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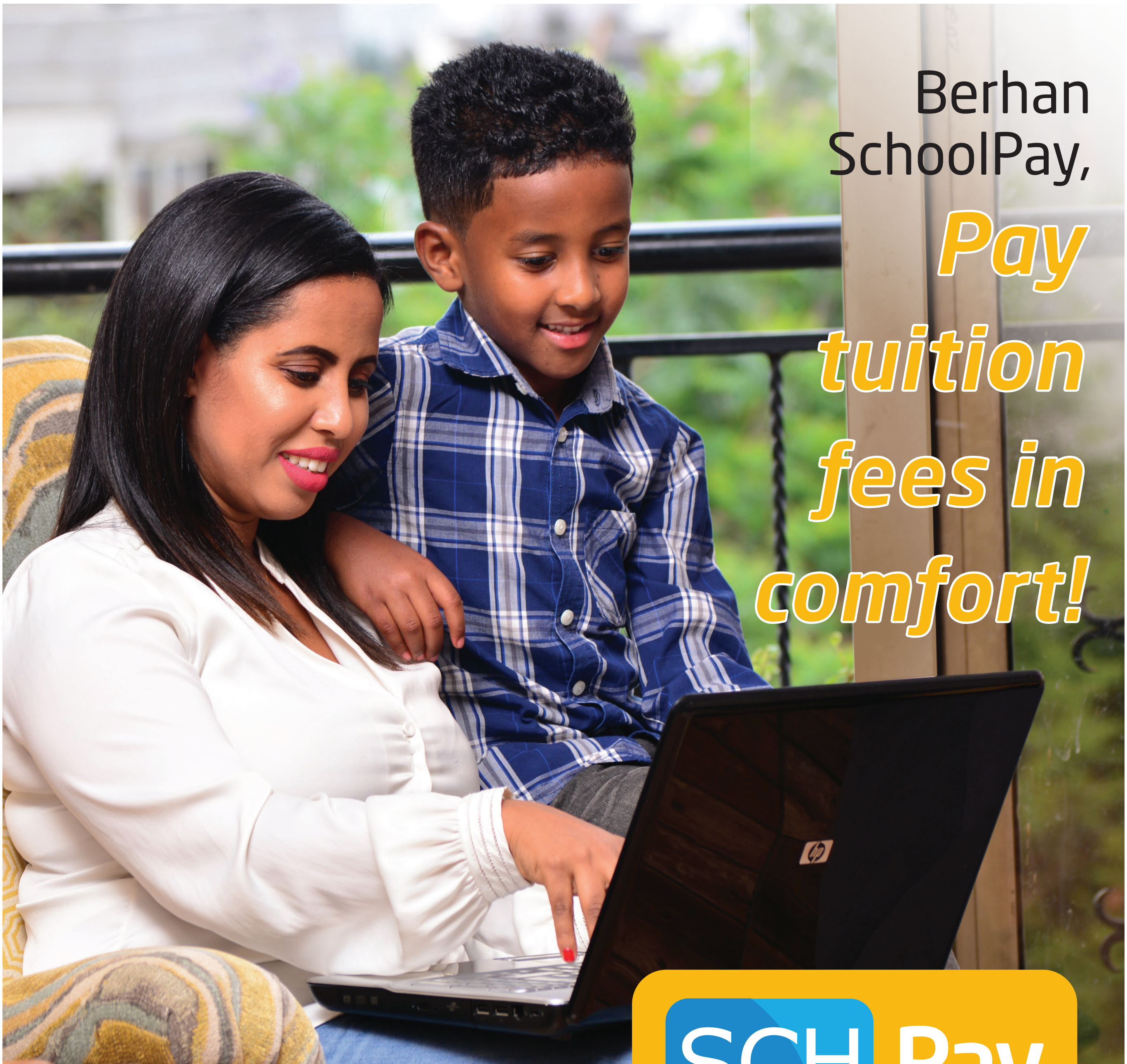
Berhan Bank

Annual Report
2019/20



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E-mail info@berhanbanksc.com www.berhanbanksc.com
P.O.Box 387 Code 1110, Addis Ababa, Ethiopia

Contents

Vision

To be a radiant and trustworthy bank in excellence

Mission

Provide diverse financial products by deploying motivated and qualified human resource as well as up-to-date technology with highest ethical standard to create maximum value to stakeholders.

Values

Quality Service
Utmost respect to customers
Innovation, excellence and progress
Integrity and loyalty
Professionalism and team spirit
Collaboration and partnership
Public confidence and trust
Fairness
Confidentiality

Board of Directors

Ato Gumachew Kussie
Chairperson

Nardos Berehanu (PhD)
Vice Chairperson

Ato Mulatu Belachew
Director

Daniel Assefa (Architect)
Director

Fasil Nahum (PhD)
Director

Amarech Bekalo(PhD)
Director

W/ro Meron Gezahegn
Director

Aynalem Abayneh (PhD)
Director

Ato Eligo Legesse
Director

Ato Alemayehu Melesse
Director

Executive Management Team

Ato Solomon Assefa
V/P – Customer Service and
Quality Assurance

Ato Abraham Alaro
President

Ato Ermias Tefera
V/P – Corporate Strategy and
Resource Mobilization

Ato Amanuel Taddesse
V/P – Operation

W/ro Bethlehem Getachew
V/P – Corporate Services

Ato Tadesse Hatiya
Executive Assistant to the
President

Ato Wossen Alemeye
Chief Information Officer

Ato Eskinder Alemseged
A/Director – Internal Audit
Department

Ato Anteneh Mekonnen
Director- Risk and Compliance
Management Department

Ato Shimelis Tesfaye
Director-Human Resource Operation
and Development Department

W/ro Semenawit Abadi
Director-Strategic Planning and
Performance Appraisal Department

Ato Beneyam Mesfin
Director- Marketing and Corporate
Communication Department

Ato Masresha H/Michael
Director - Corporate Customers
and Relationship Department

Ato Desalegn Fissehatsion
Director - Finance and
Accounts Department

Ato Bereket Teketel
Director- Credit Follow-up and
Portfolio Management Dept.

Ato Thomas Desalegn
Director - IFRS Office

Ato Tilahun Endris
Director - Facilty Management
Department

Ato Wale Yirga
Director- Resource Mobilization
Department

Ato Million Zeleke
Director-Credit Analysis
and Appraisal Department

W/ro Kidist Abraham
Director - International
Banking Department

W/ro Elssa Ketema
Director -Tansformation and
Change Management Department

Ato Dagmawi Kassahun
Director – Service Outlet and
Standardization Department

Ato Bayissa Milkessa
Director- Business Development
and Intelligence Department

Ato Yared Aguade
Director - Engineering and
Valuation Department

Ato Tesfaye Maru
Director-Treasury and
Investment Department

Ato Asefa Taye
A/Director-Legal Service and
Loan Recovery Department

Message from the Board Chairperson

Dear Shareholders,

The year 2019/20 was another year of strong performance for Berhan Bank as we delivered record results through strong operational performance and decisive actions to adjust to changes in the country and the world at large. On behalf of the Board of Directors, it is my deepest pleasure to congratulate you on the astounding results our Bank has registered.

The year 2019/20, had a steady economic movement in the first and second quarter granting normal business operation, yet the unforeseen incident of Covid-19 gradually but profoundly hindered the global economic activities. In particular, import, export and remittance were highly affected; businesses were forced to be closed due to lockdowns and unemployment rate increased.

The Banking industry was also a victim of this Pandemic which demanded changes from daily operation to rescheduling of loans and interest rate adjustments. Deposit mobilization was one of the toughest challenges in the industry following the overall liquidity crunch which affected the banking industry in an uncommon and unprecedented manner. Particularly, in the months of November and December 2019 the stress was acute compelling the National Bank of Ethiopia to be engaged in resolving the problem.

Our Bank, however, did not loss its focus from the strategic focuses of the year; ensuring operational efficiency, strengthening resource mobilization, enhancing customer service quality and augmenting digital financial services. The focus given to e-banking service has been our Bank's forte evidenced by new digital financial services launched within the year. The introduction of the new DFS products and diversification of the existing e-banking services enhanced the customer service quality and facilitated the resource mobilization activities of the Bank. Besides, our Bank, on other business fronts, has performed well and achieved several milestones in the year under review despite the dynamic domestic macroeconomic challenges.

On the other side, resolving the pressure brought by the Pandemic on businesses to honoring credit repayment schedules was also another priority of the Bank as per the directives provided by the National Bank of Ethiopia particularly in the 4th quarter of the year under review. Besides, our Bank had also given priorities on safeguarding the safety and well-being of its employees through social distancing and providing safety materials yet ensuring business continuity. On the other hand, the Bank discharged various social responsibilities contributing its part in a national move towards combating the Pandemic.

In such conditions, yet, our Bank has succeeded to attain creditable results proving the strength of its foundation built since its establishment. Our Bank earned a profit before tax of Birr 707.5 million exceeding prior year's profit by 22 percent and basic Earnings per Share (EPS) of Birr 258.8. This commendable result was achieved in the midst of the economic and political pressure the country has faced in the year 2019/20. The Board of Directors, the management and the staff worked relentlessly to meet the Bank's target even in the most challenging times of the Pandemic with commitment and team spirit.

As another success story, it is my delight to announce that our Bank has now closed a deal on the purchase of a land of 2,295 m2 near the future financial center of the city to build transitional head quarter for Berhan Bank. The Board of Directors and the management has exerted relentless effort to finalize the acquisition process. On the other hand, the Bank's request for plot of land to build our Bank's head quarter is under process with Addis Ababa City Administration Office.

Finally, on behalf of the Board of Directors, I want to acknowledge our shareholders and our respected customers for the continued trust, confidence and support to our Bank throughout the year. I also want to express my appreciation to the Bank's management and employees for their commitment to address the huge challenge that the Bank faced during the fiscal year in caption. I am confident this courage and commitment will continue being spring board for the success of the Bank in the years ahead.

Thank you !

Gumachew Kussie

Message from the President

Dear Shareholders,

It gives me a great pleasure to present to you our Bank's 2019/20 financial year performance. Our Bank has unveiled a remarkable achievement at a time where the macro economy as well as the financial sector was in a great stress and uncertainty.

Across the world, social and economic instabilities were caused by the outbreak of the Corona Virus Pandemic. The Pandemic affected every country and every individual regardless of border, economic & technology development status, race and age although the degree of the impact may vary from one to another.

The global economic flow and international business were severely hampered due to the "Lockdown" undertaken in almost all parts of the world since March 2020. On our side, the Ethiopian Government took a number of steps pertaining to social and economic aspects with a view to minimizing the impact of the Pandemic. The local economy witnessed adverse effect of the Pandemic especially for the major portion of the second half of the year, despite the various measures taken by the government to revive the economy. Despite all the challenges faced during the fiscal year under review, our Bank exhibited strong performance on major operational areas.

In the year 2019/20, the Bank's deposit stock reached Birr 16.6 billion growing by 11.0 percent from prior year's position. Also, the number of deposit customers of our Bank has reached 789 thousand from the previous year's record of 657 thousand i.e., 20 percent growth compared with same period last year. On the other hand, our Bank mobilized USD 155.7 million despite decline of remittance from abroad due to the "Lockdowns" around the world.

As regard the lending business of the Bank, the outstanding loan stock of the Bank reached Birr 12.7 billion, 24.5 percent growth compared to previous year's position of Birr 10.2 billion. The advance of the Bank in extending growing volume of loans indicates the growing trend of the Bank's role in contributing towards the development of the national economy.

Nonetheless, growth of non-performing loans (NPLs) stock was one of the major challenges the Bank encountered in the financial year under review basically because of the unprecedented economic slowdown caused by the COVID-19 Pandemic. It attributed to the fact that businesses were highly affected to the point that customers were unable to repay their debt as per schedule. However, the Bank was able to manage its NPLs using the tools issued by the National Bank of Ethiopia. On the other hand, our Bank's total asset as at the reporting date was Birr 21.4 billion, depicting 11.4 percent growth from last year's position. The growth in the total asset is indicative of the fact that the Bank is strengthening its base for further growth in the days to come.

As a result of the operational performances indicated herein above, the Bank registered a gross profit of Birr 707.5 million that is 22 percent increment compared to the previous year's record of Birr 580 million. Success of such a high record of gross profit despite the various challenges we faced during the fiscal year under consideration is a clear indication of the commitment and collaboration of staff, management and Board of Directors of the Bank towards the goals set. It also highlights the Bank's capacity to flexibly adapt its strategies to fit to the new reality. It is important to note here that the Bank has made interest rate adjustment on all of its loan products to help COVID 19 stricken economy in the fiscal year. Accordingly, the annual profit of the Bank should be noted with such context.

As regards to branch expansion, our Bank was able to open 31 new branches in Addis Ababa and outlying areas wherein the total branch network increased to 231 across the country.

During the fiscal year under review, our Bank achieved a great deal in terms of introducing newly developed electronic banking products to the market. In this connection, the Bank launched School Pay service developing a fully integrated school fee management system. The product has various features which attracts all levels of schools helping to easily collecting their school fees and monitoring payment status at real time. Moreover, a digital flight ticket booking service named as GuzoGo has also been launched integrating the Bank's digital platform with systems of 10 Airlines. Besides, enhancement works have been completed on mobile banking and internet banking services; and pilot test has been commenced on VISA and MasterCard acquiring service all of which are believed to enhance the market competitiveness of our Bank in the industry.

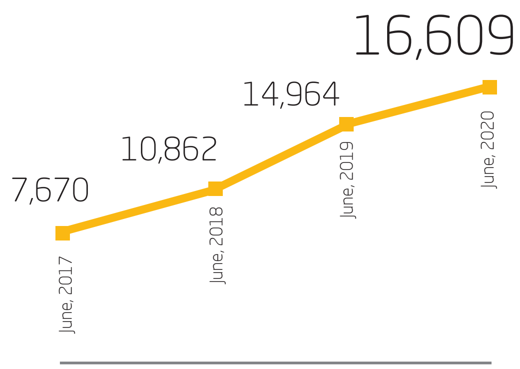
In general, in light of the fact that the year was disrupted with unprecedented changes to prevent the spread of COVID-19 Pandemic and political instability in several parts of the country, our annual performance reflects our Bank's capacity to outperform the challenges and maintain its growth momentum. In connection with the business disruption, it is worth mentioning that the Bank was forced to relieve all employees with certain cases, take measures to ensure social distancing internally, and installed various sanitary materials in Addis Ababa and outlying regional cities and towns where population traffic is huge in order to help communities protect themselves from the Pandemic as part of social responsibility.

In conclusion, I would like to take this opportunity to congratulate our esteemed shareholders on accounts of the annual performance achievement recorded and also appreciate the Board of Directors, the management and the entire staff of our Bank for their contribution and dedication attributing to the success of the Bank. As we look to 2020/21 F.Y. and beyond, my fellow colleagues and I are confident to continue to see multiple avenues of profitable growth and expansion enrolling effective strategies and enhancing our competence in the market topped with the commitment and hard work of our staff.

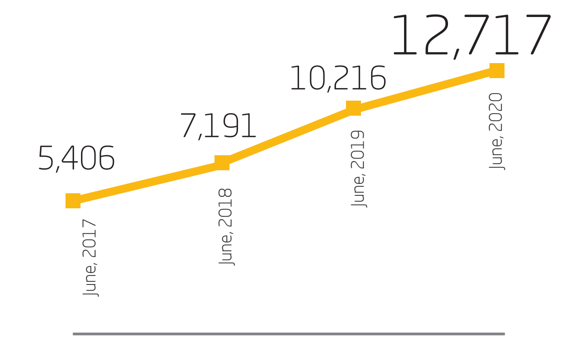
Thank you !

