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AUDIT SERVICES
CORPORATION

DEVELOPMENT BANK OF ETHIOPIA

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2020

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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF DEVELOPMENT BANK OF ETHIOPIA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Development Bank of Ethiopia (the Bank) and its consolidated subsidiary (the Group), which comprise the consolidated and separate statement of financial position as at 30 June 2020, and the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Enterprise in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

ASC

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INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
DEVELOPMENT BANK OF ETHIOPIA (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

A. Loans and advances

There are risks that loans and advances may be given without proper managerial approval; may not be accurately recorded; do not exist; may not be recorded at appropriate values; and all bad and doubtful balances may not have been provided for or written off. In our response to these risks, we assessed the reasonableness of the design of the system of internal control by enquiring of relevant Bank personnel and reviewing the documented system developed by the Bank. We tested this system in order to confirm our understanding of it. We identified the preventive and detective controls. We checked a sample of selected transactions covering the whole year to see that all controls were exercised on all transactions. For a sample of disbursements made during the year, we checked the approval by the appropriate level of management and checked that all formalities necessary before disbursement of loans and advances had been fulfilled. We test checked loan agreements and legal documents to verify the terms and conditions of the loans and advances. We obtained an analysis of loans and verified that they had been classified in correct categories and we considered the value of collateral available against each loan for calculating the provision for doubtful loans and advances. Our testing did not identify major weaknesses in the design and operation of controls that would have required us to expand the nature or scope of our planned detailed test work. Overall, we found no concerns in respect to the completion of formalities or the recording of loans and advances at appropriate values.

B. Income tax

The risk is that a lack of intimate knowledge of tax legislation could lead to erroneous tax calculations. This would result in current and deferred tax expense and liabilities being incorrect. Our response was to engage our senior tax professional as an expert to check the tax situation. We obtained a detailed schedule for all temporary differences along with expenses which are disallowed under income tax legislation. We obtained a calculation of the tax liability identifying all items constituting the difference between net pre-tax income and taxable income, and compared the calculation to that of the previous year. The calculation was reviewed to determine that correct tax rates had been used and that all significant tax matters had been addressed. We checked the calculation of deferred taxes and that timing differences had been appropriately considered. Our testing did not identify significant errors in the computation of income tax.

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

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

In preparing the consolidated financial statements, the Board is responsible for assessing the Group'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 Group 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the Board'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Woizero Azeb Tekleselassie.

Audit Services Corporation

22 June 2021

Development Bank of Ethiopia

Annual consolidated and separate financial statements
For the year ended 30 June 2020
Board of management, professional advisers and registered office

License for Banking Business and Lease Financing
NBE Registration No. LBB/003/70

Board of Management *(as of June 30, 2020)*

H.E. Dr. Tegegnework Gettu	Chairman
H.E. Ato Oumar Hussein	Deputy Chairman
H.E. Dr. Yohannes Ayalew	Non-Executive Director (Board of Management Member)
H.E. Dr. Esayas Kassa	Non-Executive Director (Board of Management Member)
H.E. Ato Tefera Derbew	Non-Executive Director (Board of Management Member)
H.E. Ato Sileshi Lemma	Non-Executive Director (Board of Management Member)
H.E. Ato Mesfin Nemera	Non-Executive Director (Board of Management Member)
H.E. W/t Mele'ekt Sahlu	Non-Executive Director (Board of Management Member)
H.E. Ato Zekarias Erkelo	Non-Executive Director (Board of Management Member)

Executive management *(as of June 30, 2020)*

Ato Haileyesus Bekele	President
Ato Getachew Wakie	V/P Corporate Project Appraisal and Portfolio Management
Ato Teshome Alemayehu	V/P Small and Medium Enterprises Financing

Registered office

Development Bank of Ethiopia Tower
Josip Broz Tito Street
P.O Box 1900
Kirkos Sub-City (Kasanchis)
Addis Ababa, Ethiopia

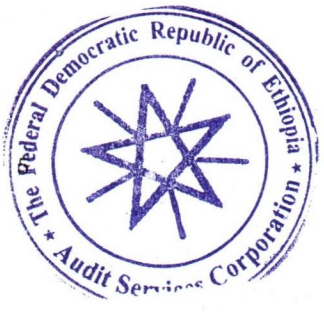
Independent auditors

The Federal Democratic Republic of Ethiopia
Audit Services Corporation
Josip Broz Tito Street
P.O Box 5720
Kirkos Sub-City (Kasanchis)
Addis Ababa
Ethiopia

Actuaries

QED Actuaries and Consultants (Pty) Ltd
P.O. Box 413313, Craighall 2024
1st floor, The Bridle, Hunts End Office Park, 38 Wierda Road West, Wierda Valley
Email: craigfalconer@qedacturial.com
Sandton, Johannesburg, 2196,
South Africa







The Board of Management submits its report together with the consolidated and separate financial statements and independent auditor's report of the Development Bank of Ethiopia ("DBE or the Bank") and its Subsidiary (together, the "Group") and the Bank for the year ended 30 June 2020. This report discloses the financial performance and state of affairs of the Group and the Bank.

Incorporation

Development Bank of Ethiopia was incorporated in Ethiopia in 1909 as a specialized state-owned development financial institution, and is domiciled in Ethiopia.

The Bank is fully owned by the Federal Government of Ethiopia and is supervised by the Public Enterprises Holding and Administration Agency.

Principal activities

The mandate of the Bank is supporting the economic growth and development in Ethiopia by providing (short, medium and long term) development credits to viable priority projects in the Government priority areas along with technical support through mobilizing resources from domestic and foreign sources. Specifically, the Bank provides finance to encourage mainly private sector investment in sectors like commercial agriculture, agro-processing, manufacturing, mining and extractive industries. It also supports SME through capital goods lease (hire purchase financing). Moreover, it implements/administers special projects/programs and managed funds entrusted to it by multilateral lending institutions and government agencies. Since its initial establishment in 1909, the Bank has been playing a catalytic role in promoting the economic development of the country.

Results

The Group's and Bank's results for the year ended 30 June 2020 are set out on page 8. The net profit for the year has been transferred to retained earnings. The summarized results are presented below.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Interest income	6,840,875	6,839,977	5,762,510	5,761,780
Profit/ (Loss) before tax	1,842,453	1,842,068	(1,491,004)	(1,490,861)
Income tax income/ (expense)	27,673	27,675	(181,279)	(181,279)
Profit/ (Loss) for the year	**1,870,126**	**1,869,744**	**(1,672,283)**	**(1,672,140)**
Other comprehensive income/ (loss) (net of tax)	**30,570**	**30,570**	**5,758**	**5,758**
Total comprehensive income/ (loss) for the year	**1,900,696**	**1,900,314**	**(1,666,525)**	**(1,666,382)**

Board of Management

The Board of Management members who held office during the year and to the date of this report are set out on page 5. Dr. Tegegnework Gettu, the Chairman of the Board of Management, has signed the report on behalf of the Board of Management of the Bank.

Dr. Tegegnework Gettu
Chairman of the Board of Management
Addis Ababa, Ethiopia

Statement of board of management's responsibilities

In accordance with the Financial Reporting Proclamation No. 847/2014, the Group and Bank are required to prepare their consolidated and separate financial statements in accordance with the International Financial Reporting Standards (IFRS).

The Group's and Bank's Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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. This responsibility includes, inter alia, ensuring that the Group and the Bank:

a) keep proper accounting records that disclose, with reasonable accuracy, the financial position, financial performance and cash flows of the group and bank;

b) establish adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

c) prepare the consolidated and separate financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied and reasonable in the circumstances.

The Board of Management is of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Group and Bank and of their financial performance and cash flows, as well as the adequate systems of internal financial control that may be relied upon in the preparation of financial statements.

The Board of Management has assessed the Group's and Bank's ability to continue as a going concern. Hence, nothing has come to the attention of the Board of Management to indicate that the Bank will not remain as a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Management by the Chairman of the Board of Management and the President, as follows:

Dr. Tegegnework Gettu
Chairman, Board of Management
22 June 2021

Dr. Yohannes Ayalew
President/Chief Executive Officer
22 June 2021

Development Bank of Ethiopia

Consolidated and separate statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Notes	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Interest income calculated using the effective interest method	5	6,840,875	6,839,977	5,762,510	5,761,780
Interest expense calculated using the effective interest method	6	(2,657,601)	(2,657,601)	(2,390,326)	(2,390,326)
Net interest income		**4,183,274**	**4,182,375**	**3,372,183**	**3,371,454**
Fee and commission income (net)	7	270,563	270,563	338,343	338,343
Other operating income	8	424,052	424,052	282,842	282,842
Total operating income		**4,877,889**	**4,876,990**	**3,993,369**	**3,992,639**
Loan impairment charge	9	(1,355,014)	(1,355,014)	(4,187,688)	(4,187,688)
Impairment losses on other assets	10	(507,056)	(507,056)	(408,110)	(408,110)
Net operating income/ (loss)		**3,015,819**	**3,014,920**	**(602,429)**	**(603,159)**
Personnel expenses	11	(686,157)	(685,690)	(493,328)	(492,705)
Depreciation of investment property	20	(8,819)	(8,819)	(3,906)	(3,906)
Amortization of intangible assets	21	(10,426)	(10,426)	(6,318)	(6,318)
Depreciation and impairment of property, plant and equipment	22	(83,352)	(83,349)	(72,498)	(72,491)
Depreciation of right-of-use assets	19	(23,472)	(23,472)		
Interest expense on lease liability	19	(1,596)	(1,596)		
Other operating expenses	12	(359,545)	(359,500)	(312,525)	(312,282)
Profit / (Loss) before tax		**1,842,453**	**1,842,068**	**(1,491,004)**	**(1,490,861)**
Income tax income/(expense)	13	27,673	27,675	(181,279)	(181,279)
Profit /(loss) after tax		**1,870,126**	**1,869,744**	**(1,672,283)**	**(1,672,140)**
Other comprehensive income (OCI) net of income tax					
Items that will not be subsequently reclassified into profit or loss:					
Remeasurement gain/ (loss) on retirement benefits obligations	27	31,763	31,763	(7,912)	(7,912)
Net change in fair value of equity investments measured at FVOCI	16	11,909	11,909	16,138	16,138
Deferred tax expense/(income) on remeasurement gain or loss on retirement benefits and change in fair value (equity investments measured at FVOCI)	13	(13,101)	(13,101)	(2,468)	(2,468)
Total other comprehensive income/ (loss) for the year, (net of tax)		**30,570**	**30,570**	**5,758**	**5,758**
Total comprehensive income/ (loss) for the year		**1,900,696**	**1,900,314**	**(1,666,525)**	**(1,666,382)**
Profit/ (loss) attributable to:					
Owner of the bank		1,870,126	1,869,744	(1,672,283)	(1,672,140)
Non-controlling interest	32	0.02		(0.01)	
Profit/ (loss) for the year		**1,870,126**	**1,869,744**	**(1,672,283)**	**(1,672,140)**
Total comprehensive income/ (loss) attributable to:					
Owner of the bank		1,900,696	1,900,314	(1,666,525)	(1,666,382)
Non-controlling interest		0.02		(0.01)	
Total comprehensive income/ (loss) for the period		**1,900,696**	**1,900,314**	**(1,666,525)**	**(1,666,382)**

The notes on pages 13 to 94 are an integral part of these financial statements.

Development Bank of Ethiopia

Consolidated and separate statement of financial position

As at 30 June 2020

	Notes	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
ASSETS					
Cash and bank balances	14	13,287,460	13,277,888	7,604,457	7,595,676
Loans and advances to customers	15	43,265,674	43,265,674	40,248,990	40,248,990
Investment securities:					
- Financial assets measured at FVOCI	16	37,930	37,930	25,390	25,390
- Financial assets measured at amortized cost	16	32,354,893	32,354,893	31,038,403	31,038,403
Investment in subsidiary	17		9,999		9,999
Other assets	18	5,853,282	5,852,829	3,371,353	3,370,382
Rights-of-use-assets	19	30,397	30,397		
Investment property	20	210,264	210,264	219,082	219,082
Intangible assets	21	107,889	107,889	77,484	77,484
Property, plant and equipment	22	731,444	731,429	814,189	814,175
Total Assets		**95,879,234**	**95,879,192**	**83,399,347**	**83,399,581**
LIABILITIES					
Deposits from customers	23	729,664	729,664	800,683	800,683
Current tax liabilities	13	200,460	200,458	106,236	106,236
Other liabilities	26	6,691,575	6,691,541	4,363,261	4,363,118
Lease liabilities	19	15,200	15,200		
Debt securities issued	24	9,435,473	9,435,473	9,800,005	9,800,005
Borrowings	25	70,963,000	70,963,000	62,315,634	62,315,634
Retirement benefit obligations	27	92,097	92,097	47,696	47,696
Deferred tax liabilities	13	219,133	219,133	240,050	240,050
Total Liabilities		**88,346,603**	**88,346,567**	**77,673,565**	**77,673,422**
EQUITY					
Capital	28	7,500,000	7,500,000	7,500,000	7,500,000
Legal reserve	32	644,040	643,963	176,527	176,527
Retained earnings	29	(3,477,397)	(3,477,325)	(4,435,059)	(4,434,682)
Regulatory credit risk reserve	31	2,839,613	2,839,613	2,488,509	2,488,509
Other reserves	30	26,375	26,375	(4,195)	(4,195)
Total equity attributable to owner of the Bank		**7,532,630**	**7,532,626**	**5,725,782**	**5,726,159**
Non-controlling interest	33	1		1	
Total equity		**7,532,631**	**7,532,626**	**5,725,782**	**5,726,159**
Total equity and liabilities		**95,879,234**	**95,879,192**	**83,399,347**	**83,399,581**

The notes on pages 13 to 94 are an integral part of these financial statements.

The financial statements on pages 8 to 94 were approved and authorized for issue by the board of management on the 22nd of June 2021 and were signed on its behalf by:

Dr. Tegegnework Gettu
Chairman, Board of Management

Dr. Yohannes Ayalew
President/Chief Executive Officer

Development Bank of Ethiopia

Consolidated and separate statement of changes in equity

For the year ended 30 June 2020

Group

	Notes	Capital	Retained earnings	Other reserve	Legal reserve	Regulatory credit risk reserve	Non-controlling interest	Attributable to owner of the Bank
		Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
As at 1 July 2018	28	**7,500,000**	**(7,231,521)**	**(8,471)**	**176,527**	**2,120,377**	**1**	**2,556,913**
Adjustment on initial application of IFRS 9			4,836,946	(1,483)				4,835,463
Opening balance adjustment			(69)					(69)
Restated balance as at 1 July 2018		7,500,000	**(2,394,644)**	**(9,954)**	176,527	2,120,377	1	7,392,307
Profit /(Loss) for the period	29		(1,672,283)					**(1,672,283)**
Transfer to regulatory credit risk reserve	31		(368,133)			368,133		
Change in ownership interest in subsidiary							(0.01)	**(0.01)**
Other comprehensive income:								
Re-measurement gain/ (loss) on defined benefit plans (net of tax)	27			(5,538)				**(5,538)**
Change in fair value of equity instrument at fair value through other comprehensive income (net of tax)	30			11,297				**11,297**
			(2,040,416)	**5,758**		**368,133**	**(0.01)**	**(1,666,525)**
As at 30 June 2019		**7,500,000**	**(4,435,060)**	**(4,195)**	**176,527**	**2,488,509**	**1**	**5,725,782**
As at 1 July 2019		**7,500,000**	**(4,435,060)**	**(4,195)**	**176,527**	**2,488,509**	**1**	**5,725,782**
Opening balance adjustment			(93,847)					(93,847)
Restated balance as at 1 July 2019		7,500,000	**(4,528,907)**	**(4,195)**	176,527	2,488,509	1	5,631,935
Profit /(Loss) for the period	29		1,870,126					1,870,126
Transfer to regulatory credit risk reserve	31		(351,104)			351,104		
Transfer to legal reserve	32		(467,513)		467,513			
Other comprehensive income:								
Re-measurement gain/ (loss) on defined benefit plans (net of tax)	27			22,234				22,234
Change in fair value of equity instrument at fair value through other comprehensive income (net of tax)	30			8,336				8,336
			1,051,510	**30,570**	**467,513**	**351,104**		**1,900,696**
As at 30 June 2020		**7,500,000**	**(3,477,398)**	**26,375**	**644,040**	**2,839,613**	**1**	**7,532,631**

Development Bank of Ethiopia

Consolidated and separate statement of changes in equity

For the year ended 30 June 2020

Bank

	Notes	Capital	Retained earnings	Other reserve	Legal reserve	Regulatory risk reserve	Attributable to owner of the Bank
		Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
As at 1 July 2018	28	7,500,000	(7,231,355)	(8,471)	176,527	2,120,377	2,557,078
Adjustment on initial application of IFRS 9			4,836,946	(1,483)			4,835,463
Restated balance as at 1 July 2018		**7,500,000**	**(2,394,408)**	**(9,953)**	**176,527**	**2,120,377**	**7,392,542**
Profit /(Loss) for the period	29		(1,672,140)				(1,672,140)
Transfer to regulatory credit risk reserve	31		(368,133)			368,133	
Other comprehensive income:							
Re-measurement gain/ (loss) on defined benefit plans (net of tax)	27		-	(5,538)			(5,538)
Change in fair value of equity instrument at fair value through other comprehensive income (net of tax)	30			11,297			11,297
			(2,040,273)	**5,758**		**368,133**	**(1,666,382)**
As at 30 June 2019		**7,500,000**	**(4,434,682)**	**(4,195)**	**176,527**	**2,488,509**	**5,726,159**
As at 1 July 2019		7,500,000	(4,434,682)	(4,195)	176,527	2,488,509	5,726,159
Opening balance adjustment			(93,847)				(93,847)
Restated balance (1 July 2019)		**7,500,000**	**(4,528,529)**	**(4,195)**	**176,527**	**2,488,509**	**5,632,312**
Profit /(Loss) for the period	29		1,869,744				1,869,744
Transfer to regulatory credit risk reserve	31		(351,104)			351,104	
Transfer to legal reserve	32		(467,436)		467,436		
Other comprehensive income:							
Re-measurement gain/ (loss) on defined benefit plans (net of tax)	27			22,234			22,234
Change in fair value of equity instrument at fair value through other comprehensive income (net of tax)	30			8,336			8,336
			1,051,204	**30,570**	**467,436**	**351,104**	**1,900,314**
As at 30 June 2020		**7,500,000**	**(3,477,325)**	**26,375**	**643,963**	**2,839,613**	**7,532,626**

The notes on pages 13 to 94 are an integral part of these financial statements.

Development Bank of Ethiopia

Consolidated and separate statement of cash flows

For the year ended 30 June 2020

	Notes	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Cash flows from operating activities					
Cash generated from operations	34	(2,803,039)	(2,803,835)	(6,137,723)	(6,136,893)
Income tax paid	13	(5,968)	(5,968)	(300,763)	(300,763)
Retirement benefit paid	27	(3,247)	(3,247)		
Net cash (outflow)/inflow from operating activities		**(2,813,501)**	**(2,814,297)**	**(6,438,486)**	**(6,437,657)**
Cash flows from investing activities					
Purchase of equity investment	16	(632)	(632)		
Purchase of investment property	20	-	-	(7,711)	(7,711)
Purchase of intangible assets	21	(111,670)	(111,670)	(48,163)	(48,163)
Proceeds from sale of property, plant and equipment	34	787	787	1,266	1,266
Purchase of property, plant and equipment	22	(45,659)	(45,654)	(205,892)	(205,892)
Net cash (outflow)/inflow from investing activities		**(157,174)**	**(157,169)**	**(260,500)**	**(260,500)**
Cash flows from financing activities					
Proceeds from issue of debt securities	23	619,120	619,120	1,617,465	1,617,465
Repayment of debt securities	23	(983,651)	(983,651)	(2,313,469)	(2,313,469)
Proceeds from borrowings	24	13,974,022	13,974,022	9,249,469	9,249,469
Accrued effective interest and rate fluctuation	24	2,267,804	2,267,804	1,819,164	1,819,164
Repayment of borrowings	24	(7,594,460)	(7,594,460)	(3,294,359)	(3,294,359)
Repayment of principal portion of lease payments	19	(11,945)	(11,945)		
Net cash (outflow)/inflow from financing activities		**8,270,890**	**8,270,890**	**7,078,271**	**7,078,271**
Net increase/(decrease) in cash and cash equivalent		**5,300,215**	**5,299,423**	**379,286**	**380,115**
Cash and cash equivalents at the beginning of the year	14	7,604,836	7,596,055	6,983,531	6,973,920
Foreign exchange (losses)/ gains on cash and cash equivalents		383,071	383,071	242,019	242,019
Cash and cash equivalents at the end of the year	14	**13,288,121**	**13,278,548**	**7,604,836**	**7,596,055**

The notes on pages 13 to 94 are an integral part of these financial statements.

