



Development Bank of Ethiopia
Your Development Partner!

Annual Report

For the Year Ended June 30, 2018

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Your Development Partner!

Mission

The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the Government by mobilizing funds from domestic and foreign sources while ensuring its sustainability.

The Bank earnestly believes that these highly valued objectives can best be served through continuous capacity building, customer focus and concern to the wider environment.

Vision

To be a world class Development Bank that helps to achieve Ethiopia's economic transformation vision by 2030.

Values

- » Commitment to Mission
- » Customer focus
- » Integrity
- » Team work
- » High value to employees
- » Learning organization
- » Concern to the environment



Annual Report

For the Year Ended June 30, 2018

Ownership and Governance

Established in 1909, Development Bank of Ethiopia is a specialized state-owned development financial institution.

Mandate

The current mandate of the Bank is the provision of development credit to viable priority projects along with technical support through mobilizing resources from domestic and foreign sources. Priority areas of the Bank are:

- Commercial Agriculture Projects,
- Agro-processing Industries,
- Manufacturing and Extractive Industries, and
- Lease Financing Service for Small and Medium Enterprises.

Capital

Paid-up capital of the Bank as of June 30, 2018 stood at Birr 7.5 billion.

Governance and Organizational Structure

Development Bank of Ethiopia (DBE) is a specialized state-owned development financial institution, which is supervised by the Public Enterprises Holding and Administration Agency. A Board of Management (BOM) consisting of nine senior government officials

oversee, direct and control the Bank. The President of the Bank also attends the regular meetings of the BOM as a non-voting member. The two top bodies (Public Enterprises Holding and Administration Agency (PEHAA) and BOM are, among others, responsible for issuing major policies of the Bank, approval of its strategic and operational plans as well as the close and regular monitoring of the Bank's operations.

The top Executive Management Committee (EMC), which consists of the President and Five Vice Presidents, is a direct responsible body to administer the overall operations of the Bank. The President chairs the EMC and acts as an official representative of the Bank. Middle level management members are, on the other hand, responsible for the day-to-day management of the Bank's operational activities. Pertaining to good governance, the Bank's management is structured in transparent way and those decisions taken and their enforcement are done in a manner that follows rules and regulations with developed policies and procedures.

The Bank's BOM has established separate Compliance and Risk Management and Internal Audit Directorates for the effective implementation of policies and procedures. Ethical Conduct and Complaint Handling is also part of DBE's culture. Accordingly, the Bank has Ethics and Compliant Handling Office under the direct supervision of the President.

BOARD OF MANAGEMENT MEMBERS
(As of December 25, 2018)



Tegegnetwork Gettu (PhD)
Chairperson



Ato Oumer Hussein
Member



Ato Tefera Derbew
Member



Yohannes Ayalew (PhD)
Member



Ato Sileshi Lemma
Member



Ato Zekarias Erkolo
Member



Esayas Kassa (PhD)
Member



Ato Mesfin Nemera
Member



Wrt Meleket Sahlu
Member

EXECUTIVE MANAGEMENT MEMBERS



Ato Haileyesus Bekele
President



Ato Getachew Wakie
VP- Corporate Customer Relationship
Management



Ato Teshome Aelmayehu
VP-Small and Medium
Enterprises Financing



Ato Endalkachew Mihretu
VP-Finance and Banking



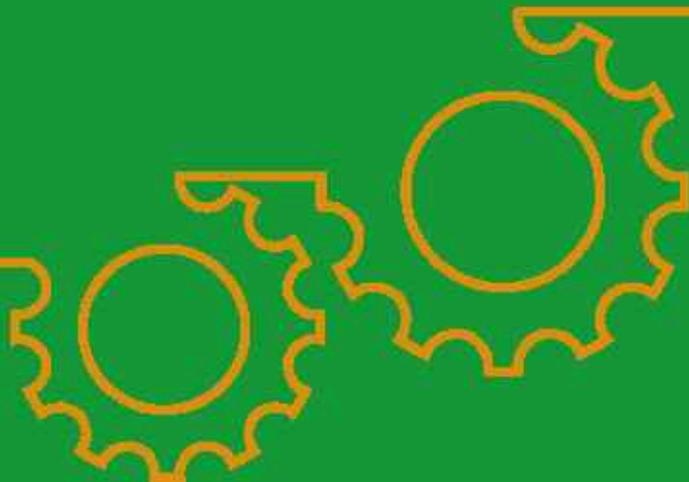
Ato Hadush Gebreigziabher
VP-Corporate Services



Ato Getachew Kebede
A/VP-Corporate Project Appraisal
and Portfolio Management



Ato Haileyesus Bekele
PRESIDENT



MESSAGE FROM THE PRESIDENT

It is great opportunity for me to present the Annual Report of the Development Bank of Ethiopia (DBE) for the year ended June 30, 2018.

As the policy based financial institution of the Country, the Bank has been accomplishing its duties and responsibilities under a clearly articulated mission of upholding the development objectives of the country. Apart from its very objectives of project financing and rendering technical support to the selected priority area sectors, DBE is entrusted to shoulder the responsibility of financing Small and Medium Enterprises (SMEs) in order to create sustainable job opportunities and contribution to the national growth and development.

The Ethiopian economy which had showed 9.3 percent average annual growth during 2013/14 - 2017/18 fiscal years, recorded 7.7 percent growth in 2017/18 fiscal year, slower than the growth rate registered in the previous year owing to growth deceleration in agriculture and industry sectors. The growth rate of real GDP was lower by 3.4 percentage point than the base case scenario of GTP II target set for the fiscal year. Yet, it was significantly higher than the 3.1 percent average growth estimated for Sub-Saharan Africa, according to World Economic Outlook (WEO), October 2018.

It is recalled that, as a policy bank, to apt in to the changing environment, DBE has engaged in implementing different change initiatives during this fiscal year under review. These change activities took different forms as part of the broad DBE reform program. These initiatives enable the Bank to enhance its service coverage, service quality, prudent lending practice, check and balance, and strengthen its monitoring and evaluation system. In addition, execution and follow-up of the initiatives implemented during the previous year have been made.

During this operational year, the Bank's loan approval, disbursement, and collection performance was Birr

13.12 billion, Birr 7.08 billion and Birr 4.84 billion, respectively. In the reporting year, the Bank earned a total income of Birr 4.49 billion. From the total income, Birr 3.62 billion gained from interest earned on loans and advances, Birr 424 million from interest earned on Treasury bill, Birr 59.5 million from gain on currency fluctuation while the remaining Birr 386.9 million is from other income sources. Furthermore, the amount of expense incurred in the budget year is Birr 2.33 billion. The Bank also earned a net profit of Birr 367.3 million during the reporting period.

During this operation year, the total foreign currency generated was USD 298.6 million, which is significantly higher than the amount earned from the preceding year.

In line with this, the Bank mobilized Birr 2.2 billion fund from sale of Grand Ethiopian Renaissance Dam (GERD) Bond, which is 236% of set target.

As at June 30, 2018, the Bank's manpower stood at 2,412. Besides recruiting the required professionals, in order to improve the knowledge and skills of its staffs, the Bank provided different local and foreign trainings to its employees.

In general, the overall performance of the Bank in the year under review as per its BSC measure was at satisfactory level. This achievement is obtained by the concerted efforts of members of the Board of Management (BOM), management members of the Bank at different levels, stakeholders and more importantly employees of the Bank.

Thank You!
Haileyesus Bekele, President

An Overview of the Ethiopian Economy

The Ethiopian economy continued to register notable growth. The Ethiopian economy which had showed 9.3 percent average annual growth during 2013/14 - 2017/18 fiscal years, recorded 7.7 percent growth in 2017/18 fiscal year, slower than the growth rate registered in the previous year owing to growth deceleration in agriculture and industry sectors. The growth in real GDP was mainly attributed to 10.3 percent growth in services, 6.7 percent in agriculture and 18.7 percent in industrial sectors.

The growth rate of real GDP was lower by 3.4 percentage point than the base case scenario of GTP II target set for the fiscal year. Yet, it was significantly higher than the 3.1 percent average growth estimated for Sub-Saharan Africa (World Economic Outlook Update, October 2018).

The growth in real GDP was mainly attributed to 8.8 percent growth in services, 3.5 percent in agriculture and 12.2 percent in industrial sectors. Nominal GDP per capita rose to USD 883, depicting marginal improvement over the previous year.

In 2017/18, agricultural output depicted 3.5 percent growth which is lower from 6.7 percent growth registered in the previous year. Similarly it is 4.4 percentage point lower than the 7.9 percent target for the fiscal year. The total grain production reached 306.1 million quintals showing 5.4 percent increment over the previous year. Of which, cereal production accounted for 87.5 percent, pulses 9.7 percent and oil seeds 2.8 percent. Cereals production went up by 5.5 percent over the preceding year owing to 0.1 percent increase in cultivated land area and improvement in productivity. Similarly, the production of pulses and oilseeds improved by 5.8 and 1.9 percent respectively, due to 3.1 and 5.1 percent expansion in cultivated land area respectively.

The total cultivated land of crop production increased marginally by 0.8 percent to 12.7 million hectares, of which cultivated land of cereals production covered 80.7 percent, while pulses and oil seeds 12.6 and 6.7 percent respectively.

The share of agriculture in GDP declined to 34.9 percent in 2017/18 from 36.3 percent of a year ago. This was marginally lower than the 35.4 percent GTP II target set for the fiscal year. Likewise, its contribution to GDP growth declined to 16.5 percent from 24.6 percent. The major output of the agricultural sector was crop production, comprising 65.3 percent, followed by animal farming & hunting (25.6 percent) and forestry (8.8 percent). In terms of growth, crop production increased by 4.7 percent while that of animal farming & hunting and forestry rose by 0.6 and 3.5 percent, respectively.

In line with this, the industrial sector showed 12.2 percent output growth and registered 27 percent share in GDP. The sector contributed 40.7 percent to the overall economic growth during the fiscal year.

Service sector continued to dominate the economy as its share in GDP rose to 39.2 percent while its contribution to the GDP growth increased to 43.9 percent. The sector showed 8.8 percent growth largely owing to the expansion of wholesale & retail trade (12.3 percent), public administration & defense (8.9 percent), hotels & restaurants (6.5 percent), transport & communication (6.4 percent) and real estate, renting & business activities (6.2 percent).

In 2017/18 alone, a total of 144,107 new micro and small scale enterprises (MSEs) were established which employed about 187.9 thousand people. These enterprises received more than Birr 8.6 billion in loans. In general, the Ethiopian economy was largely characterized by encouraging overall economic performance in all sectors of the economy. The good performance of the Country has created conducive business environment of the banking industry in general and the Development Bank of Ethiopia in particular. The satisfactory operation of the Bank which is discussed in detail in the next session is to be the reflection of the robust national economic growth.

Source: Extracted from the Annual Report of National Bank of Ethiopia for the Year 2017/18.

Credit Operational Highlights for F.Y. 2017/18

4.1. Overall Credit Operation

During the fiscal year ended June 30, 2018, the Bank approved Birr 13.12 billion and disbursed Birr 7.08 billion for various projects. Moreover, the Bank collected Birr 4.84 billion from its clients. Details are shown in Table 1.

Table 1: Summary of Credit Operations during the fiscal year ended June 30, 2018

Sr.No.	Item	Agriculture		Manufacturing		Mining & Energy		Financial Service		Service		BME Lease Financing		Staff Loan		Total		Change
		2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	
1.	Approval	548,373	486,472	6,880,763	8,317,087	151,400	217,573	369,80	774,442	-	-	3,585,400	3,240,200	113,205	112,577	1,208,943	1,319,161	
2.	Disbursement	731,385	386,685	3,386,008	4,135,286	275,761	266,568	327,577	756,718	33,434	-	510,338	1,261,865	128,122	127,080	5,377,026	7,082,493	
3.	Collection	486,612	661,756	3,105,154	3,163,232	117,560	160,477	666,657	637,687	231,304	193,775	3,071	69,223	45,654	66,068	4,560,014	4,842,184	

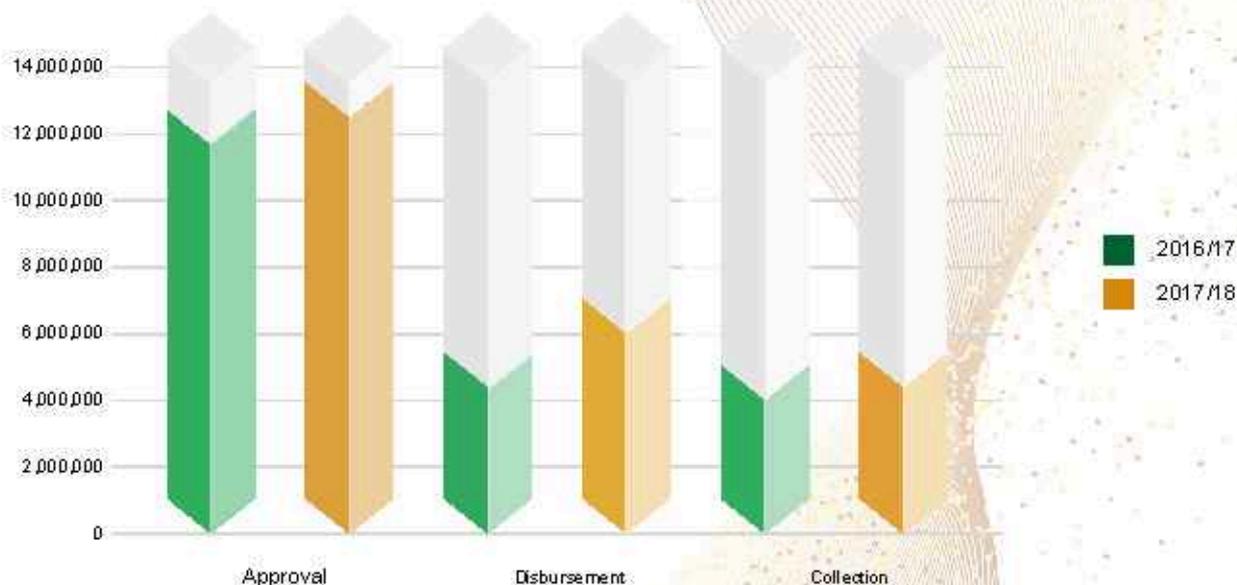


Figure 1: Summary of Credit Operation during the fiscal year ended June 30, 2018



Textile Manufacturing Industry Financed by the Bank



The Bank has mobilized Bir 2.2 billion from sale of Grand Ethiopian Renaissance Dam Bond in 2017/18 FY.

Loan Approval

4.2.1 Loan Approval by Economic Sector

During the reporting fiscal year, the Bank approved a total of Birr 13.12billion. Of which Birr 456,472million was approved to agriculture sector, while Birr 8,317,087billion to the manufacturing,

Birr 217,973million to mining and energy and Birr 774,442million to financial services. The remaining Birr 3.24 Billion and Birr 112.9million were to the SME lease financing and staff loans respectively. The details are shown in table 2.

Table 2- Total Project Loan and Lease Financing Approval by Economic Sectorw

Sector	2016/17	2017/18	% Change
1. Agriculture	548,373	456,472	(17)
Public Enterprises	-	-	-
Cooperative	2,672	22,263	733
Private	545,702	434,210	(20)
2. Manufacturing	6,880,763	8,317,087	21
Public Enterprises	285,392	1,260,093	342
Private	6,595,371	7,056,994	7
Micro-Enterprises	-	-	-
3. Mining and Energy	151,400	217,973	44
Public Enterprises	-	-	-
Microfinance	-	60,000	-
Private	151,400	157,973	4
4. Financial Service	399,803	774,442	94
Public Enterprises	147,358	-	(100)
Microfinance	252,445	774,442	207
5. Ser vice	-	-	-
Public Enterprises	-	-	-
Cooperative	-	-	-
Private	-	-	-
6. SME Lease Financing	3,985,400	3,240,209	(19)
Sub-total	3,985,400	3,240,209	(19)
7. Staff Loan	113,205	112,977	-
Private	113,205	112,977	(0)
Total	12,078,943	13,119,161	9

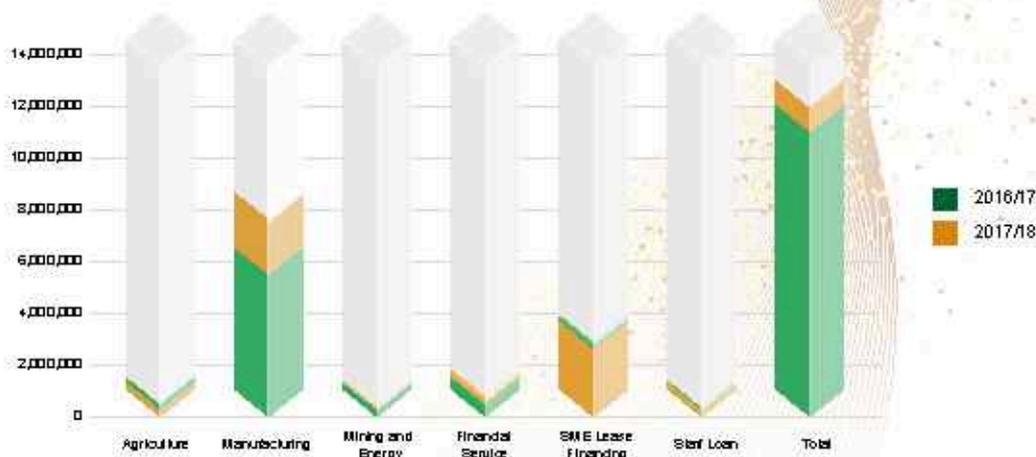


Figure 2: Loan Approval by Economic Sector

4.2.2 Loan approval by Social Sector

In the year 2017/18, the lion share of approval was made for private investments; this indicates the focus

of the Bank to support the private sector which is the engine of the economic development of the Country.

Table 3: Loan approval by social sector

Sector	2016/17	2017/18
Public Enterprise	432,750	1,260,093
Cooperative	2,672	22,263
Private	7,405,678	7,762,154
Microfinance	252,445	834,442
SME Lease Financing	3,985,400	3,240,209
Total	12,078,943	13,119,161

4.3 Loan Disbursement

4.3.1. Loan Disbursement by Economic Sector

In the reporting period, the Bank disbursed Birr 7.08billion. An assessment of the sectoral distribution of annual disbursement revealed that, out of the total disbursement, Birr 366,585million was disbursed

to agriculture sector, while Birr 4.13billion to manufacturing, Birr 265,968million for mining and energy and Birr795,718million for financial services. The remaining Birr 1.39 billion and 127,050million disbursements were to SME lease financing services and staff loans respectively.



A vehicle assembly factory financed by the Bank

Table 4: Total Project Loan and Lease Financing Disbursement by Economic Sector

Sector	2016/17	2017/18	% change
1. Agriculture	731,356	366,585	(50)
Public Enterprises	4,115	-	(100)
Cooperative	2,774	14,837	-
Private	724,468	351,748	(51)
2. Manufacturing	3,366,039	4,135,286	23
Public Enterprises	119,332	177,174	48
Private	3,243,684	3,950,115	22
Cooperative	3,023	7,997	165
3. Mining and Energy	279,761	265,968	(5)
Public Enterprises	-	-	-
Microfinance	6,250	78,750	-
Private	273,511	187,218	(32)
4. Financial Service	327,977	795,718	-
Public Enterprises	133,819	-	-
Microfinance	194,158	795,718	-
5. Service	33,434	-	(100)
Public Enterprises	33,434	-	-
Cooperative	-	-	-
Private	-	187,218	(32)
6. SME Lease Financing	510,338	1,391,885	173
Sub-total	510,338	1,391,885	173
7. Staff Loan	128,122	127,050	(1)
Private	128,122	127,050	(1)
Total	5,377,026	7,082,493	32

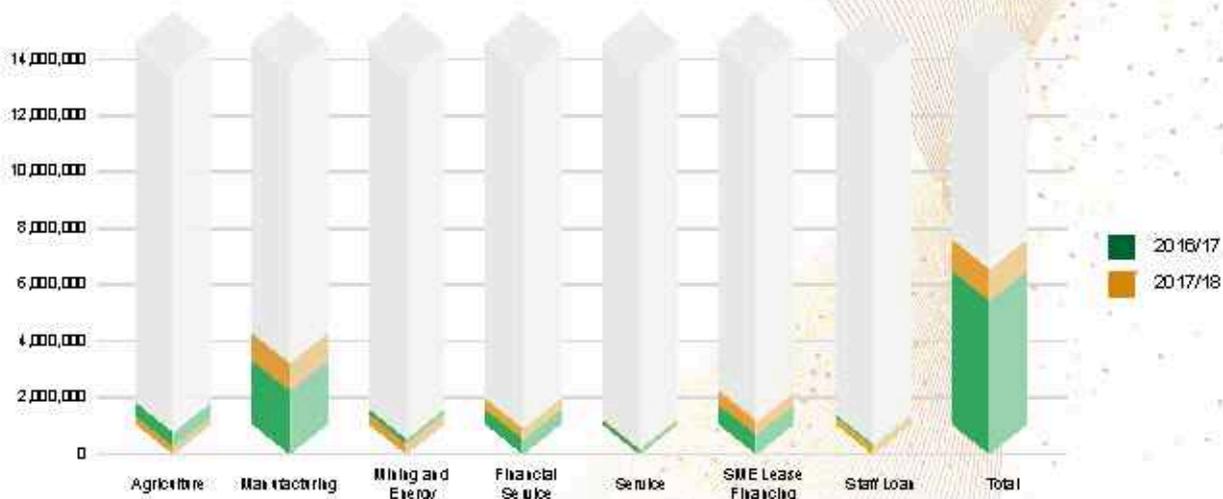


Figure 3: Loan Disbursement by Economic Sector

4.3.2 Loan Disbursement by Social Sector

During the year ended June 30, 2018, the Bank disbursed Birr 7.08billion. Out of which, Birr 4.37billion to private owned companies, Birr 510.3 million to SME lease financing, Birr 290.7million to public enterprises, Birr 203.4million micro-finance institutions and Birr

2.77million was disbursed to cooperatives. This shows that the Bank has played a crucial role pertaining to private sector in line with the government agenda.

Table 5: Loan disbursement by social sector

Sector	2016/17	2017/18
Public Enterprise	290,700	177,174
Cooperative	2,774	22,834
Private	4,369,785	4,803,349
Microfinance	203,431	874,468
SME Lease Financing	510,338	1,391,885
Total	5,377,026	7,082,493

4.4 Loan Collection

4.4.1. Loan Collection by Economic Sector

In the reporting year, the Bank collected Birr 4.84billion. The economic distribution was Birr 561,796million from agriculture, Birr 3.15billion was collected from manufacturing, Birr 160,477million from mining and

energy Birr 637,587million from financial services and Birr 193,779million from service sector. The remaining amount Birr 69,223million and Birr 66,088million was collected from SME lease financing service and staff loans.



A soft paper manufacturing industry financed by the Bank.

Table 6: Total Project Loan and Lease Financing Collection by Economic Sector

Sector	2016/17	2017/18	% Change
1. Agriculture	486,612	561,796	15
Public Enterprises	-	-	-
Cooperative	17,579	16,561	(6)
Private	469,033	545,236	16
2. Manufacturing	3,105,154	3,153,232	2
Public Enterprises	-	177,174	48
141,049	151,220	7	22
Private	2,961,240	2,995,216	1
Micro Enterprises	2,865	6,796	137
3. Mining and Energy	117,560	160,477	37
Public Enterprises	3,911	-	(100)
Microfinance	1,733	96,196	5,451
Private	111,916	64,280	(43)
4. Financial Service	566,697	637,587	13
Public Enterprises	10,874	-	(100)
Microfinance	555,824	637,587	15
5. Service	231,304	193,779	(16)
Public Enterprises	91,874	92,326	0
Cooperative	-	4	(100)
Private	139,426	101,453	(27)
6. SME lease financing	3,071	69,223	2,154
Sub-total	-	69,223	2,154
7. Staff Loan	-	127,050	(1)
47,584	66,088	33	32
Private	47,584	66,088	33
Total	4,560,094	4,842,184	6

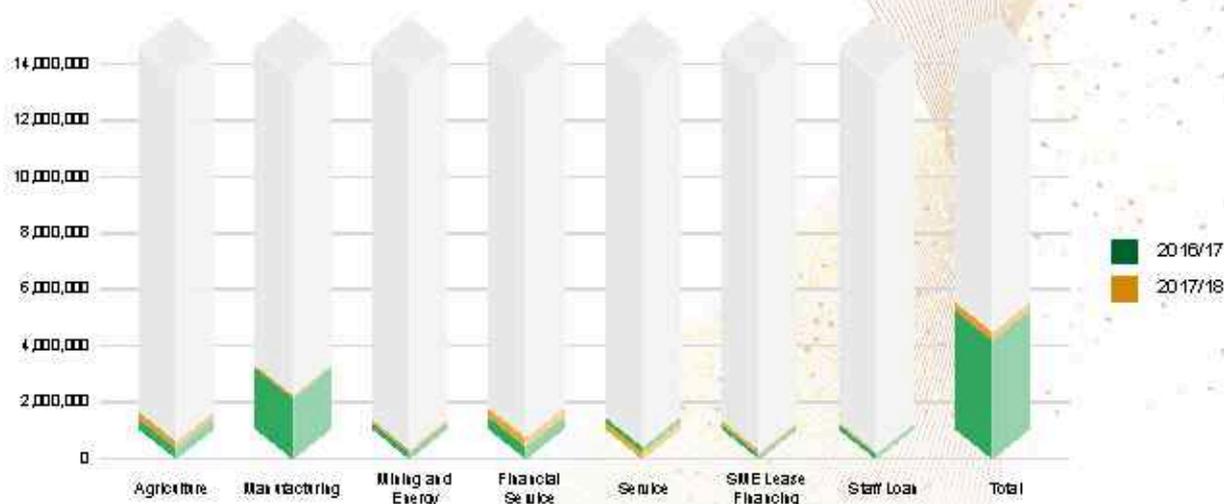


Figure 4: Loan Collection by Economic Sector

4.4.2 Loan Collection by Social Sector

The biggest share of the Bank's collection came from the private sector which accounted for Birr 3.73 billion. Besides, Birr 17.58 million from cooperatives, Birr 560.4 million from microfinance, Birr 247.7 million from

public enterprises and Birr 3.07 million from SME lease financing.

