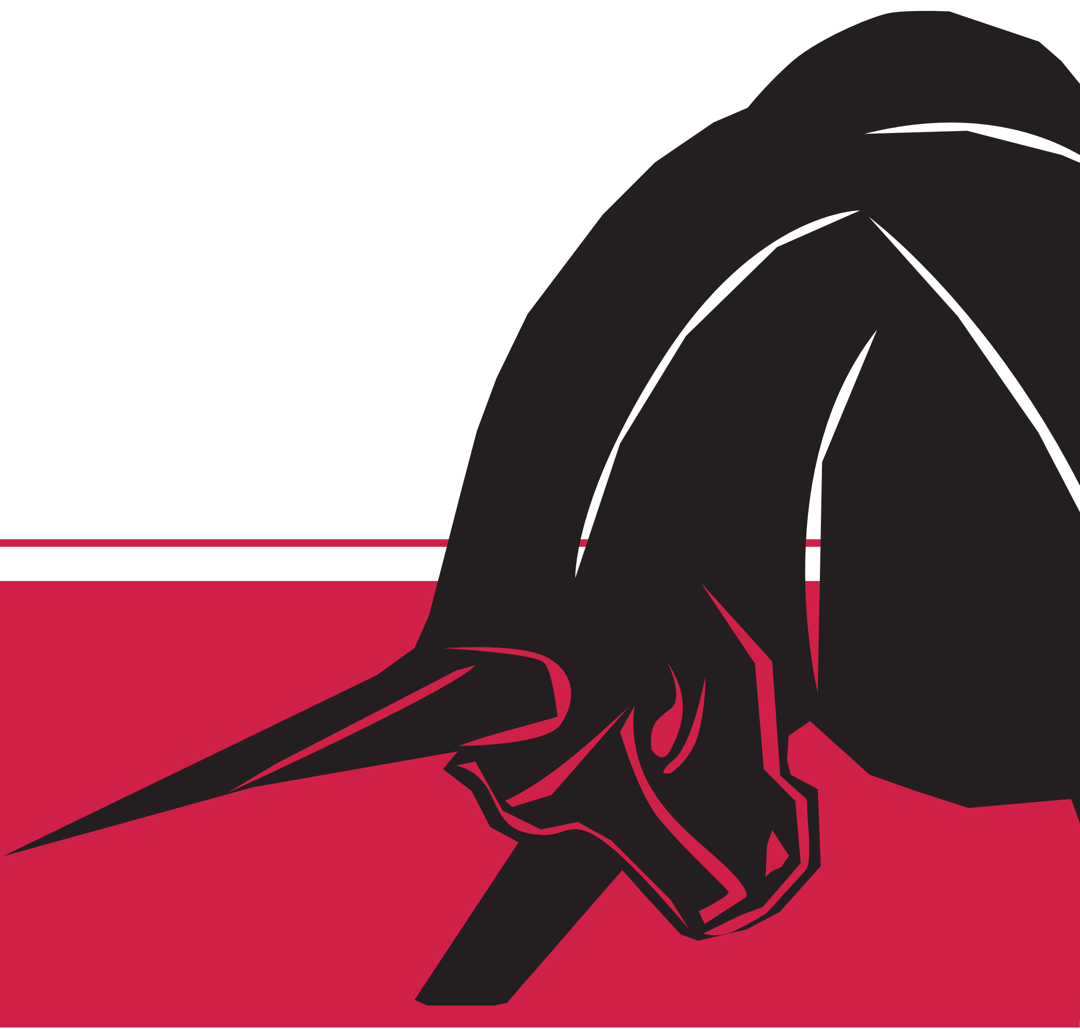
ANNUAL REPORT 2020



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Zemen
BANK

...LOCAL KNOWLEDGE...
INTERNATIONAL STANDARDS!

CONTENTS

VISION:

To be "Ethiopia's Five - star Bank".

MISSION:

To deliver our clients the most distinctive banking experince in Ethiopia through a mix of local Know-how and world-class standards.

To ensure for our staff an engaging, rewarding, and attractive work environment alongside a best-in-industry compensation scheme.

To provide our shareholders satisfactory returns on a sustainable basis.

BOARD OF DIRECTORS


Prof. Abebe Dinku, (Dr.-Ing)
Board Chairman


Dr. Theodros Atlabachew
Board Deputy Chairman,


Prof.Emana Getu
Board Director


AddisAlem Kedir
Board Director


Amare Habe
Board Director


Bezuwork Mamo
Board Director


Abebe Chekol
Board Director


Mieraf Shewaye
Board Director


Mikre Ayalew
Board Director

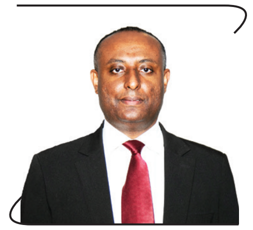
OUR VALUE INCLUDE:

Upholding the highest standards, being progressive and innovative

SENIOR MANAGEMENTS


Dereje Zebene
President/ CEO


Meseret Wondim
Vice President
Corporate Resource Management


Amha Tadesse
Vice President
Information Technology


Asrat Tadesse
Vice President
Customer Service


Addis Woldecherkos
Vice President
Operations


Dereje Mihretu
Assistant Vice President
Credit

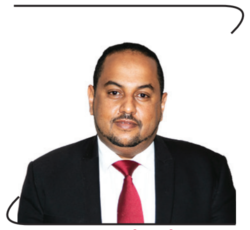

Tewahido Taffese
Director
Knowledge & Innovation Department


Yohannes Getachew
Director
Internal Audit

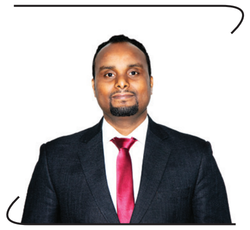

Adugna Mekonnen
Director
Risk & Compliance Management


Lemma Alemayehu
Director
Finance Department

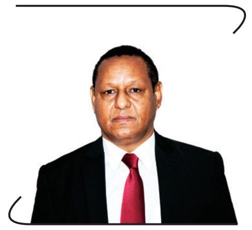

Elias Kinfegebriel
Director
Human Resource

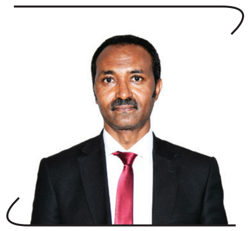

Biniyam Abreham
Director
International Banking


Bayush Berhanu
Director
Multichannel Banking


Birhanu Beyene
Director
Legal Counsellor


Kassahun Merawi
Director
Engineering


Taye Nigatu
Director
Facility Management


Tesfaye Salilew
Director
E- Channel Management


Aklilu Sisay
Director
Personal & Business Banking


HaileYesus Mezgebu
Director
IT Projects Department


Phylipos Mitiku
Director
Core Banking & Software Dev't


Michael Tsegaye
Director
Corporate & Institutional Banking

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CHAIRMAN'S STATEMENT

Year ended 30 June 2020

Dear Distinguished Shareholders,
On behalf of the Board of Directors and myself, I am pleased to present to you, our esteemed shareholders, the Audited Financial Statements of Zemen Bank S.C. and reports of Directors on the business operations of the Bank for the year ended June 30, 2020.

We began the fiscal year with a positive global and domestic economic outlook until the outbreak of COVID-19 at the end of the second quarter of the budget year. Ethiopia's economic growth had been projected to grow by 9% while the economy actually grew by 6.1% indicating a 2.9% decline from the projected growth. COVID-19 pandemic has had a more severe impact on the performance of the banking industry in the second half of the budget year. It has resulted, among others, in slowing economic activities, rising costs, increasing non-performing loans and health and safety concern among customers and employees.

In another development, the business economic environment is energized by the new Home grown economic reform agenda rolled out to propel the country's economic progress canvassing a series of initiatives on Macroeconomic, structural and sectoral reforms.

By bringing the private sector to the forefront, the Government reform aims to create jobs, address the high foreign currency shortage due to poor export performance, push down soaring inflation which has averaged about 15.5% since 2005, reduce debt stress and address access to credit problems while capitalizing on the unlocking power of technological advancement.

The Ethiopian Government Reform Plan has anticipated a 10% increase in exports and a 32% increase in remittances, all supporting a 40% increase in the country's reserves, creating a more resilient economy by 2030. However, the prevalence of Covid 19 pandemic has changed the World economic set up and substantially affected the global economy. Governments around the world are implementing various fiscal measures to mitigate the adverse effects on their economy. There is still significant uncertainty about its impact on the economy and people's lives and livelihoods.
As a result, the outbreak of the virus has affected various sectors of the economy, among which transportation, tourism and travel, hospitality, entertainment, manufacturing and small and micro enterprises are the ones that took the hard heat.

Following the outbreak of Covid 19 and its impact on the overall economy of the country, Zemen Bank has taken the following measures to fight the consequences:

- Waiving interest on commercial loans and advances in the horticulture industry to zero. The new rate applies to loans and advances taken in the period between April 2 and June 30, 2020.
- Removed 75% in commission fee that importers pay to extend the import period.
- Committed the 25% commission fees it collected, amounting to 2.7 million Birr, to the Ministry of Health to be used for an initiative to protect the safety of the professionals in the front line of the fight against the virus.
- Contributed a five million Birr donation for the national fund that is mobilizing financial and non-financial aid for the emergency preparedness of Corona virus.
- Cut interest rates on commercial loans for customers in the hotel, tourism and manufacturing industry between 0.5 to 3%.

Dear Distinguished Shareholders,

In spite of all those challenges, the year 2019/20 has been the year of great success in all aspects. We have crossed the one Billion-Birr gross profit line that encouraged us to fully commit our knowledge and energy to fulfill the interest of our esteemed shareholders.

I am glad to inform you that Revenue grew by 36% from last year while deposits and loans and advances grew by 24% and 27.6%, respectively. Consequently, our earnings per share stood at 46.2%, while our Non-performing loans have dropped to 1.99%.

This impressive result was the result of our hard work, customer focused service delivery, and smooth relationship between the Board of Directors, Management and Employees of the Bank.

The Bank's headquarter building construction project which was expected to be completed within the year 2019/20, has been delayed due to covid-19 outbreak and other associated problems. It has now reached 52% completion rate by the end of June 2020 and is expected to be fully completed before June 2021.

For the year ahead:
Measures taken by the Government and other stakeholders, as well as new strategies like "Home Grown Economic Reform" and the introduction of 10-year economic development plan, are expected to bring positive results in the months and years to come. The expected increased foreign investment and the Government's reform agenda is also believed to stimulate economic growth throughout 2021 and thereafter.

The Bank will continuously focus on modernizing its digital banking platform including Mobile and Internet Banking and other investments in information technology which are basic requirements for new normal.

The Five Year Strategic Plan and the ten-year road map of the Bank which were expected to be finalized and made operational in the last fiscal year, were delayed due to the outbreak of the corona virus pandemic. The new strategy, however, is expected to be finalized within the fiscal year 2020/21.

Dear Esteemed Shareholders!
In the year to come, consequences of Covid 19 pandemic, economic slowdown and humanitarian challenges are expected to be the major treats in the banking sector. However, we shall leverage on our existing competitive advantages by increasing our virtual accessibility using digital financial technology and improve our productivity to maintain profitability and well established brand image.

Finally, on behalf of the Board of Directors and myself, I would like to extend my earnest gratitude to our esteemed customers, shareholders, the National Bank of Ethiopia, the entire Zemen family, and other stakeholders for their continued support, contributions, trust and confidence in our Bank's business journey. I sincerely believe that the commitment demonstrated thus far will continue in the years to come.

Abebe Dinku

Thank you,
Abebe Dinku, Prof. (Dr.-Ing)
Chairman, Board of Directors

MESSAGE FROM THE PRESIDENT/CEO

Dear Respected Shareholders,

On behalf of the Management of Zemen Bank S.C. and myself, I am pleased to inform you that we have ended yet another successful year with operational results worthy of commendable appreciation. It is as a result of the momentum started in 2018/19, while other aspects have resulted from a strong strategic focus.

Since the new management is in the helm of Zemen Bank, its activities were focused mainly on: expanding branch network, improving service efficiency, investing in IT infrastructure and increasing the number of customers that we reached over the past years. As a result, I can proudly say that the Bank is well positioned for the future operations.

Dear Shareholders,
Our year-end (2019/20) financial results showed continued stability and strength as outlined in the audit report with a better operational efficiency. In the budget year, the Bank's total income stood at Birr 2.15 billion, 36% higher than Birr 1.62 billion recorded last year.

The level of gross profit (before incentive payments to employees) crossed Birr 1 billion, which is remarkably higher than Birr 635.8 million recorded last year; showing a 57.3% increase.

The Bank's total assets stood at Birr 18.5 Billion registering a 25.9% growth from the previous year. Loans and advances grew by 30.3% from Birr 7.6 billion to Birr 9.7 billion compared with last year same period. As for deposit, we closed the year with the amount of Birr 14.4 billion; reflecting a 24.1% growth over the period of last year. The deposit growth has been supported by the expansion of branch network and personal selling. As at the end of June 2020, the total number of branches has reached 52.

Our asset quality has shown substantial improvement and the ratio of non- performing loans (NPLs) to total loans and advances has dropped to 1.99% from a 2.78% ratio recorded last year.

Shareholders equity grew by 27.9% from Birr 1.4 billion to Birr 1.8 billion mainly driven by direct payment from shareholders and is expected to hit the Birr 2 billion target during the first quarter of the next budget year and building our capital base will continue in the years to come.

Dear Distinguished Shareholders,
As you are all aware, the 2019/20 budget year was a difficult year for banking businesses, especially in the first half of 2020 due to the spread of COVID-19 and economic contraction. In spite of all the challenges, our earning per share (EPS) has reached 46.2% which registered a 16% growth from the preceding year.

The prevalence of COVID has had a pronounced effect on the execution of major projects ranging from IT projects to construction of Head Quarter building. It was the Bank's plan to execute 16 projects which were believed to leap the Bank forward in terms of technology usage and increased internal process efficiencies. However, only a handful of them have been completed mainly due to travel restrictions by many countries. Though the pandemic is far from over, and likely to continue into the 3rd quarter of next year, we will exert maximum effort to complete the remaining projects in the coming budget year.

Dear Shareholders,

Our best achievements would not have been possible without a concerted effort of our Board of Directors, the management, employees and customers at large. I would like to give special recognition to our dynamic and productive employees, who tirelessly worked hard and made this outstanding accomplishment possible. It is with pleasure to announce that our strengths are derived from the proven ability to leverage our most valuable assets — our employees, technology, capabilities and our unrelenting focus on creating value for our customers on which we are dedicated to capitalize on.

As a corporate entity, we are responsible for driving our business forward to the benefit of all our stakeholders. We continue to believe that our customer centered operational efficiency and technology orientation, services and the value they add to our customers' businesses remain the fundamental elements of our continued success.

As a final note, I am thrilled that our team members feel engaged and committed in helping us realize our mission and therefore, I sincerely would like to thank once again our employees, customers, partners, shareholders and all collaborators for their continued and unreserved support and trust in our endeavors. The members of the Board of Directors deserve special gratitude for the commendable effort they have exerted in guiding and supporting towards assisting the Management to achieve its targets relentlessly.

Thank you and looking forward for more impressive results in the years to come.
Stay Safe!

Dereje Zebene
President/ CEO

Corporate and Institutional Banking (CIB)

CIB
CIB Provides banking services to multinational companies, financial institutions and institutional customers like Embassies. A dedicated Relationship Manager will be assigned.

Personal Banking

As a Zemen Bank Personal Banking customer, you will earn interest rate of 7% computed daily
To qualify a minimum monthly balance of Birr 5,000 is required.

PERSONAL BANKING

Personal BANKING

35.19% AVERAGE ANNUAL EARNINGS PER SHARE OVER PAST 5 YEARS

60 M
BIRR WITHDRAWN FROM ATMS EVERY MONTH

10,559
INTERNET BANKING USERS EVERY MONTH

$ 382.8
IN FOREX INFLOWS

1.2 B
Door step Banking Transaction

9.7 B
LOANS TO CUSTOMERS

18.5
Total Asset

27.6 %
Loan Increase From Previous Year

98
Number of worldwide correspondent Bank Relations

59%
Gross Profit Growth

17,600
EMPLOYEES USING PAYROLL SERVICES

PRESTIGE BANKING

SHAREHOLDERS' MEETING (21 December. 2019)

Prestige Banking

Prestige Banking Customers are allocated a Personal Banking Representative and earn 7.25% on their savings. To qualify, the minimum monthly balance is Birr 100,000

DIRECTOR'S REPORT

Fiscal Year 2019/20

Zemen Bank's Board of Directors is pleased to present the 2019/20 Annual Report to its esteemed shareholders, cliient, and partners. In what follws, we present an overview of our overall results during the just completed fiscal year and outline briefly our plans for the period ahead.