1 General information

Development Bank of Ethiopia ("Development Bank or the Bank") is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the Government by mobilizing funds from domestic and foreign sources while ensuring its sustainability. The consolidated and separate financial statements of the Bank for the year ended 30 June 2020 comprise the Bank and its subsidiary (together referred to as "the Group" and separately referred to as "Group entities"). The Bank and its subsidiary are not listed on a stock market as there is no a stock exchange in the country.

The Bank was initially established in 1909 and was last reestablished on the 24th of January 2003 in accordance with the Council of Ministers Regulations No. 83/2013. The Bank is governed by the Public Enterprises Proclamation No. 25/1992 and in compliance with the Banking Business Proclamation No. 592/2008 (i.e. without prejudice to the applicability of Monetary and Banking laws of the country).

The Bank has one subsidiary, namely Ethio Capital and Investment PLC, which was established on June 14, 2017 in accordance with the Commercial code of Ethiopia of 1960.

The Group does not have any associate or unconsolidated structured entity.

The Bank's registered office is at:

Development Bank of Ethiopia Tower
Josip Broz Tito Street
P.O Box 1900
Kirkos Sub-city (Kasanchis)
Addis Ababa, Ethiopia

The Bank is principally engaged in the provision of diverse range of financial products and services to corporate, retail and small- and medium-sized enterprise clients, as well as lease financing (hire purchase) to SMEs, based in the Ethiopian market.

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

Basis of preparation

The consolidated and separate financial statements of the Group and Bank for the period ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by national regulations is included where appropriate.

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

The consolidated and separate financial statements have been prepared in accordance with the going concern principle under the historical cost concept, except for the following:

- defined benefit obligations measured at fair value;
- equity investments measured at fair value through other comprehensive income; and
- staff loans measured at fair value.

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

The preparation of consolidated and separate 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 Group's and 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 Group's and Bank's consolidated and separate 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 Going concern

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

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations

New standards and amendments and interpretations effective and adopted during the year

In these consolidated and separate financial statements, the Group/Bank has applied IFRS 16 Leases for the first time for the year ended 30 June 2020. The nature and effect of the changes as a result of adoption of this new accounting standard are described below and in Note 10.

Several other new amendments and interpretations are also effective for the first time from 1 July 2019, but do not have [a material] impact on the Group's/Bank's consolidated and separate financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 July 2019, unless otherwise stated. The Group/Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2.3.1 IFRS 16 Leases

IFRS 16 Leases was issued by the IASB on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group/Bank applied IFRS 16 using the second version (Option 2) of the modified retrospective approach, under which the right-of-use asset is recognised at the date of initial application (1 July 2019) at an amount equal to the lease liability, using the Bank's current incremental borrowing rate. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information

a) Definition of a lease

Previously, the Group/Bank determined a contract at inception whether an arrangement was or contained a lease under IFRIC 4 determining whether an arrangement contains a lease. The Group/Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group/Bank elected to apply the transition practical expedient to grandfather the assessment of which transactions are leases. The Group/Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to new and existing contracts entered into or changed on or after 1 July 2019.

b) As a lessee

As a lessee, the Group/Bank leases branch/office premises and land. The Group/Bank previously classified leases as operating or finance leases under IAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group/Bank. Under IFRS 16, the Group/Bank recognizes right-of-use assets for leases of branch/office premises and land on the balance sheet.

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

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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

i) Leases previously accounted for as operating leases under IAS 17

The Group/Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets, which were not available. On transition, for these leases, the lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate at the date of initial application (1 July 2019).

The right-of-use assets have been measured/recognized at an amount equal to the lease liability at the date of initial application (1 July 2019) (adjusted for any related accrued or prepaid lease payments previously recognized under IAS 17 before the initial application).

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

- Relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- Did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application, by applying the short-term leases exemptions;
- Did not recognize right-of-use assets and liabilities for leases of low-value assets; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

ii) Leases previously classified as finance leases

Under IFRS 16.C11, for leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17 (i.e. carrying values brought forward, unadjusted).

c) As a lessor

The Group/Bank leases out certain property. The Group/Bank, as a lessor, will continue to classify leases as either operating or finance leases using similar principles as in IAS 17 as lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Therefor, the Group/Bank is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor.

The Group/Bank has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contracts to each lease and non lease components.

d) Impact on financial statements upon transition

On transition to IFRS 16 (as at 1 July 2019), the Group/Bank recognised additional right-of-use assets, at an amount equal to the lease liabilities, using Option 2 of the modified retrospective approach, and presented the right-of-use assets separately in the statement of financial position. The additional lease liabilities were recognized and presented separately in the statement of financial position. Hence, the adoption of IFRS 16 had no impact on the Bank's retained earnings.

The impact of adopting IFRS 16 on transition is summarised, as follows:

Impact of IFRS 16 on the consolidated/separate statement of financial position:

	1 July 2019 Birr'000
Property, plant and equipment (net)	(3,035)
Right-of-use assets	54,271
Prepayments	(25,687)
Lease liabilities	25,548

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 8% (based on interest on debt securities issued).

However, under IFRS 16.C11, for leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. In this regard, leasehold land is applicable at the Group/Bank. For leasehold land, the Group and the Bank applies a weighted average incremental borrowing rate of 11.5% based on the borrowing rate of commercial banks.

The Group/Bank adopted the new IFRS 16 Leases standard effective from 1 July 2019 for operating leases and the financial reports for the 2019/20 financial period have been prepared in compliance with the requirements of the new standard.

The operating lease commitments reported under IAS17 as at 30 June 2019 can be reconciled to the lease liabilities as at 1 July 2019 , as follows:

	1 July 2019 Birr'000
Operating lease commitments at 30 June 2019 as disclosed under IAS 17	28,991
Weighted average incremental borrowing rate as at 1 July 2019	8%
Discounted operating lease commitments using the incremental borrowing rate at 1 July 2019	23,585
Less:	
Leases of low-value assets not recognized under IFRS 16	-
Leases with less than 12 months of lease-term at transition, not recognized under IFRS 16	-
Add:	
Effect of extension options reasonably certain to be exercised (lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019)	-
Lease liabilities for leases classified as operating type under IAS 17	23,585
Plus: leases previously classified as finance type under IAS 17	1,963
Lease liabilities recognised at 1 July 2019	**25,548**

2.3.2 IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that of tax treatment. If an entity concluded that it is not probable that the treatment will be accepted, it should reflect the effect of uncertainty in its income tax accounting in the period in which that determination is made, by measuring the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that the tax authority will examine amounts it has a right to examine and has a full knowledge of all related information when making those examinations. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

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

a) Judgments made;
b) assumptions and other estimates used: and
c) potential impact of uncertainty not reflected.

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

The Group/Bank applies significant judgment in identifying uncertainties over income tax treatments. Since the Bank operates in a complex regulatory and legal environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to key tax matters, based on the tax filings of the Bank and the subsidiary . However, the Interpretation did not have an impact on the consolidated financial statements of the Bank, emanating from the application of IFRIC 23 during the reporting period.

2.3.3 Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions
used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments are effective for annual periods beginning on or after 1 July 2019.

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

2.3.4 Other new and amended standards and interpretations

The following other amended standards were not expected to have an impact on the Group's and the Bank's consolidated and separate financial statements:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28):
- Annual Improvements to IFRS Standards 2015–2017, containing amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

2.4 Basis of Consolidation

a) Subsidiaries

Subsidiaries are entities (including structured entities) controlled by the Bank. The Bank controls an entity if it is exposed to, or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Bank reassesses periodically whether it has control if there are changes to one or more elements of the control listed. This includes circumstances in which protective rights held become substantive and lead to the Group having control over an investee.

b) Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any related non-controlling interests and the other components of equity relating to a subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, that retained interest is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

c) Changes in ownership interests in subsidiaries without change of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). When the proportion of the equity held by non-controlling interests (NCIs) changes, the carrying amounts of the controlling and NCIs are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

d) Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are also eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

e) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2.5 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 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 . Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2.6 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and 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 Group and the Bank earn income from interest on loans given to customers for commercial agriculture, agro-processing, manufacturing, mining and extractive industries, hire purchase leases, personal loans, etc. On top of that, the Bank earns interest from deposit placements with local and foreign banks and investment in Government Treasury bills. Other incomes include fees and commissions on letter of credits, guarantees and managed/entrusted funds.

2.6.1 Interest income and expense

a) Effective interest rate and amortized 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 purchased or originated credit-impaired assets, the Group and the Bank estimate future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

b) Amortized cost and gross carrying amount

The '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 if the financial assets fall into Stage 3 (impaired loans).

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

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial ability. 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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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 using the effective interest method presented in the statement of profit and loss and other compressive income (OCI) include:

- interest on financial assets and financial liabilities measured at amortized cost; and
- interest on debt instruments measured at FVOCI (currently, such instruments as well as hedge products are not available at the Group and the Bank).

However, the Group and the Bank does not hold and manage debt instruments as well as hedge products.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

2.6.2 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 like commission income on cash payment order (CPO) and fund transfer, commission income on insurance, commission on letters of credit, financial guarantee contracts issued and commission on managed funds are recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's/Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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 relate mainly to transaction and service fees, which are expensed as the services are received.

2.6.3 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.

2.6.4 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 profit or loss and it is further broken down into realised and unrealised portion.

The foreign denominated monetary assets and liabilities include the foreign financial assets held within the cash and bank balances, foreign currency deposits received and held on behalf of third parties, borrowings in foreign currencies, etc.

2.7 Financial instruments

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

2.7.1 Financial assets and liabilities

i) Recognition and initial measurement

The Group and Bank initially recognise loans and advances, Ethiopian government bonds and Treasury bills, deposits, debt securities issued (savings and renaissance dam bonds), borrowings and other receivables and payables on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group and Bank become a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is evidenced by a quoted price in an active market or is based on a valuation technique using only inputs observable in market transactions (or in which any unobservable inputs are judged to be insignificant in relation to measuring the day one difference), the Group/Bank recognises the difference between the transaction price and fair value in profit or loss as day one profit or loss. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii) Classification and subsequent measurement

a) Financial assets

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

The Group and Bank 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 payments of principal and interest (SPPI).

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

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

– the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

In addition, on initial recognition, the Group and 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 .

However, the Group and Bank are not expected to hold such financial instruments in the near foreseeable future.

Business model assessment

The Group and Bank 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 Group's and 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 revenue in prior periods, the reasons for such revenue and its expectations about future revenue activity. However, information about revenue activity is not considered in isolation, but as part of an overall assessment of how the Group's and Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Nevertheless, the Group and Bank are not expected to hold financial assets for trading in the near foreseeable future.

Reclassifications

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

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

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

In assessing whether the contractual cash flows are SPPI, the Group and Bank consider 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 Group and Bank consider:

– 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).

b) Financial liabilities

The Group and Bank classify its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. However, the Group and Bank are not expected to hold financial liabilities as measured at fair value through profit or loss (FVTPL) in the near foreseeable future.

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

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

iii) Impairment

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

The Group and Bank 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 is recognised on equity investments.

The Group and Bank measure loss allowances at an amount equal to lifetime expected credit losses (ECL), except for the following, which are measured as 12-month ECL:

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime expected credit loss (ECL).

12-month ECL is the portion of ECL that results 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'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Life-time expected credit loss (ECL) is the loss that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

a) Measurement of ECL

Expected credit loss (ECL) is a probability-weighted estimate of credit losses. It is measured as follows:

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

– for financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group and Bank expect to recover.

When discounting future cash flows, the following discount rates are used:

– for financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;

– for POCI assets: a credit-adjusted effective interest rate;
– for lease receivables: the discount rate used in measuring the lease receivable;
– for undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and

– for financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

b) Credit enhancements: collateral valuation and financial guarantees

To mitigate their risks on financial assets, the Group and Bank seek to use collateral, where possible. The collateral comes in various forms such as buildings, machinery, furniture and fixture, bank guarantees, other non-financial assets and credit enhancements such as margin of letters of credit. Collateral, unless repossessed, is not recorded on the Group's/Bank's statement of financial position.

Cash flows expected from credit enhancements, which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a regular basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued at frequent intervals.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using appropriate valuation models. Non-financial collateral, such as real estate, is valued by independent engineers.

c) 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 Group and Bank assess whether the financial asset should be derecognised and expected credit loss (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.

d) Credit-impaired financial assets

At each reporting date, the Group and Bank 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 is considered 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

e) Presentation of allowance for expected credit loss (ECL) in the statement of financial

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

– for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
– for loan commitments and financial guarantee contracts: generally, as a provision, presented under other liabilities;
– where a financial instrument includes both a drawn and an undrawn component, and the Group and Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group and Bank present 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 is disclosed and is recognised in the fair value reserve.

f) Write-off

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

Recoveries of amounts previously written off are recognized when cash is received and are included in 'impairment losses on financial instruments' in the statement of profit or loss and other compressive income (OCI).

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

g) Financial guarantee contracts held

The Group and Bank assess whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group and Bank determine 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 is treated as a transaction cost of acquiring it. The Group and Bank consider the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group and Bank determine that the guarantee is not an integral element of the debt instrument, then they recognise an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group/Bank present gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

iv) Derecognition of financial assets and liabilities

a) Financial assets

The Group and Bank derecognise a financial asset when:

— The contractual right to the cash flows from the financial asset expires; or

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

— the Group and Bank neither transfer nor retain substantially all of the risks and rewards of ownership and they do 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 are recognised in profit or loss.

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

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

b) Financial liabilities

The Group and Bank derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire.

v) Modifications of financial assets

a) Financial assets

If the terms of a financial asset are modified, then the Group and Bank 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 are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group and Bank first recalculate the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognise the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

b) Financial liabilities

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial
liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. 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.

vi) Offsetting

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

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

vii) Designation at fair value through profit or loss (FVTPL)

a) Financial assets

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

b) Financial liabilities

The Group and Bank designate certain financial liabilities as at FVTPL in either of the following circumstances:

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

2.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand (notes and coins on hand), deposits held at call with banks and other short-term highly liquid investments 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 Group/Bank in the management of its short-term commitments balances.

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, non-restricted current accounts with National Bank of Ethiopia and amounts due from banks on demand or with an original maturity of three months or less.

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

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 Group and Bank recognise such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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

Asset class	Estimated Useful	Residual Value
Buildings	50	5%
Motor vehicles	10	5%
Furniture & fittings		
- Medium-lived	10	1%
- Long-lived	20	1%
Computer hardware	7	1%
Office equipment		
- Short-lived	5	1%
- Long-lived	10	1%
Lift and roofing	15	1%

The Group and Bank commence depreciation when the asset is available for use. Freehold land is not depreciated.

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

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

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

2.10 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 profit or loss in the period in which the expenditure is incurred .

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

Amortisation of computer software is calculated using the straight–line method to write down the cost of intangible assets to their residual values over the lower of their estimated useful lives of six (6) years or their license/maintenance contract period, with nil residual value.

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 Group and Bank and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at [deemed] cost. The Group and Bank have opted to subsequently carry investment property at cost less accumulated depreciation and any accumulated impairment losses under the cost model 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 Group and Bank use 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 the Bank's internal valuers who have 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 disclosing the fair values in the notes to 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 Group and Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised. Investment properties are derecognised when they have been disposed. Gains or losses arising from disposal of investment property are determined as the difference of the net disposal proceeds and the carrying amount of the asset and they are recognized in profit or loss.

Depreciation is calculated using the straight-line method to allocate the cost to the residual values over the estimated useful life of 50 years, with a residual value of 5%.

2.12 Leases

The Group and the Bank have applied IFRS 16 using the second version (option 2) of the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable before 1 July 2019

For contracts entered into before 1 July 2019, the Group/Bank determined whether an arrangement was a lease, or contained a lease, based on the substance of the arrangement and an assessment of whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets or whether the arrangement had conveyed a right to use the asset.

Group/Bank acting as a lessee

The Group/Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised as an expense in profit or loss on a straight-line basis over the term of the lease. Contingent rental payable was recognised as an expense in the period in which it was incurred. Lease incentives received were recognised as an integral part of the total lease expense over the term of the lease.

In accordance with IAS 17, leases that do not transfer to the Group and Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases.

Group/Bank acting as a lessor

When the Group/Bank acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group/Bank made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group/Bank considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

Rental income was recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases were added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents were recognised as revenue in the period in which they were earned.

Policy applicable from 1 July 2019

At inception of a contract, the Group/Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group/Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 July 2019.

Group/Bank acting as a lessee

The Group/Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group/Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At commencement or on modification of a contract that contains a lease component, the Group/Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises, the Group/Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group/Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently measured at cost (by applying a cost model) less any accumulated depreciation and any accumulated impairment losses. In addition, the right-of-use asset is periodically adjusted for any remeasurements of the lease liability resulting from reassessments or lease modifications. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's/Bank's incremental borrowing rate. Generally, the Group/Bank uses its incremental borrowing rate as the discount rate.

The Group/Bank determines its incremental borrowing rate by analyzing its borrowing from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group/Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Group/Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group/Bank is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortized cost using the effective interest method (by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made). It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's/Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Group/Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and the Bank present the right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The Group/Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets with lease amount of less than Birr 50,000 and short-term leases, where appropriate. The Group/Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term, where applicable.

Group/Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group/Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group/Bank acts as a lessor, it determine at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group/Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of these assessment, the Group/Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The Group and the Bank apply derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

The Group and the Bank further regularly review estimated unguaranteed residual values used in calculating the gross investment in the lease.

2.13 Impairment of non-financial assets

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

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For assets 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 Group and Bank estimate 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 profit or loss.

2.14 Other assets

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

(a) Prepayment

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

(b) Other receivables

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

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

2.15 Assets obtained by taking possession of collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group and Bank in settlement of overdue loans either partially or in their entirety. The Group's/Bank's policy is to determine whether a repossessed asset should be sold or is best used for its internal operations. Assets for which selling is determined to be a better option are immediately transferred to assets held for sale or other asset category at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Group's and Bank's policy. Assets determined to be used for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

In its normal course of business, the Bank engages its internal experts to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus/shortfall funds are treated as gain/loss.

2.16 Fair value measurement

The Group and Bank measure financial instruments classified (equity investments) as at fair value through other comprehensive income (FVOCI), defined benefit obligations and staff loans 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 4.7.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.7.2
- Financial instruments (including those carried at amortized cost) Note 4.7.2

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 Group/ 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 Group and Bank determine 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 Group's and Bank's management determine the policies and procedures for both recurring fair value measurement, such as equity investments at fair value through other comprehensive income.

For the purpose of fair value disclosures, the Group and Bank have 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.

2.17 Employee benefits

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

(a) Defined contribution plan

The Group/Bank makes contributions to a statutory defined pension scheme to which the employer and employee make contributions of 11% and 7% of the employee's basic salary, respectively. The Group's/Bank's contributions are charged to profit or loss in the year in which they accrue. Other than the regular contributions made in terms of the statutory public fund, the Bank does not have any further liability to the fund.

(b) Defined benefit plan

The Group/Bank operates an unfunded severance pay plan for its employees who have served the Bank for 5 years and more and are below the retirement age (i.e. have not met the requirement to access the pension fund). The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent year in employment to a maximum of 12 months final monthly salary. The Bank also operates other schemes related to unfunded pension prize for eligible pensioners, funeral assistance benefit and pensioner medical benefit for eligible pensioners.