Abraham Alaro

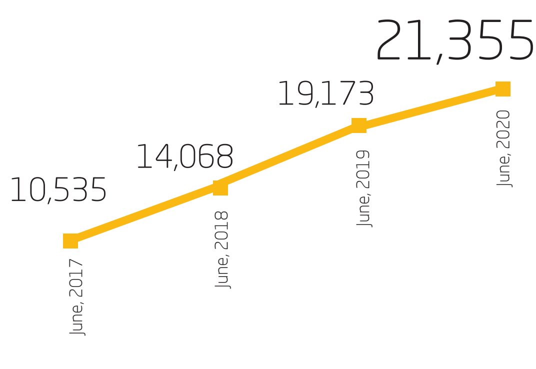
Performance Summary



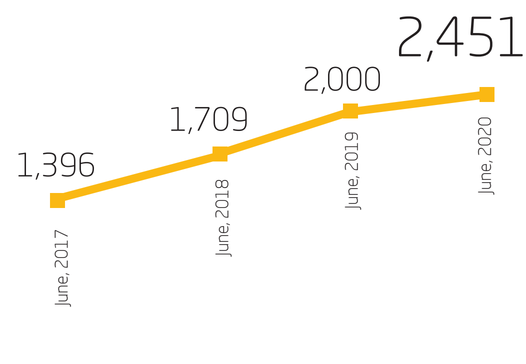
Total Deposit (in millions)



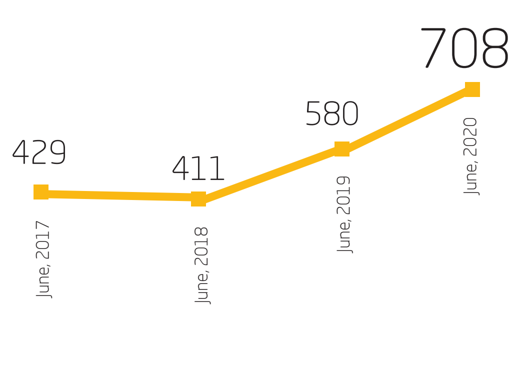
Outstanding Loan (in millions)



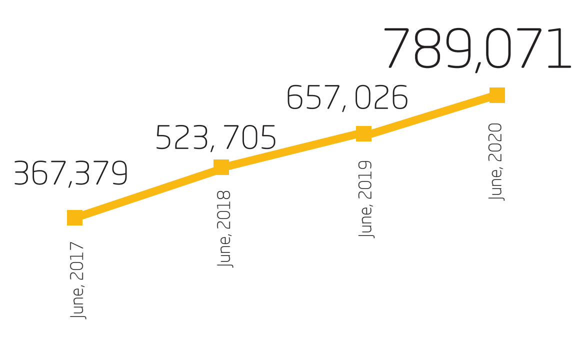
Total Asset (in millions)



Paid-up Capital (in millions)



Gross Profit (in millions)



No of Depositors

Major Performance Highlights

1. Major Undertakings of 2019/20 F.Y.

The pace of global economic activity remained weak in the first half year of 2019/20 F.Y. following the increased trade tension, tightened financial conditions and growing political tension among pillar economies. In particular, momentum in manufacturing activity has weakened substantially, rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation, taking a toll on business confidence, investment decisions, and global trade (WEO, 2019). On top of these, the spread of the Corona Virus, which escalated to a Pandemic in the second half year of 2019/20 F.Y., has shocked the world economies and put the globe into unpredictable condition. Further, the limited knowledge about the virus has moved most powerful economies into lockdown and eventually into diverse economic disruption and potential recession in general.

The African economy has also been impacted by the Pandemic; the economies have already experienced a slowdown particularly tourism, air transport, and the oil sectors. The exogenous effects on African economy came from direct trade links between affected partner continents such as Asia, Europe and the United States. The decline in remittances from African diaspora; Foreign Direct Investment (FDI) and Official Development Assistance; illegal financing flows and domestic financial market tightening are also the economic impacts. Likewise, the Pandemic brought a visible economic disruption on Ethiopian economy although it did not cause a large scale human suffering as that of European countries. Alongside the economic reforms undertaken by the government, several restriction measures has been introduced to mitigate the impacts of the disease on the economy including social distancing and declaration of state of emergency to contain spread of the virus; which in turn restrained the supply and demand in the economy.

The financial sector took its share from the Pandemic impact although, the year 2019/20 was an ordinary business year up until the occurrence of the Corona Virus (COVID-19) Pandemic in March 2020. The increase of infection cases particularly in the 4th quarter was the most challenging times for banks. Slowdowns of economic activities and business closures forcing businesses to fall in a liquidity crunch putting the financial sector under pressure; impaired borrower's capacity to debt repayment causing an increase on NPLs portfolio, decline in foreign exchange generation from export and remittance; weakening resource mobilization as households tend to have cash at hand in fear of shutdown; and slowdown of customer recruitment efforts due to the required social distancing are the foremost impacts of the Pandemic on the banking sector. As a mitigation mechanism, the central bank (NBE) has undertaken numerous measures as that of lending interest rate adjustment, loan repayment extension (rescheduling) and availing loan to banks in two rounds with competitive interest rate wherein banks can use the loan only for the purpose of settling outstanding payments.

Berhan Bank, being part of the banking sector, has experienced most of the aforementioned impacts of the Pandemic and the effect has reflected particularly in the 4th quarter of the financial year.

Despite all the odds experienced during the year 2019/20, the Bank exhibited strong operational performance, and was able to bag a gross profit of Birr 707.5 million. The Bank was also successful in acquiring a land to building its head quarter in the year under review after a tiresome searching and dealings. Further, the Bank launched a number of digital financial services such as school pay, GuzoGo, additional features of mobile banking which have enabled customers to access service at their convenience particularly in the time social distancing is highly demanded. The Bank has also celebrated its 10th year anniversary in different occasions and introduced its new logo, even though the celebration was paused due to the state of emergency imposed to minimize the spread of the Corona Virus. These has been one of the major accomplishment of the Bank in 2019/20 F.Y.

2. Operational Performance

2.1 Deposit Mobilization

Berhan Bank's deposit position stood at Birr 16.6 billion at the end of 2019/20 financial year surpassing prior year's position of Birr 14.9 billion by 11.0 percent. The largest share of the total deposit is taken by savings followed by demand and fixed time deposits.

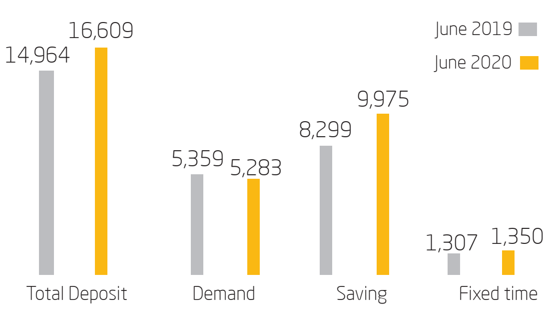


Figure 1: Breakdown of Deposit by Type in millions of Birr

2.2 Loan and Advances

The Bank's outstanding loan stock at the end of the financial year stood at Birr 12.7 billion surpassing last year's balance of Birr 10.2 billion by 24.5 percent.

Significant growth was registered in most of the economic sectors wherein domestic trade & services and building & construction take the largest share of the total outstanding loan stock.

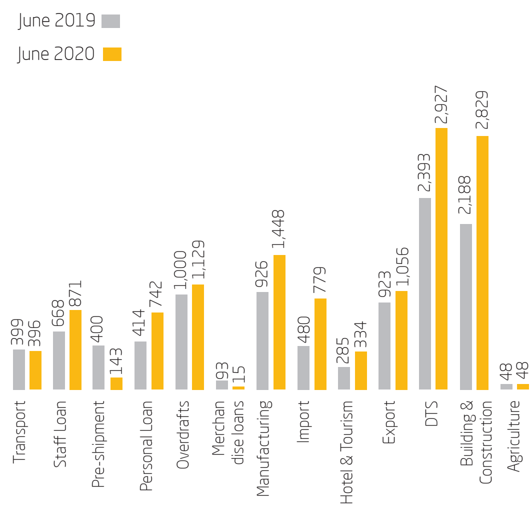


Figure 2: Breakdown of Loan and Advances in millions of Birr

2.3 International Banking

The Bank mobilized USD 155.7 million slightly below last year's mobilization of USD 161.7 million by 3.7 percent. The slowdown of businesses internationally on top of the weakened remittance and foreign direct investment caused by Pandemic were the prime contributors of the weak mobilization of foreign currency in the financial year.

3. Financial Performance

3.1 Assets

The total asset of the Bank at the end of June 2020 stood at Birr 21.4 billion growing by 11.4 percent from last year's position of Birr 19.2 billion. The growth is basically driven by the expansion of the Bank's loan book.

3.2 Capital

The Bank's total capital at the end of June 2020 reached Birr 3.4 billion and paid up capital reached

Birr 2.45 billion, growing by 22.6 percent from last year's position as a large share of the 2018/19 F.Y. dividend was capitalized in the year under consideration. Besides, the Bank's total number of shareholders reached 14,980.

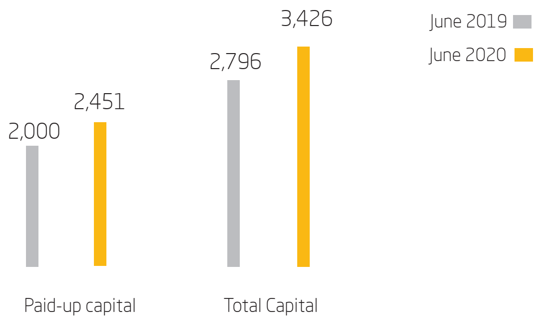


Figure 3: Composition of Capital in millions of Birr

3.3 Income

In the year under review, the Bank earned a total income of Birr 2.8 billion surpassing last year's total income of Birr 2.2 billion by 29.8 percent. Interest income is above prior year's earnings by 34.4 percent and non-interest income by 19.3 percent. In terms of share, interest income takes the lion share of 72.1 percent where as non-interest income takes 27.9 percent of the total income.

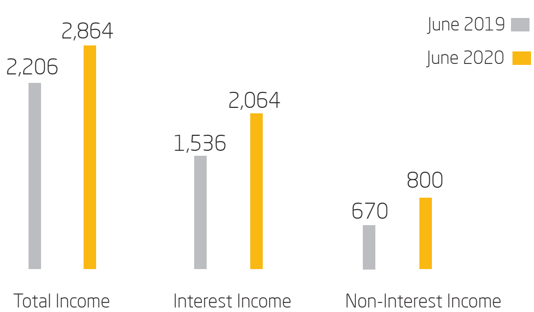


Figure 4: Composition of Income in millions of Birr

3.4 Expenses

The Bank incurred a total expense of Birr 2.2 billion above prior year's expense of Birr 1.6 billion by 32.6 percent. Interest expense grew by 35.2 percent and non-interest expense by 31.1 percent compared to last year's expense. In terms of share, non-interest expense takes a share of 62.1 percent from the total expense incurred during the year whereas the remaining 37.9 percent is taken by interest expense.

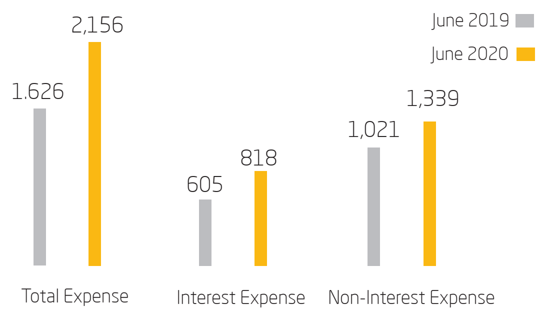


Figure 5: Composition of Expenses in millions of Birr

3.5 Profit

The Bank has managed to earn a profit before tax of Birr 707.5 million exceeding last year's profit of Birr 580.1 by 22.0 percent in the midst of economic and social instabilities caused by the COVID-19 Pandemic particularly in the second half year.

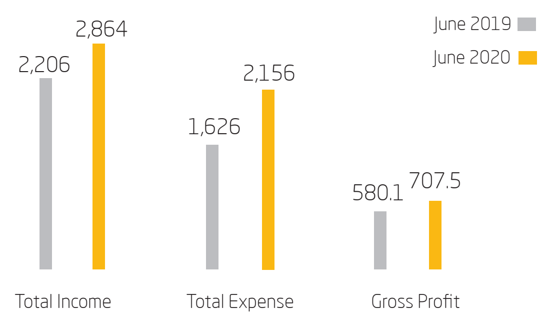


Figure 6: Composition of Gross Profit in millions of Birr

3.6 Performance Ratio

The Bank's loan to deposit ratio (LDR) at the end of 2019/20 financial year stood at 76.9 percent and return on asset (ROA) stood at 2.6 percent. The Bank's earnings per share positioned at 25.9 percent while the non-performing loans ratio (NPLs) stood at 2.2 percent at the end of the financial year.

4. Human Resources

The Bank's human resources reached 4,572 at the end of June 2020 recruiting 847 new employees within the financial year. Of the total employees, 65 percent are male while 35 percent are female employees. On the other hand, the Bank has trained 3,696 employees on numerous training programs which focused on employee development, leadership & management, information technology and other technical programs. Besides, from the total trained employees, 253 employees are under educational assistance program (EAP) of the Bank who are attending undergraduate and below business related studies in non-business hours.

5. Branch Expansion

Aiming to diversifying its accessibility, expanding sources for resource mobilization and to addressing customers' request, the Bank opened 31 new branches, 18 outlying branches and 13 city branches, thus increased its branch network to 231 (111 in metropolis and 120 in outlying areas).

6. Digital Financial Services

The Bank has undertaken enhancements, launching and pilot testing of a number of digital financial services in the period under review. School Pay service which was rolled out in July 2019 at one school then expanded to 10 schools at the end of June 2020. The system on one hand enabled customers/parents to pay school fees through mobile banking, internet banking and through Berhan branches; and on the other hand it enabled the Bank to mobilize local resource. Moreover, the system offered schools to have full control of their school fee collection process, send bulk SMS to parents and access all students information. The Bank has also commenced pilot test for VISA and MasterCard acquiring services.

Furthermore, GuzoGo, a new digital flight tickets booking service was launched integrating the Bank's digital platform with system of 10 Airlines (Ethiopian Airlines, Kenya Airway, Lufthansa, Turkish Airlines, Emirates, Saudi Air, Qatar Airways, Egypt Air, Gulf Air, and Fly Dubai) operating under AIATA. Hence, the Bank is able to provide digital flight ticket booking and payment processing service at branch over-the-counter for customers with one of the preferred Airlines. The task of availing such service via mobile banking and internet banking are under progress for subsequent system integration with GuzoGo solution.

Pilot testing of internet banking to fulfill the requirements of resident international organizations and other corporate customers; preparation of mobile money, agent banking, donation transaction automation and online event registration payment projects are under progress. Besides, 19 new lobby and through the wall ATMs have been deployed and 79 POS machines have been deployed at branches; and 3 POS machines have been deployed at merchant sites rising the number of ATMs and POS to 53 and 162 respectively.

7. 10th Year Anniversary Celebration and Logo Rebranding

The Bank launched 10th anniversary celebration program at Skylight Hotel in November, 2019 at the presence of invited guest of honors, former and current Board of Directors, and top managements. Special tribute and appreciation was made to the original person to conceive the Bank's establishment and recognized its customers who unwaveringly walked the high and low roads since its emergence, acknowledged its leadership, staff and founding board members.

The Bank has also successfully unveiled its new visual identity as part of the comprehensive strategy to rebrand itself. Accordingly, it has undertaken the initiative itself in a way that it improves its look to the public, which is believed to have substantial impact in penetrating to the market; and officially unveiled the new visual identity at the podium. The special event in Addis has colorfully been celebrated and further been extended to regional towns with special events as that of planting and watering seedlings was part of the 'Green Legacy' campaign; and customer sessions were conducted. The anniversary program was meant to continue in other branches, however, due to the COVID-19 Pandemic resulting nationwide prohibition on gathering and events, the celebration could not continue as planned.