MACROECONOMIC DEVELOPMENTS

The International Monetary Fund (IMF) has projected the Global Economic growth at -4.9% in 2020. The outbreak of COVID-19 pandemic has had a more negative impact in the first half of 2020 and the recovery is projected to be more gradual. The pandemic has inflicted high and rising human costs which affected economic activities. COVID-19 has changed the world economic set up and caused significant adverse impact on the overall global economy.

Due to the pandemic, developed markets which are the main export destinations for developing and underdeveloped economies were largely affected by high unemployment, large spending on public health and infrastructure, low level of demand and decline in government revenues among others.

In a similar note, Ethiopia's economic growth was projected to grow at 9% by the end of 2019/2020. The economy actually grew by 6.1% indicating a 2.9% decline from the projected growth rate of 9%. While IMF maintains the real GDP growth by no more than 1.9% and projected a growth of 3.1% in 2020/21, the government of Ethiopia projected a 10.2% growth with the new home grown economic reform.

The new Home Grown Economic Reform agenda rolled out to propel the country's economic progress canvassing a series of initiatives on macroeconomic structural and sectoral reforms has been a good impetus. The Reform Plan anticipated a 10% increase in exports and 32% increase in remittances all supporting a 40% increase in the country's reserve creating a more resilient economy by 2030.

Nevertheless, Ethiopia's economic development was challenged in various fronts as Ethiopia was struggling with the prevalence of social and political problems in various regions in addition to the negative impacts caused by the global Coronavirus pandemic.

The pandemic has had major economic consequences on the overall economic performance of the country. As a result, the banking industry has suffered from low level of loan collection and increasing non-performing loans portfolio, low credit appetite, declining in foreign exchange inflows and increased inflation.

Financial Performance

Though the impact of COVID-19 in the second half of the budget year was significant, the Banking Sector in general witnessed continued growth in most of performance indicators; such as deposit, loans and advances, asset growth, profitability, branch network and capital expansion. These achievements, however, were challenged by resource mobilization efforts (both foreign and local), loans rescheduling, demand for interest rate reduction and increasing non-performing loans portfolio and other operational costs.

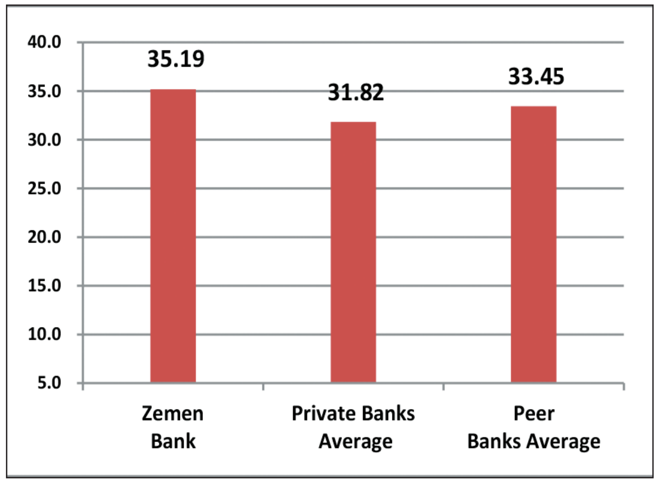
Despite the headwinds, Zemen Bank has registered outstanding performance with a much better return on investment to shareholders; attesting the Bank's strength to regain its momentum and its resilience to challenges.

Zemen Bank has continued to leverage on distinctive business model that is focused on corporate clients supported by dedicated relationship management where high net worth customers at the Bank enjoy premium facilities. Technologically driven banking services via moderate branch expansion and multiple channels (such as ATMs, Internet Banking, POS terminals, Foreign Exchange Bureaus, and international money transfer) have also remained prime focus of the Bank.

During the current ended fiscal year, Zemen Bank embarked on a wide range of operations and reform activities to increase the customer base and market share and ensuring the highest efficiency. These activities have delivered very strong performance in 2019/20 indicators where by an all- time high gross profit milestone of Birr 1 Billion (before incentive payments to employees) is crossed. The Bank's profit after tax reached Birr 739 Million which translates to earnings per share of 46.2 percent. The profit performance in a rate of return when measured against capital and total asset of the Bank resulted in a Return on Average Equity of 27.4% while a Return on Average Assets reached 4.5 %.

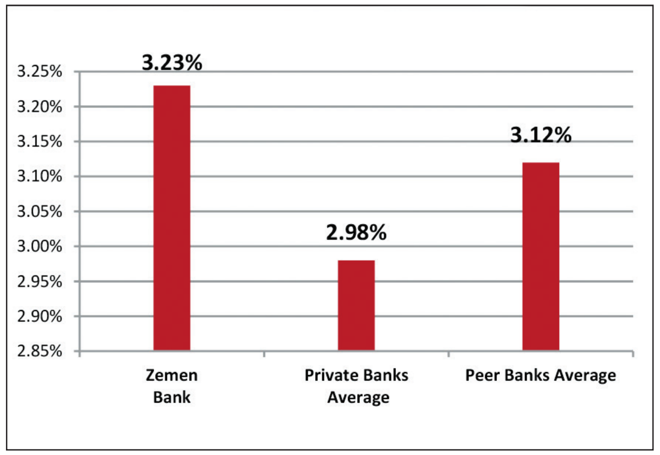
Industry wide record shows that Zemen Bank's five-years average EPS is above the private and peer banks standing at 35.19%.

Earnings Per Share: Five Year Average GRAPH1



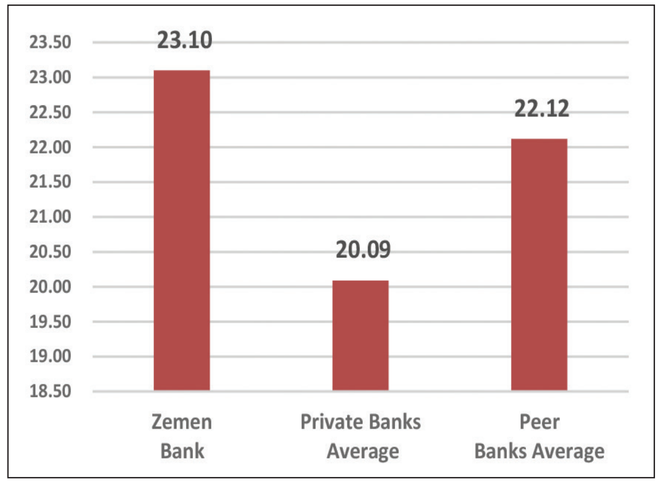
Zemen's five-years average returns on asset strikes above both private and peer banks average.

Return on Asset: Five Year Average GRAPH 2



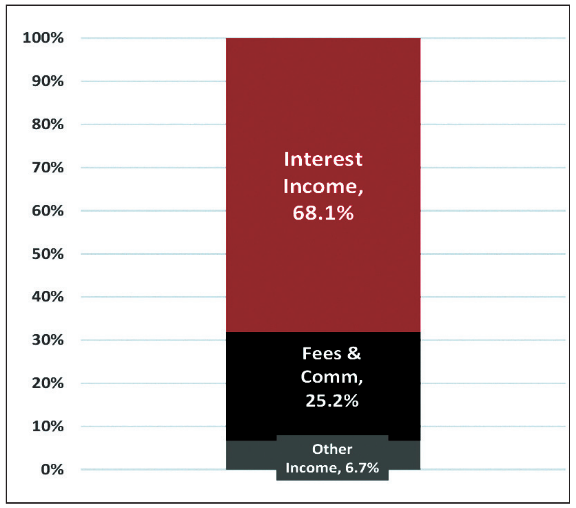
The past five-years average return on equity shows that Zemen's performance is still above both private and peer banks average.

Return on Equity: Five Year Average GRAPH 3



Revenues: The Bank's total revenue has reached Birr 2.15 Billion by the end of June, 2020 showing an increase of Birr 570 Million or a growth rate of 36%. Out of this total income, interest income accounted for 68.1 %. Fees and commissions which is mainly sourced from foreign exchange related activities, and other income sources accounted for 25.2% and 6.7% respectively.

Revenue Structure GRAPH 4

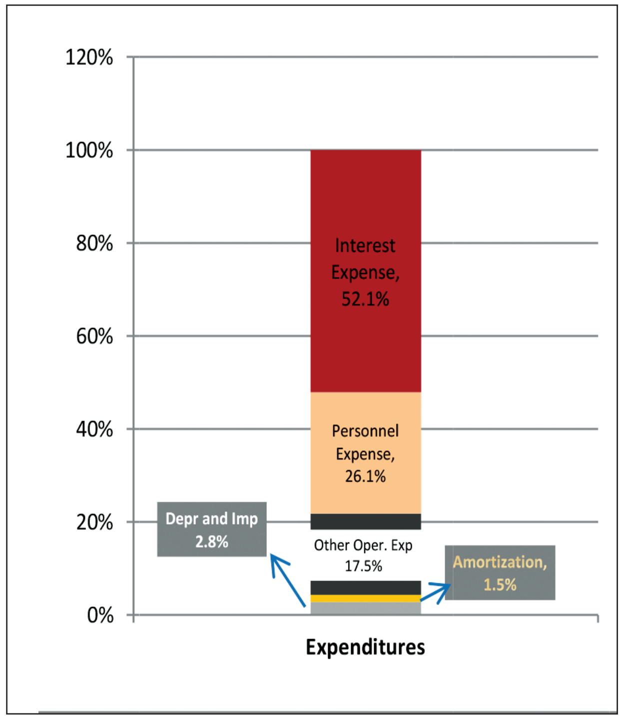


Expenditure: The aggregate expense of the Bank during the fiscal year stood at Birr 1.14 Billion which is higher by Birr 199 million (20%) from last year. Composition-wise, large share of the expense went to interest expense with Birr 593.38 Million (52.1%) followed by salary expense Birr 298.3 Million (26%), general expenses Birr 200.2 Million (17.5%) and depreciation and amortization Birr 49.5 Million (4.3%).

Efficiency and Productivity: The Bank's cost-to-income ratio (which is a key measure of efficiency reflects operating costs relative to operating income) stood at 32.2%, showing a notable decline from same period last year, 36.2% and the strategic plan of the Bank (<40%).

The productivity of the Bank as explained by the ratio of revenue to total asset stood at 11.6 % which is higher by 0.8 percentage point from same period last year (10.8%).

Expenditure Structure GRAPH 5

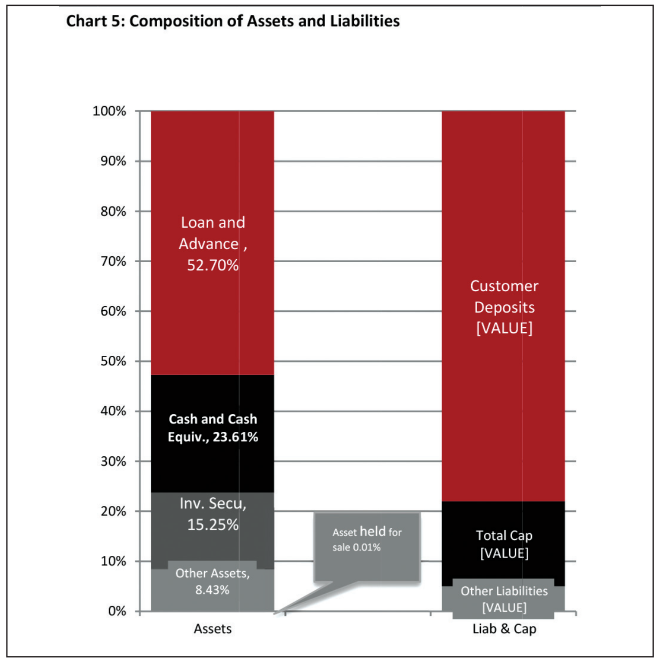


Gross profit: 2019/20 has been a year of transformation in which the Bank registered a milestone profit performance that made it one of a few banks that registered an outstanding profit growth rate from the prior year. The Bank has registered a gross profit of Birr 1.046 Billion (before incentive payments to employees) exceeding that of last year same period by Birr 388.7 Million (59%).

Balance Sheet: The strong balance sheet growth of the Bank reflected the balanced growth displayed at every major indicator during the year. The total asset of the Bank as at 30th June 2020 reached Birr 18.5 Billion showing a 26 percent growth from the preceding year.

On the liability and capital side, the largest items on the Bank's balance sheet are deposit from customers (Birr 14.4 Billion) and shareholder funds (Birr 3.1 Billion). The counterpart to these funds collected from customers and shareholders are three main assets: loans and advances (Birr 9.7 Billion); NBE Bills (2.8 Billion); and cash and cash equivalent (Birr 4.4 billion).

Composition of Assets and Liabilities GRAPH 6



Liquidity: 2019/20 Fiscal Year was a period of high liquidity problem in the banking industry. Though the environment was so challenging, NBE's injection of Birr 15 Billion into the banking system coupled with Zemen Bank's prudent liquidity management activities have curbed a stress that would have otherwise been sustained for a long period of time. To this effect, the liquidity position of the Bank stood at 30.29%, during the year.

Proposal on Dividend Payout

After making appropriate tax, legal reserve and Board remuneration deductions from the gross profit, a net profit of Birr 537 Million has been transferred to retained earnings. The Board of Directors proposes 3 % (Birr 16.1 million) to be retained by the Bank and the remaining amount of Birr 520.9 Million to be distributed to shareholders in the form of dividend payments. Based on the year-average paid-up capital of the Bank, the proposed dividend per share has reached 32.56 percent.

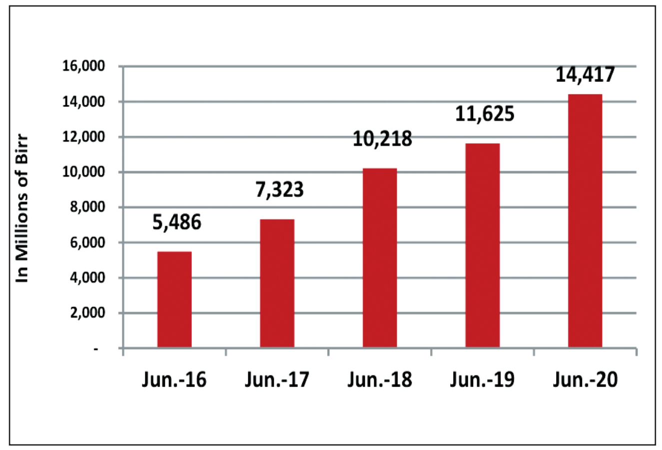
Banking Operations

The Bank has continued providing personalized services to our corporate clients and best service to our retail clients is also catered with a professional, world-class and customer focused services at all our branches. Consequently, the Bank has achieved consistent growth in key operational areas—deposits mobilization, loans and advances, and foreign exchange.

Deposits:

As deposit is the core of all banking operations, the Bank exerted relentless effort to mobilize deposit by strengthening its relationship management team and by increasing accessibility of the Bank. Despite the growing competition among the banks especially in deposit mobilization, Zemen continues to register an encouraging performance year-on-year. The Bank boosted its deposit base by 24% with total deposits mobilized reaching Birr 14.4 Billion by the end of June 2020.

Deposits Trends: 2016-2020GRAPH 7



Debit Card

With the launch of our multi-channel banking services,Zemen Debit Cards are now available for all account holders at Zemen Bank. The additional convenience of having a Zemen Debit Card allows Customers to access their account much easily through the call Center, branch, online or via ATM outlets.