Table 5: Loan disbursement by social sector

Sector	2016/17	2017/18
Public Enterprise	247,708	243,546
Cooperative	17,583	16,565
Private	3,731,309	3,772,273
Microfinance	560,422	740,579
SME Lease Financing	3,071	69,223
Total	4,560,094	4,842,186

4.5. Loan Outstanding Balance

The Bank's total outstanding loan as at June 30, 2018 was Birr 39.15 billion. Of which, the share of agriculture Birr 6.41 billion, manufacturing Birr 26.71 billion, mining and energy Birr 238.99 million, financial service Birr 2.49 billion, service Birr 1.28

billion, SME lease financing Birr 1.67 billion as well as staff loan Birr 347.27 million. The total loans and advances represent 50% of the total assets of the Bank (excluding suspended interest and discounts).

Table 8 Summary of Loan Portfolio by Sector

Sr. No.	Sector	Public Enterprise	Cooperative	Private	Micro finance	Total	Percentage Share
1.	Agriculture	-	108,880	6,301,144	-	6,410,024	16.37%
2.	Manufacturing	4,037,053	-	22,670,508	-	26,707,561	68.20%
3.	Mining and Energy	-	-	5,300	223,690	238,990	0.61%
4.	Financial Service	-	-	-	2,490,264	2,490,264	6.36%
5.	Service	54,238	-	1,232,000	-	1,286,238	3.28%
6.	SME Lease Financing	-	-	1,675,006	-	1,675,006	4.28%
7.	Staff Loan	-	-	347,278	-	347,278	0.90%
Total						39,155,361	100%

4.6. Regional Distribution of Loans

Development Bank of Ethiopia hence is a financial institution which is mandated to contribute for the fulfillment of the regional development. In line with this, the Bank has revisited its structural arrangement in order to ensure its alignment with the Country's increasing development needs. The loan portfolio of the Bank was distributed to different regional states of the Country depending upon the credit demands

of the projects which were established in the regions, available source of raw material inputs, infrastructure development, and favorable climatic conditions and availability of human capital for operation of projects including other project specific demands. The following graph shows Regional Distribution of Loan Portfolio.

Table 9: Regional Distribution of Loans

Region	% Share	Total Outstanding
Addis Ababa	8.373%	3,278,539
Afar	7.649%	2,995,011
Amhara	9.329%	3,652,972
BenishangulGumuz	2.622%	1,026,739
Dire Dawa	3.870%	1,515,361
Gambella	8.550%	3,347,932
Harari	0.024%	9,245
Oromia	42.520%	16,649,025
SNNP	3.421%	1,339,550
Somali	0.035%	13,561
Tigray	13.606%	5,327,425
	100%	39,155,361

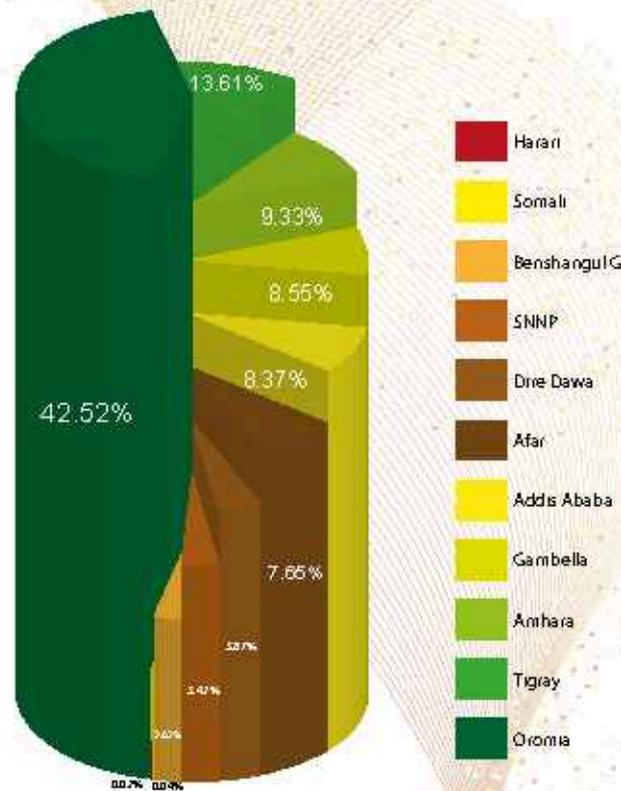


Figure 5: Regional Distribution of Loans as of June 30, 2018

5. Export Credit Guarantee, External Fund and Credit Management

Apart from financing projects, the Bank has been serving as a financial intermediary that entrusted to administer program funds, appraise relative whole sale and/or private loans, monitor beneficiaries and

reporting to respective financiers of specific programs. In line with this, the performance of the active programs during the reporting period is shown as follows.

5.1. Export Credit Guarantee Scheme

In the reporting year, Export Credit Guarantee (ECG) for Birr 149.8 million was given to Commercial Banks. The Principal ECG outstanding loan was Birr 186.2 million as at June 30, 2018.

From the Export Credit Guarantee, the Bank earned guarantee fee of Birr 1.9 million during the year and the country at large secured foreign currency of USD 29.2 million.

5.2. Rural Financial Intermediation Program (RUFIP)

The credit line of the RUFIP II utilized successfully throughout the planned period of the program which was stretched over seven years (2012 – 2019). From the commitment balance, Birr 330.39 million was approved, Birr 277.06 million was disbursed and total of Birr 308.10 million was collected

5.3. Women Entrepreneurship Development Program (WEDP)

During the reporting period, a loan of Birr 299.18 million was approved as a whole sale credit to micro finance institutions (MFIs) to be channeled to women entrepreneurs or businesses which were fully owned or partially owned by women. Disbursement of Birr 457.11 million was effected and Birr 329.30 million was collected in the reporting year.

5.4. Market Development for Renewable Energy & Energy Efficient Products (MDRE & EEP)

In line to the program design, both Private Sector Enterprises (PSEs) and Microfinance Institutions (MFIs) were benefited from the MDRE & EEP credit line. During the reporting year, loan approval of Birr 216.19 million was approved for Market Development for Renewable Energy and Energy Efficient Products.

The Disbursement for same was Birr 151.81 million and Birr 87 million was collected during the year.

Besides, for the Small and Medium Enterprises Service Birr 146.22 was approved and Birr 56.35 million was disbursed during the fiscal year ended June 30, 2018.

6. Human Resource Management

The Bank's human resource management prime objective is to support its short and long term goals and objectives through the development of an application of policies and practices that assure the recruitment and retention of skilled and motivated workforce. In pursuit of this objective, 15 new employees were recruited during the year to meet the Bank's staffing requirements.

The Bank recognizes the need for skilled, agile and committed work force. These essential competencies of work force are vital in transforming the Bank into a progressive development financial institution that will stimulate the growth of the Country. The Bank has also identified the need to retain developed talent and reduce professional attrition rate through improved organizational alignment in its five year strategic objective so that the valuable experience and expertise within the Bank is not lost. The retention of this skilled work force will eventually provide a boost to the Bank for continued success in services offered, and propel the Bank into new opportunities.

As of June 30, 2018, the total human power balance of the Bank was 2,412. The Bank's manpower stock is categorized by professional and high level supervisor, 1,723 (71.4%), semi-professional, administrative and clerical, 358 (14.9%), technical and skilled, 108 (4.5%) and the remaining are manual and custodian, 223 (9.2%).

Table 9: Human Resource Composition

	Professional and High Level Supervisor	Semi-Professional Administrative and Clerical	Technical and Skilled	Manual and Custodian	Total
No. of Employees	1,723	358	108	223	2,412
% Share	71.4%	14.9%	4.5%	9.2%	100%

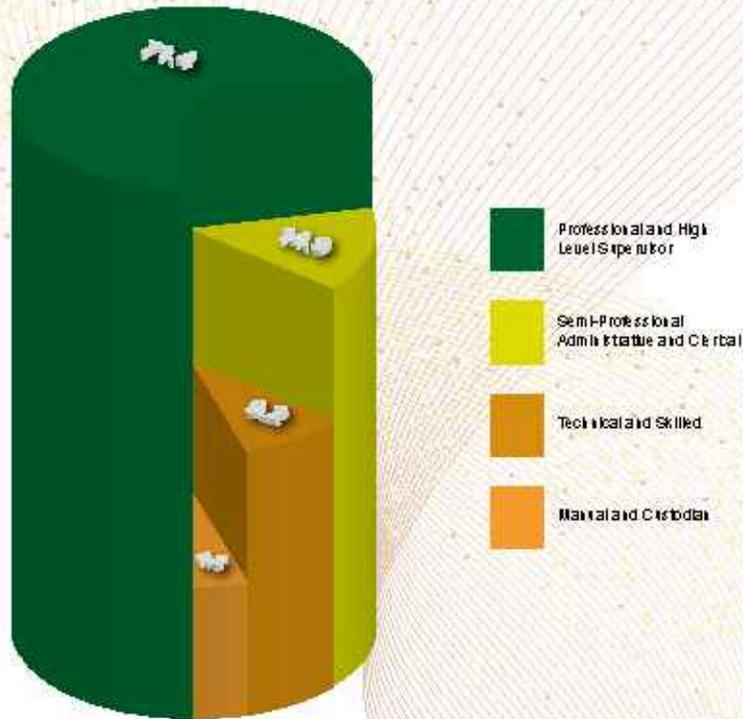


Figure 6: Human Resource Composition as of June 30, 2018

The increased service rendered during the period under review required additional investment in the Bank's human resource capacity. As a result, in line with the recruitment of new staff, the Bank continued to improve its capacity by investing in human resource.



A flower farm financed by the Bank

7. Research Activities

The Research Unit of the Bank handles all the tasks of availing research information and data mainly for the core Units of the Bank namely the Customer Relationship Management Directorates, Project Appraisal Directorates, Project Rehabilitation and Loan Recovery Directorate and district Offices.

The Research and Project Data Management and Project Evaluation and Portfolio Management directorates are the key support organs of the Bank re-established to conduct commodity study, research preparation, model bankable project preparation, cross cutting project supporting data establishment, the civil cost development, and the machinery, equipment, furniture and fixture data organization. All the outputs need updating works periodically and also intended to serve the Corporate Project Review Team, Ethics and Compliant Management Office, Districts and Branches.

To satisfy the current credit demand from different sectors/commodity the output of research has been compiled, updated and disseminated. Accordingly, in the reporting period, various new commodity studies and updating works were carried out.

8. Financial Performance

In 2017/18, the Bank registered encouraging financial performance, discussed here under.

8.1. Asset

The total asset of the Bank reached Birr 78.18 billion showing 135% increment compared from the perilous year.

8.2. Capital

During the fiscal year, the total capital of the Bank reached Birr 8.04 billion showing an increment from the previous year.

8.3 Income and Expenses

8.3.1 Income

During the year under review, the Bank earned a total income of Birr 4.5 billion which is 121% of the planned target. The lion share of the income (Birr 3.63 billion) was derived from interest earned on loans and advances, followed by interest earned on Treasury Bill Purchase (Birr 0.42 billion) and the rest (Birr 0.45

billion) was came from foreign currency fluctuation and other income.

8.3.2 Expenses

The Bank continued to enforce cost control measures as an integral part of its financial management activities. Accordingly, the total expense of the year under review was Birr 2.33 billion. The total expense registered higher than the previous year due to provision expenses, interest and charges increment of the year due to interest bearing mobilized funds and price hike on general expenses.

8.3.3 Profit/ Loss

During the fiscal year, the Bank earned a net profit of Birr 367 million.

8.3.4 Foreign Currency Generation

The total foreign exchange generated was USD 289.6 million significantly higher than the amount during the preceding year.

8.3.5 Grand Renaissance Dam Bond/ Hidase Bond

During the year ended June 30, 2018, DBE mobilized close to Birr 2.2 billion from sale of the Grand Ethiopian Renaissance Dam (GERD) bond. Such performance was attributed to increase awareness of the public by using various media and events such as "Bond Sale Week" as well as by doing different activities like GERD Cup Campaign and GERD anniversary.

9. Concern to the Environment

One of the core values of the Development Bank of Ethiopia is known by financing environment friendly projects which support the economic development of the Country. Environment is also the global issue which needs due concern. Thus, DBE has been engaged on this task by asking the investors certifications from concerned governmental organ about environmental impact of the specific project. The starting point of the evaluation of the environmental assessment of the project is the fact that it should meet all the country's and DBE's environmental policy and guideline requirements or has identified and agreed to an action plan to achieve compliance in specific time frame. Pertaining to this, the Bank has prepared and approved its environmental policy/guideline which will enable the Bank to play its role in addressing environmental issues of the Nation.

The background features a complex, low-poly green geometric pattern. A prominent white, wavy, ribbon-like shape curves across the center. Scattered throughout the white space are several small, dark green triangles of various sizes and orientations.

Auditors' Report

Development Bank of Ethiopia

Annual consolidated and separate financial statements

For the year ended 30 June 2018

Board of management, professional advisers and registered office

License for Banking Business and Lease Financing

NBE Registration No. LBB/003/170

Board of Management (as of June 30, 2018)

H.E. Ato Shiferaw Shigute	Chairman
H.E. Ato Desalegn Ambaw	Non-Executive Director (Board of Management Member)
H.E. Ato Tewodros G/Egziabher	Non-Executive Director (Board of Management Member)
H.E. Ato Wendu Legesse	Non-Executive Director (Board of Management Member)
H.E. Ato Sileshi Lemma	Non-Executive Director (Board of Management Member)
H.E. Dr. Yitbarek Tekle	Non-Executive Director (Board of Management Member)
H.E. Ato Zekarias Erkelo	Non-Executive Director (Board of Management Member)

Executive management (as of June 30, 2018)

Ato Getahun Nana	President
Ato Hadush G/Egziabher	V/P Corporate Services
Ato Haileyesus Bekele	V/P Project Appraisal & Portfolio Management
Ato Getachew Wakie	V/P Customer Relationship Management
Ato Endalkachew Mihretu	V/P Banking & Finance
Ato Teshome Alemayehu	V/P Medium Enterprises Financing

Independent auditors

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

Corporate office

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



Development Bank of Ethiopia
Annual consolidated and separate financial statements
For the year ended 30 June 2018
Report of the Board of Management

The Board of Management submits its report together with the consolidated and separate financial statements and independent auditor's report of the Development Bank of Ethiopia ("DBE or the Bank") and its Subsidiary (together, the "Group") and the Bank for the year ended 30 June 2018. This report discloses the financial performance and state of affairs of the Bank.

Incorporation

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

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

Principal activities

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

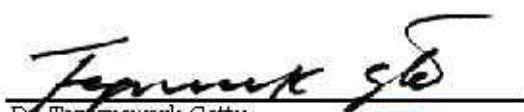
Results

The Group's and Bank's results for the year ended 30 June 2018 are set out on page 7. The net loss for the year has been transferred to retained earnings. The summarized results are presented below.

	Group 30 June 2018 Birr' 000	Bank 30 June 2018 Birr' 000	Bank 30 June 2017 Birr' 000
Interest income	4,682,779	4,682,203	3,212,524
Loss before tax	(1,675,451)	(1,675,216)	(330,772)
Income tax expense	(202,560)	(202,629)	(52,094)
Loss for the year	(1,878,011)	(1,877,845)	(382,866)
Other comprehensive income/(loss) net of taxes	(8,600)	(8,600)	129
Total comprehensive income/(loss) for the year	(1,886,610)	(1,886,444)	(382,737)

Directors

The Board of Management members who held office during the year are set out on page 2. However, Dr. Tegegnework Gettu, the new Chairman of the Board of Management who held office after the year-end has signed the report.


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



Development Bank of Ethiopia

Annual consolidated and separate financial statements

For the year ended 30 June 2018

Statement of board of management's responsibilities

In accordance with the Financial Reporting Proclamation No. 847/2014, the Group and Bank are required to prepare their financial statements in full compliance with the International Financial Reporting Standards (IFRS), whether their designation changes or they are replaced, from time to time.

The Group's and Bank's Board of Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes, inter alia, ensuring that the Group and the Bank:

- a) keep proper accounting records that disclose, with reasonable accuracy, the financial position, financial performance and cash flows of the group and bank;
- b) establish adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- c) prepare the consolidated and separate financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied and reasonable in the circumstances.

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

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

Signed on behalf of the Board of Management by the new Chairman of the Board of Management and the new President who held office after the year-end:



Dr. Tesfaye Work Gettu
Chairman, Board of Management



Signature of Haileyesus Bekele, President/Chief Executive Officer, with a blue circular stamp of the Audit Services Corporation of Ethiopia.

Haileyesus Bekele
President/Chief Executive Officer



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የሂሳብ ምርመራ አገልግሎት ኮርፖሬሽን

The Federal Democratic Republic of Ethiopia
Audit Services Corporation

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Development Bank of Ethiopia (the Bank) and its consolidated subsidiary (the Group), which comprise the consolidated and the Bank's statements of financial position as at 30 June 2018, and the consolidated and the Bank's statements of profit or loss and other comprehensive income, consolidated and Bank's statements of changes in equity and consolidated and the Bank's statements of cash flows for the year then ended, and notes to the consolidated and the Bank's financial statements, including consolidated and the Bank's summaries of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group and of the Bank as at 30 June 2018 and the consolidate and the Bank's financial performances and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards (IFISs)

Basis of Opinion

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

ASC

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 251-011-5535011



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

Key Audit Matters

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

A. Loans and advances

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

B. Income tax

The risk is that a lack of intimate knowledge of tax legislation could lead to erroneous tax calculations. This would result in current and deferred tax expense and liabilities being incorrect. Our response was to engage our senior tax professional as an expert to check the tax situation. We obtained a detailed schedule for all temporary differences along with expenses which are disallowed under income tax legislation. We obtained a calculation of the tax liability identifying all items constituting the difference between net pre-tax income and taxable income, and compared the calculation to that of the previous year. The calculation was reviewed to determine that correct tax rates had been used and that all significant tax matters had been addressed. We checked the calculation of deferred taxes and that timing differences had been appropriately considered. We found insignificant errors due to misunderstandings and these were adjusted.



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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.



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

- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Audit Services Corporation



Development Bank of Ethiopia

Consolidated and separate statement of profit or loss and other comprehensive income

For the year ended 30 June 2018

	Notes	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Interest income	5	4,682,779	4,682,203	3,212,924
Interest expense	6	(1,585,699)	(1,585,699)	(1,354,734)
Net interest income		3,097,079	3,096,504	1,857,790
Fee and commission income (net)	7	278,323	278,323	120,126
Other operating income	8	88,510	88,510	76,789
Total operating income		3,463,913	3,463,337	2,054,705
Loan impairment charge	9	(4,412,448)	(4,412,448)	(1,734,461)
Impairment reversal/(losses) on other assets	10	68,099	68,099	(7,623)
Net operating income/(loss)		(880,477)	(881,052)	312,612
Personnel expenses	11	(476,281)	(475,801)	(405,109)
Depreciation of investment property	19	(8,995)	(8,995)	(8,340)
Amortization of intangible assets	20	(4,578)	(4,578)	(4,591)
Depreciation and impairment of property, plant and equipment	21	(75,202)	(75,200)	(63,605)
Other operating expenses	12	(229,917)	(229,590)	(161,733)
Loss before tax		(1,675,451)	(1,675,216)	(330,772)
Income tax income/(expense)	13	(202,560)	(202,629)	(52,094)
Profit/(loss) after tax		(1,878,011)	(1,877,845)	(382,866)
Other comprehensive income (OCI) net on income tax				
<i>Items that will not be subsequently reclassified into profit or loss</i>				
Remeasurement gain/(loss) on retirement benefits obligations	26	(12,285)	(12,285)	184
Deferred tax expense/(income) on remeasurement gain or loss	13	3,686	3,686	(59)
Total other comprehensive income/(loss) for the year, net of tax		(8,600)	(8,600)	129
Total comprehensive income/(loss) for the year		(1,886,610)	(1,886,444)	(382,737)
Profit/(loss) attributable to:				
Owner of the bank		(1,878,011)	(1,877,845)	(382,866)
Non-controlling interest	32	(0.01)		
Profit/(loss) for the year		(1,878,011)	(1,877,845)	(382,866)
Total comprehensive income/(loss) attributable to:				
Owner of the bank		(1,886,610)	(1,886,444)	(382,737)
Non-controlling interest		(0.01)		
Total comprehensive income for the period		(1,886,610)	(1,886,444)	(382,737)

The notes on pages 14 to 118 are an integral part of these financial statements.



Development Bank of Ethiopia

Consolidated and separate statement of financial position

As at 30 June 2018

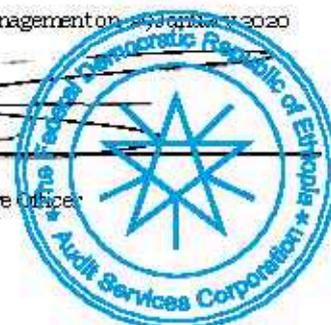
	Notes	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
ASSETS					
Cash and bank balances	14	6,983,531	6,973,920	4,604,605	4,043,589
Loans and advances to customers	15	29,414,327	29,414,327	27,507,205	26,630,626
Investment securities:					
- Available for sale	16	11,376	11,376	11,376	11,376
- Loans and receivables	16	31,624,349	31,624,349	15,036,944	14,996,128
Investment in subsidiary	17		9,999		
Income tax recoverable	13				4,716
Other assets	18	4,093,055	4,092,917	1,874,487	422,544
Investment property	19	215,278	215,278	224,144	232,484
Intangible assets	20	35,639	35,639	19,332	23,237
Property, plant and equipment	21	823,269	823,229	845,053	822,091
Total assets		73,200,823	73,201,034	50,183,144	47,186,792
LIABILITIES					
Deposits from customers	22	1,112,935	1,112,935	990,212	1,379,812
Debt securities issued	23	10,496,009	10,496,009	8,965,576	8,056,786
Borrowings	24	54,541,222	54,541,222	32,391,839	30,658,742
Current tax liabilities	13	276,430	276,438	10,133	-
Other liabilities	25	3,994,246	3,994,223	2,894,500	1,506,786
Retirement benefit obligations	26	35,631	35,631	20,645	18,945
Deferred tax liabilities	13	187,439	187,439	261,428	234,232
Total liabilities		70,643,911	70,643,956	45,534,392	41,855,303
EQUITY					
Capital	27	7,500,000	7,500,000	7,500,000	7,500,000
Retained earnings	28	(7,231,521)	(7,231,355)	(4,699,492)	(3,548,749)
Other reserve	29	(8,471)	(8,471)	129	-
Regulatory credit risk reserve	30	2,120,377	2,120,377	1,674,589	1,285,174
Legal reserve	31	176,527	176,527	176,527	95,064
Total equity attributable to owners of the Bank		2,556,912	2,557,078	4,648,752	5,331,489
Non-controlling interest	32	¹			
Total equity		2,556,912	2,557,078	4,648,752	5,331,489
Total equity and liabilities		73,200,823	73,201,034	50,183,144	47,186,792

The notes on pages 14 to 18 are an integral part of these financial statements.