8. Head Quarter Building Acquisition

It is to be recalled that the Bank has been searching numerous options to build its head quarter since its establishment. The search has been delayed due to several factors, yet it still has been the Bank's top priority. At last, the Bank has now closed a deal of the purchase of 2,295 m2 land near the future financial center of the city and it has become one of the top successes of the Bank in the year under review.

9. Corporate Social Responsibility

To maximizing its positive impact on national, social and environmental system, the Bank has been engaged in numerous philanthropic activities in the year 2019/20. To this effect, the Bank has donated nearly Birr 29 million for national and societal related initiatives namely to Black Lion Hospital Cardiac Center and Orthopedic Surgery, to Ministry of Health COVID-19 prevention activities, to Addis Abba City Mayor's office purchase of school materials, regional states to supporting victims of internally displaced people and to beautifying Sheger project. In the years ahead, the Bank will continue to demonstrate its social responsibility.

10. Future Plan

The Bank has planned to focus on the following critical success factors to be implemented by the Bank for the financial year 2020/21.

- Enhancing resource mobilization and allocation;
- Enhancing DFS product and IT capability utilization;
- Enhancing quality of customer service;
- Improving asset quality; and
- Building transitional head quarter of the Bank.

Major Event Highlights in Pictures

10th Annual Shareholders' Meeting

10th Anniversary Celebration

10th Anniversary Celebration

10th Anniversary Celebration

Donation for COVD-19 Prevention

Berhan Bank S.C. IFRS Financial Statements 30-June-2019

Company registration number
BL/AA/2/0002442/2005

Directors *(As of July 1, 2020)*

Ato Gumachew Kussie	Chairperson	Appointed on 09 Feb 2018
Dr. Nardos Berehanu	V/Chairperson	Appointed on 09 Feb 2018
Arc. Daniel Assefa	Member	Appointed on 09 Feb 2018
Ato Mulatu Belachew	Member	Appointed on 09 Feb 2018
Dr Fasil Nahum	Member	Appointed on 09 Feb 2018
W/o Meron Gezahegne	Member	Appointed on 09 Feb 2018
Dr Amarech Bekalo	Member	Appointed on 09 Feb 2018
Dr. Aynalem Abaynehe	Member	Appointed on 09 Feb 2018
Ato Alemayehu Melesse	Member	Appointed on 09 Feb 2018
Ato Eligo Legesse	Member	Appointed on 09 Feb 2018

Executive management *(As of July 1, 2020)*

Abraham Alaro Alambo	President	Appointed on 19-Dec-2014
Ermias Tefera Showel	VP- Corporate Strategy and Resource Mobilization	Appointed on 01-Mar-2018
Solomon Assefa Hailu	VP- Customer Service and Quality Assurance	Appointed on 01-Mar-2018
Bethlehem Getachew Metaferia	VP-Corporate Services	Appointed on 01-Jan-2018
Amanuel Tadese W/Gebriel	VP-Operation	Appointed on 01-Mar-2018
Tadesse Hatiya Oge	Executive Assistant to the President	Appointed on 31-Mar-2018
Fikadu Assefa Kebede	Area Manager	Appointed on 01-Mar-2018
Daniel G/Medihin Kahsay	Area Manager	Appointed on 01-Mar-2018
Dereje Getaneh Tesema	Area Manager	Appointed on 01-Mar-2018
Sirak Amare Shiferaw	Area Manager	Appointed on 01-Mar-2018
Solomon Ayalew Legesse	Area Manager	Appointed on 01-Mar-2018
Yared Aguade Wubneh	Director- Engineering & Valuation Department	Appointed on 28-Sep-2015
Wale Yirga Yigzaw	Director- Resorce Mobilization Department	Appointed on 01-Mar-2018
Kidist Abreham Kidane	Director-International Banking Department	Appointed on 01-Mar-2018
Shimelis Tesfaye Reta	Director- Human Resource Operation and Development Department	Appointed on 01-Mar-2018
Elsa Ketema Gebre	Director-Transformation and Change Management Department	Appointed on 25-June-2020
Bereket Teketel Wachamo	Director- Credit Follow up & Portfolio Management Department	Appointed on 25-June-2020
Binyam Mesfin Demeke	Director- Marketing and Corporate Communication Department	Appointed on 01-Mar-2018
Masresha H/Michael Gonfa	Director-Corporate Customer & Relationship Department	Appointed on 01-Mar-2017

Semenawit Abadi Kenaw	Director-Strategic Planning and Performance Appraisal Dep.	Appointed on 01-Mar-2017
Thomas Desalegn Beyene	Director- IFRS Office	Appointed on 25-June-2020
Desalegn Fissehatsion Altaseb	Director - Finance and Accounts Department	Appointed on 29-Jan-2014
Bayissa Milkessa Filla	Director- Business Development and Intelligence Department	Appointed on 25-June-2020
Tesfaye Maru Abate	Director-Treasury and Investment Department	Appointed on 01-Mar-2018
Anteneh Mekonnen Maru	Director- Risk & Compliance Management Department	Appointed on 23-Nov-2016
Wossen Alemeye Liyew	Chief Information Officer	Appointed on 18-Apr-2016
Dagmawi Kasahun Mengesha	Director- Service Outlate and Standardization Department	Appointed on 01-Mar-2018
Million Zeleke Tessema	Director-Credit Analysis and Appraisal Department	Appointed on 01-July-2018
Tihetina Abebe Gebere	Deputy Director-E-payment Department	Appointed on 01-July-2018
Feyera Ejeta Gurmessa	Deputy Director-Digital Financial Service	Appointed on 31-Oct-2018
Tilahun Endris Seid	Director- Facility Management Department	Appointed on 25-June-2020
Esknder Alemseged Teklu	Acting Director - Internal Audit Department	Appointed on 25-June-2020
Assefa Taye Ketema	Acting Director- Legal Service and Loan Recovery Department	Appointed on 25-June-2020

Independent Auditor

Tay Authorized Accountants & Auditors
Wengelawit Tadesse Building 1st Floor
Ethio-China Friendship Street
P.O. Box 1335
Addis Ababa
Ethiopia

Corporate office

TK International building
China - Africa Square
P.O Box 387 - 1110
Addis Ababa, Ethiopia

Company secretary

TK International building
China - Africa Square
P.O Box 387 - 1110
Addis Ababa, Ethiopia

Principal bankers

Bank 1:	COMMERZ BANK AG.60261 FRANKFURT AM MAIN,GERMANY Swift code: COBADEFF
Bank 2:	ECO BANK, PARIS EBI SA GROUPE Swift code: ECOCFRPP
Bank 3:	ECOBANK KENEYA LIMITED, NAIROBI KENEYA, Swift code: ECOCKENAXXX
Bank 4:	ODDO BHF AKTIENGESELLSCHAFT, FRANKFURT AM MAIN DE, Swift code: BHFBDEFF500
Bank 5:	CAC INTERNATIONAL BANK, DJIBOUTI DJ, Swift code: CACDDJJDXXX
Bank 6:	EXIM BANK(DJIBOUTI) S.A, DJIBOUTI DJ, Swift code: EXTNDJJDXXX

Report of the Directors
For the period ended 30 June 2020

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

Incorporation and address
Berhan Bank S.C was incorporated in Ethiopia in October 2009 as a privately owned financial institution, and is domiciled in Ethiopia.

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

Results and dividends
The Bank's results for the year ended 30 June 2020 are set out on the Statement of profit or loss and other comprehensive income. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Revenue	1,995,313	1,526,852
Profit / (loss) before tax	707,486	580,055
Tax (charge) / credit	(154,295)	(122,128)
Profit / (loss) for the year	553,192	457,926
Other comprehensive income / (loss) net of taxes	(1,572)	(17,149)
Total comprehensive income / (loss) for the year	**551,620**	**440,777**

Directors
The directors who held office during the year and to the date of this report are set out in the report.

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Ato Abraham Alaro
President

Statement of Directors' Responsibilities
For the period ended 30 June 2020

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

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

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

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

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

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed on behalf of the Directors by:

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia
20-Nov-2020

Ato Abraham Alaro
President
20-Nov-2020

Independent Auditor's Report

Independent auditor’s report on the financial statements to the shareholders of Brehan Bank S.C

Opinion

We have audited the financial statements of Brehan Bank S.C, which comprise the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, the financial position of Brehan Bank S.C as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have no comments to make on the report of the Board of Directors of the Bank in so far as it relates to these financial statements and pursuant to Article 375 of the Commercial Code of Ethiopia 1960, we recommend the approval of these financial statements.

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 Company in accordance with the International Ethics Standards Board for Accountants’ code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirmets that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The consistent application of the accounting policies, the impact of COVID 19 on the financial statements of the current period and the risk management function of the bank have been considered as key audit matters for our audit during the year.

As a result, our audit covered verification of whether management has been consistently applying those accounting policies in the preparation and presentation of the current year financial statements and the comparative figures, whether management has considered and included the impact of COVID 19 in the determination of the reported balances of financial assets and financial liabilities and whether management has maintained adequate risk management function that is consistent with the nature of the financial sector and the requirements of the regulatory body.

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

The management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of the Company's report that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the project report as a whole is 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 skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.

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

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 reasonable 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 financial statement 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 Mr Tesfa Tadesse, MSc, FCCA.

TAY Authorized
Accountants & Auditors

Addis Ababa
20 November, 2020

Berhan Bank S.C
Statement of Profit or Loss and Other Comprehensive Income
For the period ended 30 June 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Interest income	9	2,064,342	1,535,806
Interest expense	10	(817,795)	(605,036)
Net Interest Income		**1,246,547**	**930,770**
Fees and commission income	11	618,787	550,814
Fees and commission expense	11	(15,024)	(7,565)
Net Fee and Commission Income		**603,763**	**543,249**
Other operating income	12	180,798	119,660
Total Operating Income		**2,031,108**	**1,593,679**
Impairment losses on Financial Instruments	13	(17,951)	(61,334)
Impairment Loss on other Financial Assets	13	(17,844)	(5,493)
Net Operating Income		**1,995,313**	**1,526,852**
Personnel expenses	14	(780,866)	(622,858)
Depreciation of property and equipment	23	(177,284)	(32,610)
Amortisation of intangible assets	22	(2,869)	(1,390)
Other operating expenses	15	(326,808)	(289,941)
Total Operating Expenses		**(1,287,827)**	**(946,799)**
Profit Before Tax		**707,486**	**580,053**
Income tax expense	16	(154,295)	(122,128)
Profit for the Period		**553,192**	**457,924**
Other Comprehensive Income (OCI) Net of Income Tax			
Items that will not be reclassified to profit or loss:			
Remeasurements of Defined Benefit Liability /Asset-Net of Tax	28	(13,439)	(24,571)
Movement in fair value reserve (FVOCI equity instruments)-Net of Tax	28	11,866	7,421
Total Comprehensive Income for the Year, Net of Tax		**551,620**	**440,775**
Profit Attributable to Equity Holders		553,192	457,924
Earnings per share of Birr 1,000			
Basic Earnings Per Share	30	**25.88**	**24.65**

Berhan Bank S.C
Statement of Financial Position
For the period ended 30 June 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
ASSETS			
Cash and Balances with Banks	17a	2,795,439	3,057,666
Due from Banks & Other Financial Instituti	17b	35,915	71,050
Loans and Advances to Customers	18	12,515,227	10,033,356
Equity Investments	19b	41,257	33,344
Bonds and Bills	19a	3,786,112	4,256,177
Other Assets	20	374,822	548,542
Inventory	20b	13,755	15,480
Non Current Assets Held for Sale	20c	23,292	9,996
Investment Property - Building	21	3,145	3,045
Intangible Assets	22	14,097	12,326
Property and Equipment	23	909,055	365,819
Restricted Fund Balance	17c	836,000	754,000
Deferred Tax Assets	16c	7,167	11,754
Total Assets		**21,355,284**	**19,172,555**
LIABILITIES			
Due to Banks & Other Institutions	24a	37,232	16,854
Deposits from Customers	24b	16,608,663	14,964,280
Current Tax Liabilities	16b	149,707	140,070
Margins Held on Letters of Credit	24b	320,228	569,464
Other Liabilities	24c	632,961	527,475
Provisions	24d	105,872	89,095
Retirement Benefit Obligations	24e	75,291	69,354
Total Liabilities		**17,929,954**	**16,376,592**
EQUITY			
Share Capital	25	2,451,225	2,000,000
Retained Earnings	26	339,452	397,304
Legal Reserve	27	561,169	422,871
Other Reserve	28	(1,859)	(24,212)
Regulatory Risk Reserve	29	75,342	-
Total Equity		**3,425,329**	**2,795,963**
Total Liabilities and Equity		**21,355,284**	**19,172,555**

The notes are an integral part of these financial statements.

The financial statements were approved and authorized for issue by the board of directors on 20-Nov 2020 and were signed on its behalf by:

Ato Gumachew Kussie
Chairman of the Board of Directors
Addis Ababa, Ethiopia

Ato Abraham Alaro
President

Berhan Bank S.C
Statement of Changes in Equity
For the period ended 30 June 2020

	Notes	Share capital Birr'000	Retained earnings Birr'000	Other reserves Birr'000	Legal reserve Birr'000	Total Birr'000
						-
As at 30 June 2018		**1,709,050**	**208,133**	**(23,894)**	**308,390**	**2,201,678**
						-
IFRS 9 Day 1 adjustment	**26**	-	54,148	-	-	54,148
Restated Opening Balance 01-July-2018		**1,709,050**	**262,280**	**(23,894)**	**308,390**	**2,255,825**
Profit for the Period	**26**	-	457,924	-	-	457,924
Other Comprehensive Income:						-
Re-measurement Gains on Defined Benefit Plans	**28**	-	-	(11,207)	-	(11,207)
Movement in fair value reserve-equity instruments	**28**	-	-	10,602	-	10,602
Total Comprehensive Income for the Period			**457,924**	**(605)**	-	**457,319**
Transaction with owners in their capacity as owners :		-	-	-	-	-
Contribution of equity net of transaction costs	**25**	290,950	-		-	290,950
Dividend provided for / paid	**26**	-	(208,133)	-	-	(208,133)
Transfer to legal reserve	**27**	-	(114,481)		114,481	-
Transfer to Other Reserve(Fair value of investment prop	**26**		(287)	287		
						-
Total		290,950	135,023	(318)	114,481	540,137
						-
As at 30 June 2019		**2,000,000**	**397,304**	**(24,212)**	**422,871**	**2,795,963**
Profit for the Period	**26**	-	553,192	-	-	553,192
Other Comprehensive Income:						-
Re-measurement Gains on Defined Benefit Plans	**28**	-		5,014	-	5,014
Movement in fair value reserve-equity instruments	**28**	-		16,952	-	16,952
Total Comprehensive Income for the Period			**553,192**	**21,966**	-	**575,158**
Transaction with owners in their capacity as owners :		-	-	-	-	-
Contribution of equity net of transaction costs	**25**	451,225	-	-	-	451,225
Dividend provided for / paid	**26**	-	(397,304)		-	(397,304)
Transfer to legal reserve	**27**	-	(138,298)		138,298	-
Transfer to Other Reserve(Fair value of investment prop	**26**		(100)	387		
Regulatory Risk reserve	**29**		(75,342)	75,342		-
						-
Total		451,225	(57,852)	97,695	138,298	629,366
						-
As at 30 June 2020		**2,451,225**	**339,452**	**73,483**	**561,169**	**3,425,329**

The notes are an integral part of these financial statements.

The notes are an integral part of these financial statements.