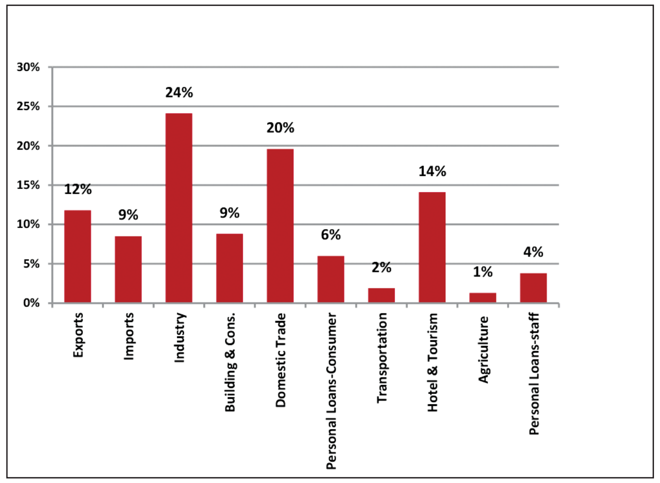
While looking at the composition of deposits, the Bank has ensured a strategic mix of deposits mainly dominated by a core and stable deposit type (saving deposits) comprised (51.5%), followed by demand deposit (41%); while time deposit took a share of (7.5%) from the overall deposit mix.

Credit:

A strong lending activity of this year resulted in a remarkable increment year-on-year of the Bank's Loan book by 27.6%, with gross loans rising from Birr 7.6 Billion to Birr 9.7 Billion.

Composition wise, loans and advances is distributed to Industry (24%), Domestic Trade and Services (19.6%), Hotel and Tourism (14%), Exports (11.8%) and others accounted for (30.6%) of the total outstanding loans and advances. Moreover, in line with its prudent loan management practice, the Bank's non-performing loan ratio has reached 1.99% which is below the maximum regulatory requirement of 5 percent and way below last year's record (2.78 percent).

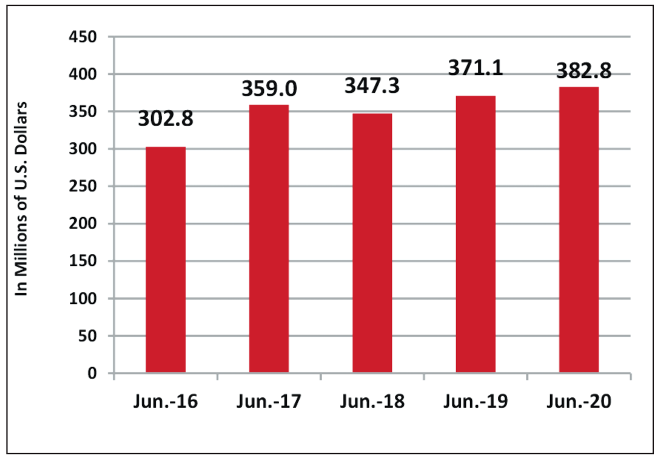
Loan Book Composition GRAPH 8



International Banking:

The Bank's International Banking operation significantly supplemented the outcome of current year's outstanding return. The total amount of FX inflow during the fiscal year stood at USD 382.8 Million. Compared with the previous year, it showed an increase of USD 11.7 Million (3.2%). Of the total hard currency obtained during the fiscal year, proceeds from export business has taken the leading share which is USD 236.41 Million (62%) followed by incoming transfer USD 140.38 million (36.5%) and dealings and check service together USD 6 Million (1.5%). Average FX inflow per month has reached USD 32 Million.

Foreign Exchange Inflows: 2016-2020 GRAPH 9



In an effort to broaden sources of foreign currency, Zemen has established business relationship with Xpress Money Transfer Company. Business relationship with Western Union and Dehabshil is at its final stage. Zemen expanded its correspondent banking and RMA relationship with 98 banks covering over 33 countries, including active correspondent account relationships with many global financial institutions. Furthermore, the Bank has established partnership with international card associations like MasterCard.

Multi-channel banking services:

The Bank also expanded alternative Multi-channel services that include ATM Banking, Internet Banking, Mobile Banking, doorstep banking and POS services.

The number of debit card, mobile banking and internet banking users has increased substantially during financial year 2019/20, indicating the increase in demand for digital banking services in the country.

• BY the end of the fiscal year, the number of our banking centers including kiosks and sub branches has reached 30 in Addis Ababa and 22 in outlying cities. The total physical service facilities providing banking services have reached 52 locations. This has led to a moderate deposit account growth of 24 percent from last year.

• ATMs and POS terminals: With a daily average cash transaction of Birr 1.95million, ATM continues to be a highly valued banking channel. The total yearly cash withdrawal through ATMs has reached Birr 706.8million or monthly average transaction of Birr 60 million. The world's two largest card payment networks, VISA and MASTERCARD, both continue to be accessible at our ATMs, allowing a very wide pool of international cardholders to access local currency funds from the convenience of our ATMs. The Bank has a total deployment of 68 ATMs. The total deployment of POS machines into the market during the reviewed year reached 108. The number of personalized Debit Cards issued to the Bank's esteemed customers showed an increase of 11,900 and stood at 62,109 cards at the end of FY 2019/20.

• **Internet Banking:** A recently improved Internet Banking solution now offers a world-class package of online banking tools with enhanced features such as simplified corporate payroll payments, optional system of multiple persons to initiate/authorize transactions, and the ability to transfer funds to accountholders of other banks. The Internet banking facility is providing service to about 10,559 registered users, who transacted Birr 375.2 million in 2019/20.

• **Mobile Banking:** The Mobile banking service allows customers to check balances, review transaction activity, and make fund transfers over the phone. The bank has ventured to upgrade the mobile banking service to world class and the project is underway.

• **Doorstep Banking:** Zemen's convenient cash delivery and pick-up service is helping numerous local and foreign companies to improve their cash and treasury management. Close to 3,010 doorstep banking related trips involving transactions totaling Birr 1.17 billion have been completed as part of our dedicated service to large corporate businesses with very high cash turnover.

• **Corporate Payroll Services:** A total of more than Birr 513.4 million (up by 5 percent from last year) has been paid out as part of our corporate payroll services during the course of the year. Zemen Bank has been relentlessly serving the ever increasing demand for payroll service. The bank is giving payroll service for about 17,600 employees on a monthly basis with beneficiaries ranging from field workers at several large commercial farms to the staffs of embassies, international organizations and investors.

Human Resources and Administration:

In line with the Bank's policy of recruiting competent professionals from the market with strong commitment and the strategic approach of upgrading staff capabilities, the Bank continued to focus on recruiting the most talented and experienced professionals. The Bank's staff headcount reached 998 as at June 30, 2020.To successfully attain Human Capital Strategy of the Bank, training of staff continues to be given special attention. Accordingly,1,286 staff received training in a range of core technical areas. The Bank has given short term technical and Leadership trainings locally, abroad and in-house. Likewise, the Bank sponsors long-term education and various certification-programs.

Risk Management:
Prudent risk management has become an integral part of the Bank's day-to-day business for compliance to applicable national and international rules and regulations. Periodic measurement of the Bank's risk exposure against key risk metrics had been conducted in away proactive intervention is enabled. Compliance and money laundering risks were given utmost priority and the process of automating the compliance and anti-money laundering process are well underway to meet the ever changing of the nature of the business and protect the bank from non-compliance and other related risks. The task of regularly identifying and mitigating risks is further supported by a Senior Management-level Asset-Liability Committee (ALCO) as well as by the Board of Directors' Risk Committee and Loan Review Committee.

Corporate governance:
The Bank remains committed to observing and adhering to the highest standards of corporate governance and business ethics as set out by the National Bank of Ethiopia and other pertinent government organs. The various sub Committees (Audit, Risk, Human Resources and Strategy and budget) instituted by the Board of Directors oversee application of corporate governance principles in the Bank's business undertakings.

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Outlook for the year ahead

In spite of the anticipated business risk paused by the impact of COVID-19, the volatile economic situation, and continuing fierce competition amongst the banks, Zemen is cautiously optimistic about the year ahead and will continue to focus on long-term stance of business stability, growth and brand maintenance.

In the year ahead, the following major tasks are envisaged:

- IT Projects:To enable the bank cope with the technological competition in the industry, the bank shall accomplish twelve selected vital IT projects the following being the major ones: Mobile Banking and Internet banking Solution, Enterprise Risk Management System (ERM), Loan Origination System Implementation, and Document Management System(DMS).

- **Strategy:** Though the fiscal year 2019/20 was the last period of the existing Five Year Strategic Plan period of the Bank and the craft of the new strategy has been under process, the breaking out of the corona virus pandemic became big obstacle to finalize the strategy for use in this fiscal year. However, designing of the new strategy will be finalized within 2020/21 fiscal year.

- **Enhance Resource Mobilization:** To strengthen the usual resource mobilization efforts which were concentrated at branch and relationship management level, the bank established marketing and resource mobilization work unit to support and enhance resource mobilization at a corporate level and with modest branch expansion.

Corporate Loans

- **Headquarter Building:** The Bank's headquarters building construction which is expected to be finalized within the current fiscal year has reached 52 percent completion at the end of June 2020. The delay mainly caused by travel restriction and health safety due to corona pandemic. Nevertheless, most finishing materials are on site and currently the process towards finalization like electrical equipment and fixtures, plumbing and interior works are in full swing.

- Finally, Measures taken by the government and other stakeholders as well as new strategies like "Home Grown Economic Reform" and the introduction of 10-years economic development plan are expected to bring positive results in the months and years to come. To sustain and improve our success in all performance parameters, the Bank continues to focus on the client-centered culture that preserves long-term relationships with our customers by widening the customer base. The unreserved effort from management support from our shareholders and customers and NBE shall continue to be the energy for further leap.

Corporate Loans

Zemen Bank's corporate lending services can finance businesses that need: Term loans to establish/expand operations Machinery/ Vehicles/ equipment loans,Export or Import Financing, Merchandise loans, Short-terms lines of credit, project finance loans.

CUSTOMER SNAPSHOTS

SherEthiopia

Ethiopia's biggest flower exporter

CARVICO ETHIOPIA Plc

Turkish Airlines

wilmar

Unilever

Department for International Development

Nestle Waters Ethiopia

International Community School

NOAH Real Estate PLC.

The world's biggest brand

CUSTOMER SNAPSHOTS

HYATT REGENCY ADDIS ABABA

Juniper Glass Industries S.C.

Ethiopia's largest wine producer

International Air Transport Association

HEINEKEN

Hilina Enriched Foods PLC

TM GEOTHERMAL OPERATI

A world-class airline

Dashen Beer

Lufthansa

Mortage Loans

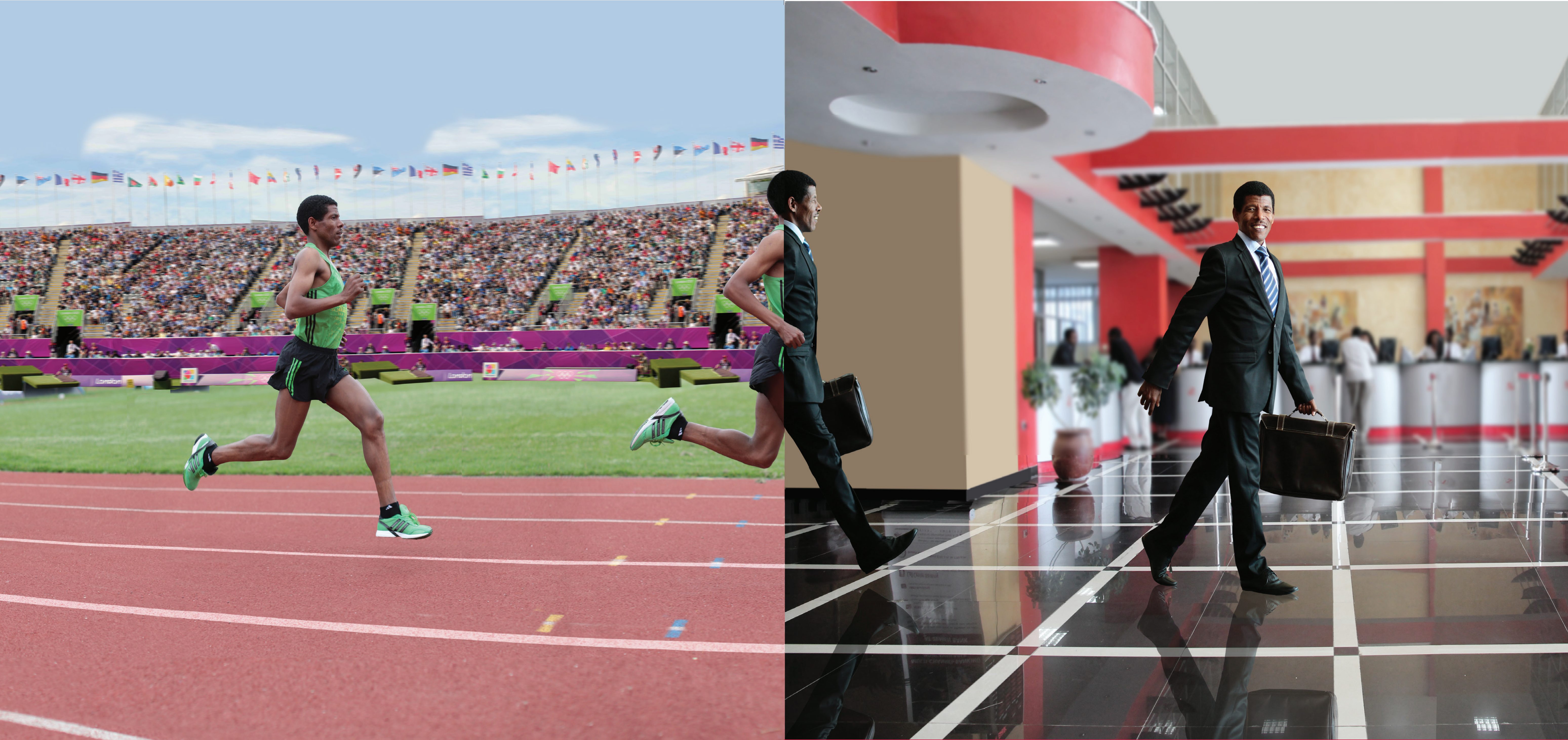
Personal Loans

Mortagage Loans

Zemen Bank's mortages can make your dreams of owning a home come true. Zemen Bank Home Loans are designed for those with steady incomes and the ability to cover at least 30 percent of the cost of the homes.

Personal Loans

Zemen Bank offers personal loans to individuals with full time employment or with other steasy income sources.



"For top performance off-the-field... my choice is Zemen Bank."

- Athlete / Entrepreneur Haile Gebreselassie

ዘመን ባንክ Zemen BANK

+251 11 553 90 40

...LOCAL KNOWLEDGE...
INTERNATIONAL STANDARDS!

w w w . z e m e n b a n k . c o m

DEPOSITS | LOANS | FOREX | CORPORATE BANKING | ATMS | INTERNET BANKING

DOORSTEP BANKING

Save time, avoid risk and make your banking easier through Z-Doorstep Banking service!

Doorstep Banking
Check, CPO, Cash collection and delivery services

Z-Doorstep Banking service is a solution that renders CPO, cash, and check collection services to a specified address without compromising the safety of your money. Zemen Bank will pick up your money and deposit it into your account while issuing deposit slips on site. Furthermore, your money will earn a high interest rate each day at Zemen Bank while deposited in a saving account.
Delivery and pick up orders can be placed via email, fax, telephone.

w w w . z e m e n b a n k . c o m w w w . z e m e n b a n k . c o m w w w . z e m e n b a n k . c o m w w w . z e m e n b a n k . c o m

AUDITORS' REPORT

MODERN BANKING SERVICES

Zemen Bank is all about giving customers choices and conveniences, Accordingly,we provide our customers with the option of banking at Zemen Banking Centers, over the phone, via an ATM, through the internet, or even at your doorstep. The options are there,the choice is yours!

We welcome you to visit our impeccably furnished Banking Center, always fully staffed to minimize the transaction times at our counters. Indeed, all our Banking Center transactions are electronic and we strive to complete your visit in just 5 minutes.

ATMs

Our ATMS allow customers to performa their basic banking activities such as cas withdrawals and balance inquiries 24 hours a day, 7 days a week.

Online Banking

You can check account and loan balances, transfer funds, access daily exchange rates,and pay your bills online with just aclick of a mouse from anywhere and at anytime.

Call Center 6500

Customers can check balances or make account enquiries over the phone. Customers are also able to access current interest rates, forex rates and transfer funds.

Mobile Banking

Zemen's Mobile Banking Service enables customers to check their balances and, most importantly, send/receive funds via their mobile phones by simply dialing *844#.