The financial statements on pages 9 to 118 were approved and authorized for issue by the board of management on 29 June 2018 and were signed on its behalf by:


 0118881298
 0111541235
 D. Tegegnwork Gebre
 Chairman, Board of Management


 H. Yesus Bekele
 President/Chief Executive Officer



Development Bank of Ethiopia
Consolidated and separate statement of changes in equity
For the year ended 30 June 2018

Group	Notes	Capital	Retained earnings	Other reserve	Legal reserve	Regulatory risk reserve	Non-controlling interest	Attributable to owner of the Bank
		Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
		7,500,000	(3,548,749)	-	95,064	1,285,174	-	5,331,489
	28		(382,866)					(382,866)
			(300,000)			386,415		(300,000)
	26		-	129				129
	31		(81,463)	-	81,463			-
		7,500,000	(4,699,492)	129	176,527	1,671,589	-0.01	4,648,752
		7,500,000	(4,699,492)	129	176,527	1,671,589	-0.01	4,648,752
	28		(1,878,011)					(1,878,011)
			(225,955)					(225,955)
			20,725					20,725
	26		(448,787)	(8,600)		448,787	1	(8,600)
		7,500,000	(7,231,521)	(8,471)	176,527	2,120,377	1	2,556,912

As at 30 June 2018



As at 1 July 2017



As at 30 June 2017

As at 1 July 2016

Loss for the period
 Dividend paid
 Adjustment in respect of tax recoverable and deferred tax
 Transfer to regulatory credit risk reserve
 Change in ownership interest in subsidiary
 Other comprehensive income
 Re-measurement gain on defined benefit plan (net of tax)

Development Bank of Ethiopia

Consolidated financial statements

For the year ended June 2018

Bank



	Capital Birr' 000	Retained earnings Birr' 000	Other reserve Birr' 000	Legal reserve Birr' 000	Regulatory risk reserve Birr' 000	Attributable to owner of the Bank Birr' 000
As at 1 July 2016	7,500,000	(3,548,749)	-	95,064	1,285,174	5,331,489
Loss for the period						
Dividend paid		(382,866)				(382,866)
Transfer to regulatory risk reserve		(300,000)				(300,000)
Other comprehensive income:						
Re-measurement gains on defined benefit plans (net of tax)		-	129			129
Transfer to legal reserve		(81,463)		81,463	386,415	
	7,500,000	(4,699,492)	129	176,527	1,671,589	4,648,752
As at 1 July 2017	7,500,000	(4,699,492)	129	176,527	1,671,589	4,648,752
Loss for the period						
Dividend paid		(1,877,845)				(1,877,845)
Adjustment in respect of tax recoverable and deferred tax		(225,955)				(225,955)
Transfer to regulatory risk reserve		20,725				20,725
Other comprehensive income:						
Re-measurement gains on defined benefit plans (net of tax)		(448,787)	(8,600)		448,787	
	7,500,000	(7,231,353)	(8,471)	176,527	448,787	(2,091,674)
As at 30 June 2018						
	7,500,000	(7,231,353)	(8,471)	176,527	2,120,377	2,557,078



Development Bank of Ethiopia
Consolidated and separate statement of cash flows
 For the year ended 30 June 2018

		Group	Bank	Bank
	Notes	30 June 2018 Birr'000	30 June 2018 Birr'000	30 June 2017 Birr'000
Cash flows from operating activities				
Cash generated from operations	33	(4,138,176)	(4,137,829)	(1,703,670)
Income tax paid	13	6,568	6,568	10,104
Net cash (outflow)/inflow from operating activities		(4,131,608)	(4,131,261)	(1,693,566)
Cash flows from investing activities				
Purchase of investment securities in equity, treasury bills and	16	(16,587,405)	(16,587,405)	(40,816)
Purchase of investment in subsidiary	17		(9,999)	
Purchase of investment property	19	(129)	(129)	
Purchase of intangible assets	20	(17,075)	(17,075)	(685)
Proceeds from property, plant and equipment	33	4,076	4,076	881
Purchase of property, plant and equipment	21	(60,524)	(60,482)	(88,163)
Net cash (outflow)/inflow from investing activities		(16,661,057)	(16,671,014)	(128,783)
Cash flows from financing activities				
Proceeds from issue of debt securities	23	2,410,895	2,410,895	1,214,160
Repayment of debt securities	23	-1,222,230	(1,222,230)	(305,370)
Proceeds from borrowings	24	26,636,355	26,636,355	8,112,207
Repayment of borrowings	24	-4,486,972	(4,486,972)	(6,379,111)
State dividend paid		-225,955	(225,955)	(300,000)
Change in non-controlling interest	17(ii)	1		
Net cash (outflow)/inflow from financing activities		23,112,094	23,112,093	2,341,886
Net increase/(decrease) in cash and cash equivalents		2,319,428	2,309,818	519,537
Cash and cash equivalents at the beginning of the year	14	4,604,605	4,604,605	4,043,589
Foreign exchange (losses)/ gains on cash and cash equivalents		59,497	59,497	4,478
Cash and cash equivalents at the end of the year	14	6,983,531	6,973,920	4,604,605

The notes on pages 14 to 118 are an integral part of these financial statements.



Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

1 General information

Development Bank of Ethiopia ("Development Bank or the Bank") is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the Government by mobilizing funds from domestic and foreign sources while ensuring its sustainability. The consolidated and separate financial statements of the Bank for the year ended 30 June 2018 comprise the Bank and its subsidiary (together referred to as "the Group" and separately referred to as "Group entities"). The Bank and its subsidiary are not listed on a stock market as there is no a stock exchange in the country.

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

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

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

The Bank's registered office is at:

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

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

2 Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

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

2.2 Basis of preparation

The consolidated and separate financial statements of the Group and Bank for the period ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

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

The consolidated and separate financial statements for the period ended 30 June 2018 are the first the Group and Bank have prepared in accordance with IFRS. Refer to note 40 for information on how the Bank adopted IFRS.

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

- defined benefit obligations measured at fair value;
- the Bank's investment property measured at fair value as deemed cost; and
- staff loans measured at fair value.

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

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

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

2.2.1 Going concern

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

2.3 Basis of Consolidation

a) Subsidiaries

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

The financial statements of a subsidiary is consolidated from the date the Group acquires control, up to the date that such effective control ceases.

In the separate financial statements, investment in a subsidiary is measured at cost less impairment.

Disclosures for investment in a subsidiary is provided in Notes 17 and 32.

b) Loss of control

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

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

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

d) Transactions eliminated on consolidation

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

e) Non-controlling interests

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



Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

2.4 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 Ethiopian Birr.

b) Transactions and balances

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

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

2.5 Recognition of income and expenses

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

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

2.5.1 Interest income and expense

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

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

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

2.5.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income like commission income on CPO and fund transfer, commission income on insurance, commission on letters of credit, financial guarantee contracts issued and commission on managed funds are recognised as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

2.5.3 Dividend income

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



2.5.4 Foreign exchange revaluation gains or losses

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

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

2.6 Financial instruments - initial recognition and subsequent measurement

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

2.6.1 Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into two categories:

- Loans and receivables
- Available-for-sale financial investments

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest and similar income in profit or loss. The losses arising from impairment are recognised in profit or loss in loan impairment charge.

The Bank's loans and receivables comprise loans and advances to customers, NBE bills and Ethiopian government bonds.

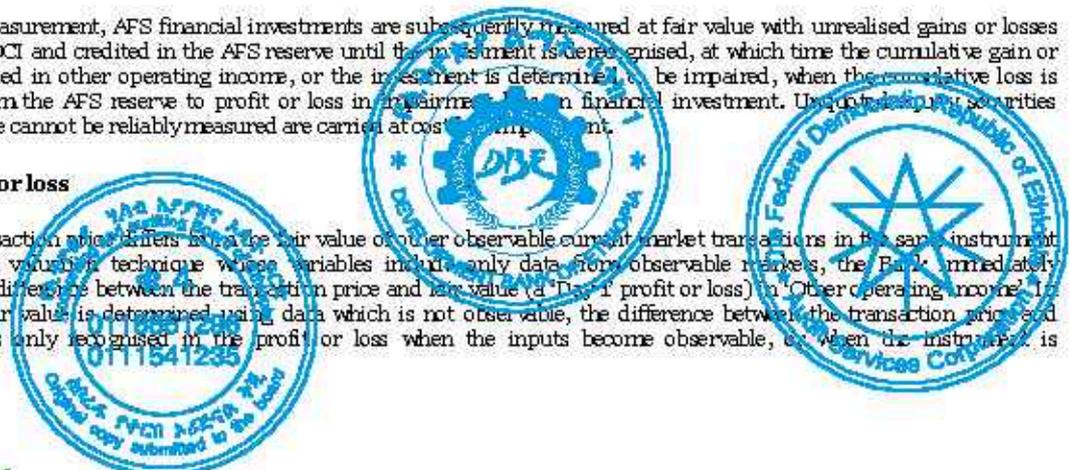
b) Available-for-sale (AFS) financial assets

AFS investments include equity securities. Equity investments classified as AFS are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss in impairment charge on financial investment. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost less impairment.

'Day 1' profit or loss

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



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Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Bank's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) the Bank has transferred substantially all the risks and rewards of the asset, or

(b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Impairment of financial assets

The Group and Bank assess at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as loans and receivables), the Group and Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, they include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of changes in assumptions after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Loan impairment charge'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's and Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group and Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale (AFS) financial instruments

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in profit or loss. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to profit or loss and is recognised as part of the impairment loss. The amount of the loss recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through profit or loss but accounted for directly in equity.

Renegotiated loans

Where possible, the Group and Bank seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms, and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

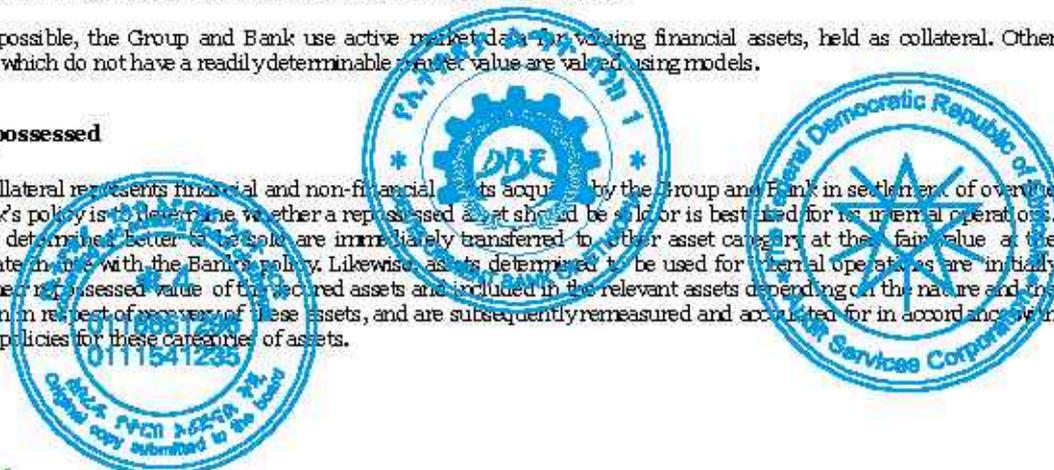
Collateral valuation

The Group and Bank seek to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as buildings, machinery, furniture and fixture and bank guarantees. 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 Group and Bank use 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.

Collateral repossessed

Repossessed collateral represents financial and non-financial assets acquired by the Group and Bank in settlement of overdue loans. The Bank's policy is to determine whether a repossessed asset should be sold or is best used for its internal operations. Assets that are determined better to be sold are immediately transferred to other asset category at the fair value at the repossession date in line with the Bank's policy. Likewise, assets determined to be used for internal operations are initially recognised at their repossessed value of the secured assets 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.



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2.6.2 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities.

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Group's and Bank's financial liabilities include deposits from customers, debt securities issued, borrowings and other liabilities. Interest is recognised in profit or loss.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortised cost

Financial instruments issued by the Group and Bank, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Group and Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate (EIR). Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

The Bank's financial liabilities carried at amortised cost comprise customer deposits, margin held on letter of credit, debt securities issued, long term deposits and borrowings.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.6.3 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 recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

2.7 Cash and cash equivalents

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

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

2.8 Property, plant and equipment

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

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

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

Asset class	Estimated Useful Life in Years	Residual Value
Buildings	30	5%
Motor vehicles	10	5%
Furniture & fittings		
- Medium-lived	10	1%
- Long lived	20	1%
Computer hardware	7	1%
Office equipment		
- Medium-lived	5	1%
- Long lived	10	1%
Lift and roofing	15	1%

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

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use 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 profit or loss when the asset is derecognised.

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

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

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

Amortisation of computer software is calculated using the straight-line method to write down the cost of intangible assets to their residual values over the lower of their estimated useful life, which is 6 years, with nil residual value, or the license/maintenance period for purchased computer software.

2.10 Investment property

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

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

Investment properties are measured initially at cost, including transaction costs. Especially, at the transition date, the Bank has applied deemed cost for measuring the investment properties. The Bank has opted to subsequently carry investment property at cost and its loss or impairment. 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 in less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by the Bank's internal valuers who have recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amount in the financial statements.

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

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

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

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

2.11 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

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

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

2.12 Other assets

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

(a) Prepayments

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalised as an asset over the period in which the payment is made and subsequently amortised over the period in which the service is to be received.

(b) Other receivables

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

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



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2.13 Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3 and Note 4.7.1
- Quantitative disclosures of fair value measurement hierarchy Note 4.7.2
- Financial instruments (including those carried at amortized cost) Note 4.7.2

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

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

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

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

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

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

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

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

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

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

2.14 Employee benefits

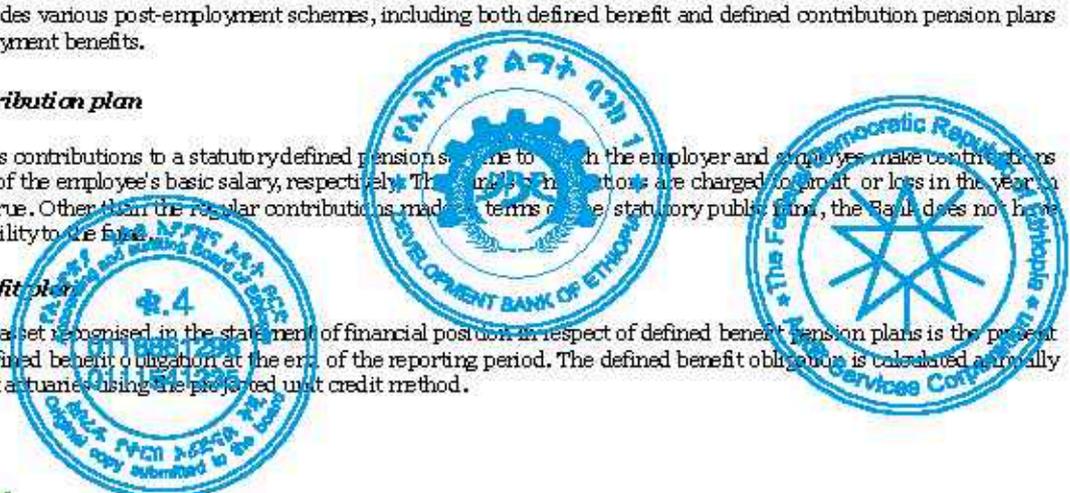
The Bank provides various post-employment schemes, including both defined benefit and defined contribution pension plans and post employment benefits.

(a) Defined contribution plan

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

(b) Defined benefit plan

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



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

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

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

Past-service costs are recognised immediately in income.

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

(c) Termination benefits

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

(d) Bonus plans

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

2.15 Provisions

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

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

2.16 Capital

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

The paid-up capital is fully paid up.

Legal reserve

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

2.18 Leases

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

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Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.19 Income taxation

(a) Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate 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

(b) Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

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

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

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

2.20 Changes in accounting policies and disclosures

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 30 June 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9 - Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general lease accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Based on the initial assessment carried out by the Group and Bank, the impact of the application of the new standard is as follows:



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(a) Classification and measurement

IFRS 9 require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to profit or loss. The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to profit or loss, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that loans and advances to customers, treasury bills, government bonds and other financial assets that are classified as loans and receivables under IAS 39 are expected to be measured at amortized cost under IFRS 9 and equity investments will be classified as FVOCI.

(b) Impairment of financial assets

Under IFRS 9, the Group and Bank will group its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 - Performing loans: when loans are first recognized, the Group and Bank recognize an allowance based on 12-month expected credit losses.
- Stage 2 - Underperforming loans: when a loan shows a significant increase in credit risk, the Group and Bank record an allowance for the lifetime expected credit loss.
- Stage 3 - Impaired loans: the Group and Bank recognize the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortized cost of the loan net of allowances.

When estimating lifetime ECLs for undrawn loan commitments, the Group and Bank will:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment; and
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

For financial guarantee contracts, the Group and Bank will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For revolving facilities such as credit cards and overdrafts, the Bank measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

The Group and Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs.

The Group and Bank will consider forward-looking information such as macroeconomic factors (e.g., unemployment, GDP growth, interest rates, etc.) and economic forecasts.

Upon the adoption of IFRS 9, a reversal of the allowance for credit loss is estimated to be Birr 4.8 billion as at July 2018 (i.e., at the transition date from IAS 39 to IFRS 9). The Standard requires this decrease to be credited to retained earnings in the first year of adoption. Hence, this write-back would have a significant positive impact on the capital adequacy rate.

However, the impact of the adoption of IFRS 9 would result in an increase of credit loss of Birr 3.7 billion in the consolidated and separate statement of profit or loss and other comprehensive income for the year ended 30 June 2019.

To sum up, the net cumulative impact would result in an increase of Birr 1.1 billion in the retained earnings as at 30 June 2019.

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(c) *Hedge accounting*

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. The new hedging rules are, however, not expected to impact the Group and Bank in the foreseeable future.

IFRS 15 - Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

However, the adoption of IFRS 15 is not expected to have any significant impact on the Group and Bank as the previous accounting treatment is more or less similar to that of this standard. Further, the Group and Bank does not anticipate early adoption of this standard, as it would be effective on or after 1 July 2018 for entities preparing financial statements using an accounting year which runs from 1 July to 30 June of each year.

IFRS 16 - Leases

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

Generally, the profit or loss recognition pattern for recognised leases will be similar to finance lease accounting, with interest and depreciation expense recognised separately in profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group and Bank does not anticipate early adoption of IFRS 16 and is currently evaluating its impact.

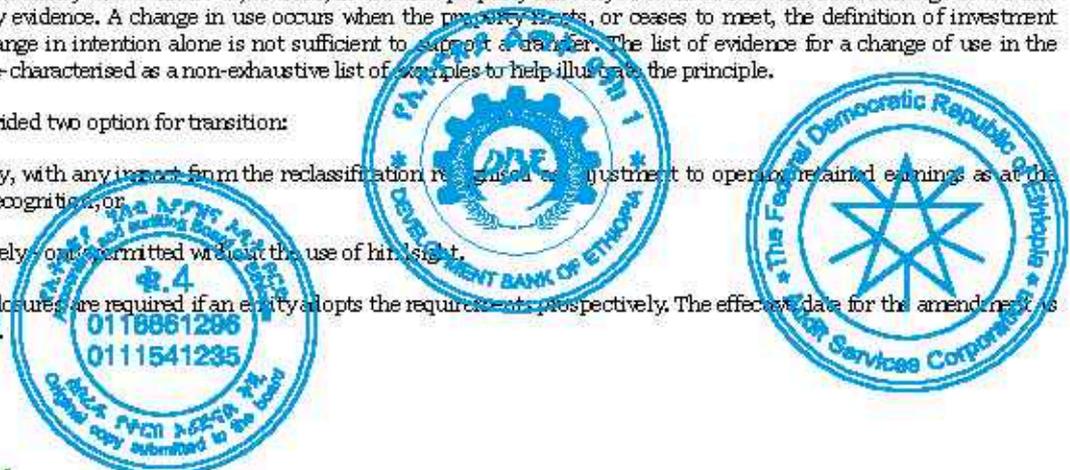
Amendment to IAS 40 - Transfers of Investment Property

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

The Board provided two options for transition:

- (i) prospectively, with any impact from the reclassification recognised as an adjustment to opening retained earnings as at the date of initial recognition; or
- (ii) retrospectively, once permitted without the use of hindsight.

Additional disclosures are required if an entity adopts the requirements prospectively. The effective date for the amendment is 1 January 2018.



IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation or;
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The effective date for the amendment is 1 January 2018 and the Group and Bank can choose to apply either retrospectively or prospectively.

3 Significant accounting judgments, estimates and assumptions

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

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

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

3.1 Judgments

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

Operating lease commitments - Bank as lessee

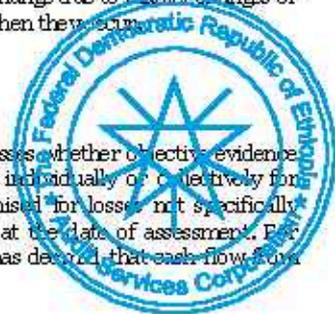
The Bank has entered into commercial property leases. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

3.2 Estimates and assumptions

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

Impairment losses on loans and advances to customers

The Bank assesses its loan portfolios for impairment on an ongoing basis. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. For individually significant financial assets that has been deemed to be impaired, management has deemed that cash flow from collateral obtained would arise within 24 months where the financial asset is collateralised.



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Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the reporting date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgment applied in the calculation of the Bank's impairment charge on financial assets are set out in the Financial risk management section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, property price trends, and interest rates. The assumptions underlying this judgment are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. See note 4.7.5 for more information.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 4.7 for further disclosures.

Defined benefit plans

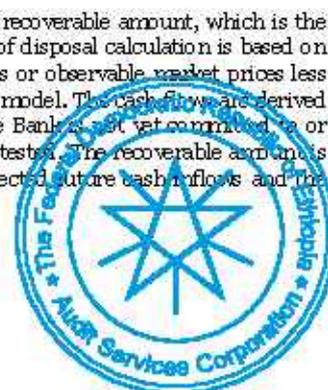
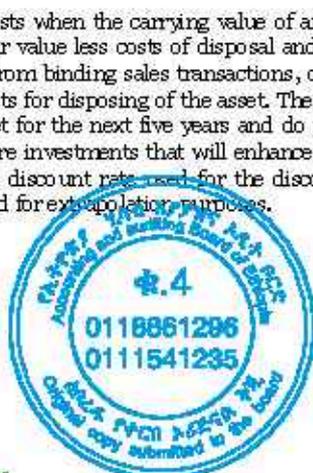
The cost of the defined benefit pension plan, long service awards, gratuity scheme and post-employment medical benefits and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from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

Depreciation and carrying value of property, plant and equipment

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

Impairment of non-financial assets

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



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

(i) External information

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

(ii) Internal information

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

At the end of the reporting period, there was no indication that an asset may have been impaired.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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



4 Financial risk management

4.1 Introduction

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's and Bank's continuing profitability and each individual within the Group and Bank is accountable for the risk exposures relating to his or her responsibilities. The Group and Bank are 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 Group's and Bank's policy is to monitor those business risks through the Bank's strategic planning process.

4.1.1 Risk management structure

The Board Risk Sub-Committee, a subset of the Board of Management, is responsible for the overall risk management approach and for approving the risk management strategies and principles. It also has the responsibility to monitor the overall risk process within the Group and Bank.

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

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

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

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

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

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

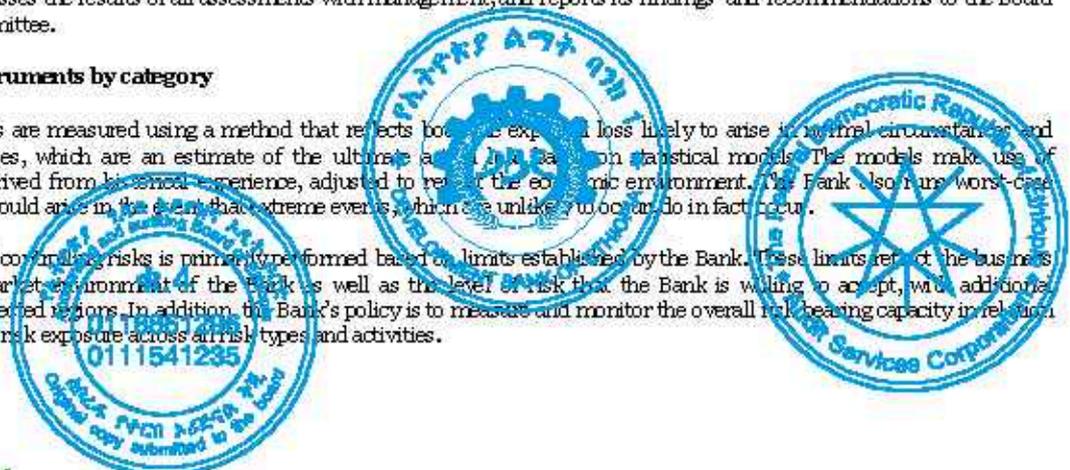
The Bank has established a Chinese Wall between and among credit units like client relationship, loan appraisal, loan review and loan approval.

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

4.1.2 Financial instruments by category

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

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



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

4.1.3 Risk mitigation

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

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

4.2 Financial instruments by category

The Bank's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortised cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance. The Bank's classification of its financial assets is summarised in the table below:

Group

	Notes	Available- For-Sale Bir'000	Loans and receivables Bir'000	Total Bir'000
30 June 2018				
Cash and bank balances	14		6,983,531	6,983,531
Loans and advances to customers	15		29,414,327	29,414,327
Investment securities:				
- Available for sale	16	11,376		11,376
- Loans and receivables	16		31,624,349	31,624,349
Other assets	18		2,106,346	2,106,346
Total financial assets		11,376	70,128,552	70,139,928

Bank

	Notes	Available- For-Sale Bir'000	Loans and receivables Bir'000	Total Bir'000
30 June 2018				
Cash and bank balances	14		6,973,920	6,973,920
Loans and advances to customers	15		29,414,327	29,414,327
Investment securities:				
- Available for sale	16	11,376	-	11,376
- Loans and receivables	16		31,624,349	31,624,349
Other assets	18		2,106,344	2,106,344
Total financial assets		11,376	70,118,940	70,130,316



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Bank			Available- For-Sale Birr'000	Loans and receivables Birr'000	Total Birr'000
30 June 2017		Notes			
Cash and bank balances	14			4,604,605	4,604,605
Loans and advances to customers	15			27,567,205	27,567,205
Investment securities:					
- Available for sale	16		11,376		11,376
- Loans and receivables	16			15,036,944	15,036,944
Other assets	18			262,302	262,302
Total financial assets			11,376	47,471,056	47,482,432
1 July 2016		Notes			
Cash and bank balances	14			4,043,589	4,043,589
Loans and advances to customers	15			26,670,626	26,670,626
Investment securities:					
- Available for sale	16		11,376		11,376
- Loans and receivables	16			14,996,128	14,996,128
Other assets	18			151,255	151,255
Total financial assets			11,376	45,821,598	45,832,974

4.3 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.

4.3.1 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 receivables 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 estimates the following parameters:

(a) Probability of Default

This is the probability that an obligor or counterparty will default over a given period, usually one year. This can be calculated on portfolio by portfolio basis or collectively depending on availability of historical data.

(b) Loss Given Default

Loss Given Default (LGD) is defined as the portion of the loan commitment that is not recoverable at the time of loan default (i.e. recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

(c) Exposure at Default

This represents the amount of the outstanding at the point of default. Its estimation includes the drawn amount and expected utilisation of the undrawn commitment at default.

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4.3.2 Impairment assessment

The Bank assesses its impairment for the purpose of IFRS reporting using a two-way approach which are individual assessment and portfolio assessment.

(a) Specific assessment

The Bank reviews and revises existing impairment triggers for each loan asset portfolio to ensure that a trigger identifies a loss event as early as possible, which would result in the earliest possible recognition of losses within the IFRS framework. The Bank then estimates the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

(b) Collective assessment

Loans and receivables that are not specifically impaired are assessed under collective impairment. For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to contractual terms.

The Bank generally bases its analyses on historical experience. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

4.3.3 Credit related commitments risks

The Bank holds collateral against loans and receivables to customers in the form of bank guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of lending, and generally are updated every three years except when a loan is individually assessed as impaired.