Berhan Bank S.C
Statement of Cash Flows
For the period ended 30 June 2020

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash flows from operating activities			
Profit before tax		**707,486**	**580,053**
Adjustment for:			
Loan impairment charges	**13**	17,951	61,334
Impairment losses on other assets	**15**	17,844	5,493
Amortisation of intangible assets	**22**	2,869	1,390
Depreciation and impairment of property, plant and equipment	**23**	177,412	32,974
Impairment Loss(Gain) Asset Held for Sale	**19c**	375	(30)
Revaluation Gain - Investment Property	**21**	(100)	(287)
Allowance for Inventory Write-Down	**15**	49	32
Gain on Disposal of Property Plant And Equipment(net)		65	(137)
Gain from reversal of impairment allowance		(240)	-
Payment of Severance Benefit		(455)	
Cash Flow From Operation before Changes in Working Capital		**923,256**	**680,822**
Decrease (Increase) in Loans & Advances excluding provision	**18a**	(2,501,239)	(3,024,329)
Decrease (Increase) in Non current asset held for sale	**20c**	(13,671)	(2,800)
Decrease (Increase) in Other Assets	**20**	157,294	(48,899)
Decrease (Increase) in Restricted Fund Balances	**17c**	(82,000)	(212,000)
Increase (Decrease) in Deposits	**24b**	1,644,383	4,102,600
Increase (Decrease) in Margin Held Account	**24b**	(249,236)	254,946
Increase (Decrease) in Other Liabilities	**24c**	105,697	34,949
Decrease (Increase) Inventory	**20b**	1,675	(2,944)
Decrease (Increase) Due from Banks & Other Financial Institutions	**17b**	35,135	(26,946)
Increase (Decrease) in Provision	**22d**	16,777	30,471
Decrease (Increase) Due to Banks & Other Institutions	**24a**	20,378	(10,471)
Increase (Decrease) Retirement benefit obligations-Charge for the year	**24e**	22,296	14,299
Cash Generated From Operation			
Withholding Tax Paid			-
Profit tax Paid	**16b**	(140,070)	(68,219)
Net Cash flow from Operating Activities		**(59,325)**	**1,721,479**
Cash Flow From Investing Activities			
Purchase of Property and Equipment	**23**	(720,850)	(183,755)
Purchase of Intangible Assets	**22**	(4,640)	(12,605)
Investment in NBE Bills	**19**	470,089	(1,226,391)
Investment in Shares	**19**	(1,563)	(1,530)
Proceeds from sale of property and equipment	**23**	137	1,013
Net Cash flow from Investing Activities		***(256,827)***	***(1,423,268)***
Cash Flow From Financing Activities			
Ordinary Shares Issued	**25**	451,225	290,950
Dividends paid	**26**	(397,304)	(208,132)
Increase (Decrease) Borrowings	**24b**	-	-
Net Cash flow from Financing Activities		***53,921***	***82,818***
Changes in Cash and Cash Equivalents		(262,231)	381,029
Cash and Cash Equivalent at the Beginning of the Year		3,057,745	2,676,716
Cash Balance at end of the year		2,795,512	3,057,745

1. General Information

Berhan Bank SC ("Berhan" or the "Bank") is a private commercial Bank domicile in Ethiopia. The Bank was registered and licensed by the National Bank of Ethiopia on 27 June 2009 in accordance with Article 304 of the Commercial Code of Ethiopia with the objective of operating in the banking industry. The Bank's registered office is at:

Bole Dildiye TK International Building

P.O.Box 387 Code 1110

Addis Ababa

Ethiopia

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

2. Basis of Accounting

These consolidated financial statements have been prepared in accordance with IFRS. They were authorized for issue by the Bank's Board of Directors on [20-Nov-2020].

This is the first set of the Banks's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 5.0

3. Functional and Presentation Currency

These consolidated financial statements are presented in Ethiopian Birr (ETB), which is the Bank's functional currency. All amounts have been rounded to the nearest million, except when otherwise indicated.

4. Significant accounting estimates and judgements

Assumptions and Estimation Uncertainties

In determining the carrying amounts of certain assets and liabilities, the bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2020 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: availability of future taxable profit against carry-forward tax losses can be used.
- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

5. Accounting Policies

New accounting policies adopted by the Bank

On 01 July 2019, the bank adopted IFRS 16 Leases. IFRS 16 replaced IAS 17 Leases. IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Bank's financial statements.

IFRS 16 - Leases

In applying IFRS 16 for the first time, the bank has used the following practical expedients and exemptions permitted by the standard:

a) Transition approach: The bank elected the modified retrospective approach as provided for in the standard. Under this approach, the right-of-use asset is recognized at the date of initial application (1 July 2019) at an amount equal to the lease liability (determined based on the remaining payments) adjusted for any accrued or prepaid amounts recognized under IAS 17. Comparative figures are not restated and as result no impact on equity was recorded at the date of initial application.

b) Lease definition on transition: The bank applied the practical expedient to 'grandfather' previous assessment of which existing contracts are, or contain, leases. In doing this, IFRS 16 was applied to leases previously identified in accordance with IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. Additionally, the IFRS 16 definition of a lease is applied to assess whether contracts entered into after the date of initial application of the new standard are, or contain, leases.

c) Recognition exemptions: On transition and subsequently, the bank has elected to apply the two recognition exemptions provided for under the standard. These are the short-term lease exemption and the low-value items exemptions. The election for short-term leases is made by class of underlying asset, whereas the election for leases of low-value assets is made on a lease-by-lease basis. Additionally, the bank also chose to apply the additional practical expedient for leases with a remaining term of 12 months or less on transition date.

i. Definition of a lease

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

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

ii. As a lessee

As a lessee, the Bank leases branch and office premises. The Bank previously classified these leases as operating leases under IAS 17 .Under IFRS 16, the Bank recognizes right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

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

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

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

- 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;
- did not recognize right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

iii. As a lessor

The Bank leases out certain property and equipment. The bank had classified these lease as follows:

- operating leases of investment property:

The Bank is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

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

Impact on financial statements

Impact on transition

The bank adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the modified retrospective transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 July 2019. The impact to the bank has been a growth in the bank's balance sheet as result of the recognition on balance sheet of the previously unrecognized lease liability as well as the right of use assets (ROU). There has also been a change to both the expense character (rent expenses replaced with depreciation and interest expense) and recognition pattern (acceleration of lease expense relative to the recognition pattern for operating leases today).

For leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases, on adoption, the bank recognized a ROU (the present value of the lease payments due) arising from existing leases as at 1 July 2019 at 374.1 million. The bank also recognized lease liability (a financial liability representing its obligation to make future lease) as it is anticipated the contractual lease payments will be made over time. These liabilities were measured at the present value of the remaining lease payments, discounted using incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 9%. These liabilities amounted to 179.2 million.

In millions of ETB	30-Jun-20
Right-of-use assets presented in property and equipment	412,225
Lease liabilities	196,051

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied was 9%.

In millions of ETB	*1-Jul-19*
Operating lease commitments at 30 June 2019 as disclosed under IAS 17 in the Bank's consolidated financial statements	194,890
Discounted using the incremental borrowing rate at 1 July 2019	179,234
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 July 2019	179,234

New accounting standards in issue but not yet effective

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 to replace IFRS 4 Insurance Contracts and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB's approval of a deferral until 1 January 2022. The Bank is assessing the likely implementation impact of adopting the standards on its financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

These amendments are effective 1 January 2020 and include limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and recognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality.

Amendments to IFRS 3 Business Combinations

These amendments are effective 1 January 2020 on a prospective basis and assist entities in determining whether a transaction should be accounted for as a business combination or asset acquisition.

Amendments to IAS 1 and IAS 8: Definition of Material

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the amendments) to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

None of the amendments above are expected to result in a material impact on the banks' financial statements.

5.1 Going Concern

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

Impact of COVID-19 on Going Concern

The coronavirus (COVID-19) pandemic has developed rapidly in 2020, with a significant number of cases globally. Measures taken to contain the virus have significantly affected economic activity, which in turn has implications for financial reporting.

The impact of COVID-19 has been an evolving situation since late 2019. Given the information available at 30, June 2020 COVID-19 would be unlikely to have had a material effect on the measurement of assets and liabilities at that date.

Since then, both the impact of the virus and the information available about that impact have changed. The World Health Organization declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic. Consequently, we tried to consider the impact of COVID-19 on the measurement of assets and liabilities, the recognition of gains and losses, the potential impact on going concern, and the related disclosures.

COVID-19 is not expected to have a significant impact on the bank. Management has determined that there is no material uncertainty that casts doubt on the bank's ability to continue as a going concern. It expects that COVID-19 might have some impact, though not significant, for example, in relation to expected future performance, or the effects on some future asset valuations.

Spread of this pandemic is uniform, affecting from the wealthiest to the poor nations, that no nation could combat it with the existing practice of healthcare systems. Ethiopia could not escape from these realities. An array of economic sectors are deeply affected, though final outcome of the impact is not yet fully quantified

In this view, Berhan Bank partly to reposition itself in this shaking market condition and partly to sensibly respond to challenging circumstances of various economic shocks amid this crisis has initiated revision of its current lending prices. The bank also foresees that such timely adaptability will reinforce its operation by opening the opportunity to:

- Stay competitive in the industry
- Maximize its value to its shareholders and customers, and
- Accommodate changes in the market conditions

Besides giving well rated customer service, it is important to ensure the competitiveness of prices for its products and services in light with the industry pricing structures. Hence, revision on lending interest rates has been applied in consideration of those facts.

It is understandable that some economic sectors have been severely affected due to social distancing and other cautionary restrictions to mitigate spread of COVID-19. The damage in these sectors (i.e. export of floriculture, tourism, hotel and hospitality) is tough, utterly threatening their survival. The basics is, businesses in these sectors need serious consideration that would boost their survival and a big push to revive their continuity let alone collect interest income from their normal operation. The bank wary of these facts proactively moves to ease interest rate to enable a win-win collaboration until stable environment is restored.

Consideration is made on loan portfolio concentration (i.e. which sectors contribute the highest share to total loan portfolio) and second, identify risk level of each sector. This analysis is mainly desired to understand the effects of interest rate changes on income structure of the bank. Significant discount on sectors that comprise the highest share of portfolio understandably affect total earning of the bank.

On the other hand based on the National Bank of Ethiopia Circular No. BSD/20/2020, the bank took appropriate actions to temporarily relax some of the regulatory requirements:

- Refinancing and/or rescheduling of loans and advances for sectors that have been hardly hit by the impact of COVID-19 through case by case assessment, and
- Temporarily suspends the conditions stipulated under Article 6.1.6 of Asset classification and provisioning directive No. SBB/69/2018 and the requirement for categorizing such renegotiated loans as substandard loans;
- In addition to this the bank's Board of directors decided on the under listed matters to minimize the impact of covid-19 taking into account the current situation and fulfill its corporate social responsibilities:
- All letters of credit(LC) and cash against document (CAD)extension commission is exempted up to 30-June-2020
- Loan extension charge and 1% additional loan extension interest rate and penalty interest rate for late repayment is exempted up to 30-June-2020, and
- To ensure physical distancing and minimize the impact of COVID -19 the bank exempted service charge on ATM cash withdrawal up to 30-June-2020

5.2 Summary of significant accounting policies

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

5.3 Basis of preparation

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

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

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

- Fair value through other comprehensive income and fair value through profit and loss, financial assets and financial liabilities (including derivative instruments) and investment properties measured at fair value;
- Assets held for sale - measured at fair value less cost of disposal; and
- The liability for defined benefit obligations recognized at the present value of the defined benefit obligation less the fair value of the plan assets and plan assets measured at fair value

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

5.4 Foreign Currency Translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Bank's functional currency are recognized in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date. The closing rate (mid-rate: which is the average of selling and buying rate at the reporting date) is used for assets and liabilities.

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

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

5.5 Net interest income

Interest income for financial assets held at either fair value through other comprehensive income or amortized cost, and interest expense on all financial liabilities held at amortized cost is recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognized as interest income or expense in the period in which the revision is made.

5.6 Recognition of income and expenses

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

The Bank, earns income from interest on loans and advances, investment in shares, deposit with other banks, purchase of Bills and Bonds, letter of credits, letter of guarantees and other operational services.

5.7 Interest and Similar Income and Expense

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 liability. 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 amortized 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 amortized 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 amortized 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.

Net interest income

In millions of ETB	**2020**	**2019**
Interest income	2,064,342	1,535,806
Interest expense	(817,795)	(605,036)
Net interest income	**1,246,547**	**930,770**

Effective interest rate

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Amortized cost and gross carrying amount

The ‘amortized 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 amortization 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.

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

Presentation

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

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

5.8 Fees and Commission

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

A contract with a customer that results in a recognized financial instrument in the 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 Bank 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.

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

5.9 Dividend Income

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

5.10 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 exchange rate at the reporting date. This amount is recognized in the income statement.

The monetary assets and liabilities include financial assets within the correspondent banks, foreign currency deposits received and other liabilities held on behalf of third parties.

5.11 Financial Instruments

a) Classification and measurement

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

The Bank classifies its financial assets into the following measurement categories: amortized cost; fair value through other comprehensive income; and fair value through profit or loss. Financial liabilities are classified as either amortized cost, or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

The bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the bank becomes a party to the contractual provisions of the instrument.

Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification of Financial Assets and Financial Liabilities

i) Financial assets

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ('hold to collect') are recorded at amortized cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ('hold to collect and sell') are classified as held at FVOCI.

Both hold to collect business and a hold to collect and sell business models involve holding financial assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterized by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in the credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

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

- ➢ The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ➢ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). `
- ➢ A debt instrument shall be measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:
- ➢ The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ➢ The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9 fair value changes are generally presented as follows: – the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of change in the fair value is presented in profit or loss.

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

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

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

No impairment loss is recognized on equity investments.

ii) Financial liabilities

The Bank shall classify its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

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

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

b) Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Bank has access at the date. The fair value of a liability includes the risk that the bank will not be able to honor its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Bank establishes fair value by using valuation techniques.

Ethiopia does not have an active equity and securities market. The valuation of the equity investments were computed based on the price to book multiple valuation and the Enterprise Value(EV)/Earnings Before Interest, Tax, Depreciation and Amortization(EBITDA) multiple valuation methods.

i) Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognized on the trade-date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortized cost are recognized on the settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognized at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

ii) Subsequent measurement

Financial assets and financial liabilities held at amortized cost are subsequently carried at amortized cost using the effective interest method.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealized gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

5.12 Derecognition of Financial Instruments

i) Derecognition of Financial Assets

The bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, 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 in which the bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognized as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

In transactions in which the bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

ii) Derecognition of Financial Liabilities

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

Modifications of financial assets and financial liabilities

i) Financial assets

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

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

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

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

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

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

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

ii) Financial liabilities

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

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

5.13 Write-off

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

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

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

5.14 Renegotiated Loans

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

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 derecognized and the renegotiated loan recognized as a new loan at fair value.

5.15 Collateral Valuation

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

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models.

5.16 Collateral Repossessed

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be used for internal operations are initially recognized at the lower of their repossessed value or the carrying value of the original secured asset and included in the relevant assets depending on the nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

5.17 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Bank has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Or if the Bank may enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as Bankruptcy or the termination of a contract.