DIRECTORS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

FOR THE PERIOD ENDED 30 JUNE 2020

Directors (As of June 30, 2020)

Prof. Abebe Dinku	Board Chairman	(Appointed Feb 2018)
Dr. Theodros Atlabachew	Board Deputy Chairman	(Appointed Feb 2018)
Prof. Emana Getu	Non-Executive Director	(Appointed Feb 2018)
Mieraf Shewaye	Non-Executive Director	(Appointed Feb 2018)
AddisAlem Kedir	Non-Executive Director	(Appointed Feb 2018)
Amare Habe	Non-Executive Director	(Appointed Feb 2018)
Mikre Ayalew	Non-Executive Director	(Appointed Feb 2018)
Bezuwork Mamo	Non-Executive Director	(Appointed Feb 2018)
Abebe Chekol	Non-Executive Director	(Appointed Sep 2018)

Executive Management (As of June 30, 2020)

Dereje Zebene	President/CEO	(Appointed Apr 2018)
Meseret Wondim	V/P - Corporate Resources Management	(Appointed Aug 2016)
Amha Tadesse	V/P - Technology	(Appointed Nov 2017)
Addis Woldecherkos	V/P - Operations	(Appointed March 2020)
Asrat Tadesse	V/P - Customer Service	(Appointed March 2020)
Dereje Mihretu	A/V/P - Credit	(Appointed Jan 2020)
Bayush Berhanu	Director - Multichannel Banking Department	(Appointed Mar 2018)
Adugna Mekonnen	Director - Risk & Compliance Management Department	(Appointed Sep 2016)
Aklilu Sisay	Director - Personal & Business Banking Department	(Appointed May 2019)
Michael Tsegaye	Director - Corporate & Institutional Banking Department	(Appointed Feb 2020)
Lemma Alemayehu	Director - Finanace Department	(Appointed May 2019)
HaileYesus Mezgebu	Director - IT Projects Department	(Appointed Apr 2016)
Tesfaye Salilew	Director - E- Channel Management Department	(Appointed Aug 2016)
Phylipos Mitiku	Director -Core Banking & Software Dev't Dep't	(Appointed Aug 2016)
Biniyam Abreham	Director - International Banking Dep't	(Appointed Aug 2016)
Tewahido Taffese	Director - Knowledge & Innovation Department	(Appointed Mar 2017)
Taye Nigatu	Director - Facility management Dep't	(Appointed Aug 2016)
Elias Kinfegebriel	Director - Human Resource Department	(Appointed Dec 2013)
Birhanu Beyene	Legal Counsellor	(Appointed Feb 2019)
Yohannes Getachew	Director - Internal Audit Department	(Appointed Aug 2016)
Kassahun Merawi	Director - Engineering Department	(Appointed Apr 2017)

Independent auditor
Getachew Kassaye & Simon Audit Partnership
Chartered Certified Accounts
P.O.Box 1432, Addis Ababa, Ethiopia

Corporate office
Joseph Tito Street
P.O.Box 1212 Kirkos Addis Ababa, Ethiopia

REPORT OF THE DIRECTORS

FOR THE PERIOD ENDED 30 JUNE 2020

The directors submit their report together with the financial statements for the period ended 30 June 2020, to the members of Zemen Bank S.C. ("ZB or the Bank"). This report discloses the financial performance and state of affairs of the Bank.

Incorporation

Zemen Bank Share Company was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960.

Principal activities

The Bank's principal activity is commercial banking.

Results and dividends

The Bank's results for the year ended 30 June 2019 are set out on page 32. The profit for the year has been transferred to retained earnings. The summarised results are presented below.

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Interest income	1,462,028	1,015,048
Profit / (loss) before tax	998,339	635,856
Tax (charge) / credit	(259,216)	(152,087)
Profit / (loss) for the year	739,124	483,770
Other comprehensive income / (loss) net of taxes	7,549	6,027
Total comprehensive income / (loss) for the year	746,673	489,796

Directors

The directors who held office during the year and to the date of this report are set out on page 24.

ZEMEN BANK S.C.

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

FOR THE PERIOD ENDED 30 JUNE 2020

In accordance with the Financial Reporting Proclamation No. 847/2014 the Accounting and Auditing Board of of Ethiopia (AABE) may direct the Bank to prepare financial statements in accordance with International Financial Reporting Standards, whether their designation changes or they are replaced, from time to time.

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

a) exhibit clearly and correctly the state of its affairs;
b) explain its transactions and financial position; and
c) enable the National Bank to determine whether the Bank had complied with the provisions of the Banking Business

Proclamation and regulations and directives issued for the implementation of the aforementioned Proclamation.

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

The Directors are the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control."

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

Abebe Dinku, Professor (Dr.-Ing)
Chairman of Board of Directors
December 02, 2020

Dereje Zebene
President/CEO

ZEMEN BANK S.C.

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

Opinion

We have audited the accompanying financial statements of Zemen Bank Share Company (hereinafter referred to as the Bank), which comprise the statement of financial position as at 30 June 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including 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 its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Commercial Code of Ethiopia of 1960.

We have no comments to make on the report of the Board of Directors relating to the financial matters and pursuant to Article 375 (2) of the Commercial Code of Ethiopia of 1960, and recommend the above mentioned financial statements be approved.

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 the Federal Democratic Republic of Ethiopia, and we have fulfilled our 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.

Other Information

The Directors are responsible for the other information, which comprises the report of the Board of Directors' as required by the Commercial Code of Ethiopia 1960 and A Proclamation to Provide for Banking Business No. 592/2008 of the Federal Democratic Republic of Ethiopia, and directives of the National Bank of Ethiopia.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, and then we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management of the Bank are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and the requirements of the Commercial Code of Ethiopian of 1960, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

GETACHEW KASSAYE & SIMON AUDIT PARTNERSHIP
CHARTERED CERTIFIED ACCOUNTANTS

Addis Ababa
December 02 , 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2020

In Ethiopian Birr

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Interest income	5	1,462,028	1,015,048
Interest expense	6	593,382	531,242
Net interest income		868,646	483,806
Fee and commission income	7	539,460	445,958
Fee and commission expense	7	-	-
Net fees and commission income		539,460	445,958
Other operating income	8	143,891	121,963
Total operating income		1,551,997	1,051,727
Loan impairment charge	9	5,003	(427)
Impairment losses on other assets	10	619	(14)
Net operating income		1,546,375	1,052,168
Personnel expenses	11	298,303	223,538
Amortisation of intangible assets	19	17,013	11,395
Depreciation and impairment of property, plant and equipment	20	32,503	24,280
Other operating expenses	12	200,217	157,099
Profit before tax		998,339	635,856
Income tax expense	13	259,216	152,087
Profit after tax		**739,124**	**483,770**
Other comprehensive income (OCI) net on income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain/(loss) on retirement benefits obligations		771	(1,860)
Deferred tax (liability)/asset on remeasurement gain or loss	13	(231)	558
Fair value adjustment on equity investment		10,014	11,428
Deferred tax (liability)/asset on remeasurement gain or loss		(3,004)	(4,099)
		7,549	6,027
Total comprehensive income for the period		746,673	489,796
Basic and diluted earnings per share	27	462	398

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.

STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED 30 JUNE 2020

In Ethiopian Birr

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
ASSETS			
Cash and cash equivalents	14	4,366,619	2,526,886
Loans and advances to customers	15	9,747,395	7,609,536
Asset Held for sale		1,520	5,138
Investment securities:			
- Equity Investement	16	31,627	21,613
- Bills and Bonds	16	2,788,620	3,206,487
Right of Use Asset	17	196,459	-
Other assets	18	425,230	522,284
Intangible assets	19	84,168	74,629
Property, plant and equipment	20	854,038	722,448
Deferred tax assets	13	-	-
		18,495,676	14,689,021
Total assets		**18,495,676**	**14,689,021**
LIABILITIES			
Deposits due to other banks	21		-
Deposits from customers	22	14,417,335	11,625,170
Current tax liabilities	13	260,586	151,868
Other liabilities	23	609,897	557,159
Finance lease liability	24	59,875	-
Deferred tax liabilities	13	15,578	13,848
Retirement benefit obligations	25	10,261	8,352
Total liabilities		**15,373,532**	**12,356,397**
EQUITY			
Share capital	26	1,806,368	1,412,098
Share premium		425	425
Retained earnings	28	537,025	350,088
Legal reserve	29	639,892	455,111
Regulatory risk reserve	30	127,123	111,140
Other reserve		11,312	3,762
Total equity		3,122,144	2,332,624
Total equity and liabilities		**18,495,676**	**14,689,021**

The notes on pages 36 to 98 are an integral part of these financial statements.
The financial statements on pages 32 to 98 were approved and authorised for issue by the Board of Directors on Decembere 02,2020 and were signed on its behalf by:

Abebe Dinku

Prof. Abebe Dinku
Chairman of Board of Directors

Dereje Zebene
President/CEO

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.

STATEMENTS CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2020

In Ethiopian Birr

	Notes	Share capital Birr'000	Share premium Birr'000	Retained earnings Birr'000	Regulatory risk reserve Birr'000	Other reserve Birr'000	Legal reserve Birr'000	Total Birr'000
As at 1 July 2018		**1,125,000**	**425**	**189,381**	**100,987**	**(2,265)**	**334,168**	**1,747,697**
Profit for the period	28			483,770				483,770
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					(1,302)		(1,302)
Fair value adjustement						7,329		7,329
Dividends paid				(190,766)				(190,766)
Proceeds from issue of shares		287,098						287,098
Transfer to legal reserve	29			(120,942)		-	120,942	-
Transfer to regulatory risk reserve	30			(10,154)	10,154			-
Transfer to Revaluation Surplus				-				-
Directors share on profits				(1,201)				(1,201)
Total comprehensive income for the period		287,098	-	160,706	10,154	6,027	120,942	584,927
As at 30 June 2019		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**
As at 1 July 2019		1,412,098	425	350,088	111,140	3,762	455,111	2,332,624
Profit for the period	28			739,124				739,124
Other comprehensive income:								-
Re-measurement gains on defined benefit plans (net of tax)	13					540		540
Fair value adjustement						7,010		7,010
Dividends paid				(350,088)				(350,088)
Proceeds from issue of shares		394,269						394,269
Transfer to legal reserve	29			(184,781)		-	184,781	-
Transfer to regulatory risk reserve	30			(15,983)	15,983			-
Transfer to Revaluation Surplus				-				-
Directors share on profits				(1,335)				(1,335)
Total comprehensive income for the period		394,269	-	186,937	15,983	7,549	184,781	789,520
As at 30 June 2020		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**

The accompanying notes are an integral part of the financial statements

ZEMEN BANK S.C.

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2020

In Ethiopian Birr

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash flows from operating activities			
Cash generated from operations	32	1,697,820	(504,359)
Defined benefits paid		-	-
Income tax paid		(152,003)	(84,112)
Net cash (outflow)/inflow from operating activities		**1,545,817**	**(588,471)**
Cash flows from investing activities			
Purchase of investment securities	16	417,888	(785,236)
Purchase of intangible assets	19	(26,552)	(32,358)
Purchase of property, plant and equipment	20	(163,206)	(216,361)
Acquired properties(net)		3,618	(2,004)
Purchase of additional Equity Investments		-	-
Proceeds from sale of property, plant and equipment	32	2,135	1,240
Net cash (outflow)/inflow from investing activities		**233,882**	**(1,034,719)**
Cash flows from financing activities			
Proceeds from issues of shares		394,269	287,098
Dividend paid		(333,017)	(190,152)
Directors share on profit paid		(1,201)	(771)
Net cash (outflow)/inflow from financing activities		**60,051**	**96,175**
Net increase/(decrease) in cash and cash equivalents		**1,839,750**	**(1,527,016)**
Cash and cash equivalents at the beginning of the year	14	2,527,068	4,054,084
Foreign exchange (losses)/ gains on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year	**14**	**4,366,818**	**2,527,068**

The accompanying notes are an integral part of the financial statements

1 General information

Zemen Bank Share Company was established in Addis Ababa in 2008 and registered as a share company in accordance with the provisions of the Licensing and Supervision of Banking Business Proclamation no. 84/94 and the Commercial Code of Ethiopia of 1960.

Joseph Tito Street
P.O.Box 1212
Kirkos Sub City
Addis Ababa, Ethiopia

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

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

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

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

The financial statements for the period ended 30 June 2020 are prepared in accordance with IFRS.
The financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for defined benefit pension plans – plan assets measured at fair value.

All values are rounded to the nearest thousand, except when otherwise indicated. The financial statements are presented in thousands of Ethiopian Birr (Birr' 000).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.2.1 Going concern

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

ZEMEN BANK S.C.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020
In Ethiopian Birr

2.2.2 Changes in accounting policies and disclosures

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IAS 1 - Presentation of Financial Statements (Ammendement)

The amendments is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 1Presentation of Financial Statements sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Ammendement)

The amendment is effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

IAS 16 - Property, Plant and Equipment (Ammendement)

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 16 Property, Plant and Equipment outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (Ammendement)

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).

IFRS 7 - Financial Instruments: Disclosures (Ammendement)

The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted

IFRS 7 Financial Instruments: Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.

2.2.2.2. Standard adopted during the year ended 30 June 2020

IFRS 16 - Leases

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

The Bank has initially adopted IFRS 16 from 1 July 2019.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in 'other liabilities' and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 July 2019. The associated right of use ('ROU') assets were recognised in 'other assets' and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 30 June 2020. Initial direct costs, i.e, Stamp duty charge, included in the measurement of ROU assets for leases previously accounted for as operating leases. In addition, the following practical expedients permitted by the standard were applied

- reliance was placed on previous assessments on whether leases were onerous; and
- operating leases with a remaining lease term of less than 12 months at 1 July 2019 were treated as short-term leases.

The differences between IAS 17 and IFRS 16 are summarised as follows:

IAS 17

Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS 16

Leases are recognised as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis.

In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. The management assumes the leassee's increamntal borrowing rate is the minimum saving deposit interest rate.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank incremental borrowing rate. i.e. The minimum saving interest rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments and amounts expected to be payable certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The bank also elected Modified Retrospective Approach - the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application, July 1, 2019, Comparative figures for the year ended June 30, 2019, are not restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 Leases

Extension options for leases

When the bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The extension of lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

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.

b) Transactions and balances

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

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

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

2.4 Recognition of income and expenses

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

The Bank, earns income from interest on loans given domestic trade and services, building and construction, manufacturing, agriculture, hotel and turism, transportation, import, export and consumer loans. Other incomes includes service charge on letter of credits and commission on performance gaurantees.

2.4.1 Interest and similar income and expense

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

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

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

2.4.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income 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.

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

2.4.3 Dividend income

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

2.4.4 Foreign exchange revaluation gains or losses

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

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

2.5 Financial assets and financial liabilities

a. Recognition and initial measurement

The Bank shall initially recognise loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) shall be 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 shall be measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

b. Classification and subsequent measurement

i) Financial assets

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

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

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

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
  On initial recognition, an equity investment that is held for trading shall be classified at FVTPL. However, for equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

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

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

- ***Business model assessment***

The Bank shall make an assessment of 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 shall not be reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

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

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

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

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

ii) Financial liabilities

The Bank shall classify 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.

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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, ContingentLiabilities and Contingent Assets; and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance withthe revenue recognition policies.

c. Impairment

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

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

- Financial assets that are debt instruments;
- lease receivables;
- Financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss shall be recognised on equity investments.
The Bank shall measure loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables shall always be measured at an amount equal to lifetime ECL.
12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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

i) Measurement of ECL

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

- For financial assets that are not credit-impaired at the reporting date (stage 1 and 2):as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- For financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- For undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- For financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Restructured financial assets

Where the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then the Bank shall assess 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 shall assess whether financial assets carried at amortised cost, debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets').

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

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

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

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

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- For debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance shall be disclosed and is recognised in the fair value reserve.

v) Write-off

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

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

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

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vi) Non-integral financial guarantee contracts

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

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

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

d. Derecognition

i) Financial assets

The Bank shall derecognise a financial asset when:

- The contractual right to the cash flows from the financial asset expires (see also (1.4)), 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
- Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 shall be recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI shall not be 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 shall be recognised as a separate asset or liability.

ii) Financial liabilities

The Bank shall derecognise a financial liability when its 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 shall evaluate whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset shall be deemed to have expired. In this case, the original financial asset shall be derecognised (see (1.3)) and a new financial asset shall be recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification shall be accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs shall be included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.
If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it shall first consider whether a portion of the asset should be written off before the modification takes place.