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

The liability recognised in the statement of financial position in respect of unfunded defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period.

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

The current service cost of the defined benefit plan, recognised in profit or loss 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 profit or loss.

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 (such as severance pay and funeral 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.

(d) Bonus plans

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration the net profit generated after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

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

2.19 Capital

The Bank is wholly owned by the Federal Democratic Republic of Ethiopia.

The authorized capital is fully paid in cash and in kind.

2.20 Legal reserve

The legal reserve which is a statutory reserve to which no less than 25% of the net profits after taxation is transferred each year until such fund is equal to the capital. When the legal reserve equals the capital of the Bank, the amount to be transferred to the legal reserve account is 10% of the annual net profit.

2.21 Income taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group/Bank has determined that interest and penalties related to income taxes do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

(a) Current income tax

The income tax expense or credit for the period is the expected tax payable or receivable on the current period's taxable income or loss based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. It also includes any adjustment to the tax payable or receivable in respect of previous years.

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.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss.

(b) Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities [amounts used for taxation purposes] and their carrying amounts for the financial reporting purposes.

Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries to the extent that the Group/Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits 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.

2.22 Standards issued but not yet effective

New standards, amendments and interpretations issued but not yet effective

There are a number of new standards, amendments to standards and interpretations, which have been issued by the IASB, that are effective in future accounting periods. However, the Group and Bank have decided not to adopt early in preparing these consolidated and separate financial statements. The most significant of these are as follows, which are all effective for the annual reporting periods beginning on or after 1 January 2020:

- Amendments to IAS 1 and IAS 8 – Definition of Material
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The aforementioned new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are expected neither to have a significant impact on the consolidated and separate financial statements of the Group and Bank, nor to impact the Group and Bank as they are not relevant to the Group's/Bank's activities.

3 Significant accounting judgments, estimates and assumptions

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

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

- Capital management Note 4.6
- Financial risk management and policies Note 4
- Sensitivity analyses disclosures Note 4.5.1

3.1 Judgments

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

a) Measurement of right-of-use assets and lease liabilities under IFRS 16 leases

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

The present value of the lease payment is determined using the discount rate or incremental borrowing rate representing the rate of nominal interest rate the Group/Bank pays to bond instrument buyers. The expenses relating to leases for which the Bank applied the practical expedient described in IFRS 16 (leases with the contract term of less than 12 months and low-value leases) are recognised in profit or loss.

i) ***Determination of the lease term for lease contracts with renewal and termination options (Bank as alessee)***

The Group and the Bank determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group and the Bank have several lease contracts that include extension and termination options. The Group and the Bank apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, they consider all relevant factors that create an economic incentive for them to exercise either the renewal or termination. After the commencement date, the Group and the Bank reassess the lease term if there is a significant event or change in circumstances that is within their control that affects their ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

ii) ***Determining the incremental borrowing rate***

The Group/Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group/Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group/Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as to reflect the terms and conditions of the lease).

b) ***Going concern basis***

The Group's and Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's and Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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 Group and Bank based their 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 Group and Bank. Such changes are reflected in the assumptions when they occur.

a) ***Impairment losses on loans and advances to customers and other financial assets***

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's and Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Group's and Bank's internal credit grading model, which assigns probability of defaults (PDs) to the individual grades;
- The Group's and Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit losses (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their expected credit losses (ECL) is assessed on a collective basis;
- Development of expected credit loss (ECL) models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as foreign exchange, unemployment levels, GDP and collateral values, and the effect on PDs, exposure at defaults (EADs) and loan given defaults (LGDs)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's and Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

b) *Fair value measurement of financial instruments*

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using a variety of valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments and estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.7 for further disclosures.

c) *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.

d) *Depreciation and carrying value of property, plant and equipment*

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

e) *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 Group and Bank are 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.

In assessing whether there is any indication that an asset may be impaired, the Group and Bank consider the following indications:

(i) External information

- there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- significant changes with an adverse effect on the Group and Bank have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Group and Bank operate or in the market to which an asset is dedicated.
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(ii) Internal information

- evidence is available of obsolescence or physical damage of an asset.
- significant changes with an adverse effect on the Group and Bank have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

f) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. 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 filings, 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 judgment 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 Group's and Bank's activities, but is managed through an integrated risk management framework/program, including ongoing identification, measurement and monitoring, and subject to appropriate risk limits and other controls, and adherence to limits. This process of risk management is critical to the Group's and Bank's continuing profitability, and each individual within the Group and Bank is accountable for the risk exposures relating to its responsibilities. The Group and Bank are exposed to credit risk, liquidity risk, market risk and different operational risks. It is also subject to various risks, including country risk and various operating and business risks, that affect the financial sector of the country.

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

The Group/Bank strives to apply best practices in identifying, evaluating, measuring, controlling and monitoring risks to ensure that any risks are set at an acceptable level. Whilst it is not possible to eliminate risk absolutely, the Group/Bank actively promotes and applies best practices at all levels and to all of its activities, including its business relationship with external stakeholders and partners.

The Group/Bank considers risk management as an integral part of its day-to-day core business activities.

4.1.1 Risk management structure

The Group's/Bank' Board of Management has overall responsibility for the establishment and oversight of the Group's/Bank's risk management framework. The Board of Management has established the Board Risk Sub-Committee, a subset of the Board of Management, which is responsible for the overall risk management approach and for approving the risk management strategies and principles and policies. It also has the responsibility to monitor the overall risk process within the Group and Bank.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's/Bank's activities.

The Senior Management (Executive Management) Committee chaired by the President (Chief Executive Officer) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is also responsible for managing risk decisions and monitoring risk levels and reports on a monthly basis to the Board Risk Sub-Committee.

The Group/Bank, through its ongoing training and development program, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. It is the Bank's policy to ensure that a robust risk awareness is embedded in its organisational risk culture. Employees are expected to take ownership and be accountable for the risks the Bank is exposed to that they decide to take on. Compliance breaches and internal audit findings are important elements of employees' annual performance evaluation and remuneration reviews.

The Compliance and Risk Management Directorate is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Executive Management, Board Risk Sub-Committee and Asset and Liability Management Committee to ensure that procedures are compliant with the overall framework.

The Compliance and Risk Management Directorate is responsible for monitoring compliance with risk principles, policies and limits across the Bank. It carries out an assessment of risk on a regular basis to monitor the Group's/Bank's independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This directorate also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported, where necessary, to the Executive Management Committee and Asset and Liability Management Committee, and further to the Board Risk Sub-Committee and the relevant actions are taken to address exceptions and any areas of weakness.

The Bank's Treasury and Fund Management Directorate is responsible for managing the Bank's financial assets, financial liabilities, capital structure and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank, in terms of managing the asset and liability maturity gap analysis.

The Group and Bank have established a comprehensive risk management program (system) in line with the internationally accepted risk management principles and best practices to suit the risk profile of the Group and Bank.

The Bank has also set up the Asset and Liability Management Committee (ALCO), Loan Approval Committee and Loan Review Committee which are responsible for developing and monitoring the Bank's risk management policies in their province of duties.

The Bank has established a wall between and among credit units like client relationship, loan appraisal, loan review, loan approval, and project evaluation and loan portfolio management.

The Bank's policy is that the risk management processes throughout the Bank are audited at least once per year by the Internal Audit Unit, which examines both the effectiveness and adequacy of the risk management framework, policies and procedures and the Bank's compliance with the risk management controls and procedures. Internal Audit Unit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Sub-Committee.

4.1.2 Risk measurement and reporting systems

The Group's and 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 (i.e. forward-looking macro-economic information). The Bank also runs worst-case scenarios that would arise in the event that extreme events, which are unlikely to occur or 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 priority-area sectors in which the country has comparative advantages. 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 mitigating mechanisms, identified and approved for the Bank, are documented for existing and new processes and systems.

The adequacy of these mitigating mechanisms 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: financial assets at fair value through other comprehensive income (FVTOCI), financial assets at amortized cost. 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:

Group **30 June 2020**	**Notes**	**FVOCI** **Birr'000**	**Amortized Cost** **Birr'000**	**Total** **Birr'000**
Cash and bank balances (net)	14		13,287,460	13,287,460
Loans and advances to customers (net)	15		43,265,674	43,265,674
Investment securities:				-
- Financial assets measured at FVOCI	16	37,930		37,930
- Financial assets measured at amortized cost	16		32,354,893	32,354,893
Other assets	18		2,538,092	2,538,092
Total financial assets		**37,930**	**91,446,119**	**91,484,049**

Bank **30 June 2020**	**Notes**	**FVOCI** **Birr'000**	**Amortized Cost** **Birr'000**	**Total** **Birr'000**
Cash and bank balances (net)	14		13,277,888	13,277,888
Loans and advances to customers (net)	15		43,265,674	43,265,674
Investment securities:				-
- Financial assets measured at FVOCI	16	37,930		37,930
- Financial assets measured at amortized cost	16		32,354,893	32,354,893
Other assets	18		2,537,722	2,537,722
Total financial assets		**37,930**	**91,436,176**	**91,474,107**

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Group 30 June 2019	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and bank balances (net)	14		7,604,457	7,604,457
Loans and advances to customers (net)	15		40,248,990	40,248,990
Investment securities:				
- Financial assets measured at FVOCI	16	25,390		25,390
- Financial assets measured at amortized cost	16		31,038,403	31,038,403
Other assets	18		1,699,627	1,699,627
Total financial assets		**25,390**	**80,591,477**	**80,616,867**

Bank 30 June 2019	Notes	FVOCI Birr'000	Amortized Cost Birr'000	Total Birr'000
Cash and bank balances (net)	14		7,595,676	7,595,676
Loans and advances to customers (net)	15		40,248,990	40,248,990
Investment securities:				-
- Financial assets measured at FVOCI	16	25,390		25,390
- Financial assets measured at amortized cost	16		31,038,403	31,038,403
Other assets	18		1,698,742	1,698,742
Total financial assets		**25,390**	**80,581,811**	**80,607,201**

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 financial assets.

The Bank manages this risk by applying a rigorous set of criteria in credit granting. It ensures that the lending activities are based on strong underwriting standards, KYC (know your customer) principles and confining its dealings to institutions and individuals of high creditworthiness, and ensuring that exposures to counterparties are appropriately secured. The Bank has high risk appetite for credit risk by taking into account expected returns, the external environment, and developments in the composition of the Bank's balance sheet.

Exposure to credit risk is managed through periodic analysis/review 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 requiring additional equity contribution and 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 to not exceed 25%, 5% and 35% of Bank's total capital amount, respectively.

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

4.3.1 Management of credit risk

In measuring credit risk of financial assets at amortized cost to various counterparties, the Bank considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counterparty/obligor and its likely future developments, credit history of the counterparty/obligor, and the likely recovery ratio in case of default obligations in terms of value of collateral and other way-out. The Bank's policy is to lend principally on the basis of our customer' repayment (project's cash generating) capacity through rigorous quantitative and qualitative evaluation. However, the Bank ensures that its loans are backed by collateral to reflect the risk of the obligors and the nature of the facility as a last resort, in case the worst scenario occurs.

4.3.2 Credit related commitment risks

The Bank holds collateral against loans and advances to customers in the form of bank property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of lending, and are subsequently updated/reviewed at regular intervals.

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

(a) Probability of Default (PD)

This is the probability that an obligor or counterparty will default over a given period, usually one year. The probability of default (PD) estimates the possibility of a loan facility moving from the performing status (stage 1) to the non-performing status (stage 3). For impairment purposes, the PD parameter is estimated using a transition matrix multiplication approach that estimates the movement of loan amounts from one bucket to the next. The PDs will then be adjusted with forward looking information.

(b) Loss Given Default (LGD)

The loss given default (LGD) that measures how much (in form of a percentage) the bank is expected to lose in the event that default occurs from a customer. This is estimated by considering two scenarios in the Bank, that is, using collateral in instances whether the customer has collateral against the debt instrument that they have undertaken with the Bank and/ or an analysis of the historical cash collections after the default event, for cases that the debt instrument is not supported by any security. The LGD will be computed at the customer level.

(c) Exposure at Default (EAD)

The exposure at default (EAD) is estimated based annual outstanding exposure on each loan facility over the remaining lifetime from the reporting period.

4.3.3 Credit risk exposure

(a) Maximum exposure to credit risk before collateral held or credit enhancements and nature of security

The table below shows the Group's and Bank's maximum exposure to credit risk which is represented by the net carrying amounts in the statement of financial position and the fair value of collateral and credit enhancements held as at 30 June 2020 and 30 June 2019 respectively is shown as follows:

Group		**Fair value of collateral/security and credit enhancements held**			
30 June 2020	**Maximum exposure to credit risk**	**Property**	**Bank guarantees**	**Others (including L/C Margin)**	**Total**
	Birr'000	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Cash and bank balances (net)	13,287,460				
Loans and advances to customers (net)	43,265,674	21,266,326	295,006	5,029,421	26,590,752
Investment securities:					
- Financial assets measured at FVOCI	37,930				
- Financial assets measured at amortized cost	32,354,893				
Other assets	2,538,092				
	91,484,049	**21,266,326**	**295,006**	**5,029,421**	**26,590,752**
Credit exposures relating to off-balance sheet items:					
Loan commitments	15,270,229				
Letters of credit	3,751,192			2,546,985	2,546,985
Guarantees	8,590				
	19,030,011			**2,546,985**	**2,546,985**
Total maximum exposure	**110,514,061**	**21,266,326**	**295,006**	**7,576,405**	**29,137,737**

Bank					
30 June 2020					
Cash and bank balances (net)	13,277,888				
Loans and advances to customers (net)	43,265,674	21,266,326	295,006	5,029,421	26,590,752
Investment securities:					
- Financial assets measured at FVOCI	37,930				
- Financial assets measured at amortized cost	32,354,893				
Other assets	2,537,722				
	91,474,107	**21,266,326**	**295,006**	**5,029,421**	**26,590,752**
Credit exposures relating to off-balance sheet items:					
Loan commitments	15,270,229				
Letters of credit	3,751,192			2,546,985	2,546,985
Guarantees	8,590				
	19,030,011			**2,546,985**	**2,546,985**
Total maximum exposure	**110,504,118**	**21,266,326**	**295,006**	**7,576,405**	**29,137,737**

		Fair value of collateral/security and credit enhancements held			
Group	**Maximum exposure to credit risk**	**Property**	**Bank guarantees**	**Others (including L/C Margin)**	**Total**
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Cash and bank balances (net)	7,604,457				
Loans and advances to customers (net)	40,248,990	27,098,613	241,888	2,867,827	30,208,327
Investment securities:					
- Financial assets measured at FVOCI	25,390				
- Financial assets measured at amortized cost	31,038,403				
Other assets	1,699,627				
	80,616,867	**27,098,613**	**241,888**	**2,867,827**	**30,208,327**
Credit exposures relating to off-balance sheet items:					
Loan commitments	11,342,154				
Letters of credit	3,484,065			1,593,493	1,593,493
Guarantees	62,215				
	14,888,434			**1,593,493**	**1,593,493**
Total maximum exposure	**95,505,301**	**27,098,613**	**241,888**	**4,461,319**	**31,801,820**
Bank					
30 June 2019					
Cash and bank balances (net)	7,595,676				
Loans and advances to customers (net)	40,248,990	27,098,613	241,888	2,867,827	30,208,327
Investment securities:					
- Financial assets measured at FVOCI	25,390				
- Financial assets measured at amortized cost	31,038,403				
Other assets	1,698,742				
	80,607,201	**27,098,613**	**241,888**	**2,867,827**	**30,208,327**
Credit exposures relating to off-balance sheet items:					
Loan commitments	11,342,154				
Letters of credit	3,484,065			1,593,493	1,593,493
Guarantees	62,215				
	14,888,434			**1,593,493**	**1,593,493**
Total maximum exposure	**95,495,635**	**27,098,613**	**241,888**	**4,461,319**	**31,801,820**

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(b) Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank by taking possession of collaterals held as security against loans and advances (measured at amortized cost) at the year end are shown below.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Buildings	1,232,208	1,232,208	786,147	786,147
Equipment and machinery	2,338,638	2,338,638	784,621	784,621
Motor vehicles	79,236	79,236	228,664	228,664
	3,650,082	**3,650,082**	**1,799,433**	**1,799,433**

The Group's and Bank's policy are to pursue timely realisation of the collateral in a timely manner. In general, the Group and Bank have no any intention to make use of the non-cash collateral for their own operations.

4.3.4 Loans and advances to customers at amortised cost

(a) Gross loans and advances to customers per sector are analysed as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Agriculture	10,398,513	10,398,513	8,048,752	8,048,752
Manufacturing	32,626,033	32,626,033	32,135,804	32,135,804
Mining and energy	1,068,348	1,068,348	879,128	879,128
Service	447,893	447,893	394,109	394,109
Lease services	3,879,065	3,879,065	4,255,718	4,255,718
Micro-financing	5,442,290	5,442,290	4,196,959	4,196,959
Working capital	1,575,747	1,575,747	1,242,078	1,242,078
Consumer (staff)	353,683	353,683	267,326	267,326
	55,791,573	**55,791,573**	**51,419,875**	**51,419,875**

(b) Gross loans and advances to customers as per National Bank of Ethiopia's impairment guidelines are analysed as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Pass	24,064,721	24,064,721	29,631,670	29,631,670
Special mention	11,408,255	11,408,255	7,285,096	7,285,096
Substandard	4,772,918	4,772,918	1,691,783	1,691,783
Doubtful	4,174,747	4,174,747	7,685,169	7,685,169
Loss	11,370,932	11,370,932	5,126,156	5,126,156
	55,791,573	**55,791,573**	**51,419,875**	**51,419,875**

The above table represents a worse case scenario of credit risk exposure of the Group and 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 Group's and Bank's loans and advances portfolio.

4.3.5 Credit quality analysis

(a) Credit quality of cash and bank balances

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired as at 30 June 2020 and 30 June 2019 which are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. However, cash and bank balances that held in foreign banks can be assessed by reference to credit rating agency designation as shown in the table below:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
A	212,218	212,218	-	-
BBB+	2,228,600	2,228,600	3,607,637	3,607,637
Not rated	10,847,303	10,837,731	3,997,199	3,988,418
	13,288,121	**13,278,548**	**7,604,836**	**7,596,055**

Definitions of ratings

A: High credit quality	This denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB: Good credit quality	This indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
Not rated	This indicates financial institutions or other counterparties with no available ratings and cash in hand.

A "+ "(plus) or "-" (minus) may be appended to a rating to indicate the relative position of a credit within the rating category. This is based on Fitch national long-term issuer default ratings.

(b) Credit quality of loans and advances to customers

The following table sets out information about the credit quality of financial assets measured at amortised cost and equity investments at fair value through other comprehensive income. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.7.1 (iii).