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

5.18 Cash and Cash Equivalents

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

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

5.19 Property and Equipment

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

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

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

Asset category	**Years**	**Residual values**	**Remark**
Building	50	5% of cost	
Motor Vehicle	10	20% of cost	
Computer and Related items	7	2% of cost	Computer and accessories are included Computer, UPS, Switch, Patch panel---
Furniture and Fitting			
Medium lived Furniture and Fittings	10	4% of cost	Included chair, table, partition, cage , counter -----
Long Lived Furniture and Fittings	20	1% of cost	Vault /strong room
Equipment:			
Short lived Equipment	5	2% of cost	Counting Machine, photocopy, FCY, Display and detector, Printer, Scanner and electronic related items ...
Medium lived Equipment	10	1% of cost	Generator ,ATM and Others
Long lived equipment	20	1% of cost	Cash safe

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

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

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

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

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

Development Cost

The Bank capitalizes development costs for a project in accordance with the accounting policy. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

5.20 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 amortization and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization is calculated using the straight–line method as below:

Description	Years	Residual value
Software	6	Nil

5.21 Investment Property

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

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

Investment properties are measured initially at cost, including transaction costs. The Bank has opted to subsequently carry investment property at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Bank uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections.

Valuations are performed as of the reporting date by valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

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

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

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

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

5.22 Non-Current Assets (or disposal groups) Held for Sale and Discontinued Operations

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

Non-current assets are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when:

a) Their carrying amounts will be recovered principally through sale
b) They are available for immediate sale in their present condition
c) Their sale is highly probable

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

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

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

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

5.23 Impairment of Non-Financial Assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The value in use of the impaired assets is considered to be close its fair value less cost of disposal because the assets are either fully depreciated or they will be used for shorter period than their respective normal useful lives. In determining fair value less costs of disposal, recent market transactions are taken into account.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the income statement.

5.24 Other Assets

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

(a) Prepayment

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

(b) Other Receivables

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

(c) Prepaid Staff Benefits

The Bank gives loans to its staff members at below market rates of interest. Under IFRS 9, such loans must be recognized at their fair value on the inception date. The fair value is determined on inception date as the present value of all the future cash receipts (instalments) from the staff members using the prevailing market rate of interest as the discounting factor. The market rate was determined by reference to what the staff members would have been charged to access a similar loan facility from the financial market (similar in terms of currency, term, type of interest rate and other factors). The market rate was set by the Ethiopian Bankers Association. Accordingly, 9.5% was used for mortgage loans for the year 2018/19 and 2019/20; and for other loan types the average rate of 12.03% and 11.85% were used for the year 2018/19 and 2019/20 respectively.

The difference between the fair valued amount of the loan and the original loan amount is recognized as employee benefit. However, IAS 19 does not give specific guidelines on the treatment of prepaid employee benefit so the general guidelines of conceptual framework would apply.

Therefore, to recognize the prepaid employee benefit on inception date of the loan, the bank should consider the nature of the loan i.e. does the interest rate revert back to market interest rate or below the market interest rate when the employee leaves the bank?

If the interest rate reverts back to market interest rate, this means that the employee benefit has not been earned and the bank expects future economic benefits. Therefore, the prepaid employee benefit would be capitalized as an asset and amortized throughout the life of the loan based on the conceptual framework definition of an asset.

If the interest rate still remains below the market interest rate, this means that the employee benefit has been fully earned and the bank does not expect future economic benefits. Therefore, the prepaid employee benefit would be expensed immediately.

5.25 Fair Value Measurement

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 the Bank.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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:

i. Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
ii. Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
iii. 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 recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

5.26 Employee Benefits

The Bank operates various post-employment benefit schemes, including both defined benefit and defined contribution plans and other long-term employee benefits.

(a) Defined Contribution Plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as personnel expenses in profit or loss. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Bank operates two defined contribution plans;

i. Pension scheme in line with the provisions of Ethiopian pension of private organization employees' proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the Bank respectively;
ii. Provident fund contribution, funding under this scheme is 6% and 12% by employees and the Bank respectively;

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

(b) Defined Benefit Plan

The Banks's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(c) Other Long-term Employee Benefits

The Banks's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(d) Termination Benefits

Termination benefits are payable to employees when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(e) Short-term Employee Benefits

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation such as bonus payments.

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(f) Defined Benefits Liabilities

According to IAS 19, employee benefit liability and expense shall be recognized in the period in which the employee gives service and should be valued.

Accounting for defined benefit plans involves the following steps:

- Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit.

- Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost because they may be settled many years after the employees render the related service.
- Determining amounts to be recognized in profit or loss: current service cost any past service cost and gain or loss on settlement.
- Recognize the net defined benefit liability (asset) in the statement of financial position. This means that Berhan bank's severance pay to its employees shall be recognized earlier than the actual payment. The benefits valued are the statutory severance benefits in Ethiopia, which provides a promised lump sum as a multiple of final weeks' average daily wages for each year of service to employees on leaving the bank after a minimum of five years' service and a retirement gratuity which pays a fixed multiple of salary on retirement (three months' salary for managerial staff and two months' salary for non-managerial staff).

5.27 Provisions

Provisions are recognized when there is 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 recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in income statement net of any reimbursement.

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

5.28 Structure of Share Capital

Authorized Share Capital = the maximum value of securities that the bank can legally issue.

Issued Shares = the total of the bank´s shares that are held by shareholders.

Outstanding Shares = are those issued shares.

Ordinary Shares = any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the bank.

5.29 Leases

The Bank assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Bank is a lessee and the lease is deemed in scope, it recognizes a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable in the economic environment of the lease. The liability is recognized in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognized in 'Property and equipment'. The lease term includes any extension options contained in the contract that the Bank is reasonably certain it will exercise.

The Bank subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognized in 'Depreciation and amortization', and interest on the lease liability is recognized in 'Interest expense'.

The judgements in determining lease balances are the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. On initial recognition, the Bank considers a range of characteristics such as premises function, regional trends and the term remaining on the lease to determine whether it is reasonably certain that a contractual right to extend a lease will be exercised.

Prior period information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations in which the Bank as lessee recognized lease payments in operating expenses on a straight-line basis and disclosed future minimum lease payments. IFRS 16 requires the lease term used to measure lease liabilities to include "reasonably certain" renewal options, whereas previously IAS 17 required disclosure of "non-cancellable" lease commitments. The consequences of this are:

- Under IFRS 16, for some leases the Bank includes lease renewal options which it is reasonably certain will be exercised in the measurement of lease liabilities.
- In certain conditions, the Bank has a unilateral right to cancel building leases with notice of fewer than three months without incurring a significant financial penalty. Under IFRS 16 the Bank would only exclude these cash flows from lease measurement if it was reasonably certain the termination clause would be exercised

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiations of market rental rates. In general the remeasurement of a lease liability under these circumstances leads to an equal change to the right-of-use asset balance, with no immediate effect on the income statement.

5.30 Income Taxation

(a) Current Income Tax

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

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

(b) Deferred Tax

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

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

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

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

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 realize the asset and settle the liability simultaneously.

5.31 Inventories

IAS 2 provides guidance for determining the cost of inventories and the subsequent recognition of the cost as an expense, including any write down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories includes all costs of purchase, costs of conversion (direct labor and production overhead) and other costs incurred in bringing the inventories to their present location and condition."

Inventories are assets:

a) Held for sale in the ordinary course of business;
b) In the process of production for such sale; or
c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

In the case of Berhan bank inventories, definition (c) applies. IAS 2 Inventories contains the requirements on how to account for most types of inventory. The standard requires inventories to be measured at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost, including specific identification (in some cases), first-in first-out (FIFO) and weighted average cost. The bank use FIFO method for measuring its inventories.

6. Significant Accounting Estimates and Judgments

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

In determining the carrying amounts of certain assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Credit impairment
- Financial instruments measured at fair value
- Provisions for liabilities and charges

6.1 Credit Impairment

The Banks's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements in determining expected credit loss include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive from various sources, including external market information.

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

i) Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding,
ii) Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition,
iii) Determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and,
iv) Selection and approval of models used to measure Expected Credit Loss(ECL)

6.1.1 Expected Credit Losses (ECL)

Expected credit losses are determined for all financial debt instruments that are classified at amortized cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive over the contractual life of the instrument.

a) Impairment

The Bank recognizes loss allowances for 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
- Letters of credit

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they 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.

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

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

b) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information, including that which is forward-looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices, among others.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Bank is exposed to credit risk. However, for certain revolving credit facilities, which include overdrafts, the Bank's exposure to credit risk is not limited to the contractual period. For these instruments, the Bank estimates an appropriate life based on the period that the Bank is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement.

The estimate of expected cash shortfalls on a collateralized financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

c) Recognition of ECL

12 months expected credit losses (stage 1)

Expected credit losses are recognized at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognized for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent that these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk. Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

Credit-impaired (or defaulted) exposures (stage 3)

Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

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

- Significant financial difficulty of the issuer or borrower
- Breach of contract such as default or a past due event
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions.
- Pending or actual bankruptcy or other financial reorganization to avoid or delay discharge of the borrower's obligation/s
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses

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

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

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

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any

excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

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

e) Restructured financial assets

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

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

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

7. Contingent liabilities and commitments

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events or present obligations arising from past events that are not recognized because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognized but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

Where the Bank undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Banks's Transaction Banking business, for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments are where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees, whether cancellable or not, or letters of credit, and the Bank has not made payments at the balance sheet date; those instruments are included in these financial statement as commitments. Commitments and contingent liabilities are generally considered on demand as the Bank may have to honor them, or client may draw down at any time.

Capital commitments are contractual commitments the Bank has entered into to purchase non-financial assets.

8. Financial Risk Management

8.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Risk Management provides a comprehensive and dynamic framework for identifying, measuring, monitoring and managing financial and non-financial risks. When the quantitative data disclosed at the reporting date is not representative of the Bank's exposure to risk during the period, further information that is representative must be assisted in qualitative disclosures. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to country risk and various operating risks.

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

8.1.1 Risk Management Structure

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Bank Asset and Liability Management Committee (ALCO), which is responsible for approving and monitoring Bank risk management policies.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee.

i. Credit Risk

Credit risk is the most important risk for the Bank's business defined as current or future risk on the financial result and capital arising from a counter party's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, Letter of Guarantees and Letter of Credit).

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

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

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

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

Credit quality analysis

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

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

In Birr'000	*2020*				*2019*
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Stage 1 – Pass	12,204,291	-	-	12,204,291	9,473,693
Stage 2 – Special mention	-	160,078	-	160,078	325,636
Stage 3 - Non performing	-	-	352,644	352,644	416,445
Total gross exposure	**12,204,291**	**160,078**	**352,644**	**12,717,013**	**10,215,774**
Loss allowance	(76,926)	(4,054)	(55,713)	(136,694)	(118,743)
Interest in suspense	-	-	(2,302)	(2,302)	(12,447)
Staff Loan Market Interest Adjustment	(67,333)	-	-	(67,333)	(51,228)
Net carrying amount	**12,060,032**	**156,024**	**294,628**	**12,510,684**	**10,033,356**

In Birr'000	**2020**			
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	1,458,813	(73)	**1,458,740**
Investment securities (debt instruments)	12 Month ECL	3,786,301	(189)	**3,786,112**
Other receivables and financial assets	Lifetime ECL	172,055	(25,940)	**146,114**
Totals		**5,417,169**	**(26,203)**	**5,390,966**

In Birr'000	**2019**			
Other financial assets (debt instruments)		**Gross exposure**	**Loss allowance**	**Net carrying amount**
Cash and balances with banks	12 Month ECL	1,643,734	(79)	**3,057,666**
Investment securities (debt instruments)	12 Month ECL	4,256,390	(213)	**4,256,178**
Other receivables and financial assets	Lifetime ECL	213,417	(8,097)	**205,320**
Totals		**7,527,552**	**(8,389)**	**7,519,163**

Management of Credit Risk

The Board of Directors created the Bank Credit Committee for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for managing the Bank's credit risk, including the following:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk: assesses all credit exposures, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures)"

- Developing and maintaining the Bank's risk grading's to categorize exposures according to the degree of risk of default. The current risk grading framework consists of 8 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews.
- Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
    - Initial approval, regular validation and back-testing of the models used;
    - Determining and monitoring significant increase in credit risk; and
    - Incorporation of forward-looking information.
- Regular reports on the credit quality of portfolios are provided, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Significant increase in credit risk

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

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

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

Credit risk grades

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

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

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 realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

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

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

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

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

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

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

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

The economic scenarios used as at 30 June 2020 included the following key indicators for Ethiopia for the years 2020 to 2021

	2020	2021
INFLATION: Consumer price index, 2010 = 100	349.1	384
GDP: GDP per capita, USD	928	1019
GDP EXPENDITURE: Exports of goods and services, USD per capita	59.8	66.6
GDP EXPENDITURE: Exports of goods and services, ETBbn	213.8	260.3
EXCHANGE RATE: ETB/USD	31.1	33.15
GDP EXPENDITURE: Imports of goods and services, USDbn	16.9	17.1
FISCAL: Current expenditure, USDbn	8.3	8.9
GDP EXPENDITURE: Imports of goods and services, ETBbn	526.5	568.4
INFLATION: Consumer price index, 2010 = 100	326	358.6
DEBT: Government domestic debt, ETBbn	752	872.3
EXCHANGE RATE: Real effective exchange rate, index	121.01	117.74
GDP EXPENDITURE: Private final consumption, USDbn	66.2	73.5
STRATIFICATION: Household Spending, ETBbn	1926.3	2149.3
FISCAL: Total revenue, USDbn	10.9	11.4
DEBT: Total government debt, USDbn	65.2	75.4

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

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 derecognized and the renegotiated loan recognized 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 recognized 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 maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

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

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

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 by type of product and borrower as well as by credit risk grading.

The Bank employs statistical models to analyze 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.

Measurement of ECL

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

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

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

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

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

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

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

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

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

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

- Instrument type;
- Credit risk grading;
- Collateral type;
- LTV ratio for retail mortgages;
- Date of initial recognition;
- Remaining term to maturity; and
- Industry

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

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

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/or the stage of collection of amounts owed to the Bank.

Credit Risk Measurement, Limits and Mitigation Policies

Initially, when approving loans and loan commitments, the authorized Credit Approval Committees assess creditworthiness of the clients depending on the type and size of the exposure and based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by relevant organization units of the Bank.

The Risk Management Committee,

Boards of Directors are regularly informed of the credit risk that the Bank is exposed to. The Bank has an internal system of classification of customers whose main aim is determining their creditworthiness and evaluation of the acceptable level of credit risk in starting lending.

Classification of customers to which the Bank is exposed are reviewed at least annually. The Bank has implemented a system of early warning signals in order to timely identify any deterioration in the creditworthiness of the client and take appropriate action to mitigate credit risk.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises and inventory;
- Charges over financial instruments such as equity securities;
- Pledges over movables, such as cars, equipment and other,

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors and type of collateral.

The Bank structures the levels of credit risk by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

The loan portfolio of the Bank remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks. For that purpose, the Bank has introduced a set of limits that control the exposure of the Bank towards different types of borrowers, industry sectors, geographic location and type of collateral.

8.1.2 Risk Measurement and Reporting Systems

The Bank uses international standards of measurements and practices as well as the NBE Directives, guidelines and their derivatives to assess credit, liquidity, market and operational risks. The Bank also uses its own internal policies and procedures to assess risks.

8.1.3 Risk Mitigation

Risk controls and mitigants, identified and approved for the Bank, are documented for existing and new processes and systems. The adequacy of these mitigants is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently audited as part of the review process.