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

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

ii) Financial liabilities

The Bank shall 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 shall be 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 shall include non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Where the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability shall be 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 shall be offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

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 shall designate certain financial liabilities as at FVTPL in either of the following circumstances:

- The liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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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.

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

b. Amortised cost and 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;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and

- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

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

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

2.7 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2.8 Net trading income

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

2.9 Property, plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group 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	Estimated Useful Life in years	Residual Value
Buildings	50	5%
Motor vehicles	10	5%
Computer hardware	7	1%
Computer software	6	0%
Other office equipment		
Short lived	5	1%
Medium lived	10	1%
Lift and roofing	15	1%
Furniture and fittings		
Medium lived	10	1%
Long lived	20	1%

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The Bank commences depreciation when the asset is available for use.

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is 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.

2.10 Intangible assets

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

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

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:

- Computer software – 6 years
- Capitalised expenditure – 6 years
- SWIFT software – 6 years

2.11 Investment property

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

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

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

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

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

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

Investment properties are derecognised when they have been disposed. Where the Bank disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of changes in net assets available for benefit.

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

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

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

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

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

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

2.13 Impairment of non-financial assets

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

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

2.14 Other assets

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

(a) Prepayment

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

(b) Other receivables

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Bank's other receivables are rent receivables and other receivables from debtors.

2.15 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.9.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.9.2
- Financial instruments (including those carried at amortised cost) Note 4.9.2

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.

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

2.16 Employee benefits

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

(a) Defined contribution plan

The Bank operates two defined contribution plans;

i) pension scheme in line with the provisions of Ethiopian pension of private organisation employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively; ii) provident fund contribution, funding under this scheme is 7% and 15% by employees and the Bank respectively;

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

(b) Defined benefit plan

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

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

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

Past-service costs are recognised immediately in income.

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

(c) Termination benefits

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

2.17 Provisions

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

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

2.18 Share capital

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

2.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.20 Income taxation

(a) Current income tax

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

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

(b) Deferred tax

Deferred tax is 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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 includes:

- Capital management Note 4.8
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.6.1

3.1 Judgements

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

Operating lease commitments - Bank as lessee

The Bank recognised rent expenses as operating lease if

- The lease has low value or
- The lease term is 12 month or less (Short term) "

3.2 Estimates and assumptions

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

Defined benefit plans

The cost of the defined benefit pension plan, long service awards, gratuity scheme and post-employment medical benefits and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Depreciation and carrying value of property, plant and equipment

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

Impairment of non-financial assets

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

4 Financial risk management

4.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

4.1.1 Risk management structure

Risk management is one component of all core banking processes of the Bank. In its day-to-day activities the Bank is exposed to various types of banking risks, the most important of which are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk. The Bank has established a comprehensive riskmanagement system in line with internationally accepted risk management principles and best practices with the necessary adoption to suit its core business activity.

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The President has established the Assets and liabilities (ALCO) and a Credit Committee which are responsible for developing and monitoring the bank's risk management policies in their specified areas.

The Bank's risk management and control is based on the following key principles

- The board of directors approves the risk management policies of the Bank and ensures their implementation.
- The management is responsible for implementing the policies in a manner that limits risks associated with each risk exposure.
- Appropriate and effective internal control exists to safeguard assets and to ensure compliance with relevant laws, regulations and institutional policies.
- The risk management and monitoring is supported by a management information system that supplies timely and consolidated reports on the financial conditions, operating performance and risk exposure of the Bank.
- The Independent Risk Management and Compliance Department is established to review compliance with the approved risk management policies and various risk related committees are established which are responsible for the implementation of the risk management policies.

4.1.2 Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected regions. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

4.1.3 Risk mitigation

Risk controls and mitigants, identified and approved for the Bank, are documented for existing and new processes and systems.

The adequacy of these mitigants is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: Amortised Cost, Fair value through profit and loss and Fair value through other comprehensive income and the financial liabilities are classified into other liabilities at amortised cost.

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

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

30 June 2020	Notes	Fair value through Profit and Loss Birr'000	Fair value through Other Comprehensive Income Birr'000	Amortised Cost Birr'000	Total Birr'000
Cash and cash equivalents	14			4,366,619	4,366,619
Loans and advances to customers	15			9,747,395	9,747,395
Asset Held for sale		1,520		-	1,520
Investment securities:					-
- Equity Investement	16		31,627	-	31,627
- Bills and Bonds	16			2,788,620	2,788,620
Other assets	18			81,283	81,283
Total financial assets		1,520	31,627	16,983,916	17,017,063

30 June 2019	Notes	Fair value through Profit and Loss Birr'000	Fair value through Other Comprehensive Income Birr'000	Amortised Cost Birr'000	Total Birr'000
Cash and cash equivalents	14			2,526,886	2,526,886
Loans and advances to customers	15			7,609,536	7,609,536
Asset Held for sale		5,138		-	5,138
Investment securities:					-
- Equity Investement	16		21,613	-	21,613
- Bills and Bonds	16			3,206,487	3,206,487
Other assets	18			44,024	44,024
Total financial assets		5,138	21,613	13,386,932	13,413,683

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4.3 Credit risk

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

4.3.1 Management of credit risk

Exposure to credit risk is managed through periodic analysis of the ability of borrowers and potential borrowers to determine their capacity to meet principal and interest thereon, and restructuring such limits as appropriate. Exposure to credit risk is also mitigated, in part, by obtaining collateral, commercial and personal guarantees.

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

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

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

4.3.2 Credit related commitments risks

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

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

a) Types of credit exposure

The Bank's maximum exposure to credit risk at 30 June 2020 and 30 June 2019 respectively, is represented by the net carrying amounts in the statement of financial position.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash and cash equivalents	4,366,619	2,526,959
Loans and advances to customers	9,747,395	7,609,823
Investment securities:		
- Equity Investement	31,627	21,195
- Bills and Bonds	2,788,620	3,206,487
Other assets	425,230	501,720
	17,359,490	13,866,183
Credit risk exposures relating to off balance sheets are as follows:		
Loan commitments	1,642,685	2,045,730
Letter of credit and other credit related obligations	789,144	355,317
	2,431,829	2,401,047
Total maximum exposure	19,791,319	16,267,230

(b) Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collaterals held as security against loans and receivables at the year end are shown below.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Motor vehicle	1,520	5,138
Building	-	-
	1,520	5,138

The Bank's policy is to pursue timely realisation of the collateral in a timely manner. The Bank does not generally use the non-cash collateral for its own operations.

(c) Loans and advances to customer at amortized cost ,

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Agriculture	129,666	60,835
Industry	2,395,369	876,254
Building and construction	869,380	401,837
Domestic Trade and Service	1,948,706	1,241,393
Export	1,168,700	867,440
Import	844,862	776,566
Transportation	188,136	980,585
Hotel and Tourism	1,402,894	2,188,386
Personal Loans - Customers	599,628	310,918
Personal Loans - Staffs	373,280	73,544
Financial Institutions	-	-
	9,920,621	7,777,758

(ii) Gross loans and advances to customers per IFRS 9 impairment standard is analysed as follows:

	30 June 2020 Birr'000	30 June 2019 Birr'000
Performing	9,423,869	7,351,136
Under Performing	299,850	210,745
Non Performing	196,902	215,877
	9,920,621	7,777,758

The above table represents a worse case scenario of credit risk exposure of the Bank as at the reporting dates without taking account of any collateral held or other credit enhancements attached.

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in the Bank's loan and advances portfolio.

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4.3.4 Credit quality analysis

The following table sets out information about the credit quality of financial assets 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.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.5. (c), (1)

(i) Loans and advances to customers at amortized cost

30 June 2020	Stage 1	Stage 2	Stage 3	Total
Stage 1 – Pass	8,735,720	-	-	8,735,720
Stage 2 – Special mention	-	271,073	-	271,073
Stage 3 - Non performing	-	-	318,112	318,112
Total gross exposure	8,735,720	271,073	318,112	9,324,905
Loss allowance	(10,990)	(1,354)	(160,132)	(172,475)
Net carrying amount	**8,724,730**	**269,720**	**157,980**	**9,152,430**

30 June 2019	Stage 1	Stage 2	Stage 3	Total
Stage 1 – Pass	7,351,136	-	-	7,351,136
Stage 2 – Special mention	-	210,745	-	210,745
Stage 3 - Non performing	-	-	215,877	215,877
Total gross exposure	7,351,136	210,745	215,877	7,777,758
Loss allowance	(14,156)	(1,786)	(116,998)	(132,940)
Net carrying amount	**7,336,979**	**208,959**	**98,879**	**7,644,818**

(ii) Off Balance Sheet Items

30 June 2020	Stage 1	Stage 2	Stage 3	Total
Stage 1 – Pass	924,553	-	-	924,553
Stage 2 – Special mention	-	-	-	-
Stage 3 - Non performing	-	-	-	-
Total gross exposure	924,553	-	-	924,553
Loss allowance	(755)	-	-	(755)
Net carrying amount	**923,799**	**-**	**-**	**923,799**

30 June 2019	Stage 1	Stage 2	Stage 3	Total
Stage 1 – Pass	769,645	-	-	769,645
Stage 2 – Special mention	-	-	-	-
Stage 3 - Non performing	-	-	48,803	48,803
Total gross exposure	769,645	-	48,803	818,448
Loss allowance	(2,476)	-	(32,809)	(35,284)
Net carrying amount	**767,170**	**-**	**15,994**	**783,164**

(ii) Other financial assets (debt instruments)

30 June 2020		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	3,983,286	(339)	3,982,947
Investment securities (debt instruments)	12 Month ECL	2,788,742	(139)	2,788,603
Other receivables and financial assets	Lifetime ECL	35,575	(1,649)	33,927
Emergency staff loans	Lifetime ECL	40,183	(2)	40,181
Totals		6,847,787	(2,129)	6,845,658

30 June 2019		Gross exposure	Loss allowance	Net carrying amount
Cash and balances with banks	12 Month ECL	3,622,865	(181)	3,622,684
Investment securities (debt instruments)	12 Month ECL	3,206,647	(160)	3,206,487
Other receivables and financial assets	Lifetime ECL	12,751	(1,029)	11,722
Totals		6,842,263	(1,371)	6,840,892

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 to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

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

ii) Investment securities designated as at FVTPL

At 30 June 2020, the Bank had no exposure to credit risk of the investment securities designated as at FVTPL

4.3.5 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 2.5.(c)

ii) 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,

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

b. Overdraft exposures

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

iv) 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.

v) 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. What is considered significant differs for different types of lending.

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).

vi) 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.

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

vii) 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.

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

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.
The key drivers for credit risk for each of the Bank's economic sectors is summarized below:.

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

The economic scenarios used as at 30 June 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, ETBbn	246.7	291.7	342.9
EXCHANGE RATE: ETB/USD	33.31	34.31	35.34
GDP EXPENDITURE: Imports of goods and services, USDbn	25.4	31.4	35.9
FISCAL: Current expenditure, USDbn	8.1	9.6	10.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	845.7	1077.9	1270.6
INFLATION: Consumer price index, 2010 = 100	397	470.4	517.4
DEBT: Government domestic debt, ETBbn	752	872.3	1003.1
EXCHANGE RATE: Real effective exchange rate, index	126.32	124.12	122.16
GDP EXPENDITURE: Private final consumption, USDbn	68	81.9	95
STRATIFICATION: Household Spending, ETBbn	2095.7	2503.8	2991.5
FISCAL: Total revenue, USDbn	9.6	10.3	11.6
DEBT: Total government debt, USDbn	55.2	67.1	77

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

Scenario probability weightings

As at June 2020	Upside	Median/Central	Downside
Cluster 1	0%	50%	50%
Cluster 2	0%	50%	50%
Cluster 3	0%	50%	50%
Cluster 4	0%	50%	50%

As at June 2019	Upside	Median/Central	Downside
Cluster 1	15.5%	69%	15.5%
Cluster 2	10%	80%	10%
Cluster 3	13%	74%	13%
Cluster 4	14.50%	71%	14.50%

viii) 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; withthe 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.

ix) Measurement of ECL

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

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

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

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recoverycosts 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 observationsand 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.

x) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.(see note 4.3.6 for 2018 comparative)

Loan commitments and financial guarantee contracts (on balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	14,169	1,786	116,986	132,940
Transfer to 12 months ECL	5	(5)	(0)	-
Transfer to Lifetime ECL not credit impaired	(64)	64	-	-
Transfer to Lifetime ECL credit impaired	(35)	-	35	-
Net remeasurement of Loss allowance	(3,835)	51	28,707	24,922
Net financial assets originated or purchased	8,379	1,238	100,468	110,085
Financial assets derecognised	(7,628)	(1,781)	(86,064)	(95,473)
Balance as at 30 June 2020	10,990	1,354	160,132	172,475

Loan commitments and financial guarantee contracts (off balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	2,475	-	32,809	35,284
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	(1,576)	-	-	(1,576)
Net financial assets originated or purchased	553	-	-	553
Financial assets derecognised	(698)	-	(32,809)	(33,506)
Balance as at 30 June 2020	755	-	-	755

30 June 2019

Loan commitments and financial guarantee contracts (on balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	14,809	2,067	138,749	155,626
Transfer to 12 months ECL	357	(357)	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	(1,587)	-	224	(1,363)
Net financial assets originated or purchased	11,586	1,786	96,261	109,632
Financial assets derecognised	(10,997)	(1,711)	(118,248)	(130,955)
Balance as at 30 June 2019	14,169	1,786	116,986	132,940

Loan commitments and financial guarantee contracts (off balance sheet exposures)	Stage 1	Stage 2	Stage 3	Total
Balance at 1 July	1,068	-	11,970	13,038
Transfer to 12 months ECL	-	-	-	-
Transfer to Lifetime ECL not credit impaired	-	-	-	-
Transfer to Lifetime ECL credit impaired	-	-	-	-
Net remeasurement of Loss allowance	705	-	-	705
Net financial assets originated or purchased	1,115	-	32,809	33,924
Financial assets derecognised	(413)	-	(11,970)	(12,383)
	2,475	-	32,809	35,284

30 June 2020

Other financial assets	Cash and balances with banks	Investment securities (debt instruments)	Emergency staff loans	Other receivables and financial assets	Total
Balance as at 1 July 2020	181	160	-	20,901	21,242
Net remeasurement of loss allowance	18	(21)	2	619	619
New financial assets originated or purchased	-	-	-	(475)	(475)
Balance as at 30 June 2020	199	139	2	21,046	21,386

30 June 2019 Other financial assets (debt instruments)	Cash and balances with banks	Investment securities (debt instruments)	Emergency staff loans	Other receivables and financial assets	Total
Balance as at 1 July 2018	-	-	-	19,872	19,872
Day one IFRS 9 transition adjustment	185	121	-	1,078	1,384
Adjusted balance at 1 July 2018	185	121	-	20,950	21,256
Net remeasurement of loss allowance	(4)	39	-	(49)	(14)
Balance as at 30 June 2019	181	160	-	20,901	21,243

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 consolidated statement of profit or loss and other comprehensive income.

30 June 2020	Loans and advances to customers at amortised cost	Investment securities (debt instruments)	Other financial assets	Total charge/ (credit)
Net remeasurement of loss allowance	24,922	(1,576)	758	24,104
New financial assets originated or purchased	110,085	553	-	110,638
Financial assets derecognised	(95,473)	(33,506)	-	(128,979)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Total	39,535	(34,529)	758	5,763

30 June 2019	Loans and advances to customers at amortised cost	Investment securities (debt instruments)	Other financial assets	Total charge/ (credit)
Net remeasurement of loss allowance	(1,363)	705	(14)	(671)
New financial assets originated or purchased	109,632	33,924	-	143,556
Financial assets derecognised	(130,955)	(12,383)	-	(143,338)
Amounts directly written off during the year	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Total	(22,686)	22,246	(14)	(453)

4.3.6 Statement of Prudential adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the expected credit loss model required by IFRS under IFRS 9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

The proclamation Financial Reporting Proclamation No.847/2014 stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted.