Group/Bank

	2020			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers measured at amortised cost				
Stage 1 – Pass	24,064,721			24,064,721
Stage 2 – Special mention		11,408,255		11,408,255
Stage 3 – Non-performing			20,318,597	20,318,597
Total gross exposure	**24,064,721**	**11,408,255**	**20,318,597**	**55,791,573**
Loss allowance	(1,002,120)	(1,397,274)	(10,126,505)	(12,525,899)
Net carrying amount	**23,062,601**	**10,010,981**	**10,192,092**	**43,265,674**

Group/Bank	2019			
In Birr'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers measured at amortised cost				
Stage 1 – Pass	29,631,670			29,631,670
Stage 2 – Special mention		7,285,096		7,285,096
Stage 3 – Non-performing			14,503,109	14,503,109
Total gross exposure	**29,631,670**	**7,285,096**	**14,503,109**	**51,419,875**
Loss allowance	(393,215)	(471,821)	(10,305,850)	(11,170,885)
Net carrying amount	**29,238,456**	**6,813,275**	**4,197,259**	**40,248,990**

(C) Credit quality of other financial assets

Group		In Birr '000		
		2020		
		Gross exposure	Loss allowance	Net carrying amount
Other financial assets (debt instruments)				
Cash and balances with banks	12 Month ECL	13,288,121	(661)	13,287,460
Investment securities (debt instruments)	12 Month ECL	32,394,441	(1,618)	32,392,823
Other receivables and financial assets	12 Month ECL	2,855,432	(317,339)	2,538,092
Total		**48,537,994**	**(319,618)**	**48,218,376**

Bank		In Birr '000		
		2020		
		Gross exposure	Loss allowance	Net carrying amount
Other financial assets (debt instruments)				
Cash and balances with banks	12 Month ECL	13,278,548	(661)	13,277,888
Investment securities (debt instruments)	12 Month ECL	32,394,441	(1,618)	32,392,823
Other receivables and financial assets	12 Month ECL	2,855,062	(317,339)	2,537,722
Total		**48,528,051**	**(319,618)**	**48,208,433**

Group		In Birr '000		
		2019		
		Gross exposure	Loss allowance	Net carrying amount
Other financial assets (debt instruments)				
Cash and cash equivalents	12 Month ECL	7,604,836	(378)	7,604,457
Investment securities (debt instruments)	12 Month ECL	31,065,345	(1,552)	31,063,793
Other receivables and financial assets	12 Month ECL	1,750,877	(51,250)	1,699,627
Total		**40,421,058**	**(53,180)**	**40,367,877**

Bank		In Birr '000		
		2019		
		Gross exposure	Loss allowance	Net carrying amount
Other financial assets (debt instruments)				
Cash and cash equivalents	12 Month ECL	7,596,055	(378)	7,595,676
Investment securities (debt instruments)	12 Month ECL	31,065,345	(1,552)	31,063,793
Other receivables and financial assets	12 Month ECL	1,749,992	(51,250)	1,698,742
Total		**40,411,391**	**(53,180)**	**40,358,211**

(d) Credit quality of investment securities measured at amortized cost

As at 30 June 2020 and 30 June 2019, all investment securities measured at amortized cost are neither past due nor impaired.

(e) Investment securities designated at FVTPL

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

4.3.6 Nature of security in respect of loans and advances

The Bank holds collateral against certain of its credit exposures. The following table sets out the principal types of collateral held against loans and advance to customer with different segments or economic sectors.

The estimated value of collaterals are based on the last revaluations carried out by the bank's engineers. The valuation technique adopted for properties is inline with the bank's valuation manual.

Group/Bank

30 June 2020	Secured against real estate Birr'000	Bank guarantees Birr'000	Machinery and equipment Birr'000	Motor vehicles Birr'000	Others Birr'000	Total Birr'000
Agriculture	1,439,043	4,586	1,873,487	788,107	3,078,029	7,183,253
Manufacturing	12,918,779	125,773	21,798,247	1,041,048	6,684,593	42,568,440
Mining and energy	80,331		451,225	11,846	53,656	597,058
Service	850,262		17,581	1,652	36,665	906,160
Lease services			5,110,121			5,110,121
Micro-financing						
Consumer (staff)	491,228			76,603	560	568,390
Working capital	330,324	164,647	510,568	31,282	530,774	1,567,596
	16,109,967	**295,006**	**29,761,229**	**1,950,538**	**10,384,277**	**58,501,018**

Group/Bank
30 June 2019

Agriculture	1,164,904	-	1,871,274	580,000	2,425,902	6,042,080
Manufacturing	15,849,794	112,610	25,510,726	1,151,235	1,996,186	44,620,552
Mining and energy	135,562	128,500	669,445	24,104	153,897	1,111,508
Service	1,141,022	-	136,689	29,433	8,323	1,315,467
Lease services	537,400	778	3,063,877	129,509	34,443	3,766,006
Micro-financing	-	-	125,084	-		125,084
Consumer (staff)	335,260	-	55,961	72,509	1,933	465,663
Working capital	900,370	-	571,080	44,607	380,621	1,896,679
	20,064,311	**241,888**	**32,004,136**	**2,031,398**	**5,001,305**	**59,343,038**

4.3.7 Collateral held and their financial effect

The general creditworthiness of a customer (the cash generating capacity of a project) tends to be the most relevant indicator of credit quality of a loan extended. However, collateral provides additional security and the Bank generally holds the project's property, plant and equipment as collateral [as a last resort]. The collateral comes in various forms, such as cash (equity contribution), securities, letters of credit/guarantees, real estate, machinery and equipment, motor vehicles and other credit enhancements.

In the case of short-term consumer (staff) loans (other than housing and car loans), they are secured to the extent of the employee's continued employment in the Bank in the form of monthly salary deduction and with expected future severance pay being held as collateral.

The Bank may take collateral in the form of a first-degree mortgage over the property, plant and equipment of projects financed by the Bank with a certain percentage of equity contribution. If, however, the project's property, plant and equipment do not meet the minimum requirement, a promoter/borrower is required to bring additional collateral. The Bank does not sell, repossess or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's main focus on creditworthiness, the Bank aligns with its credit policy guide to periodically update the validation of collateral held against all loans to customers. Guidelines are in place covering the acceptability and valuation of each type of collateral, including frequency of collateral valuation.

The fair value of the collateral is based on the last revaluations carried out by the Bank's in-house engineers. The valuation technique adopted for properties is in line with the Bank's valuation manual and the revalued amount is similar to fair values of properties with similar size and location. In addition, the Bank uses the asset valuation manual adopted by the Ethiopian Bankers' Association, which considers the best practices and principles as required by the International Valuation Standards.

The estimated value of the collateral is based on the last revaluations carried out by the Bank's in-house engineers. The valuation technique adopted for properties is in line with the Bank's valuation manual .

4.3.8 Amounts arising from ECL

i) Inputs, assumptions and techniques used for estimating impairment

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;
- 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 for short term loans and 180 days for medium and long term loans, in line with regulatory requirements set by NBE for development banks in Ethiopia.

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 judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

a) Term loan exposures

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

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 expected credit loss (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 expected credit loss (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
- the borrower is more than 90 days past due (short term loans) and more than 360 days (medium and long term loans) on any material credit obligation to the Bank, in line with regulatory requirements set by NBE for development banks in Ethiopia;
- 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 bank 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;
- based on data developed internally and obtained from external sources; and
- 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 expected credit loss (ECL).

The Bank formulates three economic scenarios: a base case, which is the median scenario, and two less likely scenarios, one upside (optimistic) and one downside (pessimistic). 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. The upside and downside scenarios are based on a combination of a percentage error factor 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 non-performing loans (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 its 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 Bank is summarized below:

Macro-economic factors				
GDP: GDP per capita, USD	GDP EXPENDITURE: Domestic Demand, USD per capita	LABOUR FORCE: Unemployment, % of labour force, ave	EXCHANGE RATE: ETB/USD, ave	DEBT: Government domestic debt, ETBbn

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
GDP: GDP per capita, USD	783	889	1004
GDP EXPENDITURE: Domestic Demand, USD per capita	929.3	1015.5	1098
LABOUR FORCE: Unemployment, % of labour force, ave	5.6	5.5	5.6
EXCHANGE RATE: ETB/USD, ave	33.31	34.31	35.34
DEBT: Government domestic debt, ETBbn	752	872.3	1003.1

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

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 with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. All loans are subject to the forbearance policy. The Bank's Project Rehabilitation and Recovery Directorate regularly reviews reports on forbearance activities.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment 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 expected credit loss (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)
- 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'.

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

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

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

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

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

- instrument type;
- credit risk grading;
- collateral type;
- loan-to-value (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:

In Birr '000	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost (on balance sheet exposures)				
Balance as at 1 July 2019	**393,215**	**471,821**	**10,305,850**	**11,170,885**
Transfer to stage 1 (12 months ECL)	376,989	(343,853)	(33,136)	-
Transfer to stage 2 (Lifetime ECL not credit impaired)	(653,412)	785,042	(131,630)	-
Transfer to stage 3 (Lifetime ECL credit impaired)	(849,790)	(585,093)	1,434,883	-
Net remeasurement of loss allowance	1,667,818.10	1,055,303.92	(963,477.39)	1,759,645
New financial assets originated or purchased	102,329	19,680	51,983	173,991
Financial assets derecognised	(35,029)	(5,625)	(537,968)	(578,623)
Balance as at 30 June 2020	**1,002,120**	**1,397,274**	**10,126,505**	**12,525,899**

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In Birr '000	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost (on balance sheet exposures)				
Balance as at 1 July 2018 as per IAS 39	**393,215**	**471,821**	**10,305,850**	**11,170,885**
Day one IFRS 9 transition adjustment	(1,066,313)	(6,407,862)	2,645,889	(4,828,286)
Adjusted balance at 1 July 2018 as per IFRS 9	**371,079**	**617,190**	**5,994,928**	**6,983,198**
Transfer to stage 1 (12 months ECL)	1,377,996	(353,164)	(1,024,832)	
Transfer to stage 2 (Lifetime ECL not credit impaired)	(59,600)	155,883	(96,283)	
Transfer to stage 3 (Lifetime ECL credit impaired)	(85,230)	(179,161)	264,391	
Net remeasurement of loss allowance	**(1,233,166)**	**241,333**	**5,098,464**	**4,106,629**
New financial assets originated or purchased	66,932	13,871	291,886	372,690
Financial assets derecognised	(32,773)	(24,131)	(234,727)	(291,632)
Balance as at 30 June 2019	**393,215**	**471,821**	**10,305,850**	**11,170,885**

In Birr '000	2020			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantee contracts (off-balance sheet exposures)				
Balance as at 1 July 2019	74			74
Transfer to stage 1 (12 months ECL)				
Transfer to stage 2 (Lifetime ECL not credit impaired)				
Transfer to stage 3 (Lifetime ECL credit impaired)				
Net re-measurement of loss allowance				
New financial assets originated or purchased	48			48
Financial assets derecognised	(74)			(74)
Balance as at 30 June 2020	48			48

In Birr '000	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantee contracts (off-balance sheet exposures)				
Balance as at 1 July 2018 as per IAS 39				
Day one IFRS 9 transition adjustment	107			107
Adjusted balance at 1 July 2018 as per IFRS 9	107			107
Transfer to stage 1 (12 months ECL)				
Transfer to stage 2 (Lifetime ECL not credit impaired)				
Transfer to stage 3 (Lifetime ECL credit impaired)				
Net re-measurement of loss allowance				
New financial assets originated or purchased	72			72
Financial assets derecognised	(105)			(105)
Balance as at 30 June 2019	74			74

In Birr '000	2020			
	Cash and balances with banks	Investment securities (debt instruments)	Other receivables and financial assets	Total
Other financial assets (debt instruments)				
Balance as at 1 July 2019	378	1,552	121	2,051
Net measurement of loss allowance	283	66	317,218	317,567
Balance as at 30 June 2020	**661**	**1,618**	**317,339**	**319,618**

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In Birr '000	2019 Cash and balances with banks	Investment securities (debt instruments)	Other receivables and financial assets	Total
Other financial assets (debt instruments)				
Balance as at 1 July 2018 as per IAS 39			10,817	10,817
Day one IFRS 9 transition adjustment	347	1,581	(10,696)	(8,767)
Adjusted balance at 1 July 2018 as per IFRS 9	**347**	**1,581**	**121**	**2,049**
Net measurement of loss allowance	31	(29)		2
Balance as at 30 June 2019	**378**	**1,552**	**121**	**2,051**

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.

In Birr' 000	2020 Loans and advances to customers at amortised cost	Financial guarantee contracts	Other financial assets	Total charge/ (credit)
Net measurement of loss allowance	1,759,645			1,759,645
New financial assets originated or purchased	173,991	48	319,618	493,658
Financial assets derecognised	(578,623)	(74)	(2,051)	(580,748)
Amounts directly written off during the year				
Total	**1,355,014**	**(26)**	**317,567**	**1,672,554**

In Birr' 000	2019 Loans and advances to customers at amortised cost	Financial guarantee contracts	Other financial assets	Total charge/ (credit)
Net measurement of loss allowance	4,106,629		2	4,106,631
New financial assets originated or purchased	372,691	72		372,763
Financial assets derecognised	(291,632)	(105)		(291,737)
Amounts directly written off during the year				
Total	**4,187,688**	**(33)**	**2**	**4,187,657**

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the bank has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans that were past due but not impaired

Loans that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the bank believed that impairment was not appropriate on the basis of the level of security or collateral available and the stage of collection of amounts owed to the bank. The amounts disclosed exclude assets measured at FVTPL.

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4.3.9 Statement of prudential adjustments

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

Hence, banks would be required to comply with the following:

Provision expense for loan losses recognized in the statement of profit or loss and other comprehensive income should be determined based on the requirements of IFRS 9. However, the IFRS provisions should be compared with the provisions determined under NBE Directives and the resultant expected impact/changes should be treated in regulatory credit risk reserve, as follows:

When prudential provisions is greater than IFRS provision, the excess provisions should be transferred from retained earnings (general reserve) account to a non-distributable "regulatory credit risk reserve".

When prudential provisions is less than IFRS provision, IFRS determined provision is charged to the statement of profit or loss and other comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to retained earnings account to the extent of the excess prudential provisions which were previously recognized/held in the regulatory credit risk reserve.

However, the Bank did not hold any regulatory credit risk reserve as at 30 June 2020 in respect of differences between loan impairment losses as determined under IFRS and NBE as the cumulative loan provision computed under IFRS was higher than that of the NBE's requirement.

The impairment allowance determined under NBE Directive and IFRS 9 as at 30 June 2020 and 30 June 2019 is as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Total impairment allowance as per IFRS	13,684,871	13,684,871	11,822,801	11,822,801
Total impairment allowance in line with NBE Directives	9,189,905	9,189,905	6,567,056	6,567,056
Difference (excess of IFRS over NBE)	**4,494,965**	**4,494,965**	**5,255,745**	**5,255,745**

(b) As per the requirement of IFRS, banks should recognize interest income on impaired loans after deducting impairment loss from the gross carrying amount using the EIR. However, as per the requirement of NBE, banks should derecognize interest income on impaired loans.

To comply with the directive of the NBE, the Group and Bank have reversed the suspended interest on impaired loans from retained earnings account and transferred to regulatory credit risk reserve account as the amount is non-distributable to the owner of the Group and Bank.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Suspended interest transferred to regulatory credit risk reserve	2,839,613	2,839,613	2,488,509	2,488,509

4.3.10 Credit concentrations

The Group and Bank monitor concentrations of credit risk by economic sector. An analysis of concentrations of credit risk of gross loans and advances to customers and other financial assets at 30 June 2020 and 30 June 2019 is shown below. The Bank concentrates all its financial assets in Ethiopia.

Group 30 June 2020	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			13,288,121		13,288,121
Loans and advances to customers	10,398,513	32,626,033	5,442,290	7,324,737	55,791,573
Investment securities:					
- Financial assets measured at FVOCI			37,930		37,930
- Financial assets measured at amortized cost			32,356,510		32,356,510
Other assets				2,855,432	2,855,432
	10,398,513	**32,626,033**	**51,124,852**	**10,180,169**	**104,329,567**

Bank 30 June 2020	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			13,278,548		13,278,548
Loans and advances to customers	10,398,513	32,626,033	5,442,290	7,324,737	55,791,573
Investment securities:					
- Financial assets measured at FVOCI			37,930		37,930
- Financial assets measured at amortized cost			32,356,510		32,356,510
Other assets				2,855,062	2,855,062
	10,398,513	**32,626,033**	**51,115,279**	**10,179,799**	**104,319,624**

Group 30 June 2019	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			7,604,836		7,604,836
Loans and advances to customers	8,048,752	32,135,804	4,196,959	7,038,359	51,419,875
Investment securities:					
- Financial assets measured at FVOCI			25,390		25,390
- Financial assets measured at amortized cost			31,039,955		31,039,955
Other assets				1,750,877	1,750,877
	8,048,752	**32,135,804**	**42,867,140**	**8,789,237**	**91,840,933**

Bank 30 June 2019	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			7,596,055		7,596,055
Loans and advances to customers	8,048,752	32,135,804	4,196,959	7,038,359	51,419,875
Investment securities:					
- Financial assets measured at FVOCI			25,390		25,390
- Financial assets measured at amortized cost			31,039,955		31,039,955
Other assets				1,749,991.74	1,749,992
	8,048,752	**32,135,804**	**42,858,359**	**8,788,351**	**91,831,266**

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4.3.11 Commitments and guarantees

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group and Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. The table below shows the Group's and Bank's maximum credit risk exposure for commitments and guarantees.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Letters of credit	3,751,192	3,751,192	3,597,827	3,597,827
Guarantees	8,590	8,590	62,215	62,215
Loan commitments	15,270,229	15,270,229	11,342,154	11,342,154
Total maximum exposure	**19,030,011**	**19,030,011**	**15,002,196**	**15,002,196**

4.4 Liquidity risk

Liquidity risk is defined as the risk that the Group and the Bank do not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. In other words, liquidity risk is the risk that the Group and Bank cannot meet their maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Group and Bank might be unable to meet their payment obligations when they fall due as a result of mismatches in the timing and amounts of the cash flows under both normal and stress circumstances, which is inherent to the Group's and Bank's operations and lending activities. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Group and Bank on acceptable terms.

Liquidity risk management in the Group and Bank is solely determined by the Treasury and Fund Management Directorate as well as by the Asset and Liability Management Committee (ALCO), which bear the overall responsibility for liquidity risk. The main objective of the Group's and Bank's liquidity risk framework is to maintain sufficient liquidity in order to ensure that they meet their maturing obligations.

4.4.1 Management of liquidity risk

Cash flow forecasting is performed by the Treasury and Fund Management Directorate. The Treasury and Fund Management Directorate monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. To this end, the Treasury and Fund Management Directorate of the Bank is working collaboratively with other work units within the Bank to ensure the liquidity risk strategy is executed in a holistic manner. This incorporates an assessment of expected cash flows and the availability of diversified funding sources.

The Bank has incurred indebtedness in the form of borrowings, debt securities and deposits. 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 to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Bank's reputation.

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

4.4.2 Maturity analysis of financial liabilities

The table below analyses the Group's and 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.

Group 30 June 2020	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Deposits from customers	218,899	145,933	145,933	145,933	72,966
Debt securities issued	214,883	429,766	644,650	859,533	7,286,641
Borrowings	14,589	609,004	1,482,313	7,255,219	61,601,874
Other liabilities - lease liabilities	1,520	1,520	1,724	1,520	8,916
Other liabilities -Other	669,157	1,003,736	1,338,315	1,672,894	2,007,472
Total financial liabilities	**1,119,049**	**2,189,960**	**3,612,935**	**9,935,099**	**70,977,871**
Letters of credit	187,560	562,679	1,125,358	1,500,477	375,119
Guarantees issued	859	1,718	2,577	3,436	-
Loan commitments	1,527,023	3,054,046	4,581,069	3,054,046	3,054,046
Other commitments	12,365	24,730	37,096	49,461	-
Total commitments	**1,727,807**	**3,643,173**	**5,746,099**	**4,607,419**	**3,429,165**

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Deposits from customers	218,899	145,933	145,933	145,933	72,966
Debt securities issued	214,883	429,766	644,650	859,533	7,286,641
Borrowings	14,589	609,004	1,482,313	7,255,219	61,601,874
Other liabilities - lease liabilities	1,520	1,520	1,724	1,520	8,916
Other liabilities -Other	669,154	1,003,731	1,338,308	1,672,885	2,007,462
Total financial liabilities	**1,119,046**	**2,189,955**	**3,612,928**	**9,935,090**	**70,977,860**
Letters of credit	187,560	562,679	1,125,358	1,500,477	375,119
Guarantees issued	859	1,718	2,577	3,436	-
Loan commitments	1,527,023	3,054,046	4,581,069	3,054,046	3,054,046
Other commitments	12,365	24,730	37,096	49,461	-
Total commitments	**1,727,807**	**3,643,173**	**5,746,099**	**4,607,419**	**3,429,165**

Group

30 June 2019

Deposits from customers	240,205	160,137	160,137	160,137	80,068
Debt securities issued	223,000	446,000	669,000	892,000	7,570,005
Borrowings	4,083,948	74,222	398,095	1,454,639	56,304,729
Other liabilities	436,326	654,489	872,652	1,090,815	1,308,978
Total financial liabilities	**4,983,479**	**1,334,848**	**2,099,884**	**3,597,591**	**65,263,781**
Letters of credit	179,891	539,674	1,079,348	1,439,131	359,783
Guarantees issued	6,222	12,443	18,665	24,886	-
Loan commitments	378,072	756,144	1,512,287	1,134,215	7,561,436
Other commitments	3,518	7,036	10,554	14,072	-
Total commitments	**567,703**	**1,315,296**	**2,620,854**	**2,612,304**	**7,921,219**

Bank	**0 - 30 days**	**31 - 90 days**	**91 - 180 days**	**181 - 365 days**	**Over 1 year**
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Deposits from customers	240,205	160,137	160,137	160,137	80,068
Debt securities issued	223,000	446,000	669,000	892,000	7,570,005
Borrowings	4,083,948	74,222	398,095	1,454,639	56,304,729
Other liabilities	436,312	654,468	872,624	1,090,780	1,308,935
Total financial liabilities	**4,983,465**	**1,334,827**	**2,099,856**	**3,597,555**	**65,263,738**
Letters of credit	179,891	539,674	1,079,348	1,439,131	359,783
Guarantees issued	6,222	12,443	18,665	24,886	-
Loan commitments	378,072	756,144	1,512,287	1,134,215	7,561,436
Other commitments	3,518	7,036	10,554	14,072	-
Total commitments	**567,703**	**1,315,296**	**2,620,854**	**2,612,304**	**7,921,219**

4.5 Market risk

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

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

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4.5.1 Management of market risk

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's and Bank's solvency while optimising the return on risk. Market risk is monitored regularly by the Compliance and Risk Management Directorate to identify any adverse movement in the underlying variables.