8.2 Financial Instruments by Category

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

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 summarized in the table below:

	Notes	FVOCI	Amortized Cost	Total
30 June 2020		**Birr'000**	**Birr'000**	**Birr'000**
Cash and Balances with Banks	17a	-	2,795,439	2,795,439
Loans and Advances to Customers	18	-	12,511,330	12,511,330
Due from Banks & Other Financial Institutions	19b	-	35,915	35,915
Equity Investments	19a	41,257	-	41,257
Bonds and Bills	20	-	3,786,112	3,786,112
Other Assets	20	-	374,822	374,822
Total Financial Assets		**41,257**	**19,503,618**	**19,544,875**

	Notes	FVOCI	Amortized Cost	Total
30 June 2019		**Birr'000**	**Birr'000**	**Birr'000**
Cash and Balances with Banks	17a	-	3,057,666	3,057,666
Loans and Advances to Customers	18	-	10,029,466	10,029,466
Due from Banks & Other Financial Institutions	19b	-	71,050	71,050
Equity Investments	19a	33,344	-	33,344
Bonds and Bills	20	-	4,256,177	4,256,177
Other Assets	20	-	548,542	548,542
Total Financial Assets		**33,344**	**17,962,901**	**17,996,245**

8.3 Credit Risk

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

The Bank adopts a conservative approach to credit risk. Where appropriate, the Bank intervenes in the economy and provides guarantees in the financial system to prevent systemic risk.

8.3.1 Management of Credit Risk

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

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

(a) Probability of Default (PD)

The approach adopted in deriving the probability of default is the transition matrix approach. The transition matrix records all data about transitions from one state to the other, i.e. from pass to special mention all through to non-performing. The initial step in this approach is to split up the total value of loans outstanding in a given month into the various loan classification buckets. For the purpose of this Expected Credit Loss (ECL) model, the buckets to be used are:

- Pass
- Special mention
- Non-performing (Sub-standard, Doubtful and Loss)
- Paid/ settled

An analysis will then be done to estimate the movement of loan amounts from one bucket to the next between two subsequent time periods. This results in a matrix that indicates the proportionate movement of loans across the buckets. This is done considering the loan values. An average of all transitions obtained over the 60 month period is then obtained to form the general transition matrix to be applied.

The Bank uses computation of PD by amount.

(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.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For loans that are under-collateralized management have recomputed LGD ((Exposure – Net Collateral Value) / Total Sector Loan portfolio * 100%) For a more conservative mode a minimum LGD of 10% is applied to customers whose computed LGDs fall below the minimum Basel prescribed threshold of 10%.

(c) Exposure at Default (EAD)

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 amortization. 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. Its estimation includes the drawn amount and expected utilization of the undrawn commitment at default.

8.3.2 Impairment Assessment

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

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

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

No impairment loss shall be recognized on equity investments.

8.3.3 Credit Related Commitment Risks

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

8.3.4 Maximum Exposure to Credit Risk before Collateral Held or Credit Enhancements

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cash and Balances with Banks	2,795,439	3,057,666
Loans and Advances to Customers	12,511,330	10,029,466
Equity Investments	41,257	33,344
Bonds and Bills	3,786,112	4,256,177
Other Assets	374,822	548,542
	19,508,960	**17,925,195**
Credit Risk Exposures Relating to Off balance Sheets :		
Loan commitments	1,055,066	508,790
Guarantees issued and outstanding	9,076,760	11,014,200
Letter of credit and other credit related obligations	724,806	731,300
	10,856,632	12,254,290
Total maximum exposure	**30,365,592**	**30,179,486**

	30 June 2020 Birr'000	30 June 2019 Birr'000
Pass	12,274,212	9,473,693
Special mention	160,078	325,636
Substandard	271,891	200,535
Doubtful	1,720	116,552
Loss	9,112	99,358
	12,717,013	**10,215,774**

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Agriculture	47,516	47,841
Transport	409,666	411,363
Hotel and Tourism	347,595	291,211
Import	1,215,376	826,584
Export	1,208,157	1,409,989
Manufacturing	1,666,595	1,075,586
Domestic trade and services	3,151,240	2,661,640
Building and construction	3,058,176	2,409,349
Personal loan	656,158	414,367
Staff loan	956,533	667,843
	12,717,013	**10,215,774**

The above table represents a worst case scenario of credit risk exposure of the Bank as at the reporting dates without taking in to account of any collateral held or other credit enhancements attached. The exposures are based on gross carrying amounts.

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

8.3.5 Credit Quality Analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and cash equivalents and short-term investments that were neither past due nor impaired as at 30 June 2020 and 30 June 2019 have been classified as non-rated as there are no credit rating agencies in Ethiopia.

(b) Credit quality of loans and advances

30 June 2020	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture and production	45,452	-	2,064	47,516
Transport	367,246	12,990	29,430	409,666
Hotel and tourism	338,815	7,220	1,561	347,595
Import	1,174,555	9,968	30,853	1,215,376
Export	1,163,922	9,970	34,264	1,208,157
Manufacturing	1,634,752	24,474	7,370	1,666,595
Domestic trade and services	3,013,065	51,316	86,859	3,151,240
Building and construction	2,906,204	20,170	131,802	3,058,176
Personal loans	697,826	23,952	20,296	742,073
Staff loan	862,455	17	8,146	870,618
Gross	**12,204,291**	**160,078**	**352,644**	**12,717,013**
Less:				
Impairment allowance (note 17b)	(76,926)	(4,054)	(55,713)	(136,694)
Interest in suspense	-	-	(2,302)	(2,302)
Staff Loan Market Interest Adjustment	(67,333)	-	-	(67,333)
Net Loans and Advance	**12,060,032**	**156,024**	**294,628**	**12,510,685**

30 June 2019	Stage 1 Birr'000	Stage 2 Birr'000	Stage 3 Birr'000	Total Birr'000
Agriculture and production	43,028	2,681	2,133	47,841
Transport	353,280	40,950	17,133	411,363
Hotel and tourism	275,262	11,853	4,096	291,211
Import	683,718	77,779	65,087	826,584
Export	1,323,838	36,815	49,336	1,409,989
Manufacturing	1,038,768	41,626	1,861	1,082,255
Domestic trade and services	2,299,705	259,623	95,643	2,654,971
Building and construction	2,090,428	217,150	101,771	2,409,349
Personal loans	384,643	23,531	6,193	414,367
Staff loan	661,858	5,985	-	667,843
Gross	**9,154,528**	**717,994**	**343,252**	**10,215,774**
Less:				
Impairment allowance (note 17b)	(32,400)	(5,706)	(80,636)	(118,743)
Interest in suspense	-	-	(12,447)	(12,447)
Staff Loan Market Interest Adjustment	(51,228)	-	-	(51,228)
Net Loans and Advance	**9,070,900**	**712,288**	**250,169**	**10,033,356**

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

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the customer's ability to pay based on loss experience. Loans and advances in this category are loans past due for less than 30 (thirty) days.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Neither past due nor impaired	12,060,032	9,070,900
Collective impairment	(76,926)	(32,400)
Loan and advances (net)	**11,983,106**	**9,038,500**

(ii) ***Loans and advances - past due but not impaired***

	30 June 2020 Birr'000	30 June 2019 Birr'000
Past due up to 30 days	160,078	717,994
Collective impairment	(4,054)	(5,706)
	156,024	712,288
Loan and advances (net)	**156,024**	**712,288**

(iii) ***Loans and advances - Impaired loans***

	30 June 2020 Birr'000	30 June 2019 Birr'000
Impaired loans	352,644	343,252
Individual impairment	(55,713)	(80,636)
Net Carrying Amount	**296,930**	**262,616**

(iv) ***Allowance for loan impairment***

	30 June 2020 Birr'000	30 June 2019 Birr'000
IFRS Loan impairment charge	136,694	118,743
Total allowance for impairment	**136,694**	**118,743**

8.3.6 Statement of Prudential Adjustments

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

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

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

a) Provisions for loans recognized in the income statement should be determined based on the requirements of IFRS.
b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Total impairment based on IFRS	136,694	118,743
Total impairment based on NBE Directives	(151,373)	(148,860)
Additional NBE Provision	**(14,680)**	**(30,118)**

8.3.7 Credit concentrations

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

30 June 2020

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances	-	159,806	12,398,903	158,304
Investment securities	3,786,301			
Investment in Equity			41,257	
Loan commitments			1,055,066	
	3,786,301	**159,806**	**13,495,226**	**158,304**

30 June 2019

	Public Enterprise Birr'000	Cooperative Birr'000	Private Birr'000	Association Birr'000
Short term Investments	-	-	-	-
Loans and advances		128,375	9,960,231	127,167.70
Investment securities	4,256,390			
Investment in Equity			33,344	
Loan commitments			508,790	
	4,256,390	**128,375**	**10,502,365**	**127,168**

8.3.8 Nature of security in respect of loans and advances

30 June 2020	Building Birr'000	Building &Vehicle Birr'000	Share Certificate Birr'000	Vehicle Birr'000	Others Birr'000
Agriculture	106,988	-	-	13,809	13,113
Building, Construction & Real Estate	3,324,775	115,227	6,657	1,174,759	679,174
Domestic Trade and Services	4,896,353	185,576	1,105	1,108,627	140,347
Export	473,530	54,328	7,140	249,238	363,508
Hotel And Tourism	615,433	8,522	-	96,132	4,420
Import	1,276,292	46,040	18,120	272,446	81,117
Manufacturing	2,520,639	29,403	41,280	404,423	266,069
Personal	992,817	4,447	8,535	160,302	6,847
Transport & Communication	150,030	12,344	-	846,825	10,366
Other(Staff)	767,916	3,176	3,000	101,628	2,454
	15,124,773	**459,063**	85,837	**4,428,188**	**1,567,417**

30 June 2019	Building Birr'000	Building &Vehicle Birr'000	Share Certificate Birr'000	Vehicle Birr'000	Others Birr'000
Agriculture	83,414	4,742	-	14,099	12,388
Building and Construction	2,790,946	154,714	3,806	897,198	672,904
Domestic Trade and Services	4,461,016	295,231	1,544	790,715	111,228
Export	427,100	106,688	7,140	298,359	180,085
Hotel and Tourism	592,302	13,766	-	48,875	4,420
Import	1,122,878	31,408	10,128	194,904	53,921
Manufacturing	1,256,449	41,416	32,174	238,381	333,075
Personal	1,007,552	9,624	4,749	152,777	18,595
Transport and Communication	65,052	27,832	-	1,207,038	21,163
Other(Staff)	371,632	2,396	-	56,717	967
	12,178,340	**687,817**	**59,542**	**3,899,061**	**1,408,745**

8.3.9 Collateral held and their financial effect

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

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

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

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

At 30 June 2020, the net carrying amount of credit-impaired loans and advances to customers amounted to ETB 296,930 million (2019: ETB 262,616 million) and the value of identifiable collateral held against those loans and advances amounted to ETB 643,086 million (2019: ETB 924,474 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

8.4 Liquidity Risk

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

8.4.1 Management of Liquidity Risk

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

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

8.4.2 Maturity Analysis of Financial Liabilities

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

30 June 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	Total Birr'000
Deposits from customers	1,494,780	332,173	332,173	664,347	13,785,190	16,608,663
Due to Banks & Other Institutions	37,232					37,232
Current tax liabilities			149,197			149,197
Margins held on letters of credit		320,228				320,228
Provisions		71,993	5,294	7,411	21,174	105,872
Retirement benefit obligations					75,291	75,291
Other liabilities	34,599		387,503	206,333	629	629,064
Total financial liabilities	**1,566,610**	**724,394**	**874,167**	**878,091**	**13,882,285**	**17,925,547**

30 June 2019	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	Total Birr'000
Deposits from customers	1,346,785	299,286	299,286	598,571	12,420,352	14,964,280
Borrowings	-	-	-	-	-	-
Due to Banks & Other Institutions	16,854					16,854
Current tax liabilities			140,070			140,070
Margins held on letters of credit		569,464				569,464
Retirement benefit obligations					69,354	69,354
Other liabilities	28,797		322,528	171,736	524	523,585
Total financial liabilities	**1,392,436**	**868,750**	**761,884**	**770,307**	**12,490,230**	**16,283,607**

8.5 Market Risk

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

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

8.5.1 Management of Market Risk

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

(i) Interest Rate Risk

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

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

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

30 June 2020	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	670,905	-	2,124,534	2,795,439
Loans and advances	12,386,217	-	125,113	12,511,330
Investment securities	3,748,251	-	37,861	3,786,112
Total	**16,805,373**	**-**	**2,287,508**	**19,092,881**
Liabilities				
Deposits from customers	10,629,544	-	5,979,119	16,608,663
Borrowings	-	-	-	-
Total	**10,629,544.32**	**-**	**5,979,118.68**	**16,608,663.00**

30 June 2019	Fixed	Floating	Non-interest bearing	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	733,840	-	2,323,826	3,057,666
Loans and advances	9,929,172	-	100,295	10,029,466
Investment securities	4,213,615	-	42,562	4,256,177
Total	**14,876,627**	**-**	**2,466,683**	**17,343,309**
Liabilities				
Deposits from customers	9,577,139	-	5,387,141	14,964,280
Borrowings	-	-	-	-
Total	**9,577,139.20**	**-**	**5,387,140.80**	**14,964,280.00**

(ii) Foreign Exchange Risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at 30 June 2020 was Birr 567.95 million and 30 June 2019 Birr 1,058.88 billion.

Foreign currency denominated balances

	30 June 2020	30 June 2019
	Birr'000	Birr'000
Cash and bank balances	257,523	865,377
Deposits/Liabilities	310,428	193,498
	567,951	**1,058,875**

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 15% and 5% as shown below:

	30 June 2020	30 June 2019
	Birr'000	Birr'000
USD cash at Foreign and Cash Balances	257,523	865,377
15% appreciation of Dollar	38,628	129,807
5% Depreciation of Dollar	(12,876)	(43,269)
	25,752	**86,538**

8.6 Capital Management

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

8.6.1 Capital Adequacy Ratio

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

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

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Capital		
Capital contribution	2,451,225	2,000,000
Retained earnings	339,835	397,305
Legal reserve	561,297	422,872
Other Reserve	(1,859)	(24,212)
	3,350,499	**2,795,965**
Risk weighted assets		
Risk weighted balance for on-balance sheet items	13,366,760	11,017,210
Credit equivalents for off-balance Sheet Items	5,132,710	5,907,760
Total risk weighted assets	**18,499,470**	**16,924,970**
Risk-weighted Capital Adequacy Ratio (CAR)	**18%**	**17%**
Minimum required capital	**10%**	**10%**
Excess	**8%**	**7%**

8.7 Fair Value of Financial Assets and Liabilities

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

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

8.7.1 Valuation Models

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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."

8.7.2 Financial Instruments Not Measured at Fair Value - Fair value Hierarchy

The following table summarizes 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.