However, Banks would be required to comply with the following:

(a) Provisions for loans recognised in the income statement should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under the NBE Directives and the expected impact/changes in other reserves should be treated as follows:

• Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a regulatory risk reserve.

• Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.
During the period ended 30 June 2020, their is transfered amont to the regulatory risk reserve. This amount represents the difference between the provisions for credit and other known losses as determined under the NBE Directives, and the impairment reserve as determined in line with IFRS 9 as at year end.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Total impairment based on IFRS	173,226	168,223
Total impairment based on NBE Directives	243,192	234,159
Transfer to Regulatory risk reserve	69,966	65,936

As per the requirements of IFRS , banks should recognize interest income on the written down amount of the loan after the impairment loss, on an accrual basis, using the EIR. However, As per the requirement of National Bank of Ethiopia, banks should derecognized interest income on impaired exposures, special attention should be paid to impaired exposures with a higher number of days past due (e.g. more than 90 days past due).

To comply with the directive of the NBE, the Bank has reversed the suspended interest on impaired loans from retained earning account and transferred to Regulatory Risk reserve account as the amount is non- distributable to the shareholders.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Write backed Suspended interest net of tax	57,157	45,204

4.3.7 Credit concentrations

The Bank monitors concentrations of credit risk by social sector. An analysis of concentrations of credit risk at 30 June 2020 and 30 June 2019. The Bank concentrates all its financial assets in Ethiopia.

30 June 2020	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				4,366,619
Loans and receivables	2,395,369	869,380	1,948,706	4,707,165
Investment securities:				
- Equity Investement				31,627
- Bills and Bonds				2,788,620
Other assets				425,230
Loan Commitement				1,642,685
	2,395,369	869,380	1,948,706	13,961,946

30 June 2019	Industry Birr'000	Building and construction Birr'000	Domestic Trade and Service Birr'000	Others Birr'000
Cash and cash equivalents				2,526,886
Loans and receivables	876,254	401,837	1,241,393	5,258,274
Investment securities:				
- Equity Investement				21,613
- Bills and Bonds				3,206,487
Other assets				522,284
Loan Commitement				2,045,730
	876,254	401,837	1,241,393	13,581,273

4.3.8 Collateral held and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. Staff loans are secured to the extent of the employee's continued employment in the Bank.

The Bank may take collateral in the form of a first charge over real estate, liens and guarantees. The Bank does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

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

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

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

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.

Nature of securities in respect of loans and recevables

30 June 2020	Secured against real estate	Cash	Machinery	Vehicles	Others
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	10,010	66,145	5,520	16,526	13,835
Building and Construction	796,575	28,484	2,830	100,000	33,839
Consumer	455,276	1,296	-	7,228	75,299
DTS	1,664,633	41,501	-	1,168	109,658
Export	438,310	36,816	54,093	134,355	144,707
Hotel and tourism	1,403,625	762	-	600	13,993
Import	764,484	135,200	-	41,408	22,629
Industry	1,298,835	720,705	145,786	705,721	14,465
Personal Staff Loan	288,429	-	-	66	46,743
Transport and Communication	19,357	-	-	-	119,650
Grand Total	7,139,535	1,030,909	208,229	1,007,071	594,818

30 June 2019	Secured against real estate	Cash	Machinery	Vehicles	Others
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture		45,000	47,504	14,314	-
Building and Construction	2,071,712	9,200	78,293	21,495	-
Consumer	938,296	16,336	84,450	85,770	6,783
Domestic Trade Services	2,651,299	26,999	235,296	108,359	4,400
Export	1,448,898	31,136	-	108,582	1,177,699
Hotel and tourism	2,915,885	3,500	4,810	14,466	-
Import	3,086,254	173,846	42,318	22,602	47,121
Industry	2,416,583	961,931	254,815	1,100	59,948
Financial Institutions	3,369	25,941	-	-	101,852
Staff loans	100,015	-	-	31,968	-
Transport and Communication	253,074		196,596	103,748	2,310
	15,885,385	1,293,890	944,082	512,405	1,400,113

4.4. Financial assets and financial liabilities

4.4.1 Classification of financial assets and financial liabilities

The following table shows the original measurement categories and amounts in accordance with IFRS 9 for the Bank's financial assets and financial liabilities as at 30 June 2020.

		30 June 2020		
	Classification under IFRS 9	Original carrying amount under IFRS 9	Loss Allowance	New carrying amount under IFRS 9
	Birr'000	Birr'000	Birr'000	Birr'000
Financial assets				
Cash and balances with banks	Amortised cost	4,366,818	(199)	4,366,619
Loans and advances to customers	Amortised cost	9,920,608	(173,214)	9,747,395
Investment securities: Available for sale	FVOCI	31,627	-	31,627
Investment securities: Loans and receivables	Amortised cost	2,788,898	(139)	2,788,759
Other financial assets at amortised cost	Amortised cost	431,821	(21,046)	410,775
Total financial assets		**17,539,773**	**(194,598)**	**17,345,175**
Financial liabilities				
Deposits from customers	Amortised cost	14,417,335	-	14,417,335
Other financial liabilities (including ECL on loan commitments and guarantees)	Amortised cost	789,144	(12)	789,132
Total financial liabilities		**15,206,479**	**(12)**	**15,206,467**

4.5 Liquidity risk

Liquidity risk is the risk that the Bank cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

Liquidity risk management in the Bank is solely determined by Asset and Liability Committee, which bears the overall responsibility for liquidity risk. The main objective of the Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

4.5.1 Management of liquidity risk

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

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

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available t.o meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

4.5.2 Maturity analysis of financial liabilities

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

30 June 2020	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	4,135,987	3,698,630	3,595,546	2,319,901
Due to financial institutions	-			
Margins held	665,357			
Other liabilities	247,967	107,642	127,143	7,018
Profit tax payable			260,586	
Total financial liabilities	5,049,311	3,806,272	3,983,275	2,326,919

30 June 2019	Up to 1 month Birr'000	Up to 3 months Birr'000	up to 12 months Birr'000	Over 1 year Birr'000
Customer deposits	3,317,670	3,062,632	2,850,860	2,087,360
Due to financial institutions	-			
Margins held	306,648			
Other liabilities	343,800	104,720	94,899	13,740
Profit tax payable			151,868	
Total financial liabilities	3,968,118	3,167,352	3,097,627	2,101,100

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4.6 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of

a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk. Overall responsibility for managing market risk rests with the Board of Directors.

The President is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day to day implementation of those policies.

4.6.1 Management of market risk

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

Market risk is monitored by the risk management department on regularly, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Bank's interest margin or the value of its net worth. The Bank often revises its lending rate across segments of the credit portfolio based on the changes in the cost of funds, reserve requirements and the perceived risk in each credit portfolio segment to keep the overall profitability

The asset and liability management committee is responsible for managing rate-sensitive assets and liabilities and the effects of rate, volume and mix changes in order to preserve and optimize the interest return.

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

30 June 2020	Fixed Birr'000	Floating Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks		308,181	4,058,438	4,366,619
Loans and receivables		9,747,395	-	7,609,536
Investment securities	31,627	-		31,627
Total	31,627	10,055,575	4,058,438	12,007,781
Liabilities				
Deposits due to other banks		-		-
Deposits from customers		8,904,014	5,513,321	14,417,335
Debt securities issued		-	-	-
Other liabilities			609,897	609,897
Total	-	8,904,014	6,123,218	15,027,232

30 June 2019	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks		101,842	2,425,044	2,526,886
Loans and receivables		7,609,536	-	7,609,536
Investment securities	21,613	-		21,613
Total	21,613	7,711,378	2,425,044	10,158,034
Liabilities				
Deposits due to other banks		-		-
Deposits from customers		7,349,607	4,275,563	11,625,170
Debt securities issued		-	-	-
Other liabilities			557,159	557,159
Total	-	7,349,607	4,832,722	12,182,329

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non–trading financial assets and financial liabilities held at 30 June 2019 and 30 June 2018. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Increase (decrease) in basis points Birr'000	Sensitivity of profit or loss Birr'000	Sensitivity of equity Birr'000
30 June 2020	10%	86,865	86,865
30 June 2019	10%	48,381	48,381

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The Bank is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Bank's foreign currency bank accounts act as a natural hedge for these transactions. Management has set up a policy to manage the Bank's foreign exchange risk against its functional currency.

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 2,204 million (30 June 2018: Birr 2,204 million)."

Foreign currency denominated balances

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Financial assets		
Cash and bank balances	1,992,490	1,637,300
Customer deposits	1,384,494	1,864,330
Margins held	157,142	306,648
	1,541,635	2,170,978
Net foreign currency exposure	450,855	(533,678)

Sensitivity analysis for foreign exchange risk

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

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

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Impact on profit or loss		
10% change in exchange rates	45,086	(53,368)

4.7 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the banks processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the bank's operations and are faced by all business entities. The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions
b) Requirements for the reconciliation and monitoring of transactions,
c) Compliance with regulatory and other legal requirements ,
d) Documentation of controls and procedures ,
e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f) Requirements for the reporting of operational losses and proposed remedial action,
g) Development of contingency plans,
h) Training and professional development,
i) Ethical and business standards ,
j) Risk mitigation, including insurance where this is effective.

Compliance with bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the bank.

4.8 Capital management

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

4.8.1 Capital adequacy ratio

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

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. Capital includes capital contribution, retained earnings, legal reserve and other reserves to be approved by the National Bank of Ethiopia.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Capital		
Capital contribution	1,806,793	1,412,523
Retained earnings	537,025	350,088
Legal reserves	639,892	455,111
	2,983,709	2,217,722
Risk weighted assets		
Risk weighted balance for on-balance sheet items	6,905,755	5,277,774
Credit equivalents for off-balance Sheet Items	1,099,839	1,352,702
	8,005,595	6,630,476
Total regulatory capital	10,989,304	8,848,198
Risk-weighted Capital Adequacy Ratio (CAR)		
TIER 1 CARMinimum required capital	**37%**	**33%**
Excess	**8%**	**8%**
	29%	25%

4.9 Fair value of financial assets and liabilities

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

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

4.9.1 Valuation models

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

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

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

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

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

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

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

30 June 2020	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	4,366,619			4,366,619	4,366,619
Loans and receivables	9,747,395			9,747,395	9,747,395
Investment securities	31,627		31,627	-	31,627
Total	14,145,640	-	31,627.00	14,114,013	14,145,640
Financial liabilities					
Deposits due to other banks	-			-	-
Deposits from customers	14,417,335			14,417,335	14,417,335
Other liabilities	609,897			609,897	609,897
Total	15,027,232	-	-	15,027,232	15,027,232

30 June 2019	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	2,526,886			2,526,886	2,526,886
Loans and receivables	7,609,536			7,609,536	7,609,536
Investment securities	21,613		21,613	-	21,613
Total	10,158,034	-	21,613.00	10,136,421	10,158,034
Financial liabilities					
Deposits due to other banks	-			-	-
Deposits from customers	11,625,170			11,625,170	11,625,170
Other liabilities	557,159			557,159	557,159
Total	12,182,329	-	-	12,182,329	12,182,329

4.9.3 Valuation technique using significant unobservable inputs – Level 3

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

4.9.4 Transfers between the fair value hierarchy categories

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

4.9.5 Offsetting financial assets and financial liabilities

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

		30 June 2020 Birr'000	30 June 2019 Birr'000
5	**Interest income**		
	Interest on term loans	1,100,257	774,866
	Interest on merchandise loans	12,510	3,244
	Interest on overdrafts and others	214,444	123,985
	Interest on bills	739	1,618
	Interest on investment securities	121,157	89,514
	Interest on deposit with local banks	9,424	15,785
	Interest on deposits with foreign banks	3,497	6,036
		1,462,028	1,015,048

		30 June 2020 Birr'000	30 June 2019 Birr'000
6	**Interest expense**		
	Interest on demand deposit	100	98
	Interest on savings deposit	454,904	406,521
	Interest on time deposit	134,931	124,623
	Interest on short term borrowing	3,447	
		593,382	531,242

		30 June 2020 Birr'000	30 June 2019 Birr'000
7	**Net fees and commission income**		
	Fee and commission income		
	Commissions on letter of credit	432,483	383,721
	Commissions on letter of guarantee	3,428	5,780
	Commission on VISA transactions	-	-
	Commission on MasterCard transactions	-	-
	Service charge	67,994	35,056
	Loan processing fee	10,696	9,936
	Overdraft protection fee	416	372
	Balance maintenance fee	6,223	3,837
	Other fees and commission income	18,220	7,255
		539,460	445,958
	Fee and commission expense		
		-	-
	Net fees and commission income	539,460	445,958

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		30 June 2020 Birr'000	30 June 2019 Birr'000
8	**Other operating income**		
	Postage and processing fees	12,255	5,119
	Gain on foreign exchange	126,173	111,811
	Sundry income	5,463	5,034
		143,891	121,963

		30 June 2020 Birr'000	30 June 2019 Birr'000
9	**Loan impairment charge**		
	Loans and receivables - charge for the year (note 15a)	5,003	
	Loans and receivables - reversal of provision (note 15a)		(427)
		5,003	(427)

		30 June 2020 Birr'000	30 June 2019 Birr'000
10	**Impairment losses on other assets**		
	Other assets - charge for the year (note 17)	619	
	Other assets - reversal of impairment losses (note 17)		(14)
		619	(14)

		30 June 2020 Birr'000	30 June 2019 Birr'000
11	**Personnel expenses**		
	Salaries and wages	166,050	129,472
	Staff allowances	16,248	12,367
	Pension costs – Defined contribution plan	24,327	18,748
	Bonus	43,021	22,860
	Transport	21,287	17,897
	Defined benefit expense	2,680	1,304
	Other staff expenses	24,690	20,889
		298,303	223,538

		30 June 2020 Birr'000	30 June 2019 Birr'000
12	**Other operating expenses**		
	Advertisement	8,641	2,664
	Board expenses	2,657	3,184
	Audit fee	345	322
	Other expenses	28,704	15,695
	Bank charges	357	667
	Cleaning supplies	1,355	573
	Consultancy	5,952	5,395
	Donations	5,247	7,029
	Correspondent charges	4,420	3,199
	Entertainment	1,213	2,643
	Fuel	3,297	2,692
	Insurance	1,906	2,115
	License fees	21,957	23,105
	Maintenance	2,263	1,968
	Rent	534	60,129
	Stationery	5,570	4,939
	Telephone	889	865
	Internet	5,861	4,213
	Visa	9,007	9,444
	Mastercard	10,392	6,257
	EthSwitch Charge	225	-
	ROU-Deprecation	73,222	-
	Finance lease charge	6,203	-
	Impairment Expense	-	-
		200,217	157,099

Following the adoption of IFRS 16, the right-of-use assets deperciation of birr 73 ml (2019: nil) and Finance lease charge of birr 6 ml (2019: nil) have been recognised from 1 January 2019. Comparatives have not been restated. During the peirod expense increased by birr 2.3ml as compared to lease previously classified as 'operating leases'.

		30 June 2020 Birr'000	30 June 2019 Birr'000
13	**Company income and deferred tax**		
	13a Current income tax		
	Company income tax	260,721	151,938
	Prior year (over)/ under provision		
	Prior Deffered Tax Adjustement		
	Tax on foreign deposit interest		
	Deferred income tax/(credit) to profit or loss	(1,505)	148
	Total charge to profit or loss	259,216	152,087
	Total tax in statement of comprehensive income	259,216	152,087

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13b Reconciliation of effective tax to statutory tax

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Profit before tax		
IFRS Accounting profit	**998,339**	**635,856**
Tax calculated at statutory tax rate of 30 %	299,502	190,757
Add : Disallowed expenses		
Entertainment	364	793
Donation	74	309
Non Deductable Representation Allowance	-	-
Bad debt Expense	186	(4)
Penalty	86	70
Obligation (Severance pay temporary difference)	-	-
Current service cost (Severance pay)	804	391
Loss on disposal of non-current assets	-	16
Impairement loss	-	-
Provision for loans and advances as per IFRs	1,501	(128)
Depreciation and Amortization for IFRS accounting purpose	14,855	10,703
ROU Deperciation and Finance Lease cost	23,827	-
	41,697	**12,149**
Less :		
Depreciation and Amortizationfor tax purpose	14,758	9,852
Provision for loans and advances for tax NBE 80%	2,168	7,447
Gain on disposal of fixed assets	453	358
Interest income taxed at source- foreign at different rate	1,049	1,811
Dividend income taxed at source	-	-
Interest income taxed at source-NBE Bills	35,682	26,854
Interest income taxed at source-Treasury Bills	619	-
Interest income taxed at source-Government Bond	47	-
Interest income taxed at source-Local Deposit (5%)	2,827	4,736
Interest income taxed at source- foreign at different rate (5%)	(52)	(91)
Office Rent Expence	22,928	-
	80,478	**50,968**
	260,721	**151,938**

13c Current income tax liability	30 June 2020 Birr'000	30 June 2019 Birr'000
Balance at the beginning of the year	151,868	84,042
Charge for the year:	260,721	151,938
Education tax		
Capital gains tax		
Income tax expense		
Prior year (over)/ under provision		
WHT Not utilised	(135)	(70)
Payment during the year	(151,868)	(84,042)
Balance at the end of the year	**260,586**	**151,868**

13d Deferred income tax

Deferred income tax assets/liablity 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/liablity of Birr 15,578 (13,848) for the Bank have not been recognised as at 30 June 2020 and 30 June 2019 respectively because it is not probable that future taxable profits will be available against which they can be utilised.