4.3.4 Credit risk exposure

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

The table below shows the Group's and Bank's maximum exposure to credit risk which is represented by the net carrying amounts in the statement of financial position and the fair value of collateral and credit enhancements held at 30 June 2018, 30 June 2017 and 30 June 2016, respectively, is shown as follows:

Group

30 June 2018

Maximum exposure to credit risk	Fair value of collateral/security and credit enhancements			
	Property	Bank guarantees	Others (including L/C Margin)	Total
Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Cash and bank balances				6,983,531
Loans and advances to				29,414,327
Guarantees	20,962,714	158,384	1,344,132	22,465,231
Investments for sale				11,370
Loans and receivables				31,624,349
Other assets				2,106,340
	20,962,714	158,384	1,344,132	22,465,231
Credit exposures relating to				20,182,855
Guarantees				764,381
Letters of credit				164,410
	20,182,855	764,381	164,410	21,111,646
Total maximum	20,962,714	158,384	1,344,132	22,465,231

Cash and bank balances

Loans and advances to

Guarantees

Investments for sale

Loans and receivables

Other assets

Credit exposures relating to

Guarantees

Letters of credit

Guarantees

Total maximum



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Bank 30 June 2018	Fair value of collateral/security and credit enhancements				
	Maximum exposure to credit risk Birr'000	Property Birr'000	Bank guarantees Birr'000	Others (including L/C Margin) Birr'000	Total Birr'000
Cash and bank balances	6,973,920				
Loans and advances to	29,414,327	20,962,714	158,384	1,344,132	22,465,231
Investment securities:					
- Available for sale	11,370				
- Loans and receivables	31,024,349				
Other assets	2,106,344				
	70,130,316	20,962,714	158,384	1,344,132	22,465,231
Credit exposures relating to off-balance sheet items:					
Loan commitments	20,189,855				
Letters of credit	4,784,631			1,482,377	1,482,377
Guarantees	64,416				
	25,038,902			1,482,377	1,482,377
Total maximum exposure	95,169,218	20,962,714	158,384	2,826,509	23,947,607
Bank 30 June 2017					
Cash and bank balances	4,604,605				
Loans and advances to customers	27,573,205	15,956,973	3,840,161	7,587,118	27,384,252
Investment securities:					
- Available for sale	11,370				
- Loans and receivables	15,036,944				
Other assets	262,302				
	47,482,432	15,956,973	3,840,161	7,587,118	27,384,252
Credit exposures relating to off-balance sheet items:					
Loan commitments	18,054,078				
Letters of credit	1,851,186			542,692	542,692
Guarantees	153,265				
	20,064,529			542,692	542,692
Total maximum exposure	67,546,960	15,956,973	3,840,161	8,129,810	27,926,945
Bank 1 July 2016					
Cash and bank balances	4,043,589				
Loans and advances to customers	26,630,626	16,016,389	1,183,326	5,580,243	22,779,959
Investment securities:					
- Available for sale	11,370				
- Loans and receivables	14,996,136				
Other assets	151,756				
	45,832,771	16,016,389	1,183,326	5,580,243	22,779,959
Credit exposures relating to off-balance sheet items:					
Loan commitments	13,964,132				
Letters of credit	1,447,905			438,307	438,307
Guarantees	238,819				
	15,650,856			438,307	438,307
Total maximum exposure	61,484,213	16,016,389	1,183,326	6,018,550	23,218,266

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(b) Assets obtained by taking possession of collateral

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

	Group 30 June 2018 Bir'000	Bank 30 June Bir'000	Bank 30 June Bir'000	Bank 1 July 2016 Bir'000
Buildings	192,409	192,409	158,950	48,563
Equipment and machinery	1,291,288	1,291,288	1,066,744	325,915
Motor vehicle	323,762	323,762	267,462	81,716
	1,807,458	1,807,458	1,493,156	456,194

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

4.3.5 Loans and receivables at amortised cost

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

	Group 30 June 2018 Bir'000	Bank 2018 Bir'000	Bank 2017 Bir'000	Bank 1 July 2016 Bir'000
Agriculture	7,504,406	7,504,406	6,909,535	6,426,117
Manufacturing	27,183,741	27,183,741	23,780,670	22,052,708
Mining and Energy	759,915	759,915	579,897	366,890
Service	401,353	401,353	504,046	672,468
Lease Services	1,792,375	1,792,375	357,904	2,134
Micro-Financing	3,326,634	3,326,634	3,048,475	3,110,220
Individual loans			14,769	10,927
Staff loans and advances	257,387	257,387	175,737	109,362
	41,225,811	41,225,811	35,371,034	32,770,825

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

	Group 30 June 2018 Bir'000	Bank 30 June Bir'000	Bank 30 June Bir'000	Bank 1 July 2016 Bir'000
Pass	13,133,505	13,133,505	17,937,588	23,802,820
Special mention	10,328,890	10,328,890	6,550,759	1,229,351
Substandard	9,766,696	9,766,696	4,365,840	2,354,235
Doubtful	6,029,235	6,029,235	2,686,363	4,427,458
Loss	1,967,485	1,967,485	3,830,084	956,961
	41,225,811	41,225,811	35,371,034	32,770,825

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

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



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4.3.6 Credit quality analysis

(a) Credit quality of cash and bank balances

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired at as 30 June 2018, 30 June 2017 and 30 June 2016 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. However, cash and bank balances that held in foreign banks can be assessed by reference to credit rating agency designation as shown in the table below:

	Group 30 June 2018 Birr'000	Bank 30 June Birr'000	Bank 30 June Birr'000	Bank 1 July 2016 Birr'000
A	-	-	-	-
BBB+	2,581,228	2,581,228	2,900,621	2,189,869
Not rated	4,402,303	4,392,692	1,643,683	1,853,720
	0,983,531	0,973,920	4,004,005	4,043,589

Definitions of ratings

A: High credit quality This denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality This indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

Not rated This indicates financial institutions or other counterparties with no available ratings and cash in hand.

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

(b) Credit quality of loans and receivables

Group/Bank 30 June 2018	Neither past due nor impaired Birr'000	Past due but not impaired Birr'000	Individually impaired Birr'000	Total Birr'000
Agriculture	1,631,765	5872,641		7,504,406
Manufacturing	6,306,651	12,349,264	8,527,826	27,183,741
Mining and Energy	223,308	536,607		759,915
Service	167,363	233,990		401,353
Lease Services	1,245,483	546,893		1,792,375
Micro-Financing	3,322,312	4,322		3,326,634
Individual loans				
Staff loans and advances	290,063	20,764		297,387
Gross	13,133,505	20,564,480	8,527,826	41,225,811
Less: Impairment allowance (note 15b)	(1,457,392)	(1,025,053)	(3,349,036)	(1,811,481)
Net	11,676,113	19,539,428	5,178,790	26,394,327



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Bank 30 June 2017	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	4,414,613	5,280,652	214,270	6,909,535
Manufacturing	12,157,525	7,478,921	4,144,224	23,780,670
Mining and Energy	519,479	60,418		579,897
Service	295,038	209,007		504,046
Lease Services	337,407	20,497		357,904
Micro-Financing	3,029,274	19,200		3,048,475
Individual loans	14,769			14,769
Staff loans and advances	169,881	5,856		175,737
Gross	17,937,988	13,074,552	4,358,494	35,371,034
Less: Impairment allowance (note 15b)	(2,088,471)	(4,340,121)	(1,375,238)	(7,803,830)
Net	15,849,517	8,734,431	2,983,257	27,567,205

Bank 1 July 2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	4,475,982	1,959,135		6,435,117
Manufacturing	15,230,690	2,581,482	4,240,535	22,052,708
Mining and Energy	353,321	33,588		386,909
Service	523,424	149,044		672,468
Lease Services	2134			2,134
Micro-Financing	3,105,149	5,071		3,110,220
Individual loans	10,927			10,927
Staff loans and advances	101,214	8,148		109,362
Gross	23,802,820	4,727,469	4,240,535	32,770,825
Less: Impairment allowance (note 15b)	(3,042,860)	(1,933,911)	(1,163,428)	(6,140,199)
Net	20,759,961	2,793,558	3,077,107	26,630,626

Individually impaired loans are loans for which the Group and Bank have determined that it is probable that the group and Bank will be unable to collect all principal and/or interest due in accordance with the contractual terms of the loan agreements. Individually impaired staff loans are loans given to staffs that are no longer staff of the Bank hence the recoverability of the loans is doubtful.

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

The credit quality of the portfolio of loans and receivables 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 receivables past due for 30 (thirty) days for short-term loans and less than 180 (one hundred eighty) days for medium and long term loans are classified in this category.



Group 30 June 2018	Bank 30 June 2018	Bank 30 June 2018	Bank 1 July 2016
Birr'000	Birr'000	Birr'000	Birr'000
Short term loans	46,119	46,119	25,533
Neither past due nor impaired			
Medium and long term loans	13,087,386	13,087,386	22,601,283
Neither past due nor impaired			
Less: Collective impairment	(13,133,505)	(13,133,505)	(23,802,820)
	13,087,386	(13,133,505)	(13,133,505)
Net	6,113	11,696,113	20,759,961

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Short term loans are loans with a contractual maturity period of less than two (2) years.

Medium term loans are loans with a contractual maturity period between two (2) and five (5) years, while long term loans are loans exceeding five (5) years but less than fifteen (15) years, without considering a maximum grace period of five (5) years.

(ii) Loans and receivables - past due but not impaired

	Group 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 1 July 2016 Bir'000
<i>Short term loans</i>				
Past due by 30 - 90 days	163,803	163,803	74,542	368
Past due by 90 - 180 days	73,516	73,516	20,473	9,770
Past due by 180 - 360 days	6,143	6,143	5,631	73,260
Past due by more than 360 days	25,843	25,843	19,845	50,424
<i>Medium and long term loans</i>				
Past due up to 6 - 12 months	10,165,088	10,165,088	6,476,217	1,228,982
Past due up to 12 - 18 months	3,267,114	3,267,114	2,537,042	844,265
Past due up to 18 - to 3 years	3,924,332	3,924,332	3,466,461	1,783,159
Past due by more than 3 years	1,941,642	1,941,642	1,474,341	738,241
	19,564,480	19,564,480	13,074,552	4,727,469
Less: collective impairment	(7,025,053)	(7,025,053)	(4,340,121)	(1,933,911)
Loan and receivables (net)	12,539,428	12,539,428	8,734,431	2,793,558

Short term loans are loans with a contractual maturity period of less than two (2) years. Loans and receivables that have been classified as neither past due nor impaired or past due but not impaired are assessed on a collective basis.

(iii) Loans and receivables - individually impaired loans

	Group 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 1 July 2016 Bir'000
Substandard	6,426,066	6,426,066	1,808,325	1,500,200
Doubtful	2,101,760	2,101,760	214,270	2,972,042
Loss			2,335,899	168,293
	8,527,826	8,527,826	4,358,494	4,240,535
Less: specific impairment	(3,349,039)	(3,349,039)	(1,375,238)	(1,163,428)
	5,178,787	5,178,787	2,983,257	3,077,107

(iv) Allowance for impairment

	Group 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 1 July 2016 Bir'000
Specific impairment	3,349,039	3,349,039	1,375,238	1,163,428
Collective impairment	3,676,014	3,676,014	6,428,592	4,976,771
Total allowance for impairment	7,025,053	7,025,053	7,803,830	6,140,199



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(v) Sensitivity analysis on impairment

The loan portfolio of the Group and Bank has been adopted for this sensitivity test. This is based on the premise that the outcome of this stress test on the Group and Bank is reflective of the entire portfolio of loans and advances to customers. The credit factors considered for this sensitivity are highlighted below:

Probability of Default (PD): This represents the probability that a currently performing account will decline in credit quality. The probability of default model is designed to provide a measurement of obligor quality by estimating the likelihood default over a short term horizon (usually 12 months). A low probability of default indicates a borrower with good credit quality while a high probability of default indicates a borrower with low credit quality and a high likelihood of default.

Loss Given Default (LGD): The LGD estimates the expected loss on a default account after all recoveries have been exhausted. In estimating the LGD for the credit portfolio, recoveries made on historic loan loss data by way of loan repayment, recovery efforts and/or sale of collateral was applied.

In performing the sensitivity analysis, two scenarios were considered as detailed below:

Scenario 1

The PDs of the performing book were flexed by 20% while LGD was held constant. This is based on the assumption that obligor quality will deteriorate and this will lead to an increase in default.

Scenario 2

The LGD of the performing book was flexed by 20% respectively while the PD was held constant. This is premised on deterioration in obligor quality, increase in rate of default as well as difficulty in realizing collaterals pledged.

Outcome of the sensitivity analysis on impairment as well as the impact on profit or loss is shown below:

Group/Bank 30 June 2018

Agriculture
Manufacturing
Mining and Energy
Service
Lease Services
Micro-Financing
Staff loans and advances

Current year Birr'000	Scenario 1 Birr'000	Scenario 2 Birr'000
3,402,811	3,488,666	4,083,374
4,227,196	4,734,651	5,072,636
116,761	135,543	140,113
397,719	403,845	477,262
300,713	321,028	360,856
3,303	3,626	3,963
13,942	15,250	16,731
8,462,445	9,102,608	10,154,934

Bank 30 June 2017

Agriculture
Manufacturing
Mining and Energy
Service
Lease Services
Micro-Financing
Staff loans and advances

Current year Birr'000	Scenario 1 Birr'000	Scenario 2 Birr'000
2,487,363	2,580,482	2,984,836
3,670,685	4,163,285	4,404,822
96,751	112,136	116,101
144,846	149,919	170,215
19,051	20,005	22,861
6,925	7,499	8,379
5,972	6,923	7,492
6,428,592	7,110,829	7,714,310



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Bank 1 July 2016	Current year Bir'000	Scenario 1 Bir'000	Scenario 2 Bir'000
Agriculture	1,377,984	1,501,017	1,653,581
Manufacturing	3,380,821	3,896,723	4,056,985
Mining and Energy	84,001	97,684	100,801
Service	127,604	139,658	153,125
Lease Services	-	-	-
Micro-Financing	601	678	722
Staff loans and advances	5,760	6,552	6,912
	4,976,771	5,642,312	5,972,125

(c) Credit quality of investment securities

All investment securities are neither past due nor impaired.

4.3.7 Nature of security in respect of loans and receivables

Group/Bank

	Secured against real estate Bir'000	Bank guarantees Bir'000	Machinery and equipment Bir'000	Motor vehicles Bir'000	Others Bir'000	Total Bir'000
30 June 2018						
Agriculture	1,170,588	245	450,487	383,886	751,188	2,756,395
Manufacturing	5,402,399		11,251,986	451,935	358,047	17,464,367
Mining and energy	111,901	158,139	328,757	13,254	302	612,353
Service	830,056		76,806	3,831	15,073	925,766
Lease services	265,944		49,723	20,125	131	335,926
Micro-financing					215,085	215,085
Staff loans	130,605			20,130	4,304	155,039
	7,911,793	158,384	12,157,759	893,161	1,344,132	22,465,231

Bank

	Secured against real estate Bir'000	Bank guarantees Bir'000	Machinery and equipment Bir'000	Motor vehicles Bir'000	Others Bir'000	Total Bir'000
30 June 2018						
Agriculture	1,170,588	245	450,487	383,886	751,188	2,756,395
Manufacturing	5,402,399		11,251,986	451,935	358,047	17,464,367
Mining and energy	111,901	158,139	328,757	13,254	302	612,353
Service	830,056		76,806	3,831	15,073	925,766
Lease services	265,944		49,723	20,125	131	335,926
Micro-financing					215,085	215,085
Staff loans	130,605			20,130	4,304	155,039
	7,911,793	158,384	12,157,759	893,161	1,344,132	22,465,231

Bank

	Secured against real estate Bir'000	Bank guarantees Bir'000	Machinery and equipment Bir'000	Motor vehicles Bir'000	Others Bir'000	Total Bir'000
30 June 2017						
Agriculture	766,753	285,199	850,537	339,580	2,877,555	4,239,624
Manufacturing	4,440,668	3,554,562	7,143,177	854,313	5,155,473	21,088,193
Mining and energy	127,830		422,707	10,364	89,137	650,038
Service	675,258		31,659	19,525	97,572	804,014
Lease services			6127			6,127
Micro-financing					187,207	187,207
Staff loans	73,697			7,478	54	81,229
	6,314,206	3,840,161	8,749,507	863,261	7,207,218	27,384,362

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Bank	Secured against real estate	Bank guarantees	Machinery and equipment	Motor vehicles	Others	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
1 July 2016						
Agriculture	508,813	1,924	532,538	221,214	1,594,352	2,858,841
Manufacturing	5,689,400	1,183,326	8,613,165	545,514	5,349,515	21,380,920
Mining and energy	87,614		286,125	6,321	56,906	436,965
Service	675,691		327,200	13,526	60,301	782,238
Lease services			891			891
Micro-financing					94,633	94,633
Staff loans	59,365			60,57	18,889	84,311
	6,512,070	1,183,326	8,932,900	571,418	5,580,243	22,779,959

4.3.8 Collateral held and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to the customer. However, collateral provides additional security and the Bank generally holds the project's property, plant and equipment as collateral. Staff loans are secured to the extent of the employee's continued employment in the Bank and with third party guarantor.

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

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

The fair value of collateral other than properties such as cash, financial guarantee and bonds are 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 the benefits accruable from the exercise.

4.3.9 Statement of prudential adjustments

- (a) Provisions under prudential guidelines are determined using the time/age based provisioning prescribed by the National bank of Ethiopia (NBE) Directive. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision, there will be variances in the impairment 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:

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

When prudential provisions is greater than IFRS provision, the excess provisions should be transferred from retained earnings accounts to "regulatory credit risk reserve".

When prudential provisions is less than IFRS provision, IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is there after reversed to retained earnings accounts.



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- (b) During the period ended June 30, 2018, there is no transferred amount to the regulatory credit risk reserve.

The impairment allowance determined under NBE Directive and IAS 39 is shown as follows:

	Group/Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000	Bank 1 July 2016 Birr'000
Total impairment allowance as per IFRS	11,811,484	7,803,830	6,140,199	6,140,199
Total impairment allowance in line with NBE Directives	4,722,970	3,326,904	2,685,546	2,685,546

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

To comply with the directive of the NBE, the Group and Bank have reversed the suspended interest (net of tax for the year 2018) on impaired loans from retained earnings account and transferred to regulatory credit risk reserve account as the amount is non-distributable to the owner of the Group and Bank.

	Group/Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Suspended interest transferred to regulatory credit risk reserve	2,120,377	1,674,589	1,285,174

4.3.10 Credit concentrations

The Group and Bank monitor concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2018, 30 June 2017 and 30 June 2016 is shown below. The Bank concentrates all its financial assets in Ethiopia.

Group 30 June 2018	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			6,983,531		6,983,531
Loans and advances to customers	7,504,406	27,183,741	3,326,634	3,211,030	41,225,811
Investment securities:					
- Available for sale			11,376		11,376
- Loans and receivables			31,624,349		31,624,349
Other assets				2,117,163	2,117,163
	7,504,406	27,183,741	41,945,890	5,328,193	81,962,229

Bank 30 June 2018	Agriculture Birr'000	Manufacturing Birr'000	Financial Service Birr'000	others Birr'000	Total Birr'000
Cash and bank balances			6,973,920		6,973,920
Loans and advances to customers	7,504,406	27,183,741	3,326,634	3,211,030	41,225,811
Investment securities:					
- Available for sale			11,376		11,376
- Loans and receivables			31,624,349		31,624,349
Other assets					
	7,504,406	27,183,741	41,945,279	3,211,030	80,004,456



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Bank	Agriculture	Manufacturing	Financial Service	others	Total
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
30 June 2017					
Cash and bank balances			4,604,605	-	4,604,605
Loans and advances to customers	6,909,535	23,780,670	3,048,475	1,632,354	35,371,034
Investment securities:					
- Available for sale			11,376		11,376
- Loans and receivables			15,036,944		15,036,944
Other assets				373,970	373,970
	6,909,535	23,780,670	22,701,399	2,006,324	55,397,929
1 July 2016					
Cash and bank balances			4,043,589		4,043,589
Loans and advances to customers	6,426,117	22,052,708	3,110,220	1,181,780	32,773,825
Investment securities:					
- Available for sale			11,376		11,376
- Loans and receivables			14,996,128		14,996,128
Other assets					
	6,426,117	22,052,708	22,161,314	1,181,780	51,821,918

4.3.11 Commitments and guarantees

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

	Group/Bank	Bank	Bank
	30 June 2018	30 June 2017	1 July 2016
	Birr'000	Birr'000	Birr'000
Letters of credit	5,041,503	1,930,496	1,475,797
Guarantees	394,819	190,452	394,819
Loan commitments	20,189,855	18,040,510	13,964,434
Total maximum exposure	25,626,177	20,161,458	15,835,050

4.4 Liquidity risk

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

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



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4.4.1 Management of liquidity risk

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

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

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

4.4.2 Maturity analysis of financial liabilities

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

Group/Bank 30 June 2018	0 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	Over 1 year
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Deposits from customers	333,881	222,587	222,587	222,587	111,294
Debt securities issued	104,960	209,920	314,880	419,840	9,446,408
Borrowings	374,236	522,794	74,831	3,212,152	50,387,210
Profit tax payable		276,430			
Other liabilities	359,446	599,133	798,845	998,556	1,198,267
Total financial liabilities	1,212,522	1,830,864	1,411,142	4,853,135	61,113,178
Letters of credit	239,232	717,695	1,435,389	1,913,852	735,335
Guarantees issued	39,482	78,964	118,446	157,928	
Loan commitments	672,995	1,345,990	2,691,981	2,018,986	13,459,903
Other commitments	8,284	16,568	24,852	33,136	
Total commitments	959,993	2,159,217	4,270,667	4,123,901	14,195,239
Bank 30 June 2018	0 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	Over 1 year
	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Deposits from customers	333,881	222,587	222,587	222,587	111,294
Debt securities issued	104,960	209,920	314,880	419,840	9,446,408
Borrowings	374,236	522,794	74,831	3,212,152	50,387,210
Profit tax payable		276,498			
Other liabilities	359,422	599,133	798,845	998,556	1,198,267
Total financial liabilities	1,212,499	1,830,933	1,411,142	4,853,135	61,113,178
Letters of credit	239,232	717,695	1,435,389	1,913,852	735,335
Guarantees issued	39,482	78,964	118,446	157,928	
Loan commitments	672,995	1,345,990	2,691,981	2,018,986	13,459,903
Other commitments	8,284	16,568	24,852	33,136	
Total commitments	959,993	2,159,217	4,270,667	4,123,901	14,195,239



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Bank	0 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	Over 1 year
30 June 2017	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Deposits from customers	297,064	198,042	198,042	198,042	99,021
Debt securities issued	89,656	179,312	268,967	358,623	8,069,018
Borrowings	59,688	899,422	60,043	3,293,557	28,079,128
Profit tax payable		10,133			
Other liabilities	289,456	434,184	578,912	723,640	868,368
Total financial liabilities	735,863	1,721,093	1,105,965	4,573,862	37,115,536
Letters of credit	92,559	277,678	555,356	740,474	264,429
Guarantees issued	40,286	85,979	12,842	51,345	
Loan commitments	601,350	1,202,701	2,405,401	1,804,051	12,027,007
Other commitments	9,282	18,954	27,845	37,127	
Total commitments	743,477	1,584,921	3,001,445	2,632,997	12,291,436

Bank	0 - 30 days	31 - 90 days	91 - 180 days	181 - 365 days	Over 1 year
1 July 2016	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Deposits from customers	413,944	275,962	275,962	275,962	137,981
Debt securities issued	80,568	161,136	241,704	322,271	7,251,107
Borrowings	576,016	1,750,432	1,729,662	2,606,310	23,993,322
Profit tax payable					
Other liabilities	190,679	226,018	301,357	376,697	452,036
Total financial liabilities	1,221,206	2,413,548	2,548,685	3,581,241	31,837,446
Letters of credit	72,399	217,198	462,207	579,194	144,799
Guarantees issued	90,654	14,447	10,481	185,239	
Loan commitments	465,481	930,962	1,861,925	1,396,443	9,309,623
Other commitments	7,560	15,119	23,679	33,239	
Total commitments	636,094	1,177,726	2,451,292	2,191,115	9,454,421

4.5 Market risk

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

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

4.5.1 Management of market risk

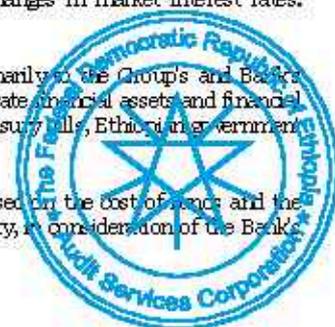
The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is monitored regularly by the Compliance and Risk Management Directorate to identify any adverse movement in the underlying variables.