30 June 2020	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	2,795,512	-	2,795,512	-	2,795,512
Loans and advances	12,580,319	-	12,580,319	-	12,580,319
Investment securities	3,810,606	-	-	3,810,606	3,810,606
Total	**19,186,437**	**-**	**15,375,831.46**	**3,810,606.00**	**19,186,437.46**

30 June 2019	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000	Total Birr'000
Financial assets					
Cash and balances with banks	3,057,745	-	3,057,745	-	3,057,745
Loans and advances	10,097,031	-	10,097,031	-	10,097,031
Investment securities	4,279,132	-	-	4,279,132	4,279,132
Total	**17,433,908**	**-**	**13,154,776.33**	**4,279,132.00**	**17,433,908.33**
Financial liabilities					
Deposits from customers	14,964,280	-	14,964,280	-	14,964,280
Other liabilities	523,585	-	523,585	-	523,585
Total	**15,487,865**	**-**	**15,487,865**	**-**	**15,487,865**

8.7.3 Transfers between the Fair Value Hierarchy Categories

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

8.8 Offsetting Financial Assets and Financial Liabilities

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

		30 June 2020 Birr'000	30 June 2019 Birr'000
9	**Interest Income**		
	Interest on loans and advances	1,820,488	1,348,408
	Interest on investment securities	165,362	113,943
	Interest on deposits due from banks	78,492	73,455
		2,064,342	**1,535,806**

		30 June 2020 Birr'000	30 June 2019 Birr'000
10	**Interest Expense**		
	Interest on Demand deposits	(26,323)	(11,599)
	Interest on Saving deposits	(599,928)	(460,779)
	Interest on Time deposits	(155,748)	(132,658)
	Interest on borrowings from domestic bank	(15,681)	-
	Interest expense – Lease	(20,115)	-
		(817,795)	**(605,036)**

		30 June 2020 Birr'000	30 June 2019 Birr'000
11	**Fees and Commission Income**		
	Commission on letters of credit	49,520	75,965
	Commission on CPOs, Cheques and FTs	2,894	3,528
	Commission on guarantees	310,411	261,063
	Fees Income	223,461	185,484
	Commission on PO issuance	32,501	24,774
		618,787	**550,814**
	Fee and commission expense :		
	Fee and commission Expense	(15,024)	(7,565)
		-	-
		(15,024)	(7,565)
	Net fees and commission income	**603,763**	**543,249**

		30 June 2020 Birr'000	30 June 2019 Birr'000
12	**Other Operating Income**		
	Other income	48,611	38,198
	Gain on foreign exchange	132,187	81,462
		180,798	**119,660**

		30 June 2020 Birr'000	30 June 2019 Birr'000
13	**Impairment losses on Financial Instruments**		
	Loan Impairment Charge	17,951	61,334
	Impairment Loss-Other Financial Assets	17,844	5,493
		35,795	**66,827**

		30 June 2020 Birr'000	30 June 2019 Birr'000
14	**Personnel Expenses**		
	Short term employee benefits :		
	Salaries	(516,486)	(389,037)
	Staff allowances	(53,487)	(38,904)
	Overtime	(10,694)	(8,089)
	Bonus	(71,271)	(68,699)
	Training and Education	(9,962)	(24,532)
	Leave Payment	(15,250)	(10,245)
	Pension costs – Defined contribution plan	(54,134)	(40,223)
	Provident Fund – Defined contribution plan	(7,486)	(5,955)
	Employee Benefit Expense-Interest Rate	(4,273)	(5,243)
	Other staff expenses	(15,458)	(17,632)
		(758,501)	**(608,559)**
	Long term employee benefits :		
	Defined benefit plans-Severance	(22,365)	(14,299)
		(780,866)	**(622,858)**

	30 June 2020 Birr'000	30 June 2019 Birr'000
15 Other Operating Expenses		
Rent	-	(106,577)
Utilities	(2,001)	(1,597)
Advertisement and promotions	(28,213)	(24,659)
Software Maintenance Fee	(8,075)	(6,579)
Sponsorship expenses	(3,070)	(2,468)
Communicaton expense	(13,248)	(11,959)
Postage and stamps	(147)	(122)
Stationery and office expenses	(23,617)	(15,913)
Legal and professional fees	(3,443)	(5,179)
Audit fees	(327)	(270)
Repairs and maintenance	(9,351)	(7,274)
Travelling expenses	(4,886)	(4,624)
Donations	(29,000)	(13,000)
Insurance	(13,584)	(10,609)
Entertainment	(1,157)	(1,250)
Fuel and lubricant	(2,875)	(5,094)
Miscellaneous expenses	(25,960)	(40,709)
License fees	(150)	(78)
Director fees	(2,700)	(2,657)
Fines and penalty	(366)	(520)
Loss on foreign exchange	(154,015)	(28,116)
Loss on Revaluation or Disposal	(71)	(291)
Impairment - Equity Investment	-	-
Impairment Loss - Property	(128)	(364)
Inventory Write-Down Expense	(49)	(32)
Impairment Loss on Assets Held for Sale	(375)	-
	(326,808)	**(289,941)**

16 Company Income and Deferred Tax

16a. Reconciliation of effective tax to statutory tax

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

	30 June 2020 Birr'000	30-Jun-19 Birr'000
Current income tax		
Charge for the year:	149,197	127,659
Prior year (over)/ under provision	-	-
Deferred income tax/(credit) to profit or loss	4,587	(5,530)
Total charge to profit or loss	153,784	122,128
Tax (credit) on other comprehensive income	674	7,350
Total tax in statement of comprehensive	154,458	129,478

	30 June 2020 Birr'000	30 June 2019 Birr'000
Profit before tax	**707,486**	**580,055**
Add : ***Disallowed Expenses***		
Entertainment	1,157	1,250
Donation	10,000	-
Penalty	366	520
Awards	1,039	1,025
Impairment Loss - Property	128	364
Impairment - Equity Investment	-	-
Impairment Loss on Assets Held for Sale	375	-
Impairment loss - Bank balances	-	(14)
Impairment loss - Bills & Bonds	-	61
Impairment loss - Guarantees	-	(111)
Impairment loss - Letters of Credit	-	42
Inventory Write-Down Expense	49	32
Provision for loans and advances & other financial assets as per I]	35,795	66,827
Severance Expense	22,296	14,299
Depreciation for IFRS accounting purpose	52,599	32,608
Amortization for IFRS accounting purpose	2,869	1,390
Prior Period Tax Expense	-	13,217
	126,672	**131,509**
Less :		
Depreciation for tax purpose	76,452	43,588
Provision for loans and advances for tax NBE 80%	15,478	54,229
Interest income taxed at source- foreign	2,382	1,628
Dividend income taxed at source	1,110	805
Interest income taxed at source-NBE Bills	165,362	113,943
Interest income taxed at source-Local Deposit	76,110	71,827
Revaluation Gain - Investment Property	100	287
Gain from reversal of impairment allowance	240	-
	337,234	**286,306**
Taxable profit	**496,925**	**425,258**
Current tax at 30%	149,077	127,577
5% on interest on foreign deposits	119	81
Total tax in statement of comprehensive income	**149,197**	**127,659**
Average Effective Tax Rate:	**21.09**	**22.01**

The average effective tax rate is the tax expense divided by accounting profit.

16b	Current income tax liability	30 June 2020 Birr'000	30 June 2019 Birr'000
	Balance at the beginning of the year	140,070	68,219
	Charge for the year	149,197	127,659
	Capital gains tax	-	-
	Income tax expense	-	-
	Prior year (over)/ under provision	-	12,414
	WHT Notes utilised	-	(3)
	Payment during the year	(140,070)	(68,219)
	Balance at the end of the year	**149,197**	**140,070**

16c. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

	30 June 2020 Birr'000	30 June 2019 Birr'000
The analysis of deferred tax assets/(liabilities) is as follows:		
To be recovered after more than 12 months	(7,167)	11,754
To be recovered within 12 months	-	-
	(7,167)	**11,754**

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

Deferred income tax assets/(liabilities):	At 1 July 2019 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/ (charge) to equity Birr'000
Property, plant and equipment	-	15,420	-
Provisions	-	-	-
Unrealised exchange gain	-	-	-
Tax losses charged to profit or loss	-	-	-
Post employment benefit obligation	(11,754)	(10,833)	-
Total deferred tax assets/(liabilities)	**(11,754)**	**4,587**	**-**

Deferred income tax assets/(liabilities):	At 1 July 2018	Credit/ (charge) to P/L	Credit/ (charge) to equity
	Birr'000	Birr'000	Birr'000
Property, plant and equipment	6,930	2,121	-
Provisions	-	-	-
Unrealised exchange gain	-	-	-
Tax losses charged to profit or loss	-	-	-
Post employment benefit obligation	(13,154)	(7,652)	-
Total deferred tax assets/(liabilities)	**(6,224)**	**(5,530)**	**-**

		30 June 2020 Birr'000	30 June 2019 Birr'000
17	**Cash and Cash Equivalents**		
17a	**Cash and balances with banks**		
	Cash in hand local currency	1,282,927	1,414,011
	Cash in hand foreign currency	53,772	63,911
	Placement with other Institutions	866,576	695,788
	Deposits with foreign banks	203,751	801,466
	Balance held with National Bank of Ethiopia	388,486	82,569
	Gross amount	2,795,512	3,057,745
	Less :		
	Allowance for Impairment- Bank Balances	(73)	(79)
		2,795,439	**3,057,666**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	2,407,026	2,975,176
Non-Current	388,486	82,569
	2,795,512	**3,057,745**

	30 June 2020 Birr'000	30 June 2019 Birr'000
17b Due from Banks & Other Financial Institutions :		
ATM Settlement-Off Us	16,891	7,193
Cheque Clearance-Outward	6,829	3,746
Foreign Currency Receivable	12,195	60,111
	35,915	**71,050**

	30 June 2020 Birr'000	30 June 2019 Birr'000
17c Restricted Fund Balance	836,000	754,000

The restricted fund balance represents 5% of deposit balance maintained with National Bank of Ethiopia.

		30 June 2020 Birr'000	30 June 2019 Birr'000
18	**Loans and Advances**		
18a	**Loans and advances to customers**		
	Agriculture	47,516	47,841
	Building and construction	2,829,401	2,187,623
	Domestic trade and services	2,927,294	2,392,712
	Export	1,055,900	923,226
	Hotel and Tourism	334,468	284,701
	Import	778,978	479,945
	Manufacturing	1,448,139	926,202
	Merchandise Loans	15,053	92,811
	Overdrafts	1,128,795	999,889
	Personal loan	742,099	414,024
	Pre-Shipment	142,727	399,653
	Staff loan	870,721	667,817
	Transport	395,922	399,330
	Gross amount	12,717,013	10,215,774
	Less: Impairment allowance (note 17b)		
	Collective impairment	-	-
	Stage 1	(76,926)	(32,422)
	Stage 2	(4,054)	(5,644)
	Stage 3	(55,713)	(80,677)
		12,580,319	**10,097,031**
	Less :		
	Interest in suspense	(2,302)	(16,337)
	Staff Loan Market Interest Adjustment	(66,687)	(51,228)
	Net Loan Balance	**12,511,330**	**10,029,466**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	3,942,274	3,166,890
Non-Current	8,774,739	7,048,884
	12,717,013	**10,215,774**

18b. Impairment Allowance for Loans and Advances

IFRS 9 key guidance on segmentation

(IFRS 9 B5.5.5) For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis.

In addition, common considerations that a Bank may consider before selection of a segmentation criteria include, but are not limited to:

- Customer grading methodologies and whether this is reflective of the proposed segmentation criteria;
- How a Bank sets portfolio credit concentration limits;
- Management's experience with regards to historical default trends;
- Regulatory guidance on credit reporting;
- Financial statement disclosures and current credit reporting structures; and
- Consistency in segmentation between IAS 39 and IFRS 9.

Based on the above facts the bank recognize the loss allowance by segmenting its portfolios into the following clusters:

i. Agriculture
ii. Construction And Building (Including Hotel and Tourism)
iii. Domestic Trade and Services(Including Transport and Communication)
iv. Export and Imports
v. Manufacturing
vi. Personal Loans

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

Collective allowance for impairment	**As at 30 June 2019**	**Charge for the year**
	Birr'000	**Birr'000**
Allowance For Impairment - Agriculture	(726)	177
Allowance For Loan Impairment - Building And Construction	(48,160)	(3,534)
Allowance For Loan Impairment - DTS	(32,066)	(3,432)
Allowance For Loan Impairment - Export and Imports	(8,926)	(1,117)
Allowance For Loan Impairment - Manufacturing	(2,446)	(2,077)
Allowance For Loan Impairment - Personal	(4,401)	(3,137)
Allowance For Loan Impairment - merchandise loans	(839)	718
Allowance For Loan Impairment - Preshipment loans	(10,802)	4,840
Allowance For Loan Impairment - Overdrafts	(10,264)	(10,496)
Allowance For Loan Impairment - Emergency staff loans	(113)	107
Total - Collective Impairment	**(118,743)**	**(17,951)**

Collective allowance for impairment	As at 30 June 2018 Birr'000	Charge for the year Birr'000
Allowance For Impairment - Agriculture	(295)	(431)
Allowance For Loan Impairment - Building And Construction	(29,459)	(18,701)
Allowance For Loan Impairment - DTS	(32,744)	678
Allowance For Loan Impairment - Export and Imports	(31,542)	22,616
Allowance For Loan Impairment - Manufacturing	(2,716)	270
Allowance For Loan Impairment - Personal	(5,972)	1,571
Allowance For Loan Impairment - merchandise loans	-	(839)
Allowance For Loan Impairment - Preshipment loans	-	(10,802)
Allowance For Loan Impairment - Overdrafts	-	(10,264)
Allowance For Loan Impairment - Emergency staff loans	-	(113)
Total - Collective Impairment	**(102,728)**	**(16,015)**

19 Investment Securities

		30 June 2020 Birr'000	30 June 2019 Birr'000
19a	Bonds and Bills	3,786,301	4,256,390
	Less:		
	Allowance for impairment - Bills & Bonds	(189)	(213)
	Net Bond and Bills	**3,786,112**	**4,256,177**
19b	Equity Investments	24,305	22,742
	Fair Value Adjustment – Equity Investments	16,952	10,602
	Less:		
	Impairment allowance- Equity Investment	-	-
	Net Equity Investments	**41,257**	**33,344**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	3,786,112	4,256,177
Non-Current	41,257	33,344
	3,827,369	**4,289,521**

The Bank holds equity investments in Ethio Switch S.C., Berhan Insurance S.C., Premier Switch Solution S.C and Debo Micro Finance S.C. The percentage shareholding for each equity investments is summarized as follows:

30 June 2020 Birr'000	Number of shares	% owned as per the Bank	Amount invested	Fair Value as per IFRS 9
Ethswitch S.C.	12,002	5.13%	12,002	26,858
Berhan Insurance S.C.	5,836	4.63%	5,836	6,805
Premier Switch Solution S.C	4,800	2.91%	4,800	6,605
Debo Micro Finance S.C.	1,667	8.34%	1,667	989
Total Equity Investments				**41,257**

30 June 2019 Birr'000	Number of shares	% owned as per the Bank	Amount invested	Fair Value as per IFRS 9
Ethswitch S.C.	12,002	5.55%	12,002	20,777
Berhan Insurance S.C.	4,940	4.94%	4,940	5,848
Premier Switch Solution S.C	4,800	3.21%	4,800	5,826
Debo Micro Finance S.C.	1,000	9.48%	1,000	893
Total Equity Investments				**33,344**

		30 June 2020 Birr'000	30 June 2019 Birr'000
20	**Other assets**		
	Financial assets		
	Other Receivables	300,517	307,540
		300,517	**307,540**
	Non-financial assets		
	Prepayments	8,282	177,806
	Prepaid Staff Benefits	91,963	71,293
		100,245	**249,099**
	Gross amount	**400,762**	**556,639**
	Less :		
	Impairment allowance for Other assets	25,940	8,097
	Net amount	**374,822**	**548,542**

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	112,447	164,563
Non-Current	262,375	383,979
	374,822	**548,542**

20a Impairment Allowance on Other Assets

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Balance at the beginning of the year	8,097	22,313
IFRS 9 Day 1 Impact	-	(19,730)
(Reversal)/charge for the year	17,844	5,514
Balance at the end of the year	**25,941**	**8,097**

20b Inventory

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Sundry materials	5,195	2,693
Check books	2,435	3,485
Stationary	3,042	3,654
Printed materials	3,207	5,603
Draft and CPO	26	140
Computer Hardware And Accessories	-	-
Uniform	-	-
Revenue stamp	24	22
Cleaning and sanitation	-	7
Gross amount	**13,929**	**15,604**
Less:		
Allowance for Inventory Write-Down	(174)	(124)
	13,755	**15,480**

20c Non Current Assets Held for Sale

	30 June 2020 Birr'000	30 June 2019 Birr'000
Assets Held for Sale	23,957	10,286
Less:		
Allowance for Impairment Assets Held for Sale	(665)	(290)
	23,292	**9,996**

The non-current assets held for sale comprises repossessed collaterals. The buildings are not impaired while the vehicles showed decrease in value as indicated by the fair value assessment.