	30 June 2020 Birr'000	30 June 2019 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	15,578	13,848
To be recovered within 12 months		
	15,578	13,848

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):	30 June 2019 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, plant and equipment	(12,925)	(198)		(13,123)
ROU Deperciation and Finance Lease cost	-	900		900
Provisions	-			-
Unrealised exchange gain	-			-
Gain/Loss on equity investment	(3,428)		(3,004)	(6,433)
Post employment benefit obligation	2,506	804	(231)	3,078
Total deferred tax assets/(liabilities)	(13,848)	1,505	(3,235)	(15,578)

Deferred income tax assets/(liabilities):	30 June 2018 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2019 Birr'000
Property, plant and equipment	(12,385)	(539)		(12,925)
Provisions				-
Unrealised exchange gain				-
Gain/Loss on equity investment	671		(4,099)	(3,428)
Post employment benefit obligation	1,556	391	558	2,506
Total deferred tax assets/(liabilities)	(10,158)	(148)	(3,541)	(13,848)

	30 June 2020 Birr'000	30 June 2019 Birr'000
14 Cash and cash equivalents		
Cash on hand	383,531	390,147
Balances with domestic banks	311,246	106,686
Balances with foreign banks	2,240,460	1,465,091
Cash reserve with NBE	685,750	586,000
Balances with National Bank of Ethiopia-payment and settlement account	745,831	(20,857)
Loss Allowance	(199)	(181)
	4,366,619	2,526,886

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	3,681,068	1,941,067
Non-Current	685,750	586,000
	4,366,818	2,527,067

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
15 Loans and advances to customers		
Agriculture	129,666	60,835
Industry	2,395,369	876,254
Building and construction	869,380	401,837
Domestic Trade and Service	1,948,706	1,241,393
Export	1,168,700	867,440
Import	844,862	776,566
Transportation	188,136	980,585
Hotel and Tourism	1,402,894	2,188,386
Personal Loans - Customers	599,628	310,918
Personal Loans - Staffs	373,280	73,544
Gross amount	9,920,621	7,777,758
Less: Impairment allowance (note 15a)	(173,226)	(168,223)
	9,747,395	7,609,536

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	3,288,500	2,483,255
Non-Current	6,632,120	5,294,503
	9,920,621	7,777,758

15a Impairment allowance on loans and advances to customers

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

Loss allowance for impairment	As at 1 July 2018 Birr'000	Charge for the year Birr'000	As at 30 June 2019 Birr'000	Charge for the year Birr'000	As at 30 June 2020 Birr'000
Agriculture loans	1,723	4,320	6,043	5,191	11,234
Building and construction loans	8,107	(4,794)	3,313	4,331	7,644
Consumer loans	1,629	(234)	1,395	1,487	2,882
DTS loans	8,594	(5,091)	3,503	11,654	15,157
Hotel loans	15,447	(6,500)	8,947	(3,855)	5,092
Export loans	80,534	(5,087)	75,447	(15,915)	59,532
Import loans	57,488	(9,302)	48,186	(4,908)	43,278
Industry loans	44,019	(26,658)	17,361	6,894	24,255
Transport loans	4,105	(217)	3,888	(384)	3,504
Staff loans loans	867	(728)	139	508	647
IFRS 9 day 1 adjustment	(53,864)	53,864	-	-	-
	168,650	(428)	168,222	5,004	173,226

		30 June 2020 Birr'000	30 June 2019 Birr'000
16	**Investment securities**		
	Available for sale:		
	Equity Investments	31,627	21,613
	Less individual allowance for impairment		-
		31,627	21,613
	Loans and receivables:		
	NBE Bills	2,786,681	3,204,570
	Ethiopian Government bonds	2,078	2,077
	Gross amount	2,788,759	3,206,647
	Less individual allowance for impairment	(139)	(160)
		2,788,620	**3,206,487**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	-	410,462
Non-Current	2,788,759	2,796,185
	2,788,759	3,206,647

The Banks hold equity investments in Eth-switch of 5.13% (30 June 2019: 5.55%) and measred at fair value and First Capital Leasing of 1% (30 June 2019: 1%)

		30 June 2020 Birr'000	30 June 2019 Birr'000
17	**Right of Use Asset**		
	Right of Use Asset	196,459	-
			-
		196,459	**-**

On 1 July 2019, we adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by birr 57 ml and increased financial liabilities by the same amount with no effect on net assets.

		30 June 2020 Birr'000	30 June 2019 Birr'000
18	**Other assets**		
	Financial assets		
	Uncleared effects-local	309	2,480
	Uncleared effects-foreign	471	729
	Sundry Debtors	385,056	477,785
	Prepaid staff asset	45,708	48,882
	Claim on HO and Branches	277	(3)
	Gross amount	431,821	529,874
	Less: Specific impairment allowance (note 17a)	(21,046)	(20,901)
		410,775	**508,973**

The make up of sundry debtors is as shown hereunder:	30 June 2020 Birr'000	30 June 2019 Birr'000
Prepaid interest	69,139	54,935
Prepayments	177,378	330,014
Staff emergency loan	40,179	31,273
Suspended interst as per NBE directive	60,608	43,947
Others	37,752	17,615
	385,056	**477,785**

Non-financial assets		
Inventory	14,455	13,311
	14,455	13,311
Gross amount	**425,230**	**522,284**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	12,585	55,495
Non-Current	433,691	487,690
	446,276	543,185

18a Impairment allowance on other assets

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Balance at the beginning of the year	20,901	20,950
(Reversal)/charge for the year (note 10)	145	(49)
Balance at the end of the year	21,046	20,901

18b Inventory

A breakdown of the items included within inventory is as follows:

	30 June 2020 Birr'000	30 June 2019 Birr'000
Stationary stock account	6,335	6,431
Other stock	2,628	2,386
Debit Cards, CPOs, Drafts and CDTs	1,476	887
Uniform stock	3,930	3,432
Computers - stock	78	173
Office Equipment-Stock	8	1
Cheque book stock	-	-
	14,455	13,311

	Computer software Birr'000	Capitalized expenditure Birr'000	SWIFT software Birr'000	Software under progress Birr'000	Total Birr'000
19 Intangible Assets					
Cost:					
As at 1 July 2018	88,574	8,379	578	6,731	104,262
Acquisitions	38,571	-	-	(6,213)	32,358
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2019	**127,145**	**8,379**	**578**	**518**	**136,621**
As at 1 July 2019	127,145	8,379	578	518	136,621
Acquisitions	1,772	-	-	24,780	26,552
Internal development				-	-
Transfer from property, plant and equipment				-	-
As at 30 June 2020	**128,917**	**8,379**	**578**	**25,299**	**163,173**
Accumulated amortisation and impairment losses					
As at 1 July 2018	41,640	8,379	578	-	50,597
Amortisation for the year	11,395			-	11,395
Impairment losses				-	-
As at 30 June 2019	**53,035**	**8,379**	**578**	**-**	**61,992**
As at 1 July 2019	53,035	8,379	578	-	61,992
Amortisation for the year	17,013			-	17,013
Impairment losses				-	-
As at 30 June 2020	**70,048**	**8,379**	**578**	**-**	**79,005**
Net book value					
As at 30 June 2019	74,111	-	-	518	74,629
As at 30 June 2020	**58,870**	**-**	**-**	**25,299**	**84,168**

	Work in progress Birr'000	Motor vehicle Birr'000	Computers Birr'000	Office equipment Birr'000	Total Birr'000
20 Property, plant and equipment					
Cost:					
As at 1 July 2018	405,333	65,151	80,069	64,927	615,481
Additions	150,672	24,186	14,817	20,953	210,628
Disposals	-	(1,344)	-	-	(1,344)
Reclassification	-	-	787	5,057	5,844
As at 30 June 2019	**556,005**	**87,993**	**95,673**	**90,937**	**830,609**
As at 1 July 2019	**556,005**	**87,993**	**95,673**	**90,937**	**830,609**
Additions	112,699	-	36,251	17,069	166,019
Disposals	-	(815)	(485)	(292)	(1,591)
Reclassification	-	-	(1,241)	(77)	(1,318)
As at 30 June 2020	**668,704**	**87,178**	**130,199**	**107,637**	**993,719**
Accumulated depreciation					
As at 1 July 2018	-	21,432	36,432	27,150	85,014
Charge for the year	-	7,017	9,378	7,885	24,280
Impairement		-	-	-	-
Reclassification		111	-	-	111
Disposals	-	(1,245)	-	-	(1,245)
As at 30 June 2019	**-**	**27,315**	**45,810**	**35,035**	**108,160**
As at 1 July 2019	**-**	**27,315**	**45,810**	**35,035**	**108,160**
Charge for the year	-	8,157	13,606	9,245	31,008
Impairement		-	-	-	-
Reclassification		-	592	903	1,495
Disposals	-	(331)	(426)	(226)	(983)
As at 30 June 2020	**-**	**35,140**	**59,583**	**44,957**	**139,680**
Net book value					
As at 30 June 2019	**556,005**	**60,678**	**49,863**	**55,902**	**722,448**
As at 30 June 2020	**668,704**	**52,038**	**70,616**	**62,681**	**854,039**

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		30 June 2020	30 June 2019
		Birr'000	Birr'000
21	**Deposits due to other banks**		
	Balances due to other banks	-	-
		-	-

	30 June 2020	30 June 2019
Maturity analysis	Birr'000	Birr'000
Current	-	-
Non-Current	-	-
	-	-

		30 June 2020	30 June 2019
		Birr'000	Birr'000
22	**Deposits from customers**		
	Demand deposits	4,847,964	3,968,915
	Time deposits	1,087,843	1,290,134
	Savings deposits	7,432,044	5,834,267
	Retention deposits	384,127	225,206
	Other deposits	665,357	306,648
		14,417,335	11,625,170

	30 June 2020	30 June 2019
Maturity analysis	Birr'000	Birr'000
Current	12,095,519	9,231,162
Non-Current	2,321,816	2,394,008
	14,417,335	**11,625,170**

		30 June 2020	30 June 2019
		Birr'000	Birr'000
23	**Other liabilities**		
	Financial liabilities		
	Accrued leave	13,784	12,308
	Cashier payment orders	38,479	119,201
	Dividend payable	29,271	12,200
	Exchange payable to National Bank of Ethiopia	16,698	10,419
	Old drafts outstanding	17,743	38,650
	Directors Share on Profit	1,335	1,201
	Claim on HO and Branches	-	-
		117,310	**193,979**

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	Non-financial liabilities		
	Taxes and stamp duty charges	20,077	12,606
	Miscellaneous	393,949	302,224
	Unearned income	36,654	26,350
	Provision for Bonus	41,907	22,000
		492,587	363,180
	Gross amount	**609,897**	**557,159**

	30 June 2020	30 June 2019
Maturity analysis	Birr'000	Birr'000
Current	482,752	543,419
Non-Current	127,145	13,740
	609,897	557,159

		30 June 2020	30 June 2019
		Birr'000	Birr'000
24	**Finance lease liability**		
	Finance lease liability	59,875	-
		59,875	-

		30 June 2020	30 June 2019
		Birr'000	Birr'000
25	**Retirement benefit obligations**		
	Defined benefits liabilities:		
	– Pension prize (note 23a)	10,261	8,352
	Liability in the statement of financial position	**10,261**	**8,352**
	Income statement charge included in personnel expenses:		
	– Pension prize (note 23a)	2,680	1,304
	Total defined benefit expenses	**2,680**	**1,304**
	Remeasurements for:		
	– Pension prize (note 23a)	(771)	1,860
		(771)	**1,860**

The income statement charge included within personnel expenses includes current service cost, interest cost, past service costs on the defined benefit scheme.

	30 June 2020	30 June 2019
Maturity analysis	Birr'000	Birr'000
Current		
Non-Current	(771)	1,860
	(771)	1,860

25a Pension prize

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
A Liability recognised in the financial position	10,261	8,352

B Amount recognised in the profit or loss	30 June 2020 Birr'000	30 June 2019 Birr'000
Current service cost	1,564	869
Interest cost	1,116	740
	2,680	1,609

C Amount recognised in other comprehensive income:		
Remeasurement (gains)/losses arising from changes in demographic assumptions	-	-
Remeasurement (gains)/losses arising from changes in the economic assumptions	(2,254)	613
Remeasurement (gains)/losses arising from experience	1,483	1,247
Tax credit /(charge)		-
	(771)	1,860

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	8,352	5,188
Current service cost	1,564	869
Interest cost	1,116	740
Remeasurement (gains)/ losses	(771)	1,860
Benefits paid	-	(305)
At the end of the year	10,261	8,352

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2020 Birr'000	30 June 2019 Birr'000
Discount Rate (p.a)	14.50%	11.25%
Average Rate of Inflation (p.a)	10%	10%
Salary Increase Rate	12%	12%

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ii) Mortality in Service

Mortality rates are commonly set with reference to standard tables published by reputable institutions (such as the Actuarial Society of South Africa and the Central Statistics Agency ("CSA")) who have access to statistically significant data from which to derive mortality rates.

Sample mortality rates are as follows:

Age	Males	Females
20	0.00306	0.00223
25	0.00303	0.00228
30	0.00355	0.00314
35	0.00405	0.00279
40	0.00515	0.00319
45	0.00450	0.00428
50	0.00628	0.00628
55	0.00979	0.00979
60	0.01536	0.01536

iii) Withdrawal from Service

The withdrawal rates are believed to be reasonably representative of the Ethiopian experience.
The valuation assumed a rate of withdrawal of 10% at the youngest ages falling with increasing age to 2.5% at age 45.

Age	Annual Rate of Resignation
20	15%
25	13%
30	10%
35	8%
40	5%
45	3%
50+	0%

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

		Impact on defined benefit obligation and Salary			
		30 June 2020		30 June 2019	
	Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	1.0%	9,639	10,928	7,693	9,075
Salary Increase	1.0%	10,937	9,620	9,063	7,692

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 7 years on the current valuation assumptions and data.

	30 June 2020 Birr'000	30 June 2019 Birr'000
26 Ordinary share capital		
Authorised:		
Ordinary shares of Birr 1000 each	1,806,368	1,412,098
Issued and fully paid:		
Ordinary shares of Birr 1000 each	1,806,368	1,412,098

27 Earnings per share

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Profit attributable to shareholders	739,124	483,770
Weighted average number of ordinary shares in issue	1,600	1,217
Basic & diluted earnings per share (Birr)	462	398

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 2017:nil, 1 July 2016: nil), hence the basic and diluted loss per share have the same value.