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

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



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

Group 30 June 2018	Fixed Bir'000	Floating Bir'000	Non-interest bearing Bir'000	Total Bir'000
Assets				
Cash and balances with banks	4,189,710		3,420,864	6,610,574
Loans and advances to customers	41,225,811			41,225,811
Investment securities	29,609,701		3,020,023	34,635,725
Other assets			2,117,163	2,117,163
Total	75,025,223		6,564,050	81,589,273
Liabilities				
Deposits from customers	125,326		987,609	1,112,935
Debt securities issued	10,496,009			10,496,009
Borrowings	53,378,528	1,162,694		54,541,222
Other liabilities			3,977,862	3,977,862
Total	63,999,862	1,162,694	4,965,472	70,128,028
Bank 30 June 2018				
Assets				
Cash and balances with banks	4,189,710		2,411,253	6,600,963
Loans and advances to customers	41,225,811			41,225,811
Investment securities	29,609,701		3,020,023	34,635,725
Other assets			2,117,161	2,117,161
Total	75,025,223		6,554,438	81,579,660
Liabilities				
Deposits from customers	125,326		987,609	1,112,935
Debt securities issued	10,496,009			10,496,009
Borrowings	53,378,528	1,162,694		54,541,222
Other liabilities			3,977,857	3,977,857
Total	63,999,862	1,162,694	987,609	66,150,166
Bank 30 June 2017				
Assets				
Cash and balances with banks	3,070,054		968,947	4,039,001
Loans and advances to customers	35,374,034			35,374,034
Investment securities	13,064,917		1,942,587	15,007,504
Other assets			151,586	151,586
Total	51,509,006		3,063,120	54,572,126
Liabilities				
Deposits from customers	124,706		865,450	990,212
Debt securities issued	8,905,576			8,905,576
Borrowings	3,575,579	1,152,269		4,727,848
Other liabilities			3,600,941	3,600,941
Total	33,707,861	1,152,269	4,426,392	39,286,522



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Bank	Fixed	Floating	Non-interest bearing	Total
1 July 2016	Birr'000	Birr'000	Birr'000	Birr'000
Assets				
Cash and balances with banks	2,296,881		49,548	2,786,429
Loans and advances to customers	32,770,825			32,770,825
Investment securities	13,064,917		1,942,597	15,007,514
Other assets	151,586		-	151,586
Total	48,284,209		2,432,135	50,716,344
Liabilities				
Deposits from customers	383,537		996,275	1,379,812
Debt securities issued	8,056,786			8,056,786
Borrowings	29,599,195	1,149,547		30,658,742
Other liabilities			1,495,950	1,495,950
Total	37,949,518	1,149,547	2,492,224	41,591,290

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2018, 30 June 2017 and 1 July 2016.

	Increase/ (decrease) in basis points	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
USD	10%	(116,269.73)	(116,269.73)	(115,227)	(114,954)
USD	10%	116,269.27	116,269.27	115,227	114,955

(ii) Foreign exchange risk

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

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

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

The total foreign currency denominated assets and liabilities exposed to risk as at year end was Birr 2.15 billion (30 June 2017: Birr 1.19 billion, 1 July 2016: Birr 0.39 billion).

Foreign currency denominated balances

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Cash and bank balances	3,824,488	3,824,488	2,963,255	2,193,691
Deposits from customers	510,959	510,959	24,028	6,610
Borrowings	1,162,694	1,162,694	1,123,200	1,149,547
Total	5,498,141	5,498,141	4,110,483	3,350,248
Net foreign currency exposure	2,150,834	2,150,834	1,186,158	385,211



Cash and bank balances

Deposits from customers
Borrowings

Net foreign currency exposure



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Sensitivity analysis for foreign exchange risk

The sensitivity analysis for currency rate risk shows how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates at the reporting date. The sensitivity of the Bank's earnings to fluctuations in exchange rates is reflected by varying the exchange rates at 10% as shown below:

	Increase/ (decrease) in basis points	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
USD	10%	182,397	182,397	66,850	24,884
USD	10%	(182,397)	(182,397)	(66,850)	(24,884)
EUR	10%	32,591	32,591	27,903	13,222
EUR	10%	(32,591)	(32,591)	(27,903)	(13,222)
GBP	10%	95	95	23,863	419
GBP	10%	(95)	(95)	(23,863)	(419)

4.6 Capital management

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

4.6.1 Capital adequacy ratio

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

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

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

	30 June 2018 Birr'000	30 June 2017 Birr'000	1 July 2016 Birr'000
Capital			
Capital	7,500,000	7,500,000	7,500,000
Retained earnings	(7,234,355)	(4,699,492)	(3,548,749)
Legal reserve	176,527	176,527	95,064
Regulatory credit risk reserve	2,120,377	1,671,589	1,285,174
	2,565,549	4,648,623	5,331,489
Risk weighted assets			
Risk weighted balance for on-balance sheet items	35,917,286	34,341,810	28,692,398
Credit equivalents for off-balance sheet items	9,032,869	7,719,061	6,110,579
	44,950,154	39,060,871	34,802,977
Risk-weighted capital adequacy ratio (CAR)	6%	12%	15%
Minimum required capital	8%	8%	8%
Excess/(shortfall)	-2%	4%	7%

4.7 Fair value of financial assets and liabilities

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

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

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4.7.1 Valuation models

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

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

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

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

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

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

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

Group	Carrying amount	Level 1	Level 2	Level 3	Total
30 June 2018	Birr'000	Birr'000	Birr'000	Birr'000	Birr'000
Financial assets					
Cash and balances with banks	6,983,531			6,983,531	6,983,531
Loans and advances to customers	29,414,327			29,414,327	29,414,327
Investment securities:					
- Available for sale	11,370			11,370	11,370
- Loans and receivables	31,624,349			31,624,349	31,624,349
Other assets	2,106,346			2,106,346	2,106,346
Total	70,139,928			70,139,928	70,139,928
Financial liabilities					
Deposits from customers	1,112,935			1,112,935	1,112,935
Debt securities issued	10,496,009			10,496,009	10,496,009
Provisions	54,541,222			54,541,222	54,541,222
Other liabilities	3,977,862			3,977,862	3,977,862
Total	70,128,028			70,128,028	70,128,028



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Bank 30 June 2018	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	6,973,920			6,973,920	6,973,920
Loans and advances to customers	29,414,327			29,414,327	29,414,327
Investment securities:					
- Available for sale	11,376			11,376	11,376
- Loans and receivables	31,624,349			31,624,349	31,624,349
Other assets	2,106,344			2,106,344	2,106,344
Total	70,130,316			70,130,316	70,130,316
Financial liabilities					
Deposits from customers	1,112,935			1,112,935	1,112,935
Debt securities issued	10,496,009			10,496,009	10,496,009
Borrowings	54,541,222			54,541,222	54,541,222
Other liabilities	3,977,857			3,977,857	3,977,857
Total	70,128,022			70,128,022	70,128,022
Bank 30 June 2017					
Financial assets					
Cash and balances with banks	4,604,605			4,604,605	4,604,605
Loans and advances to customers	27,567,205			27,567,205	27,567,205
Investment securities:					
- Available for sale	11,376			11,376	11,376
- Loans and receivables	15,036,944			15,036,944	15,036,944
Other assets	262,302			262,302	262,302
Total	47,482,432			47,482,432	47,482,432



Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

Bank 30 June 2017	Carrying amount Bir'000	Level 1 Bir'000	Level 2 Bir'000	Level 3 Bir'000	Total Bir'000
Financial liabilities					
Deposits from customers	990,212			990,212	990,212
Debt securities issued	8,965,576			8,965,576	8,965,576
Borrowings	32,394,839			32,394,839	32,394,839
Other liabilities	2,887,941			2,887,941	2,887,941
Total	45,235,568			45,235,568	45,235,568
Bank 1 July 2016					
Financial assets					
Cash and balances with banks	4,043,589			4,043,589	4,043,589
Loans and advances to customers	26,630,620			26,630,620	26,630,620
Investment securities:					
- Available for sale	11,376			11,376	11,376
- Loans and receivables	14,996,128			14,996,128	14,996,128
Other assets	151,255			151,255	151,255
Total	45,832,974			45,832,974	45,832,974
Financial liabilities					
Deposits from customers	1,379,812			1,379,812	1,379,812
Debt securities issued	8,056,786			8,056,786	8,056,786
Borrowings	30,658,742			30,658,742	30,658,742
Other liabilities	1,495,950			1,495,950	1,495,950
Total	41,591,290			41,591,290	41,591,290

4.7.3 Fair value methods and assumptions

(a) Loans and advances to customers

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

(b) Borrowings

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

4.7.4 Valuation technique using significant unobservable inputs – Level 3

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

4.7.6 Transfers between the fair value hierarchy categories

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

5 Offsetting financial assets and financial liabilities

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

Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

5 Interest income

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Interest on agriculture loans	1,167,647	1,167,647	404,129
Interest on manufacturing loans	2,614,440	2,614,440	2,076,976
Interest on mining and Energy loans	60,099	60,099	51,865
Interest on service loans	90,846	90,846	31,651
Interest on lease services loans	33,846	33,846	3,606
Interest on micro-financing loans	135,319	135,319	176,840
Interest on staff loans and advances loans	25,453	25,453	12,334
Interest on individual loans	-	-	936
Interest on investment securities	481,477	481,477	440,542
Interest on fund placement	73,953	73,977	13,645
	4,682,779	4,682,203	3,212,524

6 Interest expense

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Interest on deposits	6,485	6,485	15,637
Interest on Ethiopian Government Saving Bonds	564,569	564,569	449,815
Interest on National Bank of Ethiopia borrowing	900,431	900,431	783,762
Interest on Ministry of Finance borrowing	68,678	68,678	57,974
Interest on China Development Bank borrowing	48,504	48,504	47,546
Interest on leasehold land	32	32	-
	1,585,699	1,585,699	1,354,734

7 Fee and commission income

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Commission income on CPO and FT	13,972	13,972	4,823
Commission income on insurance	3,165	3,165	3,939
Commission on letters of credit	261,165	261,165	96,570
Commission on managed funds	22	22	14,794
	278,323	278,323	120,126

8 Other operating income

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Rental income	17,798	17,798	17,734
Gain on disposal of property, plant and equipment	2,964	2,964	809
Gain on disposal of acquired assets	1,379	1,379	983
Penalty charge income	650	650	895
Gain on foreign exchange	59,477	59,477	11,478
Other income	6,222	6,222	12,000
	88,510	88,510	75,299

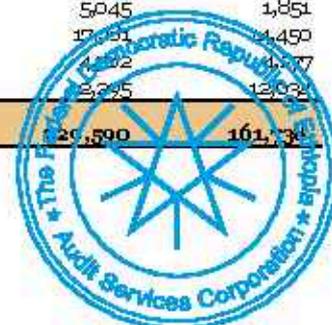


Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
9 Loan impairment charge			
Loans and receivables - charge for the year (note 15a)	4,007,654	4,007,654	1,663,631
Loans and receivables - reversal of provision (note 15a)	404,794	404,794	70,830
	4,412,448	4,412,448	1,734,461
10 Impairment losses on other assets			
Other assets - charge for the year (note 18)	-		7,633
Other assets - reversal of impairment losses (note 18)	(68,059)	(68,059)	
	(68,059)	(68,059)	7,633
11 Personnel expenses			
Salaries and wages	310,095	309,614	276,685
Staff allowances	96,156	96,156	66,252
Pension costs - defined contribution plan	25,984	25,984	21,745
Pension costs - defined benefit plans	2,701	2,701	1,884
Other staff expenses	41,345	41,345	38,543
	476,281	475,801	405,109
12 Other operating expenses			
Travel and per diem	25,008	24,989	21,775
Fuel and lubricants	4,632	4,632	3,864
Audit fees	1,395	1,395	633
Repairs and maintenance	17,212	17,194	10,508
Utility and communications	15,289	15,285	12,381
Printing and stationery	23,193	23,186	12,689
Rent	26,553	26,297	22,351
Subscription & publication	2,398	2,398	2,698
Donations	101	101	12,541
Entertainment	1,748	1,748	2,244
Event organization	1,011	1,011	1,371
Advertisement & publicity	890	884	996
Insurance	4,227	4,227	4,311
Legal and professional fees	58,261	58,258	16,511
Commission	7,776	7,776	3,904
Director's & staff fees	306	306	348
Wages for non-employee security	5,045	5,045	1,851
Administration expense on acquired assets	17,981	17,981	14,450
Miscellaneous	4,582	4,582	1,477
	12,307	12,307	12,932
	229,917	229,590	161,731



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Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
13 Current income tax and deferred tax			
13a Income tax expense/(income)			
Tax expense			
Current income tax	272,864	272,933	24,953
Deferred income tax/(credit) to profit or loss	(70,304)	(70,304)	27,141
Total charge to profit or loss	202,560	202,629	52,094
Income tax charged/(credited) to other comprehensive income			
Tax (credit) on other comprehensive income	3,686	3,686	(55)
Total income tax charged/(credited) to other comprehensive income	3,686	3,686	(55)
13b Reconciliation of effective tax to statutory tax			
The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:			
	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Loss before tax as per IFRS	(1,675,451)	(1,675,216)	(330,772)
Less: Effect of reconciliation of loss before tax under IFRS to GAAP			(695,692)
Loss before tax	(1,675,451)	(1,675,216)	364,920
Tax calculated at statutory tax rate of 30%	(502,635)	(502,565)	109,476
Add: Tax effect of disallowed expenses			
Donation	525	525	673
Penalty	30	30	3,762
Depreciation & amortization for	26,633	26,632	22,961
Provision for loans & other assets as per IFRS	1,324,241	1,324,241	522,628
Employee benefit expense (actuarial valuation)	4,496	4,496	510
20% provision expense as per the new income tax			39,055
Net effect of reconciliation of non-deductible expenses	1,355,929	1,355,926	55,462
Less: Tax effect of allowed expenses			
Depreciation for tax purposes	15,518	15,517	13,122
Provision for loans and advances	432,659	432,659	196,220
Net effect of reconciliation of deductible expenses to	448,177	448,177	13,122
Less: Tax effect of income taxed at source or exempt			
Gain on foreign exchange due to	6,675	6,675	-
Interest on treasury bills	126,928	126,928	115,158
Interest on foreign deposits	12,018	12,018	2,630
Interest on local deposits	9,996	9,996	1,464
Gain on disposal of property,	889	889	243
Net effect of reconciliation of income taxed at source or exempt to GAAP	156,506	156,506	119,770
Less: Effect of utilization of unused tax losses			27,994
Income tax at 30%	248,011	247,673	24,953
Tax on foreign deposit interest at 5%	2,003	2,003	-
Windfall tax on gain from foreign exchange at 10%	5,251	22,244	-
Current income tax expense	255,265	271,920	24,953
Deferred income tax expense/(income)	(70,304)	(70,304)	27,141
Total income tax expense/(income)	202,560	202,629	52,094

Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
13c Current income tax recoverable/(liability)				
Balance at the beginning of the year	(10,133)	(10,133)	4,716	(122,393)
Charge for the year:				
Income tax expense	(272,864)	(272,933)	(24,953)	127,196
Payment during the year	6,568	6,568	10,104	(46)
Balance at the end of the year	(276,430)	(276,498)	(10,133)	4,716

13d Deferred income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority.

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
The analysis of deferred tax assets/(liabilities)				
To be recovered after more than 12 months	(187,439)	(187,439)	(261,428)	(234,232)
To be recovered within 12 months	-	-	-	-
	(187,439)	(187,439)	(261,428)	(234,232)

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

Group/Bank Deferred income tax assets/(liabilities):	At 1 July 2017 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/(charge) to equity Birr'000	30 June 2018 Birr'000
Property, plant and equipment	(267,621)	69,494		(198,128)
Post employment benefit obligation	6,194	810	3,686	10,689
Total deferred tax assets/(liabilities)	(261,428)	70,304	3,686	(187,439)

Bank Deferred income tax assets/(liabilities):	At 1 July 2016 Birr'000	Credit/ (charge) to P/L Birr'000	Credit/(charge) to equity Birr'000	30 June 2017 Birr'000
Property, plant and equipment	(247,147)	(20,474)		(267,621)
Post employment benefit obligation	5,684	565	(55)	6,194
Tax loss	7,232	(7,232)		-
Total deferred tax assets/(liabilities)	(234,232)	(27,141)	(55)	(261,428)

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
14 Cash and bank balances				
Cash in hand	8,761	28,361	37,931	36,433
Balance held with National Bank of Ethiopia	37,931	372,957	515,603	1,257,166
Deposits with local banks	4,000,000	3,994,374	4,044,457	561,329
Deposits with foreign banks	3,522,222	3,581,228	3,167,521	2,285,215
	2,833,724	6,973,920	4,604,902	4,143,589



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Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

<i>Maturity analysis</i>	Group	Bank	Bank	Bank
	30 June 2018	30 June 2018	30 June 2017	1 July 2016
	Birr'000	Birr'000	Birr'000	Birr'000
Current	6,610,574	6,600,963	4,039,001	2,786,429
Non-Current	372,957	372,957	505,603	1,257,160
	6,983,531	6,973,920	4,604,605	4,043,589

14a Cash and cash equivalents

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

	Group	Bank	Bank	Bank
	30 June 2018	30 June 2018	30 June 2017	1 July 2016
	Birr'000	Birr'000	Birr'000	Birr'000
Cash in hand	28,361	28,361	37,931	36,231
Balance held with National Bank of Ethiopia	372,957	372,957	505,603	1,257,160
Deposits with local banks	4,000,985	3,994,374	1,040,450	560,329
Deposits with foreign banks	2,581,228	2,581,228	2,900,621	2,189,869
	6,983,531	6,973,920	4,604,605	4,043,589

15 Loans and advances to customers

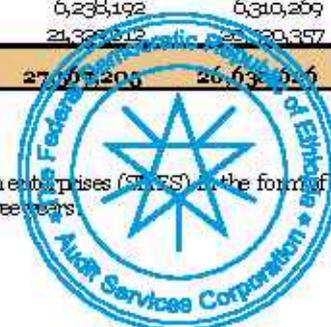
	Group	Bank	Bank	Bank
	30 June 2018	30 June 2018	30 June 2017	1 July 2016
	Birr'000	Birr'000	Birr'000	Birr'000
Agriculture	7,504,406	7,504,406	6,909,535	6,426,117
Manufacturing	27,183,741	27,183,741	23,780,670	22,052,708
Mining and Energy	759,915	759,915	579,877	386,890
Service	401,353	401,353	504,046	672,468
Lease Services (note 15a)	1,792,375	1,792,375	357,904	2134
Micro-Financing	3,326,634	3,326,634	3,048,475	3,110,220
Individual loans	-	-	14,769	10,927
Staff loans and advances	257,387	257,387	175,737	109,362
Gross amount	41,225,811	41,225,811	35,371,034	32,770,825
Less: Impairment allowance (note 15b)				
- Specific impairment	(3,349,039)	(3,349,039)	(1,375,238)	(1,163,428)
- Collective impairment	(8,462,445)	(8,462,445)	(6,428,592)	(4,976,771)
	29,414,327	29,414,327	27,567,205	26,630,626

Maturity analysis

	Group	Bank	Bank	Bank
	30 June 2018	30 June 2018	30 June 2017	1 July 2016
	Birr'000	Birr'000	Birr'000	Birr'000
Current	2,574,879	5,094,779	6,238,192	6,310,269
Non-Current	23,209,448	23,909,448	21,329,013	20,320,357
	29,414,327	29,414,327	27,567,205	26,630,626

15a Lease services

The Bank, as policy based financier, purchases capital goods to be leased out to small and medium enterprises (SMEs) in the form of hire-purchases leases (finch lease). This is a new product introduced in the Bank in the past three years.



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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Gross investment in the finance lease receivable	2,724,416	2,724,416	2,652,546	3,113
Undisbursed commitment balances	(279,029)	(279,029)	(1,570,520)	(113)
Unearned finance income	(688,939)	(688,939)	(719,932)	(862)
Earned finance income	35,927	35,927	(4190)	(4)
Gross amount	1,792,375	1,792,375	357,904	2,134
Impairment allowance for uncollectible minimum lease payments receivable	(300,713)	(300,713)	(15,780)	-
Present value of minimum lease payments	1,491,662	1,491,662	342,124	2,134
Gross investment in the finance lease receivable:				
- Not later than one year	48,284	48,284	392,830	414
- Later than one year and not later than five years	1,599,378	1,599,378	1,574,242	1,661
- Later than five years	1,076,753	1,076,753	685,474	1,038
	2,724,416	2,724,416	2,652,546	3,113
Present value of minimum lease payments may be analysed as:				
- Not later than one year	258,360	258,360	53,328	284
- Later than one year and not later than five years	939,601	939,601	213,109	1,138
- Later than five years	293,701	293,701	75,687	712
	1,491,662	1,491,662	342,124	2,134

15b Impairment allowance on loans and advances to customers

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

Group/Bank Specific allowance for impairment	Bank			Group/Bank	
	As at 1 July 2016 Birr'000	Charge for the year Birr'000	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Agriculture				76,321	76,321
Manufacturing	1,163,428	211,810	1,375,238	1,897,481	3,272,718
	1,163,428	211,810	1,375,238	1,973,802	3,349,039

Group/Bank Collective allowance for impairment	Bank			Group/Bank	
	As at 1 July 2016 Birr'000	Charge for the year Birr'000	As at 30 June 2017 Birr'000	Charge for the year Birr'000	As at 30 June 2018 Birr'000
Agriculture	1,377,984	1,109,379	2,487,363	915,448	3,402,811
Manufacturing	3,380,821	289,864	3,670,685	595,511	4,267,196
Mining and Energy	84,001	12,750	96,751	2,116	1,061
Service	127,604	14,242	141,846	56,472	37,728
Lease Services	-	1,785	19,051	24,603	307,723
Micro-Financing	601	632	6,925	(3,622)	350
Staff loans and advances	5,760	212	5,972	797	13,943
	4,976,771	1,536,803	6,128,592	1,631,814	8,402,415



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For the year ended 30 June 2018

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
16 Investment securities				
Available for sale:				
Equity investments	11,376	11,376	11,376	11,376
	11,376	11,376	11,376	11,376
Loans and receivables:				
Treasury bills	29,609,701	29,609,701	13,064,865	13,064,917
Ethiopian Government bonds	2,014,647	2,014,647	1,672,079	1,931,211
Gross amount	31,624,349	31,624,349	15,036,944	14,996,128
Less individual allowance for impairment				
	31,635,725	31,635,725	15,048,320	15,007,504
Maturity analysis	Bank Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Current	29,609,701	29,609,701	13,064,865	13,064,917
Non-Current	2,026,023	2,026,023	1,983,455	1,942,587
	31,635,725	31,635,725	15,048,320	15,007,504

The Bank holds equity investments in Eth-switch of 6% (30 June 2017: 38%, 1 July 2016: 6%) and Ethiopian Sugar Industry Support Center Share Company of 0.11% (30 June 2017: 0.11%, 1 July 2016: 0.11%). These investments are unquoted equity securities measured at cost.

Since its establishment, Ethiopian Sugar Industry Support Center Share Company was operating until it was dissolved in accordance with the Commercial Code of Ethiopia of 1960 Article 495/1, by the extraordinary general meeting of the shareholders held on 27 June 2009. The reason for the dissolution was the establishment of Ethiopian Sugar Development Agency to carry out the objectives of the company by Proclamation No. 504/2006 and the letter of instruction dated 9 November 2007 to the shareholders by the Ministry of Trade and Industry to dissolve the company.

In accordance with the Commercial Code of Ethiopia of 1960 Article 496/1, the extraordinary general meeting of the shareholders held on 27 June 2009 appointed Audit Services Corporation to be the liquidators of Ethiopian Sugar Industry Center Share Company.

Accordingly, the liquidation process was carried out and the Bank received cash amounting to Birr 51,864.14, after the reporting period, in November 2018. Out of the total payment, Birr 45,864.14 represented the Bank's share of retained earnings (net of tax), while Birr 6,000 was the payment of the carrying amount of equity held in the dissolved company.

The fair value of the unquoted equity securities carried at cost cannot be reliably estimated as there are no active market for these financial instruments; they have therefore been disclosed at cost less impairment.

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
17 Investment in subsidiary				
Ethio Capital & Investment PLC		9,999		
		9,999		
Maturity analysis	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Current		9,999		
Non-Current		9,999		



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

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

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

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

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

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

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

Name of Company	Nature of business	Country of incorporation	Ownership interest		
			30 June 2018	30 June 2017	1 July 2016
Ethio Capital & Investment Asset PLC	management &	Ethiopia	99.99%		

(ii) Non-controlling interests (NCI)

Set below is the summarized financial information of only one subsidiary, Ethio Capital and Investment PLC, which has non-controlling interest, even though it is immaterial to the Group. The information is presented as at 30 June 2018 and for the year ended 30 June 2018 in which the company was established.

Summarized statement of profit or loss

Operating income	576
Operating expenses	(810)
Impairment charge on financial assets	
Profit before tax	(235)
Income tax expense	69

Profit/(loss) for the period

(166)

Profit/(loss) allocated to NCI

(0.01)

Consolidated statement of financial position

Assets

Cash and bank balances	9,610
Other assets	138
Property, plant and equipment	40
Total assets	9,789

Liabilities and equity

Liabilities

Deposits from customers	33
Current tax liabilities	
Other liabilities	(45)
Total liabilities	(12)

Equity

Capital	10,000
Retained earnings	(166)
Total equity	9,834

Total liabilities and equity

9,789

Accumulated NCI

1



Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

**Ethio Capital
& Investment
PLC**

Summarized statement of cash flows

Net cash flows (used in)/from operating activities	(350)
Net cash flows (used in) /from investing activities	(40)
Net cash flows (used in) /from financing activities	

Net increase/ (decrease) in cash and cash equivalents

Cash and cash equivalents, beginning of period	10,000
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Cash and cash equivalents, end of period	9,610
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18 Other assets

Financial assets

	Group 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 30 June 2017 Bir'000	Bank 1 July 2016 Bir'000
Receivable from other banks	186,025	186,025	47,498	30,330
Staff advances	5,498	5,498	-	2,185
Sundry receivables	1,925,640	1,925,638	326,472	119,072
	2,117,163	2,117,161	373,970	151,586
Less: Specific impairment allowance (note 17A)	(10,817)	(10,817)	(111,668)	(332)
	2,106,346	2,106,344	262,302	151,255

Non-financial assets

Assets held for lease	300,570	300,570	238,068	-
Prepaid staff expense	101,682	101,682	74,978	44,747
Prepayments	17,823	17,746,229	14,573	18,309
Inventory	1,610	1,610	4,110	4,206
Repossessed collateral	1,807,458	1,807,458	1,493,456	455,194
Value added tax recoverable	60			
	2,229,203	2,229,066	1,821,886	523,425
Less: Specific impairment allowance (note 17A)	(243,494)	(243,494)	(209,701)	(252,136)
	1,986,709	1,986,572	1,612,184	271,289

Gross amount

	4,093,055	4,092,917	1,874,487	422,544
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Maturity analysis

	Group 30 June 2018 Bir'000	Bank 30 June 2018 Bir'000	Bank 30 June 2017 Bir'000	Bank 1 July 2016 Bir'000
Current	191,523	191,523	47,498	32,515
Non-Current	3,904,472	3,904,394	1,826,989	390,029
	4,092,995	4,092,917	1,874,487	422,544



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

18a Impairment allowance on other assets

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Balance at the beginning of the year	321,369	321,369	252,468
(Reversal)/charge for the year (note 10)	(68,058)	(68,058)	68,991
Balance at the end of the year	253,311	253,311	321,369



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	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
19 Investment property				
Cost:				
At the beginning of the year	232,484	232,484	232,484	232,484
Acquisitions	129	129	-	-
At the end of the year	232,613	232,613	232,484	232,484
Accumulated amortisation:				
At the beginning of the year	8,340	8,340	-	-
Charge for the year	8,995	8,995	8,340	-
At the end of the year	17,335	17,335	8,340	-
Net book value	215,278	215,278	224,144	232,484

19a Amounts recognised in profit or loss for investment properties

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Rental income		17,798	17,798
Direct operating expenses from property that generated rental income		(17,798)	(17,734)
		17,798	17,798

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

The Bank's investment property is measured at cost. These properties include those held for rental purposes and those in which the Bank occupies an insignificant portion. These properties are held to earn rentals and for capital appreciation. There are currently no restrictions on the reliability of these properties.