(i) Interest rate risk

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

The Group's and Bank's exposure to the risk of changes in market interest rates relates primarily to the Group's and Bank's obligations and financial assets with floating interest rates. The Bank is also exposed on fixed rate financial assets and financial liabilities. The Group's and Bank's investment portfolio is comprised of loans and advances, treasury bills, Ethiopian government bonds and cash and bank deposits.

The Group and Bank often revise their lending rate across segments of the credit portfolio based on the cost of funds and the perceived risk in each credit portfolio segment to keep the overall profitability and sustainability, in consideration of the Bank's unique development objective.

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

Group 30 June 2020	Fixed interest Birr'000	Floating interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	2,440,818		10,847,303	13,288,121
Loans and advances to customers	55,791,573			55,791,573
Investment securities	29,779,364		2,577,147	32,356,510
Other assets			2,855,432	2,855,432
Total	**88,011,755**		**16,279,882**	**104,291,636**
Liabilities				
Deposits from customers	125,226		604,438	729,664
Debt securities issued	9,435,473			9,435,473
Borrowings	70,065,086	897,914		70,963,000
Other liabilities			6,656,961	6,656,961
Total	**79,625,786**	**897,914**	**7,261,399**	**87,785,099**

Bank 30 June 2020	Fixed interest Birr'000	Floating interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	2,440,818		10,837,731	13,278,548
Loans and advances to customers	55,791,573			55,791,573
Investment securities	29,779,364		2,577,147	32,356,510
Other assets			2,855,062	2,855,062
Total	**88,011,755**		**16,269,939**	**104,281,694**
Liabilities				
Deposits from customers	125,226		604,438	729,664
Debt securities issued	9,435,473			9,435,473
Borrowings	70,065,086	897,914		70,963,000
Other liabilities			6,656,939	6,656,939
Total	**79,625,786**	**897,914**	**7,261,378**	**87,785,077**

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Group 30 June 2019	Fixed interest Birr'000	Floating interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	3,607,637		3,997,199	7,604,836
Loans and advances to customers	51,419,875			51,419,875
Investment securities	29,231,981		1,833,364	31,065,345
Other assets			1,750,877	1,750,877
Total	**84,259,492**		**7,581,440**	**91,840,933**
Liabilities				
Deposits from customers	123,870		676,813	800,683
Debt securities issued	9,800,005			9,800,005
Borrowings	61,303,127	1,012,507		62,315,634
Other liabilities			4,353,417	4,353,417
Total	**71,227,002**	**1,012,507**	**5,030,230**	**77,269,739**

Bank 30 June 2019	Fixed interest Birr'000	Floating interest Birr'000	Non-interest bearing Birr'000	Total Birr'000
Assets				
Cash and balances with banks	3,607,637		3,988,418	7,596,055
Loans and advances to customers	51,419,875			51,419,875
Investment securities	29,231,981		1,833,364	31,065,345
Other assets			1,749,992	1,749,992
Total	**84,259,492**		**7,571,774**	**91,831,266**
Liabilities				
Deposits from customers	123,870		676,813	800,683
Debt securities issued	9,800,005			9,800,005
Borrowings	61,303,127	1,012,507		62,315,634
Other liabilities			4,353,286	4,353,286
Total	**71,227,002**	**1,012,507**	**5,030,099**	**77,269,608**

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 2020 and 30 June 2019.

	Increase/ (decrease) in basis points	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
USD	10% (↑)	(89,791)	(89,791)	(101,251)	(101,251)
USD	10% (↓)	89,791	89,791	101,251	101,251

(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 Group and Bank are exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. The Group's and Bank's foreign currency deposit 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 Group's and Bank's foreign denominated borrowings and cash and bank balances.

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The net foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 2.56 billion (30 June 2019: Birr 3.42 billion).

Foreign currency denominated balances

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Cash and bank balances	3,742,688	3,742,688	4,756,501	4,756,501
Deposits from customers	289,494	289,494	323,632	323,632
Borrowings	897,914	897,914	1,012,507	1,012,507
	1,187,408	**1,187,408**	**1,336,140**	**1,336,140**
Net foreign currency exposure	**2,555,280**	**2,555,280**	**3,420,361**	**3,420,361**

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:

	Increase/ (decrease) in basis points	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
USD	10% (↑)	253,838	253,838	297,095	297,095
USD	10% (↓)	(253,838)	(253,838)	(297,095)	(297,095)
EUR	10% (↑)	1,362	1,362	44,839	44,839
EUR	10% (↓)	(1,362)	(1,362)	(44,839)	(44,839)
GBP	10% (↑)	81	81	103	103
GBP	10% (↓)	(81)	(81)	(103)	(103)

4.6 Capital management

The Group's and 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 Government/public, creditor and market confidence and to sustain future development of the business.

4.6.1 Capital adequacy ratio

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

Capital includes paid-up capital, retained earnings (general reserve), legal reserve, regulatory credit risk reserve and other reserves (unencumbered reserves) to be approved by the National Bank of Ethiopia.

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Capital		
Capital	7,500,000	7,500,000
Retained earnings	(3,477,325)	(4,434,682)
Legal reserve	643,963	176,527
Regulatory credit risk reserve	2,839,613	2,488,509
Other reserve	26,375	(4,195)
	7,532,626	**5,726,159**
Risk weighted assets		
Risk weighted balance for on-balance sheet items	46,603,084	46,255,977
Credit equivalents for off-balance sheet items	2,343,382	4,526,228
	48,946,466	**50,782,205**
Risk-weighted capital adequacy ratio (CAR)	15%	11%
Minimum required capital	8%	8%
Excess/(shortfall)	7%	3%

4.7 Fair value of financial assets and liabilities

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

4.7.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources, while 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 data and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

Group	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2020	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks (net)	13,287,460			13,287,460	13,287,460
Loans and advances to customers (net)	43,265,674			43,265,674	43,265,674
Investment securities:					
- Financial assets measured at FVOCI	37,930		37,930		37,930
- Financial assets measured at amortized cost	32,354,893			32,354,893	32,354,893
Other assets	2,538,092			2,538,092	2,538,092
Total	**91,484,049**		**37,930**	**91,446,119**	**91,484,049**
Financial liabilities					
Deposits from customers	729,664			729,664	729,664
Debt securities issued	9,435,473			9,435,473	9,435,473
Borrowings	70,963,000			70,963,000	70,963,000
Other liabilities	6,656,961			6,656,961	6,656,961
Total	**87,785,099**			**87,785,099**	**87,785,099**

Bank	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2020	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks (net)	13,277,888			13,277,888	13,277,888
Loans and advances to customers (net)	43,265,674			43,265,674	43,265,674
Investment securities:					
- Financial assets measured at FVOCI	37,930		37,930		37,930
- Financial assets measured at amortized cost	32,354,893			32,354,893	32,354,893
Other assets	2,537,722			2,537,722	2,537,722
Total	**91,474,107**		**37,930**	**91,436,176**	**91,474,107**
Financial liabilities					
Deposits from customers	729,664			729,664	729,664
Debt securities issued	9,435,473			9,435,473	9,435,473
Borrowings	70,963,000			70,963,000	70,963,000
Other liabilities	6,656,939			6,656,939	6,656,939
Total	**87,785,077**			**87,785,077**	**87,785,077**

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Group	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks (net)	7,604,457			7,604,457	7,604,457
Loans and advances to customers (net)	40,248,990			40,248,990	40,248,990
Investment securities:					
- Financial assets measured at FVOCI	25,390		25390		25,390
- Financial assets measured at amortized cost	31,038,403			31,038,403	31,038,403
Other assets	1,699,627			1,699,627	1,699,627
Total	**80,616,867**		**25,390**	**80,591,477**	**80,616,867**

	Carrying amount	Level 1	Level 2	Level 3	Total
	Birr'000	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial liabilities					
Deposits from customers	800,683			800,683	800,683
Debt securities issued	9,800,005			9,800,005	9,800,005
Borrowings	62,315,634			62,315,634	62,315,634
Other liabilities	4,353,417			4,353,417	4,353,417
Total	**77,269,739**			**77,269,739**	**77,269,739**

Bank	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2019	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Financial assets					
Cash and balances with banks (net)	7,595,676			7,595,676	7,595,676
Loans and advances to customers (net)	40,248,990			40,248,990	40,248,990
Investment securities:					
- Financial assets measured at FVOCI	25,390		25,390		25,390
- Financial assets measured at amortized cost	31,038,403			31,038,403	31,038,403
Other assets	1,698,742			1,698,742	1,698,742
Total	**80,607,201**		**25,390**	**80,581,811**	**80,607,201**

Financial liabilities					
Deposits from customers	800,683			800,683	800,683
Debt securities issued	9,800,005			9,800,005	9,800,005
Borrowings	62,315,634			62,315,634	62,315,634
Other liabilities	4,353,286			4,353,286	4,353,286
Total	**77,269,608**			**77,269,608**	**77,269,608**

4.7.3 Fair value methods and assumptions

(a) Loans and advances to customers

Loans and advances to customers are carried at amortised cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at effective interest rates to determine fair value.

(b) Borrowings

Borrowings are carried at amortised cost. The fair value of the borrowings at each reporting year end was calculated by fair valuing the outstanding balances at each preceding year end to the current year.

4.7.4 Valuation technique using significant unobservable inputs – Level 3

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

4.7.5 Transfers between the fair value hierarchy categories

During this reporting period including the previous year annual financial statements, there were no movements between levels as a result of significant inputs to the fair valuation process becoming observable or unobservable.

4.8 Offsetting financial assets and financial liabilities

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

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
5 Interest income				
Interest income calculated using the effective interest method				
Interest on agriculture loans	541,984	541,984	1,103,874	1,103,874
Interest on manufacturing loans	3,714,174	3,714,174	3,323,884	3,323,884
Interest on mining and energy loans	141,490	141,490	58,259	58,259
Interest on service loans	233,092	233,092	66,015	66,015
Interest on lease services loans	36,074	36,074	26,692	26,692
Interest on micro-financing loans	180,331	180,331	160,375	160,375
Interest on staff loans	38,019	38,019	47,776	47,776
Interest on investment securities	1,544,033	1,544,033	803,254	803,254
Interest on deposit placement	411,678	410,780	172,382	171,652
Total interest income	**6,840,875**	**6,839,977**	**5,762,510**	**5,761,780**

Included within various line items under interest income for the year ended 30 June 2020 is a total of ETB 501,576,607 (30 June 2019: 525,904,148) relating to credit impaired loans and advances.

6 Interest expense				
Interest expense calculated using the effective interest method				
Interest on deposits	6,303	6,303	6,284	6,284
Interest on Ethiopian Government Saving Bonds	566,458	566,458	635,872	635,872
Interest on National Bank of Ethiopia borrowing	1,893,091	1,893,091	1,572,320	1,572,320
Interest on Ministry of Finance borrowing	148,374	148,374	109,718	109,718
Interest on China Development Bank borrowing	43,375	43,375	65,913	65,913
Interest expense on leasehold land			219	219
	2,657,601	**2,657,601**	**2,390,326**	**2,390,326**

The interest expense on leasehold land for the current year was included under note 19.

7 Net Fee and commission income				
7a Fee and commission income				
Commission income on CPO and FT	16,529	16,529	21,385	21,385
Commission income on insurance	2,721	2,721	2,605	2,605
Commission on letters of credit	253,802	253,802	311,732	311,732
Commission on managed funds	-	-	5,377	5,377
	273,052	**273,052**	**341,100**	**341,100**
Fee and commission expense	(2,489)	(2,489)	(2,757)	(2,757)
Net fee and commission income	**270,563**	**270,563**	**338,343**	**338,343**

7b Disaggregated revenue information

Group/Bank	For the year ended 30 June 2020			
Segments	**International Banking**	**Domestic Banking**	**Managed Fund**	**Total**
Net fee income earned from services that are provided over time				
Net fee income from providing financial services at a point in time:				
Fee and commission income on trade services (net)	251,313			251,313
Fee on fund transfer and transaction services (net)		19,250		19,250
Commission on managed fund (net)			-	-
	251,313	**19,250**	**-**	**270,563**
Total net revenue from contracts with customers	**251,313**	**19,250**	**-**	**270,563**

Group/Bank	For the year ended 30 June 2019			
Segments	**International Banking**	**Domestic Banking**	**Managed Fund**	**Total**
Net fee income earned from services that are provided over time				
Net fee income from providing financial services at a point in time:				
Fee and commission income on trade services (net)	308,976			308,976
Fee on fund transfer and transaction services (net)		23,990		23,990
Commission on managed fund (net)			5,377	5,377
	308,976	**23,990**	**5,377**	**338,343**
Total net revenue from contracts with customers	**308,976**	**23,990**	**5,377**	**338,343**

The total revenue from contracts with customers is generated entirely from domestic operation as the Group and Bank have no any operation outside Ethiopia

	Group	Bank	Group	Bank
	30 June 2020	**30 June 2020**	**30 June 2019**	**30 June 2019**
	Birr'000	**Birr'000**	**Birr'000**	**Birr'000**
8 Other operating income				
Rental income	13,784	13,784	17,728	17,728
Gain on disposal of property, plant and equipment (net)	119	119	1,202	1,202
Gain on disposal of asset awaiting for resale	3,358	3,358	8,393	8,393
Penalty charge income	2,769	2,769	1,585	1,585
Gain on foreign exchange	383,071	383,071	242,019	242,019
Other income	20,952	20,952	11,914	11,914
	424,052	**424,052**	**282,842**	**282,842**
9 Loan impairment charge				
Loans and advances - charge for the year (note 15b)	1,355,014	1,355,014	4,187,688	4,187,688
	1,355,014	**1,355,014**	**4,187,688**	**4,187,688**
10 Impairment losses on other assets				
Other assets - charge for the year (note 14,16, 18 & 26)	507,056	507,056	408,110	408,110
	507,056	**507,056**	**408,110**	**408,110**

The breakdown of annual impairment charge on other assets for the year ended 30 June 2020 is as follows:

		Annual impairment charge
		Birr'000
Cash and Bank Balance	Note 14	283
Investment security (NBE Bills & Gov't Bond)	Note 16	66
Other financial assets measured at amortized cost & non-financial assets	Note 18	506,733
Financial Guarantee	Note 26	(26)
		507,056

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
11 Personnel expenses				
Salaries and wages	333,874	333,407	298,762	298,139
Staff allowances	197,545	197,545	104,696	104,696
Pension costs – defined contribution plan	28,284	28,284	29,397	29,397
Pension costs – defined benefit plans	76,164	76,164	4,153	4,153
Other staff expenses	50,290	50,290	56,320	56,320
	686,157	**685,690**	**493,328**	**492,705**
12 Other operating expenses				
Perdiem and travel	26,743	26,743	26,390	26,356
Fuel and lubricants	5,380	5,380	4,944	4,944
Audit fees	954	933	877	852
Repairs and maintenance	12,230	12,228	12,096	12,094
Utility and communications	11,897	11,882	8,790	8,773
Printing and stationery	5,095	5,092	6,544	6,540
Rent	695	695	25,658	25,504
Subscription & publication	2,902	2,902	679	679
Donations and sponsorship	10,523	10,523	10,538	10,538
Entertainment	1,755	1,755	2,756	2,756
Event organization	962	962	820	820
Advertisement & publicity	1,393	1,393	4,567	4,567
Insurance	5,858	5,858	4,348	4,348
License and professional fees	27,392	27,392	25,725	25,724
Commission for agents	2,186	2,186	5,794	5,794
Board of management fees	1,883	1,883	323	323
Wages	3,986	3,986	4,509	4,509
Security	39,274	39,274	28,653	28,650
Administration expense on asset awaiting for resale	139,256	139,256	90,059	90,059
Loss on disposal of asset awaiting for resale	25,352	25,352	43,547	43,547
Miscellaneous	33,827	33,825	4,908	4,904
	359,545	**359,500**	**312,525**	**312,282**

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
13 Current income tax and deferred tax				
13a Income tax expense/(income)				
Tax expense				
Current income tax	6,345	6,343	130,500	130,500
Deferred income tax/(credit) to profit or loss	(34,018)	(34,018)	50,779	50,779
Total charge to profit or loss	**(27,673)**	**(27,675)**	**181,279**	**181,279**
Income tax charged/(credited) to other comprehensive income				
Tax (credit) on other comprehensive income	(13,101)	(13,101)	(2,468)	(2,468)
Total income tax charged/(credited) to other comprehensive income	**(13,101)**	**(13,101)**	**(2,468)**	**(2,468)**

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13b Reconciliation of effective tax to statutory tax

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

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Profit/ (Loss) before tax	1,842,453	1,842,068	(1,490,861)	(1,490,861)
Tax calculated at statutory tax rate of 30%	**552,736**	**552,621**	**(447,258)**	**(447,258)**
Add: Tax effect of disallowed expenses				
Entertainment	527	527	827	827
sponsorship	3,157	3,157	53	53
Event organization	289	289	164	164
Penalty	84	84	90	90
Amortization of right-of-use asset	7,042	7,042		
Interest expense on lease liability	479	479		
Accrued annual leave expense	1,555	1,555		
expense	11,954	11,954		
Pension prize and funeral assistance expense	58	58		
Sport, lunch, parking and hotel expense	295	295		
Depreciation for rented buildings	340	340		
Insurance expense on rented buildings	21	21		
Legal provision	2,142	2,142		
Depreciation & amortization for accounting purpose	30,779	30,778	24,814	24,814
Provision for loans & other assets as per IFRS	558,621	558,621	1,378,739	1,378,739
Employee benefit expense (actuarial valuation)	22,849	22,849	1,246	1,246
	640,192	**640,191**	**1,405,934**	**1,405,934**
Less: Tax effect of allowed expenses				
Depreciation for tax purposes	18,573	18,572	15,439	15,439
Provision for loans and advances for tax purpose (80%)	601,124	601,124	461,706	461,706
Rent income	4,135	4,135		
Payment of leasehold land	88	88		
Amortization of prepaid office rent	7,134	7,134		
	631,054	**631,053**	**477,145**	**477,145**
Less: Tax effect of income taxed at source or exempt				
Interest income on treasury bills & notes	463,210	463,210	302,262	302,262
Interest on foreign deposits	7,708	7,708	18,611	18,611
Interest on local deposits	115,526	115,526	32,885	32,885
Dividend income	-	-	14	14
Gain on disposal of property, plant & equipment (net)	36	36	361	361
	586,479	**586,479**	**354,132**	**354,132**
Less: Tax effect of unused tax loss carried forward	113	-		
Business income tax at 30%	2	-	127,399	127,399
Rental income tax at 30%	3,774	3,774		
Tax on interest from foreign deposits at 10%	2,569	2,569	3,102	3,102
Windfall tax on gain from foreign exchange at 100%				
Current income tax expense	**6,345**	**6,343**	**130,500**	**130,500**
Deferred income tax expense/ (income)	**(34,018)**	**(34,018)**	**50,779**	**50,779**
Total income tax expense/ (income)	**(27,673)**	**(27,675)**	**181,279**	**181,279**