	30 June 2020 Birr'000	30 June 2019 Birr'000
28 Retained earnings		
At the beginning of the year	350,088	189,381
Profit/ (Loss) for the year	739,124	483,770
Opening balance adjustment		
Divdends paid	(350,088)	(190,766)
Income tax paid		-
Directors share on profits	(1,335)	(1,201)
Re-measurement gains on defined benefit plans (net of tax)		
Transfer to legal reserve	(184,781)	(120,942)
Transfer to regulatory risk reserve	(15,983)	(10,154)
At the end of the year	537,025	350,088

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	30 June 2020 Birr'000	30 June 2019 Birr'000
29 Legal reserve		
At the beginning of the year	455,111	334,168
Transfer (from) / to retained earnings	184,781	120,942
At the end of the year	639,892	455,111

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
30 Regulatory risk reserve		
At the beginning of the year	111,140	100,987
Transfer (from) / to retained earnings	15,983	10,154
At the end of the year	127,123	111,140

30 June 2020	Suspended interest"	Excess provision as per NBE"	Total
Balance after provsisioning	108,871	69,966	178,837
Taxation @30%	(32,661)	-	(32,661)
	76,209	69,966	146,175
Balance transferred to legal reserve	(19,052)	-	(19,052)
	57,157	69,966	127,123
Balance brought forward			111,140
Current period addition			**15,983**

30 June 2019	Suspended interest	Excess provision as per NBE	Total
Balance after provsisioning	86,103	65,936	152,039
Taxation @30%	(25,831)	-	(25,831)
	60,272	65,936	126,208
Balance transferred to legal reserve	(15,068)	-	(15,068)
	45,204	65,936	111,140
Balance brought forward			100,987
Current period addition			**10,153**

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

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

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

		30 June 2020 Birr'000	30 June 2019 Birr'000
31	**Fair value reserve (equity investments)**		
	At the beginning of the year	21,613	10,185
	Transfer (from) / to Revaluation surplus	10,014	11,428
	At the end of the year	31,627	21,613

		Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
32	**Cash generated from operating activities**			
	Profit before tax		998,339	635,856
	Adjustments for non-cash items:			
	Depreciation of property, plant and equipment	20	32,503	24,280
	Amortisation of intangible assets	19	17,013	11,395
	Gain/(Loss) on disposal of property, plant and equipment	20	(1,527)	(1,141)
	Impairment on loans and receivables	15	5,003	(427)
	Impairment on other assets	18	619	(14)
	Impairment on fixed assets		-	-
	Retirement benefit obligations		2,680	1,304
	Changes in working capital:			
	-Decrease/ (Increase) in loans and advances to customers	15	(2,142,862)	(2,560,235)
	-Decrease/ (Increase) in other assets	18	94,939	(154,599)
	-Decrease/ (Increase) in ROU		(196,459)	-
	-Increase/ (Decrease) in other liabilities	22	35,533	155,367
	-Increase/ (Decrease) in Finance lease liabilities		59,875	-
	Proceeds/ (Repayments) of deposits from banks	20	-	(23,800)
	Proceeds/ (Repayments) of deposits from customers		2,792,165	1,407,654
			1,697,820	(504,359)

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Proceeds on disposal	2,135	1,240
Net book value of property, plant and equipment disposed (Note 20)	(608)	(99)
Net Gain/(loss) on sale or disposal of non-current assets	1,527	1,141

33 Related party transactions

Zemen Bank is a privately owned commercial bank

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

Key management compensation

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

	30 June 2020	30 June 2019
Mgt Salaries and other short-term employee benefits	4,557	6,011
Post-employment benefits	-	-
Termination benefits	-	-
Sitting allowance	366	304
Board Rumeneration and salary	2,505	2,165
Other expenses		
	7,428	8,480

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

34 Directors and employees

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

	30 June 2020	30 June 2019
Manegerial	123	109
Clerical	648	558
Non-clerical	218	199
Contractual	13	19
	1,002	885

35 Contingent liabilities

35a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2020 is Birr 29.5 ml. Except birr 11.3ml no other provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

35b Guarantees and letters of credit

The Bank conducts business involving performance bonds and guarantees. These instruments are given as a security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

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

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Guarantees and Letters of credit	1,008,625	789,144
	1,008,625	789,144

36 Operating lease commitments - Bank as lessee

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

The future aggregate minimum lease payments under non-cancellable operating leases are as follows
The Bank has commitments, not provided for in these financial statements, of Birr 1.276 Million
(30 June 2019: Birr 127.806 Million)

	30 June 2020	30 June 2019
	Birr'000	Birr'000
No later than 1 year	1,025	65,393
Later than 1 year and no later than 2 years	251	40,107
Later than 2 years but not later than 5 years	-	22,306
Total	**1,276**	**127,806**

37 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events which could have a material effect on the state of affairs of the Bank as at 30 June 2020 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

ዓመታዊ ሪፖርት - 2012

ዘመን ባንክ
የትርፍ ወይም ኪሳራ እና አጠቃላይ ገቢ መግለጫ
ሰኔ 23 ቀን 2012 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2012 ብር'000	2011 ብር'000
ከወለድ የተገኘ ገቢ	5	1,462,028	1,015,048
የወለድ ወጪ	6	(593,382)	(531,242)
የተጣራ የወለድ ገቢ		868,646	483,806
ከአገልግሎትና ኮሚሽን ገቢ	7	539,460	445,958
ከአገልግሎትና ኮሚሽን ወጪ	7	-	-
የተጣራ ከአገልግሎትና ኮሚሽን ገቢ		539,460	445,958
ከልዩ ልዩ ገቢ	8	143,891	121,963
አጠቃላይ መደበኛ ገቢ		1,551,997	1,051,727
ለብድር የተያዘ መጠባበቂያ	9	5,003	(427)
ለሌሎች ሃብቶች የተያዘ መጠባበቂያ	10	619	(14)
የተጣራ መደበኛ ገቢ		1,546,375	1,052,168
ለሠራተኞች ደሞዝና ጥቅማጥቅሞች	11	298,303	205,641
ሀልዎት ለሌላቸው ሀብት የማሚያ ወጪ	19	17,013	11,395
የቋሚ ሀብት እርጅና ተቀናሽ	20	32,503	24,280
ለሌሎች መደበኛ ወጪዎች	12	200,217	174,996
ትርፍ - ከትርፍ ግብር በፊት		998,339	635,856
የትርፍ ግብር ወጪ	13	259,216	152,087
ትርፍ - ከትርፍ ግብር በኃላ		**739,124**	**483,770**
ሌሎች ገቢዎች ከትርፍ ግብር በኃላ			
በትርፍና ኪሳራ መዝገብ የማይካተቱ ገቢዎች			
በጡረታ ግዜ ለሰራተኞች ሊከፈል የሚችል ጥቅማጥቅም		771	(1,860)
ወደፊት ሊከፈል የሚችል የትርፍ ግብር	13	(231)	558
የሚዛናዊ ዋጋ ማስተካከያ(Fair Value Adjustment) በተለያዩ አክሲዮን ማህበራት የተደረገ ኢንቨስትመንት ላይ :		10,014	11,428
ወደፊት ሊከፈል የሚችል የትርፍ ግብር		(3,004)	(4,099)
		7,549	6,027
የአመቱ አጠቃላይ የተጣራ ገቢ		**746,673**	**489,796**
የባንኩ ትርፍ በአንድ ሺህ ብር የአክሲዮን ዋጋ ሲለካ	27	**462**	**398**

Abebe Dinku

አበበ ድንቁ (ፕ/ር ዶ/ር ኢንጅ.)
የዲሬክተሮች ቦርድ ሊቀመንበር

ዘመን ባንክ አ.ማ. Addis Ababa, Ethiopia Zemen BANK No 01 P.O.Box 28119 code 1000 Zemen Bank S. C.

ደረጀ ዘበነ
ዋና ስራ አስፈፃሚ

ዘመን ባንክ
የሐብትና እዳ መግለጫ
ሰኔ 23 ቀን 2012 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2011 ብር'000	2011 ብር'000
ሀብት			
ጥሬ ገንዘብና ጥሬ ገንዘብ አከል ሀብት	14	4,366,619	2,526,886
ለደንበኞች የተሰጡ ብድሮች	15	9,747,395	7,609,536
ለሽያጭ የተዘጋጁ የተወረሱ ንብረቶች		1,520	5,138
ኢንቨስትመንት:			
- በተለያዩ አክሲዮን ማህበራት የተደረገ ኢንቨስትመንት:	16	31,627	21,613
- የብሔራዊ ባንክ ሰነድ ግዢ	16	2,788,620	3,206,487
ንብረትን የመጠቀም መብት	17	196,459	
ሌሎች ሃብቶች	18	425,230	522,284
ሀልዎት የሌላቸው ሀብት	19	84,168	74,629
ቋሚ ሀብት	20	854,038	722,448
ወደፊት የሚሰበሰበብ የትርፍ ግብር	13	-	-
		18,495,676	14,689,021
አጠቃላይ ሀብት		**18,495,676**	**14,689,021**
የዕዳ ሚዛን			
የደንበኞች ተቀማጭ በፋይናንስ ተቋማት	21		-
የደንበኞች ተቀማጭ ገንዘብ	22	14,417,335	11,625,170
ተከፋይ የትርፍ ግብር	13	260,586	151,868
ሌሎች ዕዳዎች	23	609,897	557,159
የፋይናንስ ሊዝ ዕዳ	24	59,875	-
ወደፊት የሚከፈል የትርፍ ግብር	13	15,578	13,848
በጡረታ ግዜ ለሰራተኞች የሚከፈል ጥቅማጥቅም	25	10,261	8,352
አጠቃላይ የዕዳ ሚዛን		**15,373,532**	**12,356,397**
የካፒታልና መጠባበቂያ ሂሳቦች			
የተከፈለ ካፒታል	26	1,806,368	1,412,098
በአክሲዮን ሽያጭ ዋጋ ብልጫ የተከፈለ		425	425
ያልተከፋፈለ ትርፍ	28	537,025	350,088
ሕጋዊ የመጠባበቂያ ሂሳብ	29	639,892	455,111
በብሔራዊ ባንክ መመሪያ መሰረት ለብድር የተያዘ ተጨማሪ መጠባበቂያ	30	127,123	111,140
ሌሎች የመጠባበቂያ ሒሳቦች		11,312	3,762
አጠቃላይ ካፒታልና መጠባበቂያ ሂሳቦች ሚዛን		3,122,144	2,332,624
አጠቃላይ ዕዳዎች፤ ካፒታልና መጠባበቂያ ሂሳቦች ሚዛን		**18,495,676**	**14,689,021**

አበበ ድንቁ (ፕ/ር ዶ/ር ኢንጅ.)
የዲሬክተሮች ቦርድ ሊቀመንበር

ደረጀ ዘበነ
ዋና ስራ አስፈፃሚ

ዘመን ባንክ
በባለአክሲዮኖች ሀብት ላይ የተከናወኑ ለውጦችን የሚያሳይ ዝርዝር
ሰኔ 23 ቀን 2012 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	የተከፈለ አክሲዮን ብር'000	በአክሲዮን ሽያጭ ዋጋ ብልጫ የተሰበሰበ ብር'000	ያልተከፈለ ትርፍ ብር'000	በተቆጣጣሪ አካል የስጋት የመጠባበቂያ ብር'000	ሌሎች መጠባበቂያዎች ብር'000	ሕጋዊ መጠባበቂያ ብር'000	ድምር ብር'000
ሰኔ 24 ቀን 2010 ዓ.ም. መነሻ		**1,125,000**	**425**	**189,381**	**100,987**	**(2,265)**	**334,168**	**1,747,697**
የዓመቱ የተጣራ ትርፍ	28	-		483,770			-	483,770
ሌሎች ገቢዎች								-
እንደገና የመገመት ትርፍ (ኪሳራ) በጡረታ ግዜ ለሰራተኞች ሊከፈል የሚችል ጥቅማጥቅም (የተጣራ ከግብር በኃላ)	13					(1,302)		(1,302)
የሚዛናዊ ዋጋ ማስተካከያ(Fair Value Adjustment)						7,329		7,329
የተፈፀመ የትርፍ ክፍያ				(190,766)				(190,766)
ከአክስዮን ሽያጭ የተሰበሰበ		287,098						287,098
ወደ ሕጋዊ መጠባበቂያ የዞረ	29			(120,942)			120,942	-
በብሔራዊ ባንክ መመሪያ መሰረት ለብድር የተያዘ ተጨማሪ መጠባበቂያ	30			(10,154)	10,154			-
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ				(1,201)				(1,201)
የአመቱ አጠቃላይ ገቢ		287,098	-	160,706	10,154	6,027	120,942	584,927
ሰኔ 23 ቀን 2011 ዓ.ም. ላይ የነበረ		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**
ሰኔ 24 ቀን 2011 ዓ.ም. መነሻ		**1,412,098**	**425**	**350,088**	**111,140**	**3,762**	**455,111**	**2,332,624**
የዓመቱ የተጣራ ትርፍ	28			739,124				739,124
ሌሎች ገቢዎች:								-
እንደገና የመገመት ትርፍ (ኪሳራ) በጡረታ ግዜ ለሰራተኞች ሊከፈል የሚችል ጥቅማጥቅም (የተጣራ ከግብር በኃላ)	13					540		540
የሚዛናዊ ዋጋ ማስተካከያ(Fair Value Adjustment)						7,010		7,010
የተፈፀመ የትርፍ ክፍያ				(350,088)				(350,088)
ከአክስዮን ሽያጭ የተሰበሰበ		394,269						394,269
ወደ ሕጋዊ መጠባበቂያ የዞረ	29			(184,781)		-	184,781	-
በብሔራዊ ባንክ መመሪያ መሰረት ለብድር የተያዘ ተጨማሪ መጠባበቂያ የዞረ	30			(15,983)	15,983			-
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ				(1,335)				(1,335)
የአመቱ አጠቃላይ ገቢ		394,269	-	186,937	15,983	7,549	184,781	789,520
ሰኔ 23 ቀን 2012 ዓ.ም. ያለ ባላንስ		**1,806,368**	**425**	**537,025**	**127,123**	**11,312**	**639,892**	**3,122,144**

ዘመን ባንክ
የጥሬ ገንዘብ እንቅስቃሴ መግለጫ
ሰኔ 23 ቀን 2012 ዓ.ም. ለተጠናቀቀው በጀት አመት

	ማብራሪያ	2012 ብር'000	2011 ብር'000
ከመደበኛ የስራ እንቅስቃሴ ጋር የተያያዘ የገንዘብ ፍሰት			
ከመደበኛ የስራ እንቅስቃሴ የተገኘ ገንዘብ	32	1,697,820	(504,359)
የታወቁ ጥቅማ ጥቅሞች ክፍያ			-
የገቢ ግብር ክፍያ		(152,003)	(84,112)
ከመደበኛ የስራ እንቅስቃሴ የተገኘ (የወጣ) የተጣራ ገንዘብ		**1,545,817**	**(588,471)**
ከኢንቨስትመንት የተገኘ ገንዘብ			
የኢንቨስትመንት ሰነድ ግዢ	16	417,888	(785,236)
ሀልዎት ለሌላቸው ሀብት ግዢ	19	(26,552)	(32,358)
ለቋሚ ዕቃዎችና መሳሪያዎች ግዢ	20	(163,206)	(216,361)
የተወረሱ ንብረቶች		3,618	(2,004)
የተገዛ ተጨማሪ ኢንቨስትመንት		-	-
ከቋሚ ዕቃዎችና መሳሪያዎች ሽያጭ	32	2,135	1,240
ከኢንቨስትመንት የተገኘ (የወጣ) የተጣራ ገንዘብ		**233,882**	**(1,034,719)**
ከፋይናንስ እንቅስቃሴ የተገኘ			
ከአክሲዮን ሽያጭ		394,269	287,098
ለባላክሲዮኖች የተከፈለ የትርፍ ድርሻ		(333,017)	(190,152)
የዲሬክተሮች ቦርድ አባላት የትርፍ ድርሻ		(1,201)	(771)
ከፋይናንስ እንቅስቃሴ የተገኘ(የወጣ) የተጣራ ገንዘብ		**60,051**	**96,175**
በጥሬ ገንዘብና በገንዘብ አከል የታየ እድገት (ቅናሽ)		**1,839,750**	**(1,527,016)**
በአመቱ መጀመሪያ የነበረ የጥሬ ገንዘብና ገንዘብ አከል መጠን	14	2,527,068	4,054,084
የተጣራ የውጪ ምንዛሬ ገቢ(ወጪ) ከጥሬ ገንዘብና ገንዘብ አከል መጠን		-	-
በአመቱ መጨረሻ የነበረ የጥሬ ገንዘብና ገንዘብ አከል መጠን	**14**	**4,366,818**	**2,527,068**

ዘመን ባንክ አ.ማ.
Addis Ababa, Ethiopia
Zemen BANK
No 01
PO Box 28119 code 1000
Zemen Bank S. C.

www.zemenbank.com

EVENTS IN PICTURE






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NOTES

NOTES

ዘመን ባንክ
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info@zemenbank.com

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