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

The fair value of the Bank's investment property as at 30 June 2018 has been arrived at by the Bank's engineers. Based on the bank valuation manual, all properties are valued using the income approach or the cost approach depending on the availability of data. The cost approach is based on determination of the minimum cost of replacing or replicating the service potential embodied in the property using comparable material and workmanship, in the most efficient way practicable, given the service requirements, the age and condition of the existing property and replacement in the normal course of the business. The approach mainly involves determination of replacement cost of developments and corresponding depreciation.

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

Land lease value is not considered in estimating the value of the building as the Bank does not have control over the land and can therefore not recognise the land as an asset. There has been no change to the valuation technique during the year.

19c Fair value hierarchy

Details of the Bank's investment properties and information about the fair value hierarchy at 30 June 2018, 30 June 2017 and 30 June 2016 respectively are as follows:

Group/Bank	Carrying amount Birr'000	Level 1 Birr'000	Level 2 Birr'000	Level 3 Birr'000
Group				
30 June 2018				
Investment properties	215,278			215,278
Bank				
30 June 2017				
Investment properties	224,144			224,144
Bank				
1 July 2016				
Investment properties	232,484			232,484



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Group/Bank	Purchased software Birr'000	Purchased software under progress Birr'000	Total Birr'000
20 Intangible Assets			
Cost:			
As at 1 July 2016	39,892	12,081	51,973
Acquisitions	141	545	685
As at 30 June 2017	40,033	12,626	52,658
As at 1 July 2017	40,033	12,626	52,658
Acquisitions	6,362	10,713	17,075
As at 30 June 2018	46,395	23,339	69,734
Accumulated amortisation and impairment losses			
As at 1 July 2016	28,735		28,735
Amortisation for the year	4,591		4,591
As at 30 June 2017	33,327		33,327
As at 1 July 2017	33,327		33,327
Amortisation for the year	4,578		4,578
Adjustment	(3,810)		(3,810)
As at 30 June 2018	34,095		34,095
Netbook value			
As at 1 July 2016	11,157	12,081	23,237
As at 30 June 2017	6,706	12,626	19,332
As at 30 June 2018	12,300	23,339	35,639

Buildings Birr'000	Motor vehicles Birr'000	Furniture and fittings Birr'000	Machinery & equipment Birr'000	Computer installations Birr'000	Capital work in progress Birr'000	Leasehold land Birr'000	Total Birr'000
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21 Property, plant and equipment

Group

Cost:

As at 1 July 2016	562,451	203,455	25,577	19,942	87,885	39,599	938,309
Additions	-	12,549		8,349	49,494	7,774	88,163
Disposals		(878)			(16)		(894)
Adjustment			(704)				(704)
As at 30 June 2017	562,451	214,826	24,873	38,291	137,364	47,370	1,024,874
As at 1 July 2017	562,451	214,826	24,873	38,291	137,364	47,370	1,024,874
Additions	4,136	27,970	4,922	4,857	8,982	6,220	60,524
Disposals		(4,720)				3,437	(4,720)
Write-off		(8,046)	(3,550)		(3,925)		(15,520)
As at 30 June 2018	566,287	230,031	26,245	43,148	142,420	53,590	1,065,158

Accumulated depreciation

As at 1 July 2016	1,924	65,506	7,687	12,542	28,560		116,218
Charge for the year	30,828	14,789	1,814	5,076	11,096		63,604
Disposals		(83)			(3)		(82)
Adjustment		819			3		822
As at 30 June 2017	32,752	80,295	9,501	17,618	39,656		179,821
As at 1 July 2017	32,752	80,295	9,501	17,618	39,656		179,821
Charge for the year	35,563	8,716	2,305	4,564	14,041	14	75,202
Disposals		(3,608)					(3,608)
Write-off		(3,917)	(3,354)		(3,177)		(10,448)
Adjustment		4,414	865	(491)	(3,867)		121
As at 30 June 2018	68,315	95,901	9,316	22,127	46,653	14	244,806
Netbook value							
As at 1 July 2016	560,227	137,650	17,890	7,406	59,326	39,599	822,098
As at 30 June 2017	529,399	134,531	15,372	20,673	97,708	47,370	845,053
As at 30 June 2018	497,973	134,130	16,929	21,021	95,768	53,590	829,391

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	Buildings Birr'000	Motor vehicles Birr'000	Furniture and fittings Birr'000	Machinery & equipment Birr'000	Computer installations Birr'000	Capital work in progress Birr'000	Leasehold land Birr'000	Total Birr'000
Bank								
Cost:								
As at 1 July 2016	562,151	203,155	25,577	19,942	87,885	39,599		938,309
Additions	-	12,549		18,349	49,494	7,771		88,163
Disposals		(878)			(16)			(894)
Adjustment			(704)					(704)
As at 30 June 2017	562,151	214,826	24,873	38,291	137,364	47,370		1,024,874
As at 1 July 2017	562,151	214,826	24,873	38,291	137,364	47,370		1,024,874
Additions	4,136	27,970	4,913	4,857	8,948	6,220	3,437	60,482
Disposals		(4,720)						(4,720)
Write-off		(8,046)	(3,550)		(3,925)			(15,521)
As at 30 June 2018	566,287	230,031	26,237	43,148	142,386	53,590	3,437	1,065,116
Accumulated depreciation								
As at 1 July 2016	1924	65,506	7,687	12,542	28,560			116,218
Charge for the year	30,828	14,789	1,814	5,076	11,096			63,604
Disposals		(819)			(3)			(822)
Adjustment	-	819	-		3			822
As at 30 June 2017	32,752	80,295	9,501	17,618	39,656			179,821
As at 1 July 2017	32,752	80,295	9,501	17,618	39,656			179,821
Charge for the year	35,563	18,716	2,304	4,564	14,039		14	75,200
Disposals		(3,608)						(3,608)
Write-off		(3,917)	(3,354)		(3,477)			(10,448)
Adjustment	-	4,414	865	(491)	(3,867)			921
As at 30 June 2018	68,315	95,901	9,315	21,691	46,651		14	241,887
Net book value								
As at 1 July 2016	560,227	137,650	17,890	7,400	59,326	39,599		822,091
As at 30 June 2017	529,399	134,531	15,372	20,673	97,708	47,370		845,053
As at 30 June 2018	497,973	134,130	16,921	21,457	95,736	53,590	3,423	823,229



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	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
22 Deposits from customers				
Demand deposits	505,572	505,572	315,295	381,237
Savings deposits	19,712	19,712	19,109	13,516
Time deposits	105,614	105,614	105,653	370,021
Customers deposits in foreign currency	422,037	422,037	550,155	615,038
	1,112,935	1,112,935	990,212	1,379,812

Maturity analysis

Current	1,001,642	1,001,642	891,191	1,241,831
Non-Current	111,294	111,294	99,021	137,981
	1,112,935	1,112,935	990,212	1,379,812

23 Debt securities issued

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Ethiopian Government Saving Bonds	10,446,611	10,446,611	8,804,491	4,382,716
Grand Ethiopian Renaissance Dam	49,398	49,398	161,084	3,674,070
	10,496,009	10,496,009	8,965,576	8,056,786

Ethiopian Government Saving Bonds are bonds bearing initially interest rates of 5.5% and 6% per annum issued by the Bank, with the Ethiopian Government guaranty, with maturity periods between 1 to 5 years and over 5 years, respectively. The interest rate was later changed to 7.5% and 8% per annum, in that order. The loans are measured using an effective annual interest rate. On top of that, there are some bonds being issued with no interest rate, which were measured at effective interest rate.

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

Maturity analysis

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Current	244,247	244,247	884,005	363,855
Non-Current	10,251,761	10,251,761	8,081,571	7,692,931
	10,496,009	10,496,009	8,965,576	8,056,786

23a Reconciliation of debt securities issued

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Balance at the beginning of the year		8,965,576	8,056,786
Proceeds from issue of debt securities		2,410,895	4,144,100
Repayments on debt securities		(1,222,230)	(305,378)
Adjustment		341,768	341,768
Balance at the end of the year	10,496,009	10,496,009	8,965,576



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	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
24 Borrowings				
China Development Bank	1,162,694	1,162,694	1,152,269	1,149,547
Ministry of Finance	5,685,710	5,685,710	3,696,431	3,600,499
National Bank of Ethiopia	47,692,817	47,692,817	27,543,138	25,908,696
	54,541,222	54,541,222	32,391,839	30,658,742
Maturity analysis				
Current	4,184,012	4,184,012	4,312,710	6,662,420
Non-Current	50,357,210	50,357,210	28,079,128	23,996,322
	54,541,222	54,541,222	32,391,839	30,658,742

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

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

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

The borrowings from Ministry of Finance are loans on-lent facilities from various international lending institutions bearing interest ranging from 1.5% to 2.5% per annum and repayable in Ethiopian Birr in semi-annual installments, commencing on 31 January 2013 and ending on 30 June 2026 Ethiopian Birr. The borrowings were measured at effective interest rate.

C Borrowing from National Bank of Ethiopia (Direct Facilities in Ethiopian Birr)

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

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

2.4a Reconciliation of bank borrowings

A reconciliation of the changes in borrowings is as follows:

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Balance at the beginning of the year		32,391,839	30,658,742
Proceeds from borrowings		26,636,355	8,112,207
Repayment of borrowings		(2,486,972)	(6,379,111)
Balance at the end of the year	54,541,222	54,541,222	32,391,839



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25 Other liabilities

Financial liabilities

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Letter of credit margin payables	1,482,377	1,482,377	542,692	438,307
Foreign exchange retentions payable	88,923	88,923	74,673	43,859
Equity and other blocked account	1,394,301	1,394,301	1,596,787	554,543
Defined contribution liabilities	3,269	3,263	2,924	2,594
Risk fund payable	215,085	215,085	187,207	94,633
Managed funds payable	61,009	61,009	55,982	76,856
Accrued payable	243,534	243,534	98,706	35,651
Other payables	489,364	489,364	328,971	249,506
	3,977,862	3,977,857	2,887,941	1,495,950

Non-financial liabilities

Deferred income				946
Stamp duty payable	31	31	975	5,118
Withholding tax and valued added tax payables	11,392	11,392	1,443	803
Other tax payable	4,960	4,942	4,201	3,970
	16,384	16,366	6,619	10,837

Gross amount

3,994,246 3,994,223 2,894,560 1,506,786

Maturity analysis

Current	2,247,866	2,247,866	1,115,826	864,420
Non-Current	1,746,380	1,746,357	1,778,733	642,366
	3,994,246	3,994,223	2,894,560	1,506,786

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
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26 Retirement benefit obligations

Defined benefits liabilities:

- Employee benefit plan (note 26a)	29,394	29,394	14,789	12,283
- Medical benefits scheme (note 26b)	6,237	6,237	5,866	6,662
Liability in the statement of financial position	35,631	35,631	20,645	18,945

Income statement charge included in personnel expenses:

- Employee benefit plan (note 26a)	3,794	3,794	3,078	12,283
- Medical benefits scheme (note 26b)	801	801	927	6,662
Total defined benefit expenses	4,595	4,595	4,005	18,945

Some supplementary for:

- Employee benefit plan (note 26a)	8,562	8,562	8,562	8,562
- Medical benefits scheme (note 26b)	37	37	37	37
	8,600	8,600	8,600	8,600



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

Maturity analysis

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Current				
Non-Current	35,631	35,631	20,645	18,945
	35,631	35,631	20,645	18,945

26a Employee benefit plan

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

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

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

(i) Severance gratuity benefit

The severance benefits are based on the statutory severance benefit as set out in Labour Proclamation No. 377/2003, as amended by the Labour (Amendment) Proclamation No. 494/2006. Employees are only entitled to the benefits under this scheme provided they have no entitlement to pension or provident fund benefits at retirement date.

The benefit applicable is thirty times the average daily wages of their last week of service for the first year of service, with past-years pro-rata, plus ten times the average daily wages of their last week of service for each completed year of service after the first to a maximum of one years' wages payable to the member.

(ii) Funeral Assistance gratuity benefit

The funeral assistance benefit on death in service is one month's salary for non-management staff and two months' salary for management staff with a minimum payment of ETB 5,000.

(iii) Pension Prize gratuity benefit

The pension prize benefit payable to all employees retiring at age 60 with a minimum of 10 years' service is 3 months' salary with a minimum of ETB 5,000. Where employees retire early from the Bank at age 55 and have served the Bank for at least 10 years and the Bank and other employers for at least 25 years, they will receive 2 months' salary.

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

A Liability recognised in the financial position

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
	29,394	39,394	14,589	12,361



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The split of the defined benefit obligation in respect of the different benefits included is summarised below:

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Severance benefit (resignation)	16,476	16,476	8,787	6,570
Funeral assistance (death in service)	1,042	1,042	611	438
Pension prize (retirement)	11,876	11,876	5,391	5,275
	29,394	29,394	14,789	12,283

B Amount recognised in the profit or loss

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Current service cost		1,565	1,251
Interest cost		2,229	1,827
		3,794	3,078

C Re-measurement (gains)/losses in other comprehensive income

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Re-measurement (gains)/losses arising from changes in demographic assumptions		-	-
Re-measurement (gains)/losses arising from changes in economic assumptions		11,076	(2,035)
Re-measurement (gains)/losses arising from changes in experience		1,156	3,226
	12,232	12,232	1,191
Deferred tax (liability)/asset on re-measurement gain or loss		(3,670)	(357)
	8,562	8,562	834

D Changes in the present value of the defined benefit obligation

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
At the beginning of the year		14,789	12,283
Current service cost		1,565	1,251
Actual benefit payments		(1,421)	(1,763)
Interest cost		2,229	1,827
Re-measurement (gains)/losses arising from changes in demographic assumptions		-	-
Re-measurement (gains)/losses arising from changes in economic assumptions		11,076	(2,035)
Re-measurement (gains)/losses arising from changes in experience		1,156	3,226
At the end of the year	29,394	29,394	14,789

E The principal assumptions used in determining defined benefit obligations

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Discount rate (p.a)	12.62%	12.62%	14.25%	14.30%
Long term salary increases (p.a)	12.00%	12.00%	7.76%	9.60%
Average Rate of Inflation (p.a)	10.00%	10.00%	7.70%	9.00%



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(i) *Discount rate*

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

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

(ii) *Inflation rate*

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

The information contained in the Report for the 2017 Article IV Consultation prepared by the International Monetary Fund for Ethiopia suggests that long-term inflation in Ethiopia is expected to converge towards a target of 8% over the long term. As a result, an inflation rate of 9.6%, 7.7% and 10% p.a. as at 1 July 2016, 30 June 2017 and 30 June 2018 respectively was used based on actual average annual inflation for each year per the Ethiopian Central Statistics Agency ("CSA") reports.

(iii) *Mortality rate*

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

These rates combined are approximately summarized as follows:

	Males	Females
20	0.00306	0.00223
25	0.00303	0.00228
30	0.00355	0.00314
35	0.00405	0.00279
40	0.00515	0.00319
45	0.0045	0.00428
50	0.00628	0.00628
55	0.00979	0.00979
60	0.01536	0.01536

(iv) *Withdrawals from service*

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

(v) *Duration of the plan*

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the pension prize scheme at the end of the reporting period was 7.5 years as at 30 June 2018 (30 June 2017: 7 years, 1 July 2016: 8 years)



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F Quantitative sensitivity analysis for significant assumption

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

	Impact on defined benefit obligation				
	Group		Bank		
	30 June 2018		30 June 2017		
Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000	
Discount rate	0.5%	(1,268)	1,334	(469)	487

	Impact on current service cost				
	Group		Bank		
	30 June 2018		30 June 2017		
Change in assumption	Impact of an increase ETB'000	Impact of a decrease ETB'000	Impact of an increase ETB'000	Impact of a decrease ETB'000	
Discount rate	0.5%	(132)	138	(50)	52

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit obligation liability recognised within the statement of financial position.

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

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Within the next 12 months (next annual reporting period)		2,108	2,108
Year ending 30 June 2019		2,437	2,437
Year ending 30 June 2020		2,919	2,919
Year ending 30 June 2021		3,551	3,551
Year ending 30 June 2022		4,814	4,814
		15,839	15,839
			10,990

26b Medical benefits scheme

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

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

The Bank does not maintain any assets for the scheme but ensures that it has sufficient funds for the obligations as they crystallise.

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
A Liability recognised in the financial position	6,237	6,237	5,856	6,662

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B Amount recognised in the profit or loss

Current service cost
Interest cost

Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
	801	927
	801	927

C Re-measurement (gains)/losses in other comprehensive income

Remeasurement (gains)/losses arising from changes in demographic assumptions
Remeasurement (gains)/losses arising from changes in the economic assumptions
Remeasurement (gains)/losses arising from changes in experience
Deferred tax (liability)/asset on remeasurement gain or loss

Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
1,469	1,469	(780)
(1,416)	(1,416)	(595)
53	53	(1,375)
(16)	(16)	413
37	37	(963)

D Changes in the present value of the defined benefit obligation

At the beginning of the year
Current service cost
Interest cost
Actual benefit payments
Remeasurement (gains)/losses arising from changes in demographic assumptions
Remeasurement (gains)/losses arising from changes in the economic assumptions
Remeasurement (gains)/losses arising from changes in experience
At the end of the year

Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
5,856	5,856	6,662
	801	927
(473)	(473)	(358)
1,469	1,469	(780)
(1,416)	(1,416)	(595)
6,237	6,237	5,856



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E The principal assumptions used in determining defined benefit obligations

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Discount rate (p.a)	12.54%	12.54%	14.25%	14.30%
Long term medical increases (p.a)	12.00%	12.00%	9.70%	11.60%
Average Rate of Inflation (p.a)	10.00%	10.00%	7.70%	9.60%

(i) Discount rate

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

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

(ii) Inflation rate

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

The information contained in the Report for the 2017 Article IV Consultation prepared by the International Monetary Fund for Ethiopia suggests that long-term inflation in Ethiopia is expected to converge towards a target of 8% over the long term. As a result, an inflation rate of 9.6%, 7.7% and 10.0% p.a as at 1 July 2016, 30 June 2017 and 30 June 2018 was used based on actual average annual inflation for each year per the Central Statistics Agency ("CSA") reports.

(iii) Medical cost increases

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

(iv) Mortality rate

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

	Males	Females
65	0.02297	0.01385
70	0.03776	0.02307
75	0.06164	0.03881
80	0.09861	0.06495
85	0.15246	0.10628
90	0.22453	0.16634



(v) Duration of the plan

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the post-retirement medical benefits scheme at the end of the reporting period is 5 years as at 30 June 2018 (30 June 2017: 6 years, 1 July 2016: 8 years).



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F Quantitative sensitivity analysis for significant assumption

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

	Impact on defined benefit obligation					
	30 June 2018		30 June 2017			
	Group	Bank				
Change in assumption	Impact of an increase Birr'000	Impact of a decrease Birr'000	Impact of an increase Birr'000	Impact of a decrease Birr'000		
Discount rate	0.5%	(254)	266	(191)	198	

	Impact on current service cost					
	30 June 2018		30 June 2017			
	Group	Bank				
Change in assumption	Impact of an increase ETB'000	Impact of a decrease ETB'000	Impact of an increase ETB'000	Impact of a decrease ETB'000		
Discount rate	0.5%	-	-	-	-	

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the post-retirement medical benefits liability recognised within the statement of financial position.

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Within the next 12 months (next annual reporting period)	499	499	627
Year ending 30 June 2019	539	539	665
Year ending 30 June 2020	580	580	704
Year ending 30 June 2021	623	623	742
Year ending 30 June 2022	667	667	781
	2,908	2,908	3,519

G Risk exposure

Through its post-employment benefit schemes, the Bank is exposed to a number of risks. The most significant of which is detailed below:

(i) Inflation risk

This is the risk that of an unexpected significant rise/fall in long term inflation rate. A rise in inflation rate would lead to an increase in the defined benefit obligation.

27 Capital

Authorised and fully paid up

The Bank is wholly owned by the Federal Democratic Republic of Ethiopia and is not a registered share company.

Group 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 30 June 2017 Birr'000	Bank 30 June 2016 Birr'000
7,500,000	7,500,000	7,500,000	7,500,000

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28 Retained earnings

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
At the beginning of the year	(4,699,492)	(4,699,492)	(3,548,749)
State dividend paid	(225,955)	(225,955)	(300,000)
Profit/ (loss) for the year	(1,878,011)	(1,877,845)	(382,866)
Transfer to regulatory credit risk reserve	(448,787)	(448,787)	(386,415)
Transfer to legal reserve	-	-	(81,463)
Adjustment in respect of tax	20,725	20,725	-
At the end of the year	(7,231,521)	(7,231,355)	(4,699,492)

29 Other reserve

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
At the beginning of the year	129	129	-
Re-measurement gains/ (losses) on defined benefit plans (net of tax)	(8,600)	(8,600)	129
At the end of the year	(8,471)	(8,471)	129

Other reserve is an item included under other comprehensive income (OCI) and relates to the effect of remeasurement gains/losses on defined benefit plans in respect of severance pay, pension prize, funeral assistance and post-retirement medical benefits.

30 Regulatory credit risk reserve

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
At the beginning of the year	1,674,589	1,674,589	1,285,174
Transfer from retained earnings	448,787	448,787	386,415
At the end of the year	2,120,377	2,120,377	1,674,589

The regulatory credit risk reserve is transferred from retained earnings and a non-distributable reserve required by the regulation of the National Bank of Ethiopia (NBE) to be kept for interest accrued on impaired loans (non-performing loans) (net of tax for the year 2018 only).

31 Legal reserve

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
At the beginning of the year	176,527	176,527	95,064
Transfer from profit or loss	-	-	81,463
At the end of the year	176,527	176,527	176,527

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

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

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32 Non-controlling interest

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

	Group 30 June 2018 Birr'000
Ethio Capital & Investment PLC	1
	1

This represents the NCI share of profit/(loss) for the year

	Group 30 June 2018 Birr'000
Ethio Capital & Investment PLC	-0.01
	-0.01

Transactions with non-controlling interests

During the period, the Development Bank of Ethiopia acquired shares from Ethiopia Capital and Investment Private Limited Company, which is a newly established company with 100% cash payment.

33 Cash generated from operating activities

Notes	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Profit before tax	(1,675,451)	(1,675,216)	(330,772)
Adjustments for non-cash items:			
Gain/(Loss) on foreign exchange dealing and fluctuation	8	(59,497)	(41,478)
Depreciation of property, plant and equipment	21	75,202	63,604
Depreciation of investment property	19	8,995	8,340
Amortisation of intangible assets	20	4,578	4,591
Net gain/(Loss) on disposal of property, plant and equipment	21	(2,964)	(809)
Write-off of property, plant and equipment	21	15,520	-
Impairment on loans and receivables	15	4,007,654	1,663,631
Impairment on other assets	18	(68,059)	7,633
Retirement benefit obligations	26	2,701	1,516
Changes in working capital:			
-Decrease/ (Increase) in loans and advances	15	(5,854,777)	(2,600,210)
-Decrease/ (Increase) in other assets	18	(2,218,569)	(1,451,943)
-Increase/ (Decrease) in customer's deposit	21	122,723	(389,600)
-Increase/ (Decrease) in other liabilities	25	1,503,765	1,361,827
	(4,138,176)	(4,137,829)	(1,703,670)

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

	Group June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000
Proceeds on disposal	4,076	4,076	389
Net book value of property, plant and equipment disposed (Note 21)	(1,112)	(1,112)	(70)
Net gain/(loss) on sale of property, plant and equipment	2,964	2,964	309

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34 Related party transactions

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

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

34a Loans and advances to key management members (year-end balances)

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Board of Management				
Executive Management	2,630	2,630	2,260	2,292
	2,630	2,630	2,260	2,292

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

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

34b Key management compensation

The compensation paid or payable to key management is shown below. There were no sales or purchase of goods and services between the Bank and key management personnel as at 30 June 2018.

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Salaries and other short-term employee benefits	3,378	3,378	2,811	2,761
Post-employment benefits	248,850	248,850	131,653	245,840
Board fees and bonus	309	309	348	326
Other allowances				
	252,228	252,228	134,464	248,927

Compensation of the Bank's key management personnel includes salaries, various benefits (including bonus) and contributions to the post-employment defined benefits plans.