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	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
13c Current income tax recoverable/ (liability)				
Balance at the beginning of the year	(106,236)	(106,236)	(276,430)	(276,498)
Opening balance adjustment	(93,847)	(93,847)	(69)	
Restated balance as at 1 July 2019	**(200,083)**	**(200,083)**	**(276,499)**	**(276,498)**
Charge for the year:				
Income tax expense	(6,345)	(6,343)	(130,500)	(130,500)
Payment during the year (including withholding tax)	5,968	5,968	300,763	300,763
Balance at the end of the year	**(200,460)**	**(200,458)**	**(106,236)**	**(106,236)**

13d Deferred income tax

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

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:				
To be recovered after more than 12 months	(219,133)	(219,133)	(240,050)	(240,050)
	(219,133)	**(219,133)**	**(240,050)**	**(240,050)**

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:

Group/Bank

Deferred income tax assets/(liabilities):	At 1 July 2019 Birr'000	Reclassification Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000	30 June 2020 Birr'000
Property, plant and equipment	(250,152)		11,169		(238,983)
Equity investments at FVOCI - net change in fair value	(4,841)	635		(3,573)	(7,779)
Adjustment on initial application of IFRS 9 (1 July 2018)	635	(635)			
Post-employment benefit obligation	14,309		22,849	(9,529)	27,629
Total deferred tax assets/(liabilities)	**(240,050)**	-	**34,018**	**(13,101)**	**(219,133)**

Group/Bank

Deferred income tax assets/(liabilities):	At 1 July 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	(198,128)	(52,025)		(250,152)
Equity investments at FVOCI - net change in fair value			(4,841)	(4,841)
Adjustment on initial application of IFRS 9 (1 July 2018)			635	635
Post employment benefit obligation	10,689	1,246	2,374	14,309
Total deferred tax assets/(liabilities)	**(187,439)**	**(50,779)**	**(1,833)**	**(240,050)**

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13e Rental income tax for the year ended 30 June 2020

	Rent income by Region/City Administration			
	Addis Ababa	Dire Dawa	Tigray	Total
Income:				
Rental income	13,357	217	210	13,784
Expenses:				
Depreciation	1,057	27	49	1,133
Insurance	67	2	3	72
Total rental expenses	**1,124**	**28**	**52**	**1,204**
Net profit/(loss) from rental operation	**12,234**	**189**	**157**	**12,580**
Rental income tax (30%)	**3,670**	**57**	**47**	**3,774**
Withholding tax receivable	(287)		(4)	(291)
Net rental income tax	**3,383**	**57**	**43**	**3,483**

13f Tax losses carried forward

The Group and the Bank has tax loss during the year ended 30 June 2020 for which no deferred tax asset was recognized as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Expiry Date
Tax loss for the period	**(24,721)**	**(24,721)**	**2024/25**

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
14 Cash and bank balances				
Cash On hand	25,850	25,272	38,684	38,344
Balance held with National Bank of Ethiopia	2,003,789	2,003,789	55,338	55,338
Deposits with local banks	8,817,664	8,808,670	3,903,177	3,894,736
Deposits with foreign banks	2,440,818	2,440,818	3,607,637	3,607,637
	13,288,121	**13,278,548**	**7,604,836**	**7,596,055**
Less impairment allowance	(661)	(661)	(378)	(378)
	13,287,460	**13,277,888**	**7,604,457**	**7,595,676**
Maturity analysis				
Current	12,786,538	12,776,965	7,549,122	7,540,341
Non-Current	500,922	500,922	55,335	55,335
	13,287,460	**13,277,888**	**7,604,457**	**7,595,676**

14a Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position as the Group and Bank had no bank overdrafts, restricted current accounts with the National Bank of Ethiopia and amounts due from banks on demand or with an original maturity of less than three months or less at the end of each reporting period.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Cash in hand	25,850	25,272	38,684	38,344
Balance held with National Bank of Ethiopia	2,003,789	2,003,789	55,338	55,338
Deposits with local banks	8,817,664	8,808,670	3,903,177	3,894,736
Deposits with foreign banks	2,440,818	2,440,818	3,607,637	3,607,637
	13,288,121	**13,278,548**	**7,604,836**	**7,596,055**
Less impairment allowance	(661)	(661)	(378)	(378)
	13,287,460	**13,277,888**	**7,604,457**	**7,595,676**

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	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
15 Loans and advances to customers				
Agriculture	10,398,513	10,398,513	8,048,752	8,048,752
Manufacturing	32,626,033	32,626,033	32,135,804	32,135,804
Mining and energy	1,068,348	1,068,348	879,128	879,128
Service	447,893	447,893	394,109	394,109
Lease services (note 15a)	3,879,065	3,879,065	4,255,718	4,255,718
Micro-financing	5,442,290	5,442,290	4,196,959	4,196,959
Working capital	1,575,747	1,575,747	1,242,078	1,242,078
Consumer (staff)	353,683	353,683	267,326	267,326
Gross amount	**55,791,573**	**55,791,573**	**51,419,875**	**51,419,875**
Less: impairment allowance for (note 15b):				
- Stage 1 - 12 month expected credit loss (ECL)	(1,002,120)	(1,002,120)	(393,215)	(393,215)
- Stage 2 - Lifetime expected credit loss	(1,397,274)	(1,397,274)	(471,821)	(471,821)
- Stage 3 - Lifetime expected credit loss	(10,126,505)	(10,126,505)	(10,305,850)	(10,305,850)
	43,265,674	**43,265,674**	**40,248,990**	**40,248,990**
Maturity analysis				
Current	11,030,091	11,030,091	5,504,879	5,504,879
Non-Current	32,235,583	32,235,583	34,744,110	34,744,110
	43,265,674	**43,265,674**	**40,248,990**	**40,248,990**

15a Lease services

The Bank, as policy-based financier, purchases capital goods to be leased out to small and medium enterprises (SMEs) in the form of hire-purchases leases (finance leases).

A reconciliation of the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period, is as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Gross investment in the finance lease receivable	6,064,939	6,064,939	6,113,492	6,113,492
Undisbursed commitment balances	(534,139)	(534,139)	(241,708)	(241,708)
Unearned finance income	(1,782,276)	(1,782,276)	(1,729,363)	(1,729,363)
Earned finance income	130,541	130,541	113,298	113,298
Gross amount	**3,879,065**	**3,879,065**	**4,255,718**	**4,255,718**
Impairment allowance for uncollectible minimum lease payments receivable	(667,475)	(667,475)	(334,688)	(334,688)
Present value of minimum lease payments	**3,211,591**	**3,211,591**	**3,921,031**	**3,921,031**
Gross investment in the finance lease receivable:				
- Not later than one year	1,504,158	1,504,158	1,092,773	1,092,773
- Later than one year and not later than five years	3,462,811	3,462,811	3,798,214	3,798,214
- Later than five years	1,097,970	1,097,970	1,222,505	1,222,505
	6,064,939	**6,064,939**	**6,113,492**	**6,113,492**
Present value of minimum lease payments may be analysed as:				
- Not later than one year	662,105	662,105	798,966	798,966
- Later than one year and not later than five years	2,443,873	2,443,873	2,996,446	2,996,446
- Later than five years	105,612	105,612	125,618	125,618
	3,211,591	**3,211,591**	**3,921,031**	**3,921,031**

15b Impairment allowance on loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers as at 30 June 2020 is as follows:

	ECL as at 30 June 2019 Birr'000	Charge for the year Birr'000	ECL as at 30 June 2020 Birr'000
Stage 1 - 12 month ECL	393,215	608,905	1,002,120
Stage 2 - Lifetime ECL	471,821	925,454	1,397,274
Stage 3 - Lifetime ECL	10,305,850	(179,345)	10,126,505
Total	**11,170,885**	**1,355,014**	**12,525,899**

A reconciliation of the allowance for impairment losses for loans and advances to customers as at 30 June 2019 is as follows:

	ECL as at 30 June 2018 Birr'000	Charge for the year Birr'000	ECL as at 30 June 2019 Birr'000
Stage 1 - 12 month ECL	371,079	22,135	393,215
Stage 2 - Lifetime ECL	617,190	(145,370)	471,821
Stage 3 - Lifetime ECL	5,994,928	4,310,922	10,305,850
Total	**6,983,198**	**4,187,688**	**11,170,885**

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
16 Investment securities				
Financial assets at fair value through OCI				
Equity investment				
Balance at the beginning of the year	25,390	25,390	11,370	11,370
Adjustment on initial application of IFRS 9			(2,118)	(2,118)
Changes in the fair value of investments at FVTOCI	11,909	11,909	16,138	16,138
Additional investments made during the year	632	632		
	37,930	**37,930**	**25,390**	**25,390**
Financial assets at amortized cost				
Treasury bills	4,710,234	4,710,234	29,231,981	29,231,981
Treasury notes and Government bonds	27,646,277	27,646,277	1,807,974	1,807,974
Gross amount	**32,356,510**	**32,356,510**	**31,039,955**	**31,039,955**
Less: impairment allowance	(1,618)	(1,618)	(1,552)	(1,552)
	32,354,893	**32,354,893**	**31,038,403**	**31,038,403**
Maturity analysis				
Current	4,708,711	4,708,711	29,230,603	29,230,603
Non-Current	27,684,112	27,684,112	1,833,190	1,833,190
	32,392,823	**32,392,823**	**31,063,793**	**31,063,793**

The Bank holds equity investments in Eth-switch of 5.13% (30 June 2019: 5.26%). The equity investments primary valuation technique adopted by the bank in undertaking the valuation of the investee companies is the market approach. This is because the financial information available on the investee companies consists of historical audited financial statements.

Treasury bills and notes and Ethiopian government bonds are classified as amortized cost because management's intention is to hold these investments to maturity and they are not held for trading, managed on a fair value basis or quoted in an active market.

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Treasury bills and notes shall be redeemed within one year and three years, respectively. Ethiopian government bonds shall be redeemed in ten equal annual installments after a grace period of two and five years for two serial bonds. These bonds are non-interest bearing bonds. The first bond amounting to Birr 18,758,946.00 was issued on 21 February 2014 to be paid over 10 years with an annual installment of Birr1,875,894.60, commencing on 1 February 2016 and ending on 1 February 2025. The second bond amounting to Birr 2,567,767,114.00 was issued on 20 July 2016 to be paid in 10 equal annual installments with an annual installment of Birr 256,776,711.40, starting on 1 July 2022 and ending on 1 July 2031.

The outstanding balance of 364 days of Treasury bills held by the Bank are converted into a single three-year Treasury note (Serial No. 3) with an interest rate of 5% per annum. The principal shall be paid on December 3, 2023 as a bullet (after the elapse of three years). The interest shall be paid semi-annually on the 3rd day of June and 3rd day of December of each year. The interest payment shall commence on December 3, 2020 and end on December 3, 2023.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
17 Investment in subsidiary				
Ethio Capital & Investment PLC		9,999		9,999
		9,999		**9,999**
Maturity analysis				
Current				
Non-Current		9,999		9,999
		9,999		**9,999**

(i) The Group has one subsidiary company, namely Ethiop Capital and Investment PLC, which is directly controlled by the Group. The subsidiary has share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation (i.e., Ethiopia) is its place of business.

The subsidiary is owned by six shareholders, with majority of shares (99,994 shares out of 100,000 shares issued on 14 June 2017) being held by the Development Bank of Ethiopia. The company was established in 2017 and the shares were fully paid up in cash at the time of its establishment. No additional shares have been issued subsequent to initial share issuance.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of any member of the Group.

The relevant activities of the subsidiary is determined by the Board of Directors of the subsidiary based on simple majority shares.

Therefore, the Directors of the Group concluded that the Group has control over the subsidiary and was consolidated in the Group's financial statements.

Based on the contractual arrangements between the Group and the shareholders in the subsidiary, the Group has the power to appoint and remove the majority of the Board of Directors of the entity/company.

The table below shows the detailed information on share holding in Ethio Capital and Investment PLC:

			Ownership interest	
Name of Company	**Nature of business**	**Country of incorporation**	**30 June 2020**	**30 June 2019**
Ethio Capital & Investment PLC	Asset management & others	Ethiopia	99.99%	99.99%

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(ii) Non-controlling interests (NCI)

Set below is the summarized financial information of only one subsidiary, Ethio Capital and Investment PLC, which has non-controlling interest, even though it is immaterial to the Group. The information is presented as at 30 June 2020 and 30 June 2019.

	Ethio Capital & Investment PLC	
	30 June 2020	30 June 2019
	Birr'000	Birr'000
Summarized statement of profit or loss		
Operating income	899	730
Operating expenses	(514)	(873)
Profit before tax	385	(143)
Income tax expense	(2)	
Profit/(loss) for the period	**383**	**(143)**
Profit/(loss) allocated to NCI	**0.02**	**(0.01)**
Consolidated statement of financial position		
Assets		
Cash and bank balances	9,573	8,781
Other assets	454	971
Property, plant and equipment	15	13
Total assets	**10,041**	**9,765**
Liabilities & Equity		
Liabilities		
Current tax liabilities	2	
Other liabilities	34	143
Total Liabilities	**36**	**143**
Equity		
Capital	10,000	10,000
Retained earnings	(72)	(378)
Legal reserve	77	
Total equity	**10,005**	**9,622**
Total liabilities and equity	**10,041**	**9,765**
Accumulated NCI	**1**	**1**

	Ethio Capital & Investment PLC	
	30 June 2020	30 June 2019
	Birr'000	Birr'000
Summarized statement of cash flows		
Net cash flows (used in)/from operating activities	796	(695)
Net cash flows (used in) /from investing activities	(558)	(1)
Net cash flows (used in) /from financing activities		
Net increase/ (decrease) in cash and cash equivalents	238	(695)
Cash and cash equivalents, beginning of period	340	1,035
Cash and cash equivalents, end of period	**578**	**340**

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	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
18 Other assets				
Financial assets				
Uncleared effects	11,885	11,885	168,810	168,810
Staff advances	2,848	2,828	31,068	31,049
Sundry receivables	2,840,698	2,840,348	1,550,999	1,550,133
	2,855,432	**2,855,062**	**1,750,877**	**1,749,992**
Less: impairment allowance	(317,339)	(317,339)	(51,250)	(51,250)
	2,538,092	**2,537,722**	**1,699,627**	**1,698,742**
Non-financial assets				
Assets held for lease	340,578	340,578	323,282	323,282
Prepaid staff expense	131,939	131,939	122,449	122,449
Prepayments	17,162	17,162	12,836	12,830
Inventory and office supplies	14,651	14,651	12,307	12,307
Assets awaiting for sale	3,650,082	3,650,082	1,799,433	1,799,433
Value added tax recoverable	84	-	80	
	4,154,495	**4,154,412**	**2,270,387**	**2,270,301**
Less: Impairment allowance	(839,305)	(839,305)	(598,661)	(598,661)
	3,315,190	**3,315,106**	**1,671,725**	**1,671,640**
Net amount	**5,853,282**	**5,852,829**	**3,371,353**	**3,370,382**
Maturity analysis				
Current	1,718,807	1,718,807	1,137,926	1,137,926
Non-Current	4,134,475	4,134,022	2,233,427	2,232,456
	5,853,282	**5,852,829**	**3,371,353**	**3,370,382**

Property/assets held for lease relates to assets that the Bank has received under letters of credit for which it has made payments on behalf of its customers, but the related assets have not been transferred to the customers until such time that all the formalities for hand-over is finalised.

18a Impairment allowance on other assets

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

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Balance at the beginning of the year	651,915	651,915	253,311	253,311
Day 1 change on ECL (adjustment on initial application of IFRS 9)			(8,660)	(8,660)
Write-off during the year			(846)	(846)
Charge for the year (note 10)	507,056	507,056	408,110	408,110
Balance at the end of the year	**1,158,971**	**1,158,971**	**651,915**	**651,915**

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19 Right-of-use assets and lease Liabilities

The Group and the Bank lease land and office buildings. The information about leases for which the Group and the Bank are a lessee is presented below:

(i) Right-of-use assets:

	Group/Bank		
	Land ETB '000	Building ETB '000	Total ETB '000
Cost:			
Balance as at 1 July 2019			
Reclassification	3,437		3,437
Adjustment on initial application of IFRS 16		50,834	50,834
Restated balance as at 1 July 2019	**3,437**	**50,834**	**54,271**
Additions	-	-	-
Balance as at 30 June 2020	**3,437**	**50,834**	**54,271**
Accumulated amortization			
Balance as at 1 July 2019			
Reclassification	401		401
Restated balance as at 1 July 2019	**401**	-	**401**
Amortization for the year	387	23,085	23,472
Balance as at 30 June 2020	**789**	**23,085**	**23,873**
Net carrying value as at 30 June 2020	**2,648**	**27,749**	**30,397**

(ii) Lease liabilities

	Group/Bank		
	Land ETB '000	Building ETB '000	Total ETB '000
Balance on initial application as at 1 July 2019			
Reclassification	1,963		1,963
Adjustment on initial application of IFRS 16		23,585	23,585
Restated balance as at 1 July 2019	**1,963**	**23,585**	**25,548**
Interest expense recognized in P&L	212	1,384	1,596
Payment for leases	(292)	(11,652)	(11,945)
Balance as at 30 June 2020	**1,883**	**13,317**	**15,200**

	Group/Bank		
	Land ETB '000	Building ETB '000	Total ETB '000
Maturity analysis			
Current	45	6,239	6,284
Non-Current	1,838	7,078	8,916
	1,883	**13,317**	**15,200**

The maturity analysis of lease liabilities are set out below:

At 30 June 2020	0 - 30 days Birr'000	31 - 90 days Birr'000	91 - 180 days Birr'000	181 - 365 days Birr'000	Over 1 year Birr'000
Lease liabilities	1,520	1,520	1,724	1,520	8,916
Total	**1,520**	**1,520**	**1,724**	**1,520**	**8,916**

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The maturity analysis of lease liabilities are also disclosed in Note 4.4.2. IFRS 16.58 requires disclosure of the maturity analysis of lease liabilities applying IFRS 7.39 and IFRS 7.B11 separately from the maturity analyses of other financial liabilities. As such, the Group presented a separate line item for lease liabilities in the maturity analysis of its financial liabilities.

The Group and the Bank recognize a lease liability at the present value of the lease payments that are not paid at that date. For lease liability in respect of office buildings, the Group and the Bank uses a weighted average incremental borrowing rate of 8% as determined based on saving bonds issued to the public. For land lease, the Group and the Bank applies a weighted average incremental borrowing rate of 11.5% based on the borrowing rate of commercial banks.

The Group and the Bank lease buildings for its office space. The building leases typically run for a period of between 2 and 5 years with majority of the contracts running for a period of 5 years. Some leases include an option to renew the lease for an additional period at the end of the contract term. The renewal terms and lease rental can not be reliably estimated before the end of the contracts.