21. Investment Property

Investment property is made up of properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model. Investment properties are revalued annually and are included in the statement of financial position at their open market values. These values are supported by market evidence and are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in profit or loss within change in fair value of investment property. The bank used its internal valuer to assess the fair value of its investment property because the value of the building is not significant.

Rental income and operating expenses from investment property are reported within revenue and other expenses. The rental income from the investment property for 30-June-2020 was Birr 222,608.64, and for 30-June-2019 Birr 151,939.12. The operating expense incurred in connection with the investment property was minimal.

	30 June 2020 Birr'000	30 June 2019 Birr'000
Balance as at the beginning of the year	3,045	2,758
Fair value gain/(loss) on investment property	100	287
Balance at the end of the year	**3,145**	**3,045**

The fair value of investment property was determined by reference to the market prices of similar properties of the type and in the area in which the property is situated. The property comprise of one condominium units.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1 Birr' 000	Level 2 Birr' 000	Level 3 Birr' 000	Total Birr' 000
As at 30 June 2020				
Investment properties	-	3,145		3,145
As at 30 June 2019				
Investment properties	-	3,045		3,045

Valuation technique used to derive level 2 fair value on investment property has been valued on the basis of highest and best use that is Market Value for existing use. Leasehold considerations and tenancies have been reflected in the valuation.

22 Intangible Assets

	Computer software Birr'000
Cost:	
As at 1 July 2018	8,693
Acquisitions	12,605
Disposal	(6,235)
As at 30 June 2019	**15,063**
As at 1 July 2019	**15,063**
Acquisitions	4,640
Disposal	-
As at 30 June 2020	**19,703**
Accumulated amortisation and impairment losses	
As at 1 July 2018	7,582
Amortisation for the year	1,390
Impairment losses	(6,235)
As at 30 June 2019	**2,737**
As at 1 July 2019	**2,737**
Amortisation for the year	2,869
Impairment losses	
As at 30 June 2020	**5,606**
Net book value	
As at 30 June 2019	12,326
As at 30 June 2020	14,097

23 Property and equipment

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories	Right-of-use asset	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cost:							
As at 30 June 2018	**13,654**	**94,628**	**87,234**	**59,206**	**40,589**	**-**	**295,311**
Additions	24,946	36,003	76,915	24,803	21,089	-	183,755
Disposals	-	(1,438)	(677)	(278)	(481)	-	(2,874)
Reclassification	-	-	-	-	-		-
As at 30 June 2019	**38,600**	**129,192**	**163,472**	**83,731**	**61,196**	**-**	**476,191**
Accumulated amortisation and impairment losses							
As at 1 July 2018	**249**	**21,715**	**26,450**	**13,618**	**17,364**	**-**	**79,396**
Charge for the year	312	7,535	13,108	6,463	5,190	-	32,608
Impairment Loss			352	9	3	-	705
Disposals	-	(968)	(445)	(241)	(343)	-	(1,998)
As at 30 June 2019	**561**	**28,281**	**39,465**	**19,850**	**22,214**	**-**	**110,370**
Cost:							
As at 01 July 2019	**38,600**	**129,192**	**163,472**	**83,731**	**61,196**	**374,124**	**850,316**
Additions	560	48,540	70,392	29,577	34,871	162,786	346,726
Disposals	-	-	(173)	(239)	(574)	-	(986)
Reclassification	-	-	-	-	-	-	-
As at 30 June 2020	**39,160**	**177,732**	**233,691**	**113,069**	**95,494**	**536,910**	**1,196,055**
Accumulated amortisation and impairment losses							
As at 01 July 2019	**561**	**28,281**	**39,465**	**19,850**	**22,216**	**-**	**110,372**
Charge for the year	746	11,250	23,589	8,619	8,394	124,685	177,284
Impairment Loss		449	(404)	13	70	-	833
Disposals	-	-	(165)	(159)	(461)	-	(784)
As at 30 June 2020	**1,307**	**39,980**	**62,485**	**28,323**	**30,220**	**124,685**	**287,000**
Net book value							
As at 30 June 2019	**38,039**	**100,912**	**124,007**	**63,882**	**38,983**	**-**	**365,821**
As at 30 June 2020	**37,852**	**137,752**	**171,205**	**84,746**	**65,274**	**412,225**	**909,055**

The gross carrying amount of fully depreciated still in use are as follows:

	Buildings	Motor vehicles	Office and other equipment	Furniture and fittings	Computer and accessories
As at 30 June 2019		5,152	54	0.3	65
As at 30 June 2020		-	51	51	43

24 Liabilities

24a Due to Banks & Other Institutions

	30 June 2020 Birr'000	30 June 2019 Birr'000
Cheque Clearance-Inward	8,946	3,838
ATM Settlement-On Us	28,286	13,016
	37,232	**16,854**

24b Deposits from Customers

	30 June 2020 Birr'000	30 June 2019 Birr'000
Demand deposits	5,282,924	5,358,543
Savings deposits	9,975,317	8,298,773
Time deposits	1,350,422	1,306,964
	16,608,663	**14,964,280**

	30 June 2020 Birr'000	30 June 2019 Birr'000
Margins held on letters of credit	320,228	569,464

24c	Other Liabilities	30 June 2020 Birr'000	30 June 2019 Birr'000
	Financial Liabilities		
	Banking instruments payables	101,860	124,524
	Unearned Income	115,396	173,528
	Lease liability	196,051	-
	Total Financial Liabilities	413,307	298,052
	Non-Financial Liabilities		
	Tax and Other Obligations	21,503	26,293
	Sundry payables	194,256	199,240
	Interest payable on demand deposits	3,895	3,890
	Total Non-Financial Liabilities	**219,654**	**229,423**
	Total Financial and Non-Financial Liabilities	**632,961**	**527,475**

Breakdown of Tax and Other Obligations:

	30 June 2020 Birr'000	30 June 2019 Birr'000
Capital Gain Tax Payable	68	-
Employer Pension Cont	3,491	4,751
Income Tax Payable	8,596	12,527
Stamp Duty Charges	2,596	2,045
Income Tax on Savings Interest	3,355	3,137
Withholding Tax-Local	929	501
Value Added Tax-Vat Payable	15	72
Withholding Tax -Technical Service-Abroad	116	120
Cost Sharing Expense Payable	4	11
Dividend Tax Payable	-	-
Reverse Taxation Payable	116	134
Employee Pension Cont	2,217	2,997
	21,503	**26,295**

24d Provisions

	30 June 2020 Birr'000	30 June 2019 Birr'000
Leave Pay	34,601	20,232
Bonus Payable	71,271	68,863
	105,872	**89,095**

24e Retirement Benefit Obligations

		30 June 2020 Birr'000	30 June 2019 Birr'000
Defined benefits liabilities:			
Severance pay	Note 23 (f)	75,291	69,354
Liability in the statement of financial position		**75,291**	**69,354**
Income statement charge included in personnel expenses:			
Severance costs	Note 23(f)	22,295	14,299
Total defined benefit expenses		**22,295**	**14,299**
Remeasurements for:			
Remeasurement gains/(losses)	Note 23(f)	15,903	(11,715)
`		**15,903**	**(11,715)**

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

Maturity analysis	30 June 2020 Birr'000	30 June 2019 Birr'000
Current	-	-
Non-Current	75,291	69,354
	75,291	69,354

24f.Severance Pay

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

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

		30 June 2020 Birr'000	30 June 2019 Birr'000
A	**Liability recognised in the financial position**	75,291	69,354

		30 June 2020 Birr'000	30 June 2019 Birr'000
B	**Amount recognised in the profit or loss**		
	Current service cost	12,137	7,625
	Interest cost	10,158	6,674
		22,295	14,299

24g Retirement Benefit Obligations (Contd)

C Amount recognised in other comprehensive income:

Actuarial (Gains)/Losses on demographic assumptions	-	-
Actuarial (Gains)/Losses on economic assumptions	(25,486)	4,527
Actuarial (Gains)/Losses on experience	9,583	7,188
	-15,903	**11,715**

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
(Liability)/Asset at beginning of period	69,354	43,848
(Expense)/Income recognised in OCI	(15,903)	11,715
(Expense)/Income recognised in Profit and Loss	22,295	14,299
Remeasurement (gains)/ losses	-	-
Benefits paid	(455)	(508)
At the end of the year	**75,291**	**69,354**

The significant actuarial assumptions were as follows:

i) Financial Assumption Long term Average

	30 June 2020 Birr'000	30 June 2019 Birr'000
Discount rate (p.a)	15.00%	12.50%
Long term salary Increase rate (p.a)	12.00%	12.00%

ii) Mortality in Service

The rate of mortality assumed for employees are those according to the British A49/52 ultimate table published by the Institute of Actuaries of England. These rates combined are approximately summarized as follows:

Age	Mortality rate	
	Male	Female
20-24	0.31%	0.22%
25-29	0.30%	0.23%
30-34	0.36%	0.31%
35-39	0.41%	0.28%
40-44	0.52%	0.32%
45-49	0.45%	0.43%
50-54	0.63%	0.63%
55-59	0.98%	0.98%
60-64	1.54%	1.54%

24h Retirement Benefit Obligations (Contd)

iii) Withdrawal from Service

The withdrawal rates are as summarized below:

Age	Resignation rates per annum
Less than 20	0.00%
21-25	15.00%
26-30	12.50%
31-35	10.00%
36-40	7.50%
41-45	5.00%
46-50	2.50%
Above 51	0.00%

25. Ordinary Share Capital

	30 June 2020 Birr'000	30 June 2019 Birr'000
Authorised:		
Ordinary shares of Birr 1,000 each	2,451,225	2,000,000
Issued and fully paid:		
Ordinary shares of Birr 1,000 each	2,451,225	2,000,000

As at 30 June 2020, the authorized share capital of the Bank comprised of 2,451,225 ordinary shares with a par value of Birr 1000. Issued and fully paid ordinary shares, which have a par value of Birr 1000, carry one vote per share and carry a right to dividend.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

26. Retained Earnings

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	397,304	208,132
Profit / (loss) for the year	553,192	457,924
Day 1 IFRS 9 Impact	-	54,148
Transfer to legal reserve	(138,298)	(114,481)
Dividend provided for / paid	(397,304)	(208,132)
Deferred Tax adjustment	-	-
Transfer to Other Reserve(Fair value of investment pro	(100)	(287)
Transfer to (from) Regulatory Risk Reserve	(75,342)	-
At the end of the year	**339,452**	**397,304**

27. Legal Reserve

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	422,871	308,390
Transfer from profit or loss	138,298	114,481
At the end of the year	**561,169**	**422,871**

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.

28. Other Reserves:

	30 June 2020 Birr'000	30 June 2019 Birr'000
Other comprehensive income :		
Remeasurement Gain or Loss on Defined Benefit Plans	(19,198)	(35,101)
Movement in fair value reserve-equity instruments	16,952	10,602
Fair value gain(loss) on investment property	387	287
	(1,859)	**(24,212)**
Income tax relating to other comprehensive income:		
Remeasurement Gain or Loss on Defined Benefit Plans	(5,759)	(10,530)
	-5,759	-10,530
Net other comprehensive income:		
Remeasurement Gain or Loss on Defined Benefit Plans	(13,439)	(24,571)
	(13,439)	**(24,571)**
Income tax relating to other comprehensive income:		
Movement in fair value reserve-equity instruments	5,086	3,181
	5,086	3,181
Net other comprehensive income:		
Movement in fair value reserve (equity instruments)	11,866	7,421
	11,866	**7,421**

29. Regulatory Risk Reserves:

	30 June 2020 Birr'000	30 June 2019 Birr'000
Regulatory Risk Reserve - Loans	14,680	-
Regulatory Risk Reserve - Receivables	27,540	-
Regulatory Risk Reserve-Suspended Interest	63,089	-
Income Tax @ 30% on Suspended Interest	(18,927)	
Suspended interest net of tax	44,162	
Legal Reserve @ 25% % on Suspended Interest net of tax	(11,041)	
Net regulatory risk reserve-Suspended Interest	33,122	
	75,342	**-**

The Regulatory risk reserve is a non-distributable reserves required by the regulations of the National Bank of Ethiopia to be kept for impairment losses on loans and receivables in excess of IFRS charge as derived using the Expected Credit Loss Model.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is higher than the loan loss impairment determined using the Expected Credit Loss Model under IFRS, the difference is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

Where the loan loss impairment determined using the National Bank of Ethiopia guidelines is lower than the loan loss impairment determined using the Expected Credit Loss Model under IFRS, the difference is transferred from regulatory risk reserve to retained earnings to the extent of the non-distributable reserve previously recognized.

In addition the suspended interest from non-performing loans which is recognized as income under IFRS is transferred to regulatory risk reserve and it is non-distributable to the owners of the Bank.

30. Earnings Per Share

	Notes	30 June 2020 Birr'000	30 June 2019 Birr'000
Net profit attributable to ordinary equity holders		553,192	457,924
Weighted average number of ordinary shares		2,137,401	1,857,812
Basic Earnings per share		**25.88**	**24.65**
Retained earning balance available for distribution to o	**24**	339,452	397,304
Weighted average number of ordinary shares		2,137,401	1,857,812
Net Basic Earnings per share		**15.88**	**21.39**

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

31. Related Party Transactions

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

There are companies which are related to Berhan Bank through common shareholdings or common directorships.

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

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

31a Loans and Advances

	30 June 2020 Birr'000	30 June 2019 Birr'000
Companies associated with directors		
At the beginning of the year	63,416	95,142
Net movement during the year	22,476	(31,726)
At the end of the year	**85,892**	**63,416**
Guarantees and letters of credit to companies associated with	-	-

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Directors		
At the beginning of the year	35,212	37,462
Net movement during the year	11,207	(2,250)
At the end of the year	**46,420**	**35,212**
Guarantees and letters of credit to directors	-	-

These loans and advances are performing and are adequately secured.

31b Deposit by Directors and key management personnel

	30 June 2020 Birr'000	30 June 2019 Birr'000
At the beginning of the year	799	973
Net movement during the year	653	(174)
At the end of the year	**1,452**	**799**

31c. Key management compensation

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Salaries and other short-term employee benefits	24,573	20,960
Post-employment benefits	-	-
Termination benefits	-	-
Sitting allowance	1,827	1,814
Other expenses	110	61
	26,509	**22,835**

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

31d.Directors and Employees

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Professionals and High Level Supervisors	27	72
Semi-professional, Administrative and Clerical	363	189
Technician and Skilled	1	8
Manual and Custodian	427	351
	818	**620**

ii) The table below shows the number of employees (excluding directors), who earned over Birr 10,000 as emoluments in the year and were within the bands stated.

	30 June 2020 Birr'000	30 June 2019 Birr'000
10,000 - 30,000	1,608	1,157
30,001 - 50,000	84	20
50,001 - 100,000	-	-
Above 100,000	-	-
	1,692	**1,177**

32. Contingent Liabilities

32a Claims and litigation

The Bank is a party to numerous legal actions brought by different organizations and individuals arising from its normal business operations. The maximum exposure of the Bank to these legal cases as at 30 June 2020 is Birr 14.4 million (30 June 2019: Birr17.3 million). No provision has been made in the financial statements as the Directors believe that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

Claims by the bank

The bank has instituted suits against third parties arising from the normal course of business. The possible claim arising from settlement of these cases as at 30 June 2020 is Birr 55.3 million.

32b.Contingent liabilities and commitments

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

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

	30 June 2020 Birr'000	30 June 2019 Birr'000
Guarantees issued and outstanding	9,076,760	11,014,200
Commitments on lettes of credit net of margin paid	724,806	731,300
Loans approved but not disbursed	1,055,066	508,790
	10,856,632	**12,254,290**

33. Commitments

The Bank has commitments, not provided for in these financial statements, as of 30 June 2020 Birr 4.8 million (30 June 2019: Birr 16.7 million) for purchase of various capital items.

34. Events after reporting period

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