35 Manpower stock

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

	Bank 30 June 2018 Number	Bank 30 June 2017 Number	Bank 1 July 2016 Number
Professional and High Level Supervisors	1,657	1,675	1,500
Semi-professional, Administrative and Clerical	351	330	246
Technician and Skilled	112	101	84
Manual and Custodian	210	225	234
	2,330	2,331	2,059



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36 Contingent liabilities

36a 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 2018 is Birr 159,241,851.15 (30 June 2017: Birr 160,974,318.41, 1 July 2016: Birr 38,526,265.71). No provision has been made in the financial statements as the management believes that it is not probable that the economic benefits would flow out of the Bank in respect of these legal actions.

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 2018 is Birr 9,527,495.51 (30 June 2017 : Birr 9,135,895.51 , 1 July 2016 : Birr

36b Guarantees and letters of credit

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

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 1 July 2016 Birr'000
Performance guarantees	64,416	64,416	159,265	238,819
Letters of credit for customers	4,784,631	4,784,631	1,851,186	1,447,985
	4,849,046	4,849,046	2,010,450	1,686,804

These guarantees and letters of credit are not provided for in the statement of financial position.

37 Commitments

Loan commitments	20,189,855	18,040,510	13,964,434
Other commitments	82,840	92,817,614	75,577
	20,272,695	110,858,124	14,040,031

Other commitments represent commitments made in respect of purchased of various items and services, building renovation in progress and construction work in progress based on the contractual agreements entered into between the Bank and supplier/contractor.

38 Operating lease commitments - Bank as lessee

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

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

	Group 30 June 2018 Birr'000	Bank 30 June 2018 Birr'000	Bank 30 June 2017 Birr'000	Bank 31 July 2016 Birr'000
No later than 1 year	29,318	29,037	17,066	19,937
Later than 1 year and no later than 2 years	9,248	74,940	19,758	21,860
Later than 2 years but not later than 5 years	105,530	104,532	63,411	71,661,417
Total	144,096	108,509	100,235	113,459

39 Events after reporting period

In the opinion of the Directors, there were no significant post balance sheet events (both adjusting and non-adjusting events) which could have a material effect on the state of affairs of the Bank as at 30 June 2018 and on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

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40 First-time adoption of IFRS for the Bank

These financial statements, for the period ended 30 June 2018, are the first the Bank has prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For periods up to and including the year ended 30 June 2017, the Bank prepared its financial statements in accordance with its previous accounting framework. Accordingly, the Bank has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2018, together with the comparative period data as at and for the year ended 30 June 2017, as described in the summary of significant accounting policies.

In preparing these financial statements, the Bank's opening statement of financial position was prepared as at 1 July 2016, the Bank's date of transition to IFRS. This note explains the principal adjustments made by the Bank in restating its financial statements prepared under the previous framework, including the statement of financial position as at 1 July 2016 and the financial statements as at and for the year ended 30 June 2017.

In preparing its opening IFRS statement of financial position, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) of Ethiopia and the Commercial code of 1960. An explanation of how the transition from GAAP to IFRS has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The most significant IFRS impact for the Bank resulted from the implementation of IAS 39 Financial Instruments: Recognition and Measurement which requires the Bank to classify its financial instruments into available for sale, fair value through profit and loss, loans and receivables and held to maturity. Also the impairment of financial assets only in cases where there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (referred to as an "incurred loss" model).

In preparing these financial statements in accordance with IFRS 1, the Bank has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Bank are summarised below.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Following from the principles underpinning IFRS 1, the Bank has applied the following exemptions:

(a) Deemed cost for property, plant and equipment and intangible assets

Selecting this option will require DBE to apply IAS 16 - Property, plant and equipment and IAS 38 - Intangible assets, retrospectively to all Property, plant and equipment and intangible assets that existed at 1 July 2016. At the minimum, the Bank is expected to review underlying records to ensure that all items of cost under IFRS are included; ensure depreciation or amortisation is calculated when the assets are ready for use (available for use) and not when they are put use; review residual values, useful lives and depreciation or amortisation methods as at the date when those assets were purchased and annually thereafter and adjusting for any impact of change.

In general, property, plant and equipment and intangible assets were carried in the statement of financial position prepared in accordance with the previous framework using historical cost. The Bank has elected to regard those values as deemed cost at the transition date as carrying value of assets, except use of revalued amounts of buildings as deemed cost.

(b) Leases

Banks are required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2016. Any contracts that exist would result in a classification based on the facts and circumstances that exist at transition date.

(c) Designation of Previously Recognised Financial Instruments

Applying this exemption means that Bank is permitted to classify a financial asset as available-for-sale at the date of transition to IFRS. The Bank has designated unquoted equity instruments held at 1 July 2016 as available-for-sale investments.



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(d) Fair value measurement of financial instruments at initial recognition

Banks may apply the requirements to recognise day 1 gain or loss prospectively to transactions entered into on or after the date of transition to IFRS. This will result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability held prior to 1 July 2016.

Exceptions applied

(a) Estimates

Estimates made in accordance with IFRSs at the date of transition to IFRSs should be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error or where application of previous framework did not require estimation such as post-employment benefits.

(b) De-recognition of financial assets and financial liabilities

This exception exempts a first time adopter from full retrospective application of the de-recognition rules in IAS 39, 'Financial instruments: Recognition and measurement', for all financial assets and liabilities derecognised before 1 January 2004 or transition date. Therefore, financial assets and liabilities derecognised before 1 July 2016 are not re-recognised under IFRS.



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40.1 Reconciliation of statement of total comprehensive income for the year ended 30 June 2017

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 30 June 2017 Birr'000
Interest income	A	2,703,900		448,624	3,212,524
Interest expense	B	(1,353,586)	1,456	(2,604)	(1,354,734)
Net interest income		1,410,314	1,456	446,020	1,857,790
Fee and commission income	C	-	120,126		120,126
Fee and commission expense		-			-
Net fees and commission income		-	120,126	-	120,126
Other operating income	D	196,915	(120,126)		76,789
Total operating income		1,607,229	1,456	446,020	2,054,705
Loan impairment charge	E	(537,713)	(105,573)	(1,091,174)	(1,734,460)
Impairment losses on other	F	(113,200)	105,573	-	(7,627)
Net operating income/(loss)		956,316	1,456	(645,154)	312,618
Personnel expenses	G	(392,306)		(12,803)	(405,109)
Depreciation of investment proper	H	-	(8,340)		(8,340)
Amortisation of intangible assets	I		(4,429)	(162)	(4,591)
Depreciation and impairment of property, plant and equipment	J	(39,905)	12,769	(36,469)	(63,605)
Bad debts written off	K	(7)	7		
Board fees	K	(348)	348		
Audit fee	K	(633)	633		
Other operating expenses	K	(158,192)	(2,444)	(1,102)	(161,738)
Profit/(loss) before tax		364,919		(695,692)	(330,772)
Income tax income/(expense)	L	(39,068)		(13,026)	(52,094)
Profit/(loss) after tax		325,851		(708,717)	(382,866)
Other comprehensive income (OCI) net on income tax					
<i>Items that will not be subsequently reclassified into profit or loss:</i>					
Remeasurement gain/(loss) on retirement benefits obligations	M			184	184
Deferred tax liability/asset on remeasurement gain/loss				(55)	(55)
Total comprehensive income/(loss) for the period		325,851		(708,533)	(382,732)



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40.2 Reconciliation of equity as at 30 June 2017

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 30 June 2017 Birr'000
ASSETS					
Cash and bank balances	N	4,603,770	835		4,604,605
Loans and advances to customers	O	28,637,184	2,129,798	(3,199,777)	27,567,205
Investment securities:					
- Available for sale	P		11,376		11,376
- Loans and receivables	P		15,659,624	(622,680)	15,036,944
Treasury bills	P	13,065,882	(13,065,882)		
Ethiopian Government bonds	P,Q	2,593,742	(2,593,742)		
Other assets	Q	2,415,369	(613,020)	72,138	1,874,487
Investment property	R		232,484	(8,340)	224,144
Intangible assets	S		19,332		19,332
Property, plant and equipment	T	308,702	(252,922)	789,273	845,053
Property held for sale		1,289,328	(1,289,328)		
Assets held for lease		238,068	(238,068)		
Current tax recoverable		14,820		(14,820)	
Total assets		53,166,865	486	(2,984,206)	50,183,144
LIABILITIES					
Deposits from customers	U	512,212	478,001	-	990,212
Current tax liabilities				10,133	10,133
Deferred tax liabilities		33,673		227,754	261,428
Debt securities issued	V		8,970,157	(4,581)	8,965,576
Borrowings	W	40,089,864	(7,701,573)	3,548	32,391,839
Other liabilities	X	4,628,680	(1,746,096)	11,978	2,894,562
Retirement benefit obligations				20,645	20,645
Total liabilities		45,264,429	486	269,477	45,534,392
EQUITY					
Capital	Z	7,500,000			7,500,000
Retained earnings	AA	225,909		(4,925,401)	(4,699,492)
Other reserve	M			129	129
Legal reserve	AB	176,527			176,527
Regulatory credit risk reserve	AC			1,672,589	1,672,589
Total equity and liabilities		53,166,865	486	(2,984,206)	50,183,144



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For the year ended 30 June 2018

40.3 Reconciliation of equity as at 1 July 2016

	Notes	GAAP Birr'000	Reclassification Birr'000	Remeasurement Birr'000	IFRS as at 1 July 2016 Birr'000
ASSETS					
Cash and bank balances	N	4,043,588	1		4,043,589
Loans and advances to customers	O	26,889,176	2,210,349	(2,468,899)	26,630,626
Investment securities:	P				
- Available for sale	P		11,376		11,376
- Loans and receivables	P		15,674,572	(678,444)	14,996,128
Treasury bills	P	13,065,016	(13,065,016)		
Ethiopian Government bonds	P,Q	2,609,556	(2,609,556)		
Other assets	Q	2,388,734	(2,010,954)	44,763	422,544
Investment property	R		232,484		232,484
Intangible assets	S		23,237		23,237
Property, plant and equipment	T	200,114	(296,828)	818,805	822,091
Property held for sale		209,652	(209,652)		
Income tax recoverable		4,716			4,716
Deferred tax assets		5,395		(5,395)	-
Total assets		49,475,947	14	(2,289,168)	47,186,792
LIABILITIES					
Deposits from customers	U	801,714	578,098		1,379,812
Current tax liabilities				-	-
Deferred tax liabilities				234,232	234,232
Debt securities issued	V		8,060,271	(3,485)	8,056,786
Borrowings	W	37,788,926	(7,130,031)	(152)	30,658,742
Other liabilities	X	3,008,723	(1,508,323)	6,397	1,506,786
Retirement benefit obligations	Y			18,945	18,945
Total liabilities		41,599,363	14	255,926	41,855,303
EQUITY					
Capital	Z	7,900,000			7,900,000
Retained earnings	AA	284,520		(3,830,269)	(3,548,749)
Other reserve					
Regulatory credit risk reserve	AC			1,285,174	1,285,174
Legal reserve	AB	95,064			95,064
Total equity and liabilities		7,876,584		(2,545,095)	5,331,489
Total equity and liabilities		49,475,947	14	(2,289,168)	47,186,792



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40.4 Notes to the reconciliation of equity as at 1 July 2016 and 30 June 2017 and total comprehensive income for the year ended 30 June 2017.

	30 June 2017 Birr'000
A Interest income	
Interest income under previous GAAP	2,763,900
Remeasurement	
(i) Interest income on non-performing loans	1,036,206
(ii) Interest income adjustment on impaired loans	(649,791)
(iii) Interest income on staff loans	6,445
(iv) Interest income on NBE bills	(919)
(v) Interest income on special government bonds	56,683
	<u>448,624</u>
Interest income under per IFRS	<u>3,212,524</u>
B Interest expense	
Interest expense under previous GAAP	4,353,586
Reclassification	
Reclassification of other operating expenses	(1,456.09)
	<u>(1,456.09)</u>
Remeasurement	
(i) Recognition of non-interest bearing bonds at amortised cost	(1,096)
(ii) Recognition of China borrowing at amortised cost	3,700
	<u>2,604.34</u>
Interest expense under per IFRS	<u>1,354,735</u>
C Fee and commission income	
Fee and commission income under previous GAAP	-
Reclassification	
(i) Reclassification of Commission Income on CPO and FT from other income	4,823
(ii) Reclassification of Commission Income on Insurance from other income	3,939
(iii) Reclassification of Commission on letters of credit from other income	96,570
(iv) Reclassification of Commission on managed funds from other income	14,794
	<u>120,126</u>
Fee and commission income under per IFRS	<u>120,126</u>
D Other operating income	
Other operating income under previous GAAP	196,915
Reclassification	
(i) Reclassification of Commission Income on CPO and FT from other income (see note C(i))	(4,823)
(ii) Reclassification of Commission Income on Insurance from other income (see note C(ii))	(3,939)
(iii) Reclassification of Commission on letters of credit from other income (see note C(iii))	(96,570)
(iv) Reclassification of Commission on managed funds from other income (see note C(iv))	(14,794)
	<u>(120,126)</u>
Other operating income under per IFRS	<u>76,789</u>



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For the year ended 30 June 2018

	30 June 2017
	Birr'000
E Loan impairment charge	
Loan impairment charge under previous GAAP	537,713
Reclassification	
(i) Reclassification of impairment on other assets from loan impairment charge (see note F(i))	105,573
	105,573
Remeasurement	
(ii) Additional impairment allowance on loans and advances to customers	1,091,174
	1,091,174
Loan impairment charge under per IFRS	1,734,461
F Impairment losses on other assets	30 June 2017
	Birr'000
Impairment losses on other assets under previous GAAP	113,206
Reclassification	
(i) Reclassification of impairment on other assets from loan impairment charge	(105,573)
	(105,573)
Remeasurement	
(ii) Additional impairment allowance on other assets from loan impairment charge	
Impairment losses on other assets under per IFRS	7,633
G Personnel expenses	30 June 2017
	Birr'000
Personnel expenses under previous GAAP	392,306
Remeasurement	
(i) Provision for bonus payments	5,591
(ii) Recognition of defined benefit obligations	1,884
(iii) Amortisation of cumulative prepaid employee benefit	5,329
	12,804
Personnel expenses under per IFRS	405,109
H Depreciation of investment property	30 June 2017
	Birr'000
Depreciation of investment property under previous GAAP	-
Reclassification	
(i) Reclassification of depreciation of investment property from depreciation and impairment of property, plant and equipment (see Note H(i))	8,340
	8,340
Depreciation of investment property under per IFRS	8,340



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	30 June 2017 Birr'000
I Amortisation of intangible assets	
Amortisation of intangible assets under previous GAAP	-
Reclassification	
(i) Reclassification of amortisation of intangible assets from depreciation and impairment of property, plant and equipment	4,429
	<u>4,429</u>
Remeasurement	
(ii) Increase in accumulated amortisation for computer software	162
	<u>162</u>
Amortisation of intangible assets under per IFRS	4,591
	30 June 2017 Birr'000
J Depreciation and impairment of property, plant and equipment	
Depreciation and impairment of property, plant and equipment under previous GAAP	39,905
Reclassification	
(i) Reclassification of amortisation of intangible assets from depreciation and impairment of property, plant and equipment (see Note I(i))	(4,429)
(ii) Reclassification of depreciation of investment property from depreciation and impairment of property, plant and equipment (see Note H (i))	(8,340)
	<u>(12,769)</u>
Remeasurement	
(iii) Increase in accumulated amortisation for depreciation for property, plant and equipment	36,469
	<u>36,469</u>
Depreciation and impairment of property, plant and equipment under per IFRS	63,605
	30 June 2017 Birr'000
K Other operating expenses	
Other operating expenses under previous GAAP	158,192
Reclassification	
(i) Reclassification of board fees	348
(ii) Reclassification of audit fee	633
(iii) Reclassification of bad debts written off	7
(iv) Reclassification of other operating expenses from interest expense	1,456
	<u>2,444</u>
Remeasurement	
(v) Adjustment of reconciliation of property, plant and equipment to fixed asset schedule	1,102
	<u>1,102</u>
Other operating expenses under per IFRS	161,738
	30 June 2017 Birr'000
L Income tax expense/(income)	
Income tax expense/ (income) under previous GAAP	5,068
Remeasurement	
(i) Recognition of current income tax	24,793
(ii) Recognition of deferred taxes	(1,527)
	<u>(3,633)</u>
Income tax expense/ (income) under per IFRS	1,435



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Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

M Remeasurement gain/(loss) on retirement benefits obligations

Remeasurement gain/(loss) on retirement benefits obligations under previous GAAP

Remeasurement

(i) Recognition of deferred tax assets on remeasurement gain

(ii) Recognition of deferred tax on retirement benefits obligations for the year

Remeasurement gain/(loss) on retirement benefits obligations under per IFRS

30 June 2017

Birr'000

184,00

(55)

129

Notes on remeasurement

(i) Under previous GAAP, the Bank's retirement benefit obligations were not recognised in the financial statements. On transition to IFRS, the defined benefit obligations have been determined by actuarial techniques using the projected unit credit method. The gain or loss arising from the remeasurements of the actuarial assumptions have been recognised in other comprehensive income.

N Cash and bank balances

Cash and bank balances under previous GAAP

Reclassification

(i) Precious metals to other assets

(ii) Interest on placement from other assets

Cash and bank balances per IFRS

Notes on reclassification

(i) Under previous GAAP, precious metals were classified as part of cash and bank balances. These amounts have been reclassified to other assets.

(ii) Under previous GAAP, interest from bank placements were classified as part of other assets. These amounts have been reclassified to the related asset.

O Loans and advances to customers

Loans and receivables under previous GAAP

Reclassification

(i) Accrued interest on loans and advances to customers from other assets (see note Q(i))

(ii) Reclassification of impairment on loans and advances from other assets (see note Q(ii))

(iii) Reclassification of overpaid loan balances to other payables (see note X(v))

Remeasurement

(iv) Interest on loans and receivables from contra interest receivable account on impaired loans

(v) Recognition of interest income adjustment on impaired loans

(vi) Additional impairment allowance on loans and advances to customers

(vii) Recognition of staff loans at fair value - prepaid staff expense (see note Q (ix))

(viii) Interest on staff loans and advances using EIR

Loans and advances to customers per IFRS

Notes on reclassification

(i) Under previous GAAP, accrued interest on loans and advances to customers was recognised separately in other assets. These amounts have been reclassified to the related loans and advances class.

30 June 2017

Birr'000

1 July 2016

Birr'000

4,603,770

4,043,588

(36)

(36)

871

37

835

1

4,604,605

4,043,589

30 June 2017

Birr'000

1 July 2016

Birr'000

28,637,184

26,889,176

2,159,203

2,238,635

(29,894)

(28,300)

486

14

2,129,798

2,210,349

2,321,380

1,285,174

(649,791)

-

(4,798,295)

(3,707,120)

(85,472)

(52,908)

12,401

5,955

(3,199,777)

(2,468,899)

27,567,407

26,889,826



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For the year ended 30 June 2018

- (ii) Impairment provision on loans and advances to customers under previous GAAP was calculated on the outstanding principal amount and outstanding interest amount and accounted for separately. The impairment provision that related to the principal amount was recognised as part of loans and advances to customers while the impairment provision that related to the interest amount was recognised as part of other assets. Under IFRS, the impairment provision on outstanding interest receivable was reclassified from other assets to loans and advances to customers.

Notes on remeasurement

- (iv) Under previous GAAP, interest on non-performing loans was placed on non-accrual basis and maintained in a contra interest receivable account, in the form of suspended interest until cash or its equivalent is received. Under IFRS, interest income on significant non-performing loans should continue to be recognised as part of the loan amount and not deferred in a memorandum account. Therefore, all suspended interest was reclassified from the contra interest receivable account to be included in the carrying amount of the financial assets giving rise to it.
- (v) Under previous GAAP, interest income on impaired loans was calculated on the gross carrying amount of the loan i.e. the outstanding principal amount using the contractual interest rate. On transition to IFRS, interest income was calculated based on the net carrying value after adjusting for impairment using the original effective interest rate (EIR). The difference between the interest income recognised under IFRS and suspended interest on impaired loans was recognised as an adjustment to retained earnings.
- (vi) Under the previous framework, loans and advances to customers were subjected to impairment provision based on the aging of such balances. The impairment loss was determined by applying a percentage provision to the different age buckets in which the outstanding amounts have been segmented. The rates and age buckets were determined based on the National Bank of Ethiopia Supervision of Banking Business directive Number SBB/52/2012. Under IFRS, the Bank is required to assess whether an objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. For financial assets where no evidence of impairment existed, these assets were collectively assessed for impairment. Specific impairment was calculated on individually significant loans for which an objective evidence of impairment existed.

The difference between the principles applied in calculating impairment allowance under IFRS and the NBE guidelines resulted in different impairment loss amounts. The difference between the impairment recognised using the NBE guidelines and IFRS impairment provision was recognised as an adjustment to retained earnings.

- (vii) Under previous framework, staff loans and advances were issued at below market interest rates. Under IFRS, such loans must be recognised at fair value by discounting all future cash flows at the market rate of interest for similar loan facilities. The difference between the disbursed amounts and the fair value of the loan was capitalised as prepaid employee expenses and recognised as part of other assets.
- (viii) The interest on staff loans and advances was calculated using the nominal rates under the previous framework. Under IFRS, the interest income should be recognised at the effective interest rate. The increase in interest income recognised as a result of the effective interest rate was recognised in retained earnings.

P Investment securities

Investment securities under previous GAAP

Reclassification

- (i) Equity investments reclassified to investment securities - available for sale
 (ii) Treasury bills reclassified to investment securities - Loans and receivables
 (iii) Ethiopian Government bonds reclassified to investment securities - Loans and receivables

Remeasurement

- (iv) Adjustment of recognition of accrued interest on treasury bills using EIR
 (v) Recognition of accrued interest on special Government bonds using EIR

Investment securities per IFRS

Notes on reclassification

- (i) Under the previous framework, equity investments were included in other assets. Under IFRS, these unquoted equity securities were reclassified to investment in available for sale financial assets.

	30 June 2017 Birr'000	1 July 2016 Birr'000
Investment securities under previous GAAP	-	-
Reclassification		
(i) Equity investments reclassified to investment securities - available for sale	11,376	11,376
(ii) Treasury bills reclassified to investment securities - Loans and receivables	13,065,882	13,065,016
(iii) Ethiopian Government bonds reclassified to investment securities - Loans and receivables	2,553,742	2,609,556
	15,671,000	15,685,948
Remeasurement		
(iv) Adjustment of recognition of accrued interest on treasury bills using EIR	(62,663)	(68,368)
(v) Recognition of accrued interest on special Government bonds using EIR	(62,086)	(67,444)
	15,546,251	15,547,906

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(ii) Under the previous framework, treasury bills were disclosed as a separate line item on the face of the statement of financial position. On transition to IFRS, treasury bills were reclassified to investment securities as loans and receivables financial assets.

(iii) Under the previous framework, special government bonds were disclosed as a separate line item on the face of the statement of financial position.

On transition to IFRS, the bonds were reclassified to investment securities as loans and receivables financial assets.

Notes on remeasurement

(iv) Under the previous framework, treasury bills were recognised at nominal amount at inception while the unearned discount was recognised in a separate contra payables account, resulting in a net value which is identical to the purchase price of these securities. Under IFRS, treasury bills are accounted for at fair value on initial recognition and subsequently measured at amortised cost using the effective interest rate method. The adjustment on treasury bills relates to the recognition of accrued interest income on treasury bills using the effective interest method.

(v) Under the previous framework, special Government bonds were recognised at nominal amount at inception. Under IFRS, special Government bonds are accounted for at fair value on initial recognition and subsequently measured at amortised cost using the effective interest rate method. The bond receivables from the Government are financial assets. Under IAS 39, paragraph AG 65, these are measured at fair value on day 1, while recognizing day 1 loss at the transition date in the retained earnings account. In accordance with IAS 39 paragraph AG 65, the special bonds were fair valued using a market rate that the Bank borrows from National Bank of Ethiopia. The difference between the nominal value and the fair value of the Bond receivable from Ministry of Finance was recognised as day one loss.

Q Other assets

	30 June 2017 Birr'000	1 July 2016 Birr'000
Other assets under previous GAAP	2,415,369	2,388,734
Reclassification		
(i) Reclassification of accrued interest to loans and advances to customers (see note O(i))	(2,159,203)	(2,238,635)
(ii) Reclassification of impairment provision to loans and advances to customers (see note O(ii))	29,891	28,300
(iii) Equity investments reclassified to investment securities (see note P(i))	(11,376)	(11,376)
(iv) Reclassification of assets held for lease and property held for sale to other assets	4,527,356	209,652
(v) Precious metals to other assets (see note N(i))	36	36
(vi) Interest on placement from other assets (see note N(ii))	(871)	(37)
(vii) Reclassification of acquired asset-buildings to investment property	(139)	(139)
(viii) Reclassification of over payments from assets in store to motor vehicle	1,245	1,245
	(613,020)	(2,010,954)
Remeasurement		
(ix) Prepaid employee benefit (see note O(vii))	85,472	52,908
(x) Adjustment of tax on deposit placement	46	46
(xi) Amortisation of cumulative prepaid employee benefit	(13,520)	(8,191)
(xii) Adjustment of other assets	139	
	72,138	44,763
Other assets per IFRS	1,874,487	422,544

Notes on reclassification

(iv) Under previous GAAP, assets held for lease and property held for sale was presented separately on the face of the statement of financial position. On transition to IFRS, these properties did not meet the definition of non-current held for sale as they are not available for sale. They were reclassified to other assets rather than assets previously used by the Bank for which the remaining economic benefits would be realised primarily through sale. These assets also did not meet the definition of property, plant and equipment, as a result, they have been reclassified to other assets.



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- (vii) Under previous GAAP, the Bank repossessed building from a defaulted borrower as payments for outstanding amounts owed. This building was rented out to third party until the asset is sold. However, the building was recognised as part of other assets under previous framework. Since the rented building meets the definition of investment property under IFRS, it has therefore been reclassified from other assets to investment property.

Notes on remeasurement

- (ix) The prepaid employee expense that relate to prior periods i.e. periods before 1 July 2016 has been amortised and recognised as an & x) adjustment in retained earnings for those periods.

R Investment property	30 June 2017 Birr'000	1 July 2016 Birr'000
Investment property under previous GAAP		
Reclassification		
(i) Investment property reclassified from property plant and equipment	232,345	232,345
(ii) Investment property reclassified from other assets (see Note C(vii))	139	139
	232,484	232,484
Remeasurement		
(ii) Accumulated depreciation on investment property	(8,340)	-
	(8,340)	-
Investment property per IFRS	224,144	232,484

Notes on reclassification

- (i) Under Ethiopian GAAP, the Bank classified buildings held to earn rentals or for capital appreciation or both as property, plant and equipment. IAS 40 states that an investment property that generates cash flows largely independently of the other assets held by an entity should be classified as investment property. On the date of transition to IFRS, the cost and the related amortisation of the building was reclassified to investment property.

Remeasurement

- (ii) Under previous GAAP, the Bank depreciated its building using 5%. However, this rate did not reflect the pattern in which the building's future economic benefits are expected to be consumed by Bank. Therefore, on transition to IFRS, the useful life of building was revised to 50 years.

Under IFRS, the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The useful life was reviewed from nil to 2% based on reasonableness. The cumulative effect of the change in useful life and residual value has been recognised as an adjustment to the related assets and retained earnings.

S Intangible assets

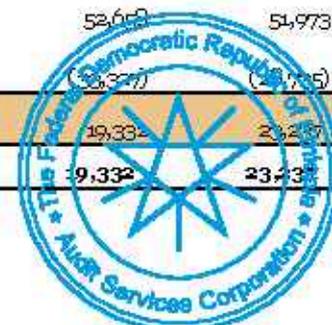
Intangible assets under previous GAAP

Reclassification

- (i) Cost of computer software reclassified from computer installations
(ii) Accumulated amortisation of computer software reclassified from computer installations

Intangible assets per IFRS

	30 June 2017 Birr'000	1 July 2016 Birr'000
Intangible assets under previous GAAP		
Reclassification		
(i) Cost of computer software reclassified from computer installations	52,662	54,973
(ii) Accumulated amortisation of computer software reclassified from computer installations	(3,337)	(2,735)
	49,325	52,238
Intangible assets per IFRS	49,332	52,238



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Notes on reclassification

- (i) As a minimum requirement under IAS 1, intangible assets should be presented as a separate line item in the statement of financial position. Therefore, computer software was reclassified out of property, plant and equipment to intangible assets.
- (ii) Under previous framework, accumulated amortisation of intangible assets was included as part of accumulated depreciation for property, plant and equipment. These amounts have been reclassified to intangible assets.

T Property, plant and equipment

	30 June 2017 Birr'000	1 July 2016 Birr'000
Property, plant and equipment under previous GAAP	308,702	200,114
Reclassification		
(i) Reclassification of investment property from property plant and equipment (see note R(i))	(232,345)	(232,345)
(ii) Reclassification of computer software from computer installations (see note R(ii))	(52,658)	(54,973)
(iii) Reclassification of accumulated amortisation of computer software from computer installations (see note R(ii))	33,327	28,735
(iv) Reclassification of over payments from motor vehicle assets in	(1,245)	(1,245)
	<u>(252,922)</u>	<u>(259,828)</u>
Remeasurement		
(v) Reversal of excess accumulated depreciation	199,333	151,409
(vi) Recognition of additional accumulated depreciation on assets in store and in transit	(93,323)	(16,285)
(vii) Recognition of revaluation gain on buildings	683,681	683,681
(viii) Reconciliation of differences between the property, plant and equipment schedule and the audited financial statements	(419)	0
	<u>789,273</u>	<u>818,805</u>
Property, plant and equipment per IFRS	845,053	822,091

Notes on remeasurement

- (v) Under previous framework, the Bank recognised accumulated depreciation of buildings, motor vehicles, furniture and fittings and computer installations using 5%, 20%, 10% and 10% respectively. Residual values was also not considered in calculated the depreciation charge on these assets. Under IFRS, the useful lives and residual values of items of buildings, motor vehicles, furniture and fittings and computer installations were revised to 2%, 10%, 5%-20% and 14% respectively to better reflect the consumption pattern of those assets.
- (vi) Under previous framework, the Bank did not recognise depreciation charge on assets in store and in transit, a subclass of property, plant and equipment. Under IFRS, assets in store and in transit did not meet the definition of capital work in progress as they were available for use in their present condition. On transition to IFRS, depreciation was calculated on these assets and recognised as an adjustment in retained earnings.
- (vii) On transition to IFRS, the Bank decided to use the exemption of fair value at deemed cost for its buildings. This resulted in revaluation gains to the items of property, plant and equipment with a corresponding increase in retained earnings.

U Deposits from customers

Deposits from customers under previous GAAP

Reclassification

- (i) Reclassification of accrued charges on deposits from customers from other liabilities
- (ii) Reclassification of provisions payable on letters of credit to other liabilities
- (iii) Reclassification of customer deposits in foreign currency from other liabilities

Deposits from customers per IFRS

	30 June 2017 Birr'000	1 July 2016 Birr'000
Deposits from customers under previous GAAP	512,215	401,714
Reclassification		
(i) Reclassification of accrued charges on deposits from customers from other liabilities	(5,317)	(6,924)
(ii) Reclassification of provisions payable on letters of credit to other liabilities	(74,675)	(43,382)
(iii) Reclassification of customer deposits in foreign currency from other liabilities	590,155	615,033
	<u>472,000</u>	<u>566,008</u>
Deposits from customers per IFRS	990,212	1,379,812



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Notes on reclassification

- (i) Under the previous GAAP, accrued interest on bearing customer deposits was recognised separately as part of other liabilities. Under IFRS, accrued charge should included in the carrying amount of the financial liability giving rise to it. Therefore, these charges were reclassified to be included in the carrying amount of the deposits from customers.
- (ii) Under previous framework, retentions payable on letters of credit were recognised as customers' deposits. On transition to IFRS, retentions payable on letters of credit was reclassified to other liabilities.
- (iii) Under previous framework, customer deposits in foreign currency was classified as part of other liabilities. On transition to IFRS, customer deposits were reclassified from other liabilities to deposits from customers.

V Debt securities issued

	30 June 2017 Bir'000	1 July 2016 Bir'000
Debt securities issued under previous GAAP	-	-
Reclassification		
(i) Reclassification of Ethiopian Government Saving Bonds from borrowings	8,809,072	4,386,201
(ii) Reclassification of employee contribution for purchased of Grand Ethiopian Renaissance Dam Bonds from borrowings	161,084	3,674,070
	8,970,157	8,060,271
Remeasurement		
(iii) Recognition of debt securities issued at amortised cost using EIR	(4,581)	(3,485)
	(4,581)	(3,485)
Debt securities issued per IFRS	8,965,576	8,056,786

Notes on reclassification

- (i) Under the previous framework, Ethiopian Government Saving Bonds were classified as part of long term borrowings. However, Ethiopian Government Saving Bonds have the risk characteristics of debt securities. On transition to IFRS, these debt securities were reclassified from long term borrowings to debt securities issued.
- (ii) Under the previous framework, non-bearing interest Grand Ethiopian Renaissance Dam Bonds were classified as part of long term borrowings. However, these bonds have the risk characteristics of debt securities. On transition to IFRS, these debt securities were reclassified from long term borrowings to debt securities issued and measured at fair value.

Notes on remeasurement

- (iii) Under the previous framework, interest expense was calculated using the contractual interest rates associated with the financial liability. In line with IAS 39, the Bank is required to subsequently measure its financial liabilities at amortised cost using the effective interest rate method. On transition to IFRS, the debt securities issued were measured at amortised cost using the effective interest rate with the corresponding adjustment to retained earnings.

W Borrowings

	30 June 2017 Bir'000	1 July 2016 Bir'000
Borrowings under previous GAAP	40,089,864	37,788,926
Reclassification		
(i) Reclassification of Ethiopian Government Saving Bonds to debt	(8,809,072)	(4,386,201)
(ii) Reclassification of employee contribution for purchased of Grand Ethiopian Renaissance Dam Bonds from borrowings	(161,084)	(3,674,070)
(iii) Accrued interest on borrowings reclassified from other	141,345	(94,630)
(iv) Reclassification of managed fund payable from borrowings to other liabilities	(74,571)	(94,630)
(v) Reclassification of risk fund payable from borrowings to other liabilities	(70,855)	(70,855)
	(7,774,137)	(7,300,386)
Remeasurement		
(vi) Recognition of China borrowing at amortised cost	3,548	1,182
	3,548	(1,182)
Borrowings per IFRS	32,315,099	30,087,272

Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

Notes on reclassification

- (iii) Under previous framework, the interest accrued on borrowings was recognised as part of other liabilities and was not transferred to the underlying instrument at the reporting date. On transition to IFRS, the accrued interest on borrowings was reclassified into the related financial liability.

Notes on remeasurement

- (vii) Under the previous framework, interest expense was calculated using the contractual interest rates associated with the financial liability. In line with IAS 39, the Bank is required to subsequently measure its financial liabilities at amortised cost using the effective interest rate method. On transition to IFRS, the borrowings were measured at amortised cost using the effective interest rate with the corresponding adjustment to retained earnings.

	30 June 2017 Birr'000	1 July 2016 Birr'000
X Other liabilities		
Other liabilities as per previous GAAP	4,623,000	3,003,723
Reclassification		
(i) Accrued interest reclassified to borrowings (see note W(iii))	(1,443,454)	(1,101,729)
(ii) Reclassification of accrued charges to deposits from customers (see note U(i))	(2,518)	(6,949)
(iii) Reclassification of retentions payable on letters of credit from deposits from customers (see note U(iii))	74,673	43,859
(iv) Reclassification of customer deposits in foreign currency to deposits from customers (see note U(iii))	(550,155)	(615,038)
(v) Reclassification of excess loan balances to other payables	486	14
(vi) Reclassification of managed fund payable from borrowings to other liabilities	174,871	94,633
(vii) Reclassification of risk fund payable from borrowings to other liabilities	-	76,856
	(1,746,098)	(1,508,323)
Remeasurement		
(viii) Recognition of provision on staff bonus	11,978	6,387
	11,978	6,387
Other liabilities per IFRS	2,894,560	1,506,787

Notes on remeasurement

Under previous GAAP, the Bank recognises bonus amount relating to service rendered in the preceding period in the year in which payment is made. However, IFRS requires that the bonus be provided for in the year the employee has rendered the service that increases their entitlement to bonuses if there is a legal or constructive obligation to pay the bonus as at year end. On transition to IFRS, the expected costs to be paid as bonus has been recognised as a liability with the corresponding adjustment recognised in retained earnings.

Y Retirement benefit obligation

Retirement benefit obligation as per previous GAAP

Remeasurement

- (ix) Recognition of defined benefit obligation

Retirement benefit obligation per IFRS

	30 June 2017 Birr'000	1 July 2016 Birr'000
Retirement benefit obligation as per previous GAAP	-	-
Remeasurement		
(ix) Recognition of defined benefit obligation	20,645	18,945
Retirement benefit obligation per IFRS	20,645	18,945

Notes on requirements

- (i) Under previous GAAP, the Bank's retirement benefit obligations were not recognised in the financial statements. On transition to IFRS, the defined benefit obligations have been determined by actuarial techniques using the projected unit credit method.



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Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

	30 June 2017 Birr'000	1 July 2016 Birr'000
Z Capital		
Capital under previous GAAP	7,500,000	7,500,000
Capital per IFRS	7,500,000	7,500,000
AA Retained earnings	30 June 2017 Birr'000	1 July 2016 Birr'000
Retained earnings as per previous GAAP	225,909	281,520
Remeasurement		
(i) Recognition of interest on loans and receivables from contra interest receivable account (see note O (iv))	2,321,380	1,285,174
(ii) Recognition of interest income on individually impaired loans (see note O(v))	(649,794)	-
(iii) Recognition of additional impairment allowance on loans and advances to customers (see note O(viii))	(4,798,295)	(3,707,120)
(iv) Recognition of interest income on staff loans and advances using EIR (see note O(viii))	12,400	5,955
(v) Amortisation of prepaid employee benefit expense on individual loans (see note Q (xi))	(13,520)	(8,191)
(vi) Recognition of accrued interest on treasury bills using EIR (see note P (iv))	(1,017)	(98)
(vii) Recognition of deferred tax asset (see note Q(v))	46	46
(viii) Reversal of deferred income tax receivable as per GAAP	(5,395)	(5,395)
(ix) Reversal of excess accumulated depreciation (see note T(v))	199,333	154,409
(x) Increase in accumulated depreciation for investment property (see note H(i))	(8,340)	-
(xi) Recognition of additional accumulated depreciation on assets in store and in transit and revision of useful life (see note T(vi))	(93,323)	(16,285)
(xii) Recognition of revaluation gain on buildings (see note T(vii))	683,681	683,681
(xiii) Recognition of debt securities issued at amortised cost using EIR	4,581	3,485
(xiv) Recognition of borrowings at amortised cost using EIR	(3,548)	152
(xv) Recognition of provision on staff bonus	(11,978)	(6,387)
(xvi) Recognition of defined benefit obligation	(20,829)	(18,945)
(xvii) Recognition of non-interest bearing special bonds at fair value	(621,663)	(678,346)
(xviii) Reconciliation of differences between the property, plant and equipment schedule and the audited financial statements (see note T(viii) & R (ii))	(280)	0
(xix) Adjustment of income tax as per IFRS	(247,257)	(234,232)
	(3,253,812)	(2,545,095)
Transfer to regulatory credit risk reserve from retained earnings	(1,672,585)	(1,285,174)
Retained earnings per IFRS	(4,699,492)	(3,548,749)
AB Legal reserve	30 June 2017 Birr'000	1 July 2016 Birr'000
Legal reserve per previous GAAP	176,527	95,064
Remeasurement		
(i) Apportionment from retained earnings as per NBE guidelines to legal reserve	-	-
Legal reserve per IFRS	176,527	95,064



Development Bank of Ethiopia

Notes to the consolidated and separate financial statements

For the year ended 30 June 2018

Notes on remeasurement

- (i) 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. In calculating IFRS adjustments, certain balances have been restated and adjusted in line with the requirements of IFRS. The cumulative adjustments to these balances have been considered and used in the calculation of the legal reserve under IFRS.

AC Regulatory credit risk reserve

Regulatory credit risk reserve per previous GAAP

Remeasurement

Adjustment to recognize income on impaired loans

1,671,589

1,285,174

Income tax impact

Regulatory credit risk reserve per IFRS

1,671,589

1,285,174

As per the regulatory requirement, interest income on impaired loans are required to be accounted for in a contra account to loans and advances. However, under IFRS, such interest income should be recognized in the regulatory credit risk reserve (net of tax) in order to reconcile with that of the regulatory requirement.



Senior Management Members

Sr. No.	Name	Position	Placement
1.	BerhanuTayeTolla	Director	Branch Projects Follow-up Directorate
2.	Taye Jiru	Director	Project Rehabilitation & Loan Recovery Directorate
3.	Tsige Genet	Director	Customer Relationship Mgt. Directorate I
4.	Adane Mehari	Director	Customer Relationship Mgt. Directorate II
5.	Tekle Zewdie	Director	Project Appraisal Directorate II
6.	Hunegnaw Zegeye	Director	Research & Project Data Mgt. Directorate
7.	Atsebeha Abay	Director	Customer Relationship Mgt. Directorate III
8.	Melese Maruta	Director	Customer Relationship Mgt. Directorate IV
9.	Getachew Belay	Director	Project Appraisal Directorate III
10.	Teshome Abebe	Corporate Project Review Team Member	Ethio-Capital & Investment Plc
11.	Bekabil Berhanu	Corporate Project Review Team Member	Mega Projects Follow-up Taskforce
12.	Genet Yirgu	Corporate Project Review Team Member	Corporate Project Review Team II
13.	Yohannes Belachew	Corporate Project Review Team Member	Corporate Project Review Team II
14.	Eshetu Welela	Corporate Project Review Team Member	Corporate Project Review Team II
15.	Ababu Kassa	Corporate Project Review Team Member	Corporate Project Review Team II
16.	Meseret Tilahun	Corporate Project Review Team Member	Corporate Project Review Team I
17.	Nejib Kamil	Corporate Project Review Team Member	Corporate Project Review Team I
18.	Dessalegn Bogale	Corporate Project Review Team Member	Corporate Project Review Team I
19.	Tilahun Welebo	Corporate Project Review Team Member	Corporate Project Review Team I
20.	Tsegie Desta	Corporate Project Review Team Member	Corporate Project Review Team I
21.	Tadesse Tolcha	Corporate Project Review Team Member	Corporate Project Review Team I
22.	Gebremedhin Hadera	Corporate Project Review Team Member	Corporate Project Review Team I
23.	Workashe Chema	Corporate Project Review Team Member	Corporate Project Review Team I
24.	Kifle H/Eyesus	Director	Strategy, Change & Communication Directorate
25.	Markos AkilleBerhan	Director	Human Resource Management Directorate
26.	Yilma Abebe	Director	Internal Audit Directorate
27.	Tirfu Adhanom	Director	Finance & Accounts Mgt. Directorate
28.	Getnet Temechew	Director	Legal Affairs Directorate
29.	Quddus Lelissa	Director	Information Technology Services Directorate
30.	Solomon Megerssa	Director	Property & Facility Mgt. Directorate

Senior Management Members

31.	Ebba Regassa	Director	Compliance & Risk Management Directorate
32.	Behailu Kassaye (Dr.)	Director	External Fund and Credit Mgt Directorate
33.	Abiot Daida	Director	Engineering Services Directorate
34.	Zelalem Tesfaye	Director	International Banking Service Directorate
35.	Martha Kidane	Director	Corporate Bond Mgt. Directorate
36.	Abebaw Siraj	Director	Treasury & Fund Management Directorate
37.	Dereje Daba	Director	Lease Financing Follow-up Directorate
38.	Frew Kassa	Director	Project Evaluation & Portfolio Mgt. Directorate
39.	Tibebu Bizuneh	District Manager	Addis Ababa District
40.	Natnael Hailu	D/Director	Strategy, Change & Communication Directorate
41.	Abebe Mulu	D/Director	Strategy, Change & Communication Directorate
42.	Kirubel Arega	D/Director	Human Resource Management Directorate
43.	Zelalem Solomon	D/Director	Information Technology Services Directorate
44.	Teshager Azmeraw H	D/Director	Information Technology Services Directorate
45.	Aberash Silengo	D/Director	Property & Facility Mgt. Directorate
46.	Gedion Mekonnen	D/Director	Research & Project Data Mgt. Directorate
47.	Bemnet Foto	D/Director	Research & Project Data Mgt. Directorate
48.	Getahun Chekol	Office Manager	Ethio-Capital & Investment Plc
49.	Worku Fekade	Office Manager	Ethics & Complaint Management Office
50.	Teshome Bekele (Inspector)	Office Manager	Safety and Security Service Office
51.	Hailu Fitta	District Manager	Dire Dawa District
52.	Kendihun Belie	District Manager	Gondar District
53.	Teramaj Tesfaye	District Manager	Wolayita Soddo District
54.	Deribie Workalemahu	District Manager	Bahir Dar District
55.	Sisay Biru	District Manager	Jimma District
56.	Yohannes Amare	District Manager	Mekele District
57.	Zeritu Negalegn	District Manager	Hawassa District
58.	Berasu Mekonnen	District Manager	Adama District
59.	Endashaw Bayew	District Manager	Dessie District
60.	Eba Benti	District Manager	Nekemete District
61.	Taye Bekele	District Manager	Butajira District
62.	Kibreab Gima	District Manager	Gambela District

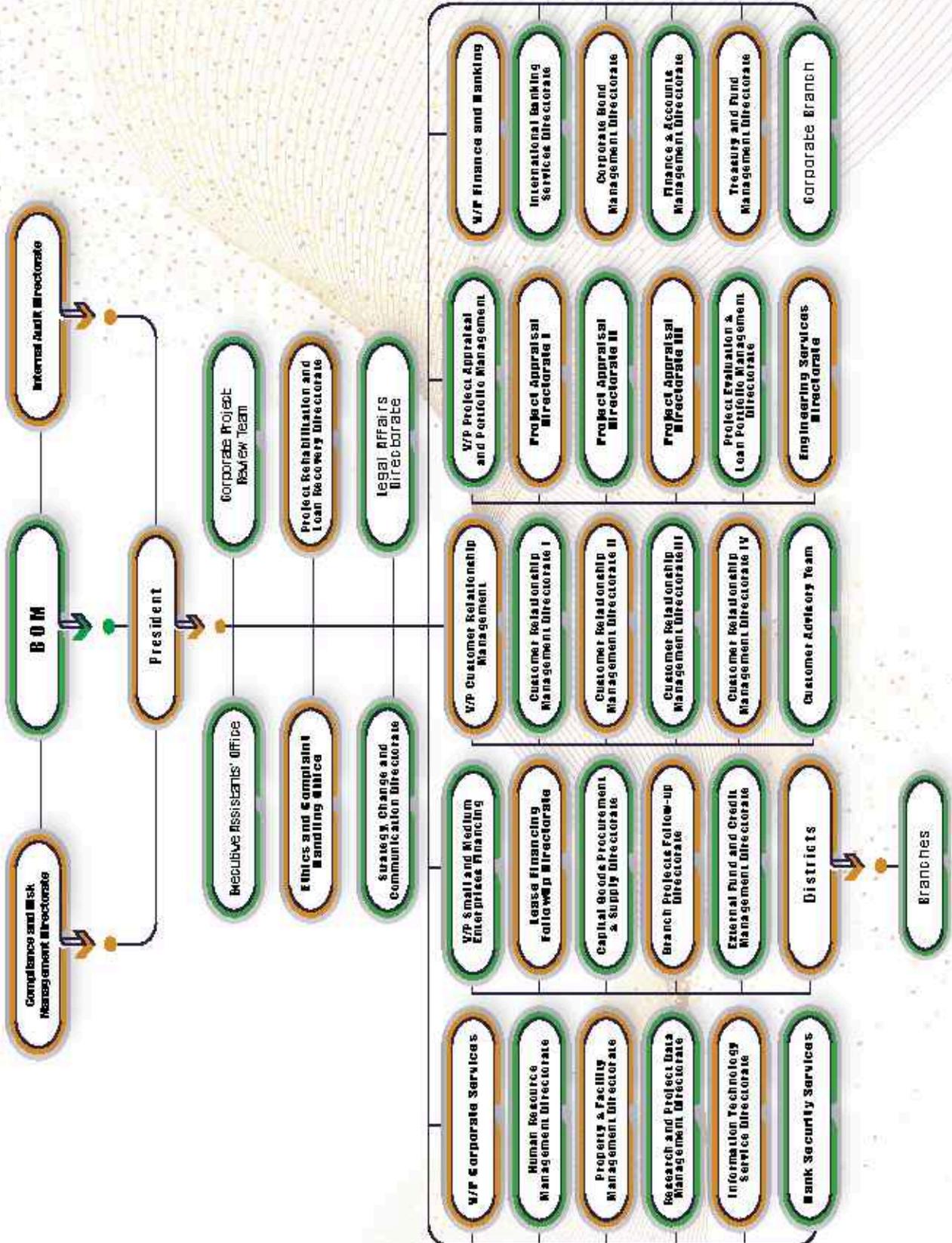
Distribution of Districts and Branches

Dire Dawa District	Diredawa Branch
	Chiro Branch
	Jigiga Branch
	Gelemso Branch
	Harar Branch
	Kebridahar
Gonder District	Gonder Branch
	Debark Branch
	Debretabor Branch
Dessie District	Dessie Branch
	Kombolcha Branch
	kemissie Branch
	ShewaRobit Branch
	Woldiya Branch
	Lalibela Branch
	Sekota Branch
	Logiya Branch
Jimma District	Jimma Branch
	MizanTeferi Branch
	Agaro Branch
	Bonga Branch
Mekelle District	Mekele Branch
	Humera Branch
	Adigrat Branch
	Endaselisse Branch
	Axum Branch
	Wukro Branch
	Adawa Branch
	Mayechew Branch
Nekemte District	Nekemte Branch
	Assosa Branch
	Shambu Branch
	Dembidolo Branch
	Gimbi Branch

Distribution of Districts and Branches

Addis Ababa District	East Addis Ababa Branch
	West Addis Ababa Branch
	South Addis Ababa Branch
	North Addis Ababa Branch
	Debreberhan Branch
	Ambo Branch
	Fichie Branch
	Sebeta Branch
	Burayu Branch
	Worabe Branch
	Butajira Branch
	Hosaana Branch
	Wolkite Branch
Wolisso Branch	
WolayitaSodo District	Walyitasodo Branch
	Durame Branch
	Sawla Branch
	Arbaminch Branch
	Jinka Branch
	AlabaKulito Branch
Hawasa District	Hawassa Branch
	Dilla Branch
	Aletawondo Branch
	Yirgalem Branch
	BuleHora Branch
	Shasemene Branch
	Goba Branch
	AdolaWeyyo Branch
Bahir Dar District	Bahirdar Branch
	DebreMarkos Branch
	Mota Branch
	Finoteselam Branch
	Bure Branch
	Chagni Branch
	Injibara Branch
Adama District	Adama Branch
	Asela Branch
	Bishoftu Branch
	Batu Branch
Gambella District	Gambella Branch
	Mettu Branch

Development Bank of Ethiopia Organizational Chart





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