The Group and Bank also lease land for construction of its own warehouse buildings. The land leases typically run for a period of 60 and 99 years. These leases include an option to renew the lease.

iii) Amounts recognised in profit or loss

2020 - Leases under IFRS	**2020 Birr'000**
Depreciation expense of right-of-use assets	23,472
Interest expense on lease liabilities	1,596
Expense relating to short-term leases	-
Expense relating to leases of low-value assets	-
Total amount recognised in profit or loss	**25,069**

	2019 Birr'000
2019 - Operating leases under IAS 17	25,504
Finance lease expense	219
Total amount recognised in profit or loss	**25,723**

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
20 Investment property				
Cost:				
At the beginning of the year	240,323	240,323	232,613	232,613
Acquisitions			7,711	7,711
At the end of the year	**240,323**	**240,323**	**240,323**	**240,323**
Accumulated depreciation:				
At the beginning of the year	21,241	21,241	17,335	17,335
Charge for the year	8,819	8,819	3,906	3,906
At the end of the year	**30,060**	**30,060**	**21,241**	**21,241**
Net book value at the end of the year	**210,264**	**210,264**	**219,082**	**219,082**
20a Amounts recognised in profit or loss for investment properties				
Rental income	11,468	11,468	15,410	15,410
Direct operating expenses from property that generated rental income	(1,052)	(1,052)	(5,414)	(5,414)
	10,416	**10,416**	**9,995**	**9,995**

20b Fair value measurement of the Bank's Investment properties

Investment properties include those held for rental purposes and those in which the Bank occupies an insignificant portion. These properties are held to earn rentals and for capital appreciation. There are currently no restrictions on the realisability of these properties.

Investment properties are initially measured [on transition] at fair value as deemed cost and subsequently measured at depreciated cost (less any accumulated impairment losses). Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 50 years. The fair value of investment properties has been disclosed as required.

The fair value of the Bank's Investment property as at 30 June 2020 and 2019 has been arrived at by the Bank's independent in-house engineers. These valuers/appraisers have appropriate qualifications and relevant/recent experience in the valuation of properties. Based on the bank valuation manual, all properties are valued using either the income approach or the [replacement] cost approach depending on the availability of data. The cost approach is based on determination of the minimum cost of replacing or replicating the service potential embodied in the property using comparable material and workmanship, in the most efficient way practicable, given the service requirements, the age and condition of the existing property and replacement in the normal course of the business. The cost approach mainly involves determination of replacement cost of developments and corresponding depreciation.

In applying cost approach, buildings are first categorized according to their purposes, height, materials of construction and size. Then each category is further classified into grades based on the quality of materials used for the construction. For the analysis of cost of construction, complete structural, architectural, electrical, sanitary and other designs of representative buildings are collected and bill of quantity is prepared using currently updated unit price manual, and finally the unit cost per m2 and/or per m3 is determined by dividing the estimated cost of the construction of the building into the building's plinth area or volume.

There has been no change to the valuation technique during the year.

20c Fair value hierarchy

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

Group/Bank	Carrying amount	Level 1	Level 2	Level 3
30 June 2020	**Birr'000**	**Birr'000**	**Birr'000**	**Birr'000**
Investment properties	**210,264**			**311,658**
Group/Bank				
30 June 2019				
Investment properties	**219,082**			**291,479**

Group/Bank **21 Intangible assets**	Purchased software Birr'000	Purchased software under progress Birr'000	Total Birr'000
Cost:			
As at 1 July 2018	46,395	23,339	69,734
Acquisitions	17,510	30,653	48,163
As at 30 June 2019	**63,905**	**53,992**	**117,897**
As at 1 July 2019	63,905	53,992	117,897
Acquisitions	81,693	29,977	111,670
Transfer		(70,839)	(70,839)
As at 30 June 2020	**145,598**	**13,130**	**158,728**
Accumulated amortisation			
As at 1 July 2018	34,095		34,095
Amortization for the year	6,318		6,318
As at 30 June 2019	**40,413**		**40,413**
As at 1 July 2019	40,413		40,413
Amortization for the year	10,426		10,426
As at 30 June 2020	**50,839**		**50,839**
Net book value			
As at 30 June 2019	**23,492**	**53,992**	**77,484**
As at 30 June 2020	**94,760**	**13,130**	**107,889**

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	Buildings	Motor vehicles	Furniture and fittings	Machinery and equipment	Computer installations	Capital work in progress	Leasehold land	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
22 Property, plant and equipment								
Group								
Cost:								
As at 1 July 2018	566,287	230,031	26,255	43,094	142,402	53,590	3,437	1,065,096
Additions	43,853	83,975	6,051	15,542	50,041	6,431		205,892
Disposal (through sales)		(1,180)	(47)	(24)	(163)			(1,414)
Disposal (through donation)		(21)	(198)	(2)	(1,863)			(2,085)
Write-off					(20)			(20)
Transfer		(40,268)		(10,029)	(40,387)	(51,564)		(142,246)
As at 30 June 2019	**610,140**	**272,537**	**32,061**	**48,581**	**150,010**	**8,457**	**3,437**	**1,125,223**
As at 1 July 2019	610,140	272,537	32,061	48,581	150,010	8,457	3,437	1,125,223
Opening balance adjustment					(829)			(829)
Restated balance as at 1 July 2019	**610,140**	**272,537**	**32,061**	**48,581**	**149,181**	**8,457**	**3,437**	**1,124,394**
Additions	17	16,170	592	9,067	17,151	2,663		45,659
Disposal (through sales)	-	-	-	-	(787)	-	-	(787)
Disposal (through donation)	-	-	(785)	(170)	(130)	-	-	(1,086)
Reclassification to right-of-use-asset							(3,437)	(3,437)
Transfer	-	(13,123)	(70)	(4,775)	(22,478)	(50)	-	(40,496)
As at 30 June 2020	**610,157**	**275,584**	**31,797**	**52,703**	**142,936**	**11,069**	**-**	**1,124,247**
Accumulated Depreciation								
As at 1 July 2018	68,315	95,901	9,315	21,736	46,670		14	241,950
Charge for the year	27,427	21,627	2,753	4,400	15,903		387	72,498
Disposal (through sales)	-	(1,144)	(26)	(24)	(157)			(1,350)
Disposal (through donation)	-	(20)	(196)	(2)	(1,845)			(2,063)
As at 30 June 2019	**95,742**	**116,364**	**11,846**	**26,110**	**60,572**		**401**	**311,035**
As at 1 July 2019	95,742	116,364	11,846	26,110	60,572		401	311,035
Opening balance adjustment					(68)			(68)
Restated balance as at 1 July 2019	**95,742**	**116,364**	**11,846**	**26,110**	**60,503**	-	**401**	**310,966**
Charge for the year	34,999	24,849	2,776	4,704	16,025			83,352
Disposal (through sales)	-	-	-	-	(119)			(119)
Disposal (through donation)	-	-	(734)	(159)	(103)			(995)
Reclassification to right-of-use-asset							(401)	(401)
As at 30 June 2020	**130,740**	**141,213**	**13,888**	**30,655**	**76,306**	-	-	**392,803**
Net book value								
As at 30 June 2019	**514,399**	**156,173**	**20,215**	**22,472**	**89,438**	**8,457**	**3,035**	**814,189**
As at 30 June 2020	**479,417**	**134,371**	**17,909**	**22,048**	**66,630**	**11,069**	-	**731,444**

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	Buildings	Motor vehicles	Furniture and fittings	Machinery and equipment	Computer installations	Capital work in progress	Leasehold land	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Bank								
Cost:								
As at 1 July 2018	566,287	230,031	26,246	43,094	142,368	53,590	3,437	1,065,054
Additions	43,853	83,975	6,051	15,542	50,041	6,431		205,892
Disposal (through sales)		(1,180)	(47)	(24)	(163)			(1,414)
Disposal (through donation)		(21)	(198)	(2)	(1,863)			(2,085)
Transfer		(40,268)		(10,029)	(40,387)	(51,564)		(142,246)
As at 30 June 2019	610,140	272,537	32,052	48,581	149,996	8,457	3,437	1,125,200
As at 1 July 2019	610,140	272,537	32,052	48,581	149,996	8,457	3,437	1,125,200
Opening balance adjustment					(829)			(829)
Restated balance as at 1 July 2019	610,140	272,537	32,052	48,581	149,167	8,457	3,437	1,124,371
Additions	17	16,170	588	9,067	17,151	2,663	-	45,654
Disposal (through sales)					(787)			(787)
Disposal (through donation)			(785)	(170)	(130)			(1,086)
Reclassification to right-of-use-asset							(3,437)	(3,437)
Transfer		(13,123)	(70)	(4,775)	(22,478)	(50)		(40,496)
As at 30 June 2020	610,157	275,584	31,784	52,703	142,922	11,069	-	1,124,220
Accumulated depreciation								
As at 1 July 2018	68,315	95,901	9,314	21,736	46,668		14	241,948
Charge for the year	27,427	21,627	2,752	4,400	15,897		387	72,491
Disposal (through sales)		(1,144)	(26)	(24)	(157)			(1,350)
Disposal (through donation)		(20)	(196)	(2)	(1,845)			(2,063)
As at 30 June 2019	95,742	116,364	11,844	26,110	60,564		401	311,025
As at 1 July 2019	95,742	116,364	11,844	26,110	60,564		401	311,025
Opening balance adjustment					(68)			(68)
Restated balance as at 1 July 2019	95,742	116,364	11,844	26,110	60,496	-	401	310,957
Charge for the year	34,999	24,849	2,774	4,704	16,023		-	83,349
Disposal (through sales)					(119)			(119)
Disposal (through donation)			(734)	(159)	(103)			(995)
Reclassification to right-of-use-asset							(401)	(401)
As at 30 June 2020	130,740	141,213	13,885	30,655	76,297	-	-	392,791
Net book value								
As at 30 June 2019	514,399	156,173	20,208	22,472	89,432	8,457	3,035	814,175
As at 30 June 2020	479,417	134,371	17,899	22,048	66,626	11,069	-	731,429

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	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
23 Deposits from customers				
Demand deposits	399,591	399,591	446,882	446,882
Savings deposits	19,738	19,738	18,385	18,385
Time deposits	105,488	105,488	105,485	105,485
Customers deposits in foreign currency	204,847	204,847	229,931	229,931
	729,664	**729,664**	**800,683**	**800,683**
Maturity analysis				
Current	656,698	656,698	720,614	720,614
Non-Current	72,966	72,966	80,068	80,068
	729,664	**729,664**	**800,683**	**800,683**
24 Debt securities issued				
Ethiopian Government Saving/Renaissance Dam/ Bonds	9,435,473	9,435,473	9,800,005	9,800,005
	9,435,473	**9,435,473**	**9,800,005**	**9,800,005**

Ethiopian Government Saving (Renaissance Dam) Bonds are bonds bearing interest rates of 7.5% and 8% per annum issued by the Bank, with maturity periods between 1 to 5 years and over 5 years, respectively. These debt securities are measured using an effective annual interest rate. On top of that, there are some bonds being issued with no interest rate, which are measured at effective interest rate.

All these bonds are guaranteed by the Ethiopian Government.

The Bank has had no defaults of principal and interest or other breaches with respect to its debt securities in any of the years under consideration.

Maturity analysis	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Current	2,148,832	2,148,832	2,230,000	2,230,000
Non-Current	7,286,641	7,286,641	7,570,005	7,570,005
	9,435,473	**9,435,473**	**9,800,005**	**9,800,005**

24a Reconciliation of debt securities issued

A reconciliation of the changes in debt securities arising from financing activities is as follows:

Balance at the beginning of the year	9,800,005	9,800,005	10,496,009	10,496,009
Proceeds from issue of debt securities	619,120	619,120	1,617,465	1,617,465
Repayments on debt securities	(983,651)	(983,651)	(2,313,469)	(2,313,469)
Balance at the end of the year	**9,435,473**	**9,435,473**	**9,800,005**	**9,800,005**

25 Borrowings

China Development Bank	897,914	897,914	1,012,507	1,012,507
Ministry of Finance	11,125,563	11,125,563	8,392,750	8,392,750
National Bank of Ethiopia	58,939,524	58,939,524	52,910,376	52,910,376
	70,963,000	**70,963,000**	**62,315,634**	**62,315,634**
Maturity analysis				
Current	9,361,106	9,361,106	6,011,042	6,011,042
Non-Current	61,601,895	61,601,895	56,304,592	56,304,592
	70,963,000	**70,963,000**	**62,315,634**	**62,315,634**

A Foreign Borrowing from China Development Bank (Direct Facility in U.S. Dollars)

The Bank had borrowed two foreign loan facilities amounting to US$25 million and US$30 million from China Development Bank with floating interest rate (bearing interest at the rate of 6 months USD LIBOR rate plus 2.6% margin per annum). These special loan facilities are repayable semi-annually, in U.S. dollars, commencing on 20 May 2013 and ending on 4 September 2023. The borrowings are measured at effective interest rate.

B Borrowing from Ministry of Finance (on-lent facilities in Ethiopian Birr)

The borrowings from Ministry of Finance are different loans on-lent facilities from various international lending institutions bearing interest ranging from 1.5% to 2.5% per annum and repayable in Ethiopian Birr in semi-annual installments, commencing on 31 January 2013 and ending on 31 July 2052. All these borrowings are concessional (soft loans) and were measured at effective interest rate.

C Borrowing from National Bank of Ethiopia (direct facilities in Ethiopian Birr)

The local borrowings from National Bank of Ethiopia are interest bearing loans obtained at the rate of 3% and 5% per annum with principal being repaid after 5 years and interest being paid annually. The loans are repayable in Ethiopian Birr. The borrowings are measured at effective interest rate.

Development Bank of Ethiopia has complied with the financial covenants of its borrowing facilities during the reporting periods under review.

25a Reconciliation of the Group's and Bank's borrowings

A reconciliation of the changes in borrowings is as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Balance at the beginning of the year	62,315,634	62,315,634	54,541,222	54,541,222
Proceeds from borrowings	13,974,022	13,974,022	9,249,469	9,249,469
Accrued effective interest	2,086,635	2,086,635	1,754,547	1,754,547
Foreign exchange movement	181,170	181,170	64,754	64,754
Repayment of borrowings	(7,594,460)	(7,594,460)	(3,294,359)	(3,294,359)
Balance at the end of the year	**70,963,000**	**70,963,000**	**62,315,634**	**62,315,634**

26 Other liabilities

Financial liabilities				
Letter of credit margin payables	2,546,985	2,546,985	1,593,493	1,593,493
Foreign exchange retentions payable	60,417	60,417	93,716	93,716
Equity and other blocked account	1,103,356	1,103,356	1,293,961	1,293,961
Defined contribution liabilities	3,857	3,857	3,697	3,697
Banking instruments payables	11,430	11,430	29,487	29,487
Exchange commission payable	6,311	6,311	3,397	3,397
Risk fund payable	411,533	411,533	362,673	362,673
Managed funds payable	61,174	61,174	59,426	59,426
Accrued payable	96,856	96,856	69,041	69,041
Allowance for impairment loss on off-balance sheet items	48	48	74	74
Provisions	7,141	7,141		
Other payables	2,347,854	2,347,833	844,452	844,321
	6,656,961	**6,656,939**	**4,353,417**	**4,353,286**
Non-financial liabilities				
Stamp duty payable	407	407	2,350	2,350
Withholding tax and valued added tax payables	21,083	21,083	1,574	1,574
Other tax payable	13,124	13,111	5,921	5,908
	34,614	**34,601**	**9,845**	**9,832**
Gross amount	**6,691,575**	**6,691,541**	**4,363,261**	**4,363,118**
Maturity analysis				
Current	4,998,342	5,011,432	2,572,164	2,577,942
Non-Current	1,686,091	1,680,109	1,791,097	1,785,176
	6,684,434	**6,691,541**	**4,363,261**	**4,363,118**

26a Provisions

Legal provisions arising out of current or potential claims from customers shall be recognized when the Group and the Bank have a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a professional estimate can be made of the amount of the obligation. Accordingly, provisions have been held in the financial statements for those legal cases during the current year where the Board of Management believes that it is probable that economic benefits would flow out of the Bank in respect of those litigations.

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The provisions held for those legal claims as at June 30,2020 and June 2019 are presented as follows:

	Group/Bank 30 June 2020 Birr'000	Group/Bank 30 June 2019 Birr'000
Balance as at 1 July 2019	-	-
Provision held during the year	7,141.30	-
Ending balance as at June 30,2020	7,141.30	-

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
27 Retirement benefit obligations				
Defined benefits liabilities:				
– Employee benefit plan (note 27a)	77,700	77,700	38,396	38,396
– Medical benefits scheme(note 27b)	14,397	14,397	9,300	9,300
Liability in the statement of financial position	**92,097**	**92,097**	**47,696**	**47,696**
Income statement charge included in personnel expenses:				
– Employee benefit plan (note 27a)	78,394	78,394	7,040	7,040
– Medical benefits scheme(note 27b)	1,017	1,017	663	663
Total defined benefit expenses	**79,411**	**79,411**	**7,703**	**7,703**
Remeasurement (gains)/losses recognized in OCI (net of tax):				
– Employee benefit plan (note 27a)	(25,997)	(25,997)	2,533	2,533
– Medical benefits scheme(note 27b)	3,763	3,763	3,006	3,006
	(22,234)	**(22,234)**	**5,538**	**5,538**

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

Maturity analysis

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Current	6,099	6,099	3,764	3,764
Non-Current	85,998	85,998	43,932	43,932
	92,097	**92,097**	**47,696**	**47,696**

27a Employee benefit plan

The employee benefit plan is made up of three (3) unfunded schemes which are severance benefits that are paid on voluntary withdrawal, funeral assistance paid on death in service and pension prize paid on retirement. These plans have been aggregated in determining the retirement benefit obligation as the inherent risks applicable to these plans have been assessed not to be materially different.

The key financial assumptions are the discount rate and the rate of salary increases. The provision for gratuity was based on an independent actuarial valuation performed by QED Actuaries & Consultants (Pty) Ltd using the projected unit credit method.

The Group and Bank do not maintain any assets for the schemes but ensures that they have sufficient funds for the obligations as they crystallise

(i) Severance gratuity benefit

The Bank operates unfunded severance pay plan for its employees who have served the Bank for at lease 5 years but below the retirement age, based on the statutory severance benefit as set out in Labor Proclamation No. 377/2003, as amended by the Labour (Amendment) Proclamation No. 494/2006. Employees are only entitled to the benefits under this scheme provided they have no entitlement to pension [fund] benefits at retirement date.

The benefit applicable is thirty times the average daily wages of their last week of service for the first year of service plus ten times the average daily wages of their last week of service for each subsequent year of service, but not exceeding a maximum of one year's wages payable to the employee.

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(ii) Funeral Assistance gratuity benefit

The funeral assistance benefit on death in service was previously one month's salary for non-management staff and two months' salary for management staff with a minimum payment of ETB 5,000. For the year ended 30 June 2020, however, the funeral assistance benefit on death in service has been revised to be Birr 30,000.00 for all employees without any link to salary at death.

(iii) Pension Prize gratuity benefit

The pension prize benefit payable to all employees retiring at age 60 with a minimum of 10 years' service was 3 months' salary with a minimum of ETB 5,000. Where employees retired early from the Bank at age 55 and had served the Bank for at least 10 years and the Bank and other employers for at least 25 years, they would receive 2 months' salary. However, the pension prize benefit has now been amended to be in the range of 6 and 18 months' salary for 10 - 26 years of service.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
A Liability recognised in the financial position	**77,700**	**77,700**	**38,396**	**38,396**
The split of the defined benefit obligation in respect of the different benefits included is summarised below:				
Severance benefit (resignation)	17,689	17,689	21,547	21,547
Funeral assistance (death in service)	1,123	1,123	1,289	1,289
Pension prize (retirement)	58,888	58,888	15,560	15,560
	77,700	**77,700**	**38,396**	**38,396**
B Amount recognised in the profit or loss				
Current service cost	3,737	3,737	3,050	3,050
Interest cost	4,836	4,836	3,990	3,990
Past services cost	69,821	69,821		
	78,394	**78,394**	**7,040**	**7,040**
C Re-measurement (gains)/losses in other comprehensive income				
Remeasurement (gains)/losses arising from changes in demographic assumptions				
Remeasurement (gains)/losses arising from changes in economic assumptions	(30,632)	(30,632)	2,844	2,844
Remeasurement (gains)/losses arising from changes in experience	(6,506)	(6,506)	774	774
	(37,138)	**(37,138)**	**3,618**	**3,618**
Deferred tax (liability)/asset on remeasurement gain or loss	11,141	11,141	(1,085)	(1,085)
	(25,997)	**(25,997)**	**2,533**	**2,533**
D Changes in the present value of the defined benefit obligation				
At the beginning of the year	38,396	38,396	29,394	29,394
Current service cost	3,737	3,737	3,050	3,050
Actual benefit payments	(1,952)	(1,952)	(1,656)	(1,656)
Interest cost	4,836	4,836	3,990	3,990
Past services cost	69,821	69,821		
Remeasurement (gains)/losses arising from changes in demographic assumptions				
Remeasurement (gains)/losses arising from changes in economic assumptions	(30,632)	(30,632)	2,844	2,844
Remeasurement (gains)/losses arising from changes in experience	(6,506)	(6,506)	774	774
At the end of the year	**77,700**	**77,700**	**38,396**	**38,396**

E The principal assumptions used in determining defined benefit obligations

Discount rate (p.a)	14.90%	14.90%	11.75%	11.75%
Long term salary increases (p.a)	12.00%	12.00%	12.00%	12.00%
Average rate of inflation (p.a)	10.00%	10.00%	10.00%	10.00%
Net pre-retirement rate	2.59%	2.59%	-0.22%	-0.22%

(i) Discount rate

In Ethiopia, there is neither a deep market in corporate nor government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market determined. IAS 19 does not provide guidance for setting the discount rate in a country with limited government bonds or instruments.

The Bank therefore opted to use the yields on the Kenyan government bonds yield curve at the duration of the liabilities as at the valuation date of each year.

(ii) Inflation rate

The inflation rate was used to determine a reasonable estimate of expected long-term future salary increases, which tend to be related to long-term future inflation.

Based on the latest IMF projection (updated in April 2020), long-term inflation in Ethiopia is expected to converge towards a target of 10% over the long term.

(iii) Mortality rate

The mortality rates published in the Demographic and Health Survey ("DHS") 2016 report compiled by the Central Statistics Authority (CSA) was applied to 5 year age bands between the ages of 15 and 49. For ages over 47, mortality rate was assumed to be in line with the SA85/90 ultimate standard South African mortality tables published by the Actuarial Society of South Africa ("ASSA"), since the rates in these tables are similar to the DHS female mortality rate at age 47.

These rates combined are approximately summarized as follows:

	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

(iv) Withdrawals from service

A resignation rate of 3.2% was applied per annum for all employees below age 50 and zero thereafter, based on past experience.

(v) Duration of the employee benefits plan

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the employee benefit scheme at the end of the reporting period is 11 and 10 years as at 30 June 2020 and 30 June 2019, respectively.

F Quantitative sensitivity analysis for significant assumption

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

		Impact on defined benefit obligation (DBO)			
		Group/Bank			
		30 June 2020			
		Base DBO		DBO on changed assumption	
	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%/-1%	(77,700)	77,700	(70,680)	85,488
Salary increase	+1%/-1%	(77,700)	77,700	(85,626)	70,446

	Impact on defined benefit obligation		
		Group/Bank	
		30 June 2019	
	Change in assumption	Impact of an increase	Impact of a decrease
		Birr'000	Birr'000
Discount rate	+1%/-1%	(35,024)	42,128

	Impact on current service Cost		
		Group/Bank	
		30 June 2019	
	Change in assumption	Impact of an increase	Impact of a decrease
		ETB'000	ETB'000
Discount rate	+1%/-1%	(3,408)	4,100

	Impact on defined benefit obligation		
		Group/Bank	
		30 June 2019	
	Change in assumption	Impact of an increase	Impact of a decrease
		Birr'000	Birr'000
Salary increase	+1%/-1%	42,084	35,002

	Impact on current service cost		
		Group/Bank	
		30 June 2019	
	Change in assumption	Impact of an increase	Impact of a decrease
		ETB'000	ETB'000
Salary increase	+1%/-1%	4,095	3,406

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 defined benefit obligation liability recognised within the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The following payments are expected contributions to be made in for the next five (5) years out of the defined benefit plan obligation:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Year ending 30 June 2021	4,757	4,757	3,048	3,048
Year ending 30 June 2022	6,713	6,713	2,882	2,882
Year ending 30 June 2023	8,005	8,005	3,740	3,740
Year ending 30 June 2024	7,746	7,746	4,504	4,504
Year ending 30 June 2025	9,701	9,701	4,719	4,719
	36,922	36,922	18,893	18,893

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27b Medical benefits scheme

Employees retiring early at age 55 with at least 25 years of service are covered for 100% of local medication costs and expenses for medical treatment in government hospitals or the Bank's clinic under this scheme.

The key financial assumptions are the discount rate and the rate of medical benefit increases. The provision for medical benefits scheme was based on an independent actuarial valuation performed by QED Actuaries & Consultants (Pty) Ltd using the projected unit credit method.

The medical benefit is an unfunded scheme.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
A Liability recognised in the financial position	**14,397**	**14,397**	**9,300**	**9,300**
B Amount recognised in the profit or loss				
Current service cost				
Interest cost	1,017	1,017	663	663
	1,017	**1,017**	**663**	**663**
C Re-measurement (gains)/losses in other comprehensive income				
Remeasurement (gains)/losses arising from changes in demographic assumptions				
Remeasurement (gains)/losses arising from changes in the economic assumptions	(2,660)	(2,660)	557	557
Remeasurement (gains)/losses arising from changes in experience	8,035	8,035	3,737	3,737
	5,375	**5,375**	**4,294**	**4,294**
Deferred tax (liability)/asset on remeasurement gain or loss	(1,613)	(1,613)	(1,288)	(1,288)
	3,763	**3,763**	**3,006**	**3,006**

D Changes in the present value of the defined benefit obligation

Reconciliation of the defined benefit obligation for the bank for the fiscal year ended June 30,2020 is presented as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
At the beginning of the year	9,300	9,300	6,237	6,237
Current service cost				
Interest cost	1,017	1,017	663	663
Actual benefit payments	(1,295)	(1,295)	(1,894)	(1,894)
Remeasurement (gains)/losses arising from changes in demographic assumptions				
Remeasurement (gains)/losses arising from changes in the economic assumptions	(2,660)	(2,660)	557	557
Remeasurement (gains)/losses arising from changes in experience	8,035	8,035	3,737	3,737
At the end of the year	**14,397**	**14,397**	**9,300**	**9,300**

E The principal assumptions used in determining defined benefit obligations

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Discount rate (p.a)	14.70%	14.70%	11.75%	11.75%
Long term medical increase rate (p.a)	12.00%	12.00%	12.00%	12.00%
Average rate of inflation (p.a)	10.00%	10.00%	10.00%	10.00%
Net post-retirement rate	2.41%	2.41%	-0.22%	-0.22%

(i) Discount rate

In Ethiopia, there is neither a deep market in corporate nor government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market determined. IAS 19 does not provide guidance for setting the discount rate in a country with limited government bonds or instruments.

The Bank therefore opted to use a discount rate of yields on the Kenyan government bonds yield curve at the duration of the liabilities as at the valuation date of each reporting period.

(ii) Inflation rate

The inflation rate was used to determine a reasonable estimate of expected long-term medical benefit increases, which tend to be related to long-term future inflation.

Based on the latest IMF projection (updated in April 2020), long-term inflation in Ethiopia is expected to converge towards a target of 10% over the long term.

(iii) Medical cost increases

Future medical cost increases are usually linked with a long-term future inflation assumption, plus a margin representing that medical costs usually increase by more than general price inflation. It was assumed that long term medical cost increases is 2% higher than the assumed long term inflation rate on average.

(iv) Mortality rate

There are no mortality rates published for Ethiopia that reasonably cover ages above 60. As a result, the A(55) ultimate pensioner mortality standard tables, published by the Institute and Faculty of Actuaries was used to estimate the mortality of the pensioners. This is a commonly used mortality table for pensioners in East Africa.

	Males	Females
65	0.0230	0.0139
70	0.0378	0.0231
75	0.0616	0.0388
80	0.0986	0.0650
85	0.1525	0.1063
90	0.2241	0.1669

(v) Duration of the benefit plan

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the post-retirement medical benefits scheme at the end of the reporting period is 9 and 10 years as at 30 June 2020 and June 2019, respectively.

F Quantitative sensitivity analysis for significant assumption

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

		Impact on defined benefit obligation (DBO)			
		Group/Bank			
		30 June 2020			
		Base DBO		DBO on changed assumption	
	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%/ -1%	(14,397)	14,397	(13,354)	15,532
Medical cost increase	+1%/ -1%	(14,397)	14,397	(15,549)	13,320

	Change in assumption	Impact on defined benefit obligation 30 June 2019 Group/Bank: Impact of an increase Birr'000	Impact of a decrease Birr'000
Discount rate	+1%/ -1%	(8,521)	10,159

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 post-retirement medical benefits liability recognised within the statement of financial position.

The following payments are expected contributions to be made in for the next five (5) years out of the defined benefit plan obligation:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Year ending 30 June 2021	1,342	1,342	716	716
Year ending 30 June 2022	1,447	1,447	771	771
Year ending 30 June 2023	1,558	1,558	828	828
Year ending 30 June 2024	1,673	1,673	887	887
Year ending 30 June 2025	1,791	1,791	948	948
	7,811	**7,811**	**4,150**	**4,150**

28 Capital

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Authorized and fully paid	**7,500,000**	**7,500,000**	**7,500,000**	**7,500,000**

The Bank is wholly owned by the Federal Democratic Republic of Ethiopia and is a public financial enterprise. The authorized capital is Birr 7,500,000,000 and the capital is fully paid in cash and in kind in accordance with the "Development Bank of Ethiopia Establishment (Amendment) Council of Ministers Regulation No. 343/2015," which was issued on July 3, 2015 in the Federal Negarit Gazette. There are no shares

29 Retained earnings

At the beginning of the year	(4,435,059)	(4,434,682)	(7,231,521)	(7,231,355)
Opening balance adjustment	(93,847)	(93,847)	(69)	
Adjustment on initial application of IFRS 9			4,836,946	4,836,946
Profit/ (Loss) for the year	1,870,126	1,869,744	(1,672,283)	(1,672,140)
Transfer to legal reserve	(467,513)	(467,436)		
Transfer to regulatory credit risk reserve	(351,104)	(351,104)	(368,133)	(368,133)
At the end of the year	**(3,477,397)**	**(3,477,325)**	**(4,435,059)**	**(4,434,682)**

30 Other reserves

At the beginning of the year	(4,195)	(4,195)	(8,471)	(8,471)
Adjustment on initial application of IFRS 9 - equity investments measured at FVOCI (net of tax)			(1,483)	(1,483)
Change in fair value reserve-equity investment	11,909	11,909	16,138	16,138
Deferred tax on unrealized gain on fair value of equity instrument	(3,573)	(3,573)	(4,841)	(4,841)
Re-measurement gains/ (losses) on defined benefit plans (net of tax)	22,234	22,234	(5,538)	(5,538)
At the end of the year	**26,375**	**26,375**	**(4,195)**	**(4,195)**
Other reserves consist of:				
Defined benefit obligations reserve	8,225	8,225	(14,009)	(14,009)
Fair value reserve - equity investment	18,150	18,150	9,814	9,814
	26,375	**26,375**	**(4,195)**	**(4,195)**

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Other reserves are items included under other comprehensive income (OCI). These reserves relate to the effect of remeasurement gains/losses (or actuarial gains /losses arising from economic assumptions and experience) on defined benefit plans in respect of severance pay, pension prize, funeral assistance and post-retirement medical benefits, as well as the movement of fair value measurement in respect of equity investments measured at fair value through other comprehensive income . They are recognized in the period in which they occur, directly in other comprehensive income (OCI).

The other reserves are non-distributable.

31 Regulatory credit risk reserve

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
At the beginning of the year	2,488,509	2,488,509	2,120,377	2,120,377
Transfer from retained earnings	351,104	351,104	368,133	368,133
At the end of the year	**2,839,613**	**2,839,613**	**2,488,509**	**2,488,509**

The regulatory credit risk reserve is a non-distributable reserve as required by the regulations of the National Bank of Ethiopia (NBE) to be established for interest accrued on impaired loans (non-performing loans), by transferring from retained earnings, until such time as the loans are classified into performing status (i.e., pass and/or special mention).

32 Legal reserve

At the beginning of the year	176,527	176,527	176,527	176,527
Transfer from profit or loss	467,513	467,436		
At the end of the year	**644,040**	**643,963**	**176,527**	**176,527**

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.

For the subsidiary company, it is required to transfer annually 20% of its annual net profit to its legal reserve account until it reaches 10% of the company's capital in accordance with its Articles of Association.

33 Non-controlling interest

This represents the non-controlling interests (NCI) portion of the net assets of the Group.

	Group 30 June 2020 Birr'000	Group 30 June 2019 Birr'000
Ethio Capital & Investment PLC	1	1
	1	**1**
This represents the NCI share of profit/(loss) for the year		
Ethio Capital & Investment PLC	0.02	(0.01)
	0.02	**(0.01)**

Transactions with non-controlling interests

During the reporting period, the Development Bank of Ethiopia had no any transaction with the subsidiary company.

34 Cash generated from operating activities

	Notes	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Profit before tax		**1,842,453**	**1,842,068**	**(1,491,004)**	**(1,490,861)**
Adjustments for non-cash items:					
Gain/(Loss) on foreign exchange dealing and fluctuation	8	(383,071)	(383,071)	(242,019)	(242,019)
Depreciation of property, plant and equipment	22	83,352	83,349	72,498	72,491
Depreciation of investment property	20	8,819	8,819	3,906	3,906
Amortisation of intangible assets	21	10,426	10,426	6,318	6,318
Depreciation of right-of-use assets	19	23,472	23,472		
Interest expense on lease liability		1,596	1,596		
Net gain/(loss) on disposal of property, plant and equipment		(119)	(119)	(1,202)	(1,202)
Disposal of property, plant and equipment through donation & sale (2019: write-off)	22	1,873	1,873	3,518	3,499
Interest accrued on Gov't bonds (2019: modification loss on government bond)	16	90,554	90,554	(204,288)	(204,288)
Impairment on loans and receivables	15	1,355,014	1,355,014	4,187,688	4,187,688
Impairment on other assets and off-balance sheet items	18	507,056	507,056	408,110	408,110
Retirement benefit obligations	27	79,411	79,411	4,153	4,153
Changes in working capital:					
-Decrease/ (Increase) in loans and advances	15	(4,371,698)	(4,371,698)	(10,194,064)	(10,194,064)
-Decrease/ (Increase) in other assets	18	(3,019,060)	(3,019,578)	325,102	325,934
-Decrease/ (Increase) in investments security	16	(1,329,096)	(1,329,096)	584,394	584,394
-Increase/ (Decrease) in customer's deposit	23	(71,018)	(71,018)	(312,253)	(312,253)
-Increase/ (Decrease) in other liabilities	26	2,366,998	2,367,107	711,421	711,301
		(2,803,039)	**(2,803,835)**	**(6,137,723)**	**(6,136,893)**

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

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Proceeds on disposal	787	787	1,266	1,266
Net book value of property, plant and equipment disposed (Note 22)	(668)	(668)	(64)	(64)
Net gain/(loss) on sale of property, plant and equipment	**119**	**119**	**1,202**	**1,202**

35 Related party transactions

Development Bank of Ethiopia is a wholly-owned government financial institution.

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

35a Loans and advances to key management members (year-end balances)

Key management has been determined to be the members of the Board of Management and the Executive Management of the

i) The Group/Bank has not granted any loans and advances to the Board of Management during the year ended 30 June 2020 and 30 June 2019.

ii) Loans and advances to Executive Management

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
At the end of the year	**2,683**	**2,683**	**2,679**	**2,679**

The loans and advances to Executive Management members comprise short-term loans (revolving emergency loans) with personal guarantees as well as housing loans with the financed residential buildings being held as collateral.

These loans are repaid on a monthly basis by deducting from the monthly salary payment of each Executive Management member.

35b Key management compensation

The compensation paid or payable to key management is shown below. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2020 and 30 June 2019.

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Salaries & other short-term benefits (executive management	2,603	2,603	2,528	2,528
Post-employment benefits (executive management)	661	661	286	286
Board fees	1,883	1,883	323	323
	5,147	**5,147**	**3,137**	**3,137**

Compensation of the Bank's executive management members includes salaries, various benefits and contributions to the post-employment defined benefits plans.

36 Manpower Stock

The average number of persons (excluding directors) employed by the Bank at the end of each reporting period was as follows:

	Bank 30 June 2020 Number	Bank 30 June 2019 Number
Professionals and high-level supervisors	1,479	1,508
Semi-professional, administrative and clerical	547	557
Technician and skilled	118	133
Manual and custodian	105	122
	2,249	**2,320**

37 Contingent liabilities

37a *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 Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies. At year end, the Bank had several unresolved legal claims.

The maximum exposure of the Bank to these legal cases as at 30 June 2020 is estimated to be Birr 66,102,147.61 (including Birr 58,960,851 claim arising from Ministry of Revenues, Adama Branch, relating to Elsi Addis Textile project currently managed by the Bank) (30 June 2019: Birr 48,147,846.68). A provision of Birr 7,141,296.61 has been made in the financial statements for those current or potential litigation claims which may arise from customers, counterparties or other parties in civil litigations. However, no further provisions have been made as the Bank's legal counsel believes that it is possible, but not probable, that the economic benefits would flow out of the Bank in respect of these legal actions. Instead, such legal claims are disclosed in the financial statements.

The Bank has also instituted suits against third parties arising from the normal course of business. The possible claims arising from settlement of these cases as at 30 June 2020 is Birr 170,381,311.22 (30 June 2019 : Birr 177,398,302.36).

37b *Guarantees and letters of credit*

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and letters of credit. Even though these obligations may not be recognised on the statement of financial position they contain credit risk and, therefore, form part of the overall risk of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below:

In general, 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/discloses the fair value amount of contingent liabilities for the account of customers, as follows:

	Group 30 June 2020 Birr'000	Bank 30 June 2020 Birr'000	Group 30 June 2019 Birr'000	Bank 30 June 2019 Birr'000
Performance guarantees	8,590	8,590	62,215	62,215
Letters of credit for customers	3,751,192	3,751,192	3,484,065	3,484,065
	3,759,782	**3,759,782**	**3,546,280**	**3,546,280**

These guarantees and letters of credit are not provided for in the statement of financial position as at 30 June 2020 and 30 June 2019.

38 Commitments

Loan commitments	15,270,229	15,270,229	11,342,154	11,342,154
Other commitments	123,652	123,652	35,179	35,179
	15,393,881	**15,393,881**	**11,377,333**	**11,377,333**

Other commitments represent commitments made in respect of expected procurement of various items and services and the estimated cost to complete the Bank's construction work in progress based on the contractual agreements entered into between the Bank and the supplier/contractor.

39 Events after reporting period

In accordance with IAS 10 Events after the Reporting Period, the Group and Bank shall be required to distinguish between subsequent events that are adjusting events (ie those that provide further evidence of conditions that existed at the end of the reporting period) and non-adjusting events (ie those that are indicative of conditions that arose after the reporting period). The Group and Bank shall be required to adjust the amounts recognized in the financial statements to reflect any adjusting events that occur during the subsequent events period but prior to the date on which the financial statements are authorized for issue. For material non-adjusting events, the Group and Bank shall be required to disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

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

Nevertheless, there is one material non-adjusting subsequent event which shall be required to be disclosed in the notes to the financial statements. This is set out below.

Injection of additional capital

In accordance with the Development Bank of Ethiopia Establishment (Amendment) Council of Ministers Regulation No. 470/2020, the Council of Ministers (of the Federal Democratic Republic of Ethiopia) has approved the increase of the capital of Development Bank of Ethiopia from Birr 7.5 billion to 28.52 billion, by injecting an additional capital of Birr 21.02 billion. The regulation was issued/published in the Federal Negarit Gazette on the 10th of July 2020.

The objective behind the capital increase is to improve the [development] lending capacity of the Bank as well as its capital base, as a policy-based financial institution, in accordance with the international requirements, especially those of Development Finance Intuitions (DFIs). As a result, the Bank will be better positioned to absorb any unexpected credit and other risks that might otherwise arise in its lending operations in times of difficult